

**ST. JOHNS
IMPROVEMENT
DISTRICT**

FINANCIAL REPORT

For The Year Ended September 30, 2017

INTRODUCTORY SECTION

ST JOHNS IMPROVEMENT DISTRICT

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Year Ended September 30, 2017

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FINANCIAL SECTION

This section contains the following subsections:

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

INDEPENDENT AUDITOR'S REPORT

Honorable Board of Supervisors
St. Johns Improvement District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the *St. Johns Improvement District*, (the District), as of and for the year ended September 30, 2017, 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 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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, and the major fund of the District, as of September 30, 2017, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 6 and pension schedules on pages 29 to 30 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 statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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 March 22, 2018 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.

McDermitt Davis & Company LLC

Orlando, Florida
March 22, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the St. Johns Improvement District we offer readers of the St. Johns Improvement District's financial statements, this narrative overview and analysis of the financial activities of the St. Johns Improvement District (the District) for the fiscal year ended September 30, 2017. 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 and deferred outflows of the District exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$7,684,308 (net position). Of this amount, \$679,092 (unrestricted net position) may be used to meet the government's ongoing obligations to creditors.
- The government's total net position increased by \$139,964.
- As of the close of the current fiscal year, the St. Johns Improvement District's governmental fund reported combined ending fund balance of \$1,052,010, a decrease of \$241,659 in comparison with the prior year. Unassigned fund balance for the General Fund was \$857,530, or 27.7% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the St. Johns Improvement 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 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

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has one fund category: Governmental Funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains one governmental fund, the General Fund. The District adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with the budget.

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 13 - 28 of this report.

Final Budget versus Actual Results - General Fund

The District's primary budgetary income source is through the annual per acre assessment levied against landowners within the jurisdictional area represented by the District. The total annual per acre assessment for the period ending September 30, 2017, is \$110.00 per acre. This assessment is levied against 25,010.95 acres. District's assessments are collected through the local county tax collection office. For the fiscal year end September 30, 2017, approximately 95% of the District's annual budgeted revenue came from this assessment source. Historically, the balance of the remaining annual budgeted revenues would come from a variety of revenues sources; including the land management activities associated with the alligator harvesting agreement and the FCC stormwater fees.

Total expenditures for the year ending 2017 came in \$110,449 more than budgeted, mainly due to budgeting for fuel, grease, and oil cost was higher than prior year. Also repair and maintenance, and professional services were higher than prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Government-Wide Financial Analysis

Statement of Net Position

The District's net position for the year ending 2017 and 2016 were \$7,684,308 and \$7,544,344 respectively, an increase of \$139,964. A large portion of the District's net position (91%) reflects its investment in capital assets, less any debt used to acquire those assets that is still outstanding. The District uses these capital assets to manage the District's surface waters and land area, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**STATEMENT OF NET POSITION
As of September 30,**

	Governmental Activities	
	<u>2017</u>	<u>2016</u>
Assets:		
Current and other assets	\$ 1,306,863	\$ 1,388,347
Capital assets	7,165,216	6,944,733
Total Assets	<u>8,472,079</u>	<u>8,333,080</u>
Deferred Outflows of Resources:		
Deferred outflows of pension earnings	<u>215,713</u>	<u>206,722</u>
Liabilities:		
Current liabilities	254,853	94,678
Noncurrent liabilities	621,972	765,918
Total Liabilities	<u>876,825</u>	<u>860,596</u>
Deferred Inflows of Resources:		
Deferred inflows of pension earnings	<u>126,659</u>	<u>134,862</u>
Net Position:		
Net investment in capital assets	7,005,216	6,599,733
Unrestricted	679,092	944,611
Total Net Position	<u>\$ 7,684,308</u>	<u>\$ 7,544,344</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

**CHANGES IN NET POSITION
For the Year Ended September 30,**

	Governmental Activities	
	2017	2016
Revenues:		
Program revenues	\$ 2,718,440	\$ 2,785,175
Investment income and miscellaneous	130,125	8,044
Gain on sale of assets	10,880	9,796
Total Revenues	<u>2,859,445</u>	<u>2,803,015</u>
Expenses:		
Physical environment	2,712,165	2,553,527
Interest on long-term debt	7,316	11,337
Total Expenses	<u>2,719,481</u>	<u>2,564,864</u>
Increase (Decrease) in Net Position	139,964	238,151
Net Position - beginning	<u>7,544,344</u>	<u>7,306,193</u>
Net Position - ending	<u><u>\$ 7,684,308</u></u>	<u><u>\$ 7,544,344</u></u>

Capital Assets

At September 30, 2017, the District's investment in capital assets amounts to \$7,165,216 (net of accumulated depreciation). This amount represents an increase of \$220,483 from the year ending September 30, 2016. This increase is due to current year additions exceeding current year depreciation.

Economic Factors

While not experiencing the same dynamic conversion from agricultural to planned unit developments than areas east of Interstate 95 in Indian River County have experienced, nonetheless, the lands within the District are experiencing some discussion of land conversion, converting traditional and historic agricultural lands to a varied non-agricultural or quasi-agricultural use. While the District still remains firmly rooted in its agricultural culture, the potential conversion of lands may be hastened not only by economic factors but also by natural factors which may impact the future of citrus within the District area. Much research is underway in assessing potential value that areas represented by the District may have in providing positive environmental services. In anticipation of the long term effects of such transition and in an attempt to allow for the optimal balance of land use within the District's community, the District initiated landowner approved actions in August 2006 to convert the District from a single purpose Chapter 298 Drainage District (St. Johns Water Control District) to a multi-purpose Chapter 189 Improvement District (St. Johns Improvement District).

Requests for Information

This financial report is designed to provide a general overview of the St. Johns Improvement 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 Administrator's office at 905 122nd Ave. SW, Vero Beach, Florida 32968.

BASIC FINANCIAL STATEMENTS

ST. JOHNS IMPROVEMENT DISTRICT

STATEMENT OF NET POSITION

September 30, 2017

	<u>Primary Government Governmental Activities (General Fund)</u>
Assets	
Cash and cash equivalents	\$ 1,107,625
Receivables	4,758
Prepays	103,707
Inventory	90,773
Capital assets not being depreciated:	
Land	1,291,736
Construction in progress	862,090
Capital assets being depreciated, net of accumulated depreciation	<u>5,011,390</u>
Total capital assets	<u>7,165,216</u>
Total assets	<u>8,472,079</u>
Deferred Outflows of Resources	
Deferred outflows of pension earnings	<u>215,713</u>
Liabilities	
Accounts payable	244,951
Accrued liabilities	9,902
Noncurrent liabilities:	
Due within one year:	
Bonds payable	160,000
Compensated Absences	8,022
Due in more than one year:	
Bonds payable	-
Net pension liability	<u>453,950</u>
Total liabilities	<u>876,825</u>
Deferred Inflows of Resources	
Deferred inflows of pension earnings	<u>126,659</u>
Net Position:	
Net investment in capital assets	7,005,216
Unrestricted	<u>679,092</u>
Total net position	<u>\$ 7,684,308</u>

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

ST. JOHNS IMPROVEMENT DISTRICT

STATEMENT OF ACTIVITIES

Year Ended September 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		Net (Expense)
		<u>Charges for Services</u>	<u>Governmental Activities</u>	Revenue and Changes in Position
Governmental Activities -				
Physical environment	\$ 2,712,165	\$ 2,718,440	\$	6,275
Interest on long-term debt	7,316	-		(7,316)
Total governmental activities	<u>\$ 2,719,481</u>	<u>\$ 2,718,440</u>		<u>(1,041)</u>
General Revenues:				
Investment income and miscellaneous				130,125
Gain on sale of asset				10,880
Total general revenues				<u>141,005</u>
Change in net position				139,964
Net Position - beginning				<u>7,544,344</u>
Net Position - ending				<u>\$ 7,684,308</u>

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

ST. JOHNS IMPROVEMENT DISTRICT

BALANCE SHEET
GOVERNMENTAL FUND

September 30, 2017

	<u>General Fund</u>
Assets:	
Cash and cash equivalents	\$ 1,107,625
Receivables	4,758
Inventories	90,773
Prepaid expenses	<u>103,707</u>
Total assets	<u>\$ 1,306,863</u>
Liabilities:	
Accounts payable	\$ 244,951
Other accrued expenses	<u>9,902</u>
Total liabilities	<u>254,853</u>
Fund Balance:	
Nonspendable	194,480
Assigned	-
Unassigned	<u>857,530</u>
Total fund balance	1,052,010
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	7,165,216
Deferred inflows and outflows of resources related to pension earnings are not recognized in the governmental funds; however, they are recorded in the statement of net position under full accrual accounting.	89,054
The following long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds payable	(160,000)
Net pension liability	(453,950)
Compensated absences	<u>(8,022)</u>
	<u>(621,972)</u>
Net position of governmental activities	<u>\$ 7,684,308</u>

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

ST. JOHNS IMPROVEMENT DISTRICT

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

Year Ended September 30, 2017

	<u>General Fund</u>
Revenues:	
Special assessments	\$ 2,692,150
Licenses and permits	26,290
Interest earnings	11,506
Miscellaneous	118,619
Total revenues	<u>2,848,565</u>
Expenditures:	
Current:	
Salaries, wages and benefits	594,430
Fuel, grease and oil	588,642
Repair and maintenance	441,833
Professional services	351,008
Insurance	89,387
Utilities	30,882
Supplies	4,524
Rental and leases	7,745
Permit fees	1,040
Debt Service:	
Principal	185,000
Interest	7,316
Capital outlay	799,563
Total physical environment expenditures	<u>3,101,370</u>
Excess of Revenues over Expenditures	<u>(252,805)</u>
Other Financing Sources (Uses):	
Sale of Capital Assets	11,146
Total other financing sources (uses)	<u>11,146</u>
Net Change in Fund Balance	(241,659)
Fund Balance - beginning of year	<u>1,293,669</u>
Fund Balance - end of year	<u>\$ 1,052,010</u>

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

ST. JOHNS IMPROVEMENT DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES**

Year Ended September 30, 2017

Net Change in Fund Balances - total governmental funds:		\$	(241,659)
Amounts reported for Governmental Activities in the Statement of Activities are different because:			
Capital outlay	799,563		
Depreciation	<u>(578,814)</u>		220,749
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net assets.			
			(266)
Repayments of long-term liabilities are reported as expenditures in governmental funds, while repayments reduce long-term liabilities in the statement of net position.			
			185,000
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:			
Compensated absences			(2,603)
Cash pension contributions reported in the funds were less than the calculated pension expense on the statement of activities, and therefore decreased net position.			
			<u>(21,257)</u>
Change in net position of governmental activities		\$	<u>139,964</u>

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

ST. JOHNS IMPROVEMENT DISTRICT

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

Year Ended September 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues:				
Special assessments	\$ 2,672,705	\$ 2,678,752	\$ 2,692,150	\$ 13,398
Licenses and permits	-	-	26,290	26,290
Interest earnings	-	-	11,506	11,506
Miscellaneous	70,000	70,000	118,619	48,619
Total revenues	<u>2,742,705</u>	<u>2,748,752</u>	<u>2,848,565</u>	<u>99,813</u>
Expenditures:				
Current:				
Salaries, wages and benefits	583,539	583,539	594,430	(10,891)
Fuel, grease and oil	466,716	466,716	588,642	(121,926)
Repair and maintenance	776,710	909,271	441,833	467,438
Professional services	173,440	180,153	351,008	(170,855)
Insurance	96,000	96,000	89,387	6,613
Supplies	8,600	5,600	4,524	1,076
Utilities	36,500	36,500	30,882	5,618
Rental and leases	2,500	2,500	7,745	(5,245)
Permit fees	1,700	1,700	1,040	660
Debt Service:				
Principal	185,000	185,000	185,000	-
Interest	15,500	15,500	7,316	8,184
Capital Outlay	396,500	508,442	799,563	(291,121)
Total physical environment	<u>2,742,705</u>	<u>2,990,921</u>	<u>3,101,370</u>	<u>(110,449)</u>
Total expenditures	<u>2,742,705</u>	<u>2,990,921</u>	<u>3,101,370</u>	<u>(110,449)</u>
Excess of Revenues Over Expenditures	-	(242,169)	(252,805)	(10,636)
Other Financing Sources (Uses)				
Sale of Capital Assets	-	-	11,146	11,146
Total other financing sources (uses)	-	-	11,146	11,146
Net Change in Fund Balance	-	(242,169)	(241,659)	510
Fund Balance - beginning of year	<u>1,293,669</u>	<u>1,293,669</u>	<u>1,293,669</u>	-
Fund Balance - end of year	<u>\$ 1,293,669</u>	<u>\$ 1,051,500</u>	<u>\$ 1,052,010</u>	<u>\$ 510</u>

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

NOTES TO FINANCIAL STATEMENTS

ST. JOHNS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2017

Note 1 - Summary of Significant Accounting Policies:

Reporting Entity - The *St. Johns Improvement District* (the District) was established to manage the irrigatable water supply for an approximate 29,000 acre area in Indian River County, Florida, is a special district as defined by the laws of Florida. The District was formed on May 14, 1962 by decree of the Circuit Court of the Ninth Judicial Circuit in Indian River County under Florida Statutes (Chapter 298.01), and consists of landowners who receive the benefit of water management and are assessed taxes on a per acre basis for the maintenance and operation of the areas within District boundaries. On June 26, 2007, the St. Johns Water Control District was renamed and converted from a single-purpose Water Control District, to a multiple-purpose Improvement District by legislative approval and signature of the Governor. As a multi-purpose improvement district, the District is governed primarily by Chapter 189 of the Florida Statutes, and as such, the District has the statutory power to build and maintain every type of municipal infrastructure and provide any kind of municipal service that a county or District would provide, with the exceptions of public safety, and zoning changes, which must be in compliance with the adopted comprehensive plan administered by the county; improvements and services provided are for the exclusive benefit of the landowners and are paid for by them through annual land assessments; is empowered to sell bonds to pay for capital improvements, and is authorized to create units of development within the District.

The District is governed by a three member Board of Supervisors elected for three year terms by landowners within the jurisdictional boundaries of the District. The District's operations are managed by an administrator. This administrator is appointed by the Board of Supervisors and operates in accordance with Chapters 189 and 298 of the Florida Statutes.

The financial statements have been prepared in conformity with generally accepted accounting principle (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial statements were prepared in accordance with Governmental Accounting Standards Board ("GASB") Statements 14, 39, and 61. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District Board of Supervisors is considered to be financially accountable, and other organizations (component units) for which the nature and significance of their relationship with the District are such that, if excluded, the financial statements of the District would be considered incomplete or misleading. In applying the above criteria, there are no potential component units or related organizations of the District.

ST. JOHNS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2017

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

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.

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 special assessments levied on landowners within the District.

Separate financial statements are provided for the governmental funds. The District's only fund, the general fund, is a governmental fund and is used to account for all the District's physical environment activity and is reported in the fund financial statements.

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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Special assessments are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Assets, Liabilities and Net Position/Fund Balance

Deposits and Investments - The District's cash and cash equivalents are considered to be cash on hand and demand deposits. Investments are reported at fair value and categorized within the fair value hierarchy established in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

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

ST. JOHNS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2017

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

Assets, Liabilities and Net Position/Fund Balance - (Continued):

Capital Assets - Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are valued at historical costs or estimated historical cost if constructed. Donated capital assets are recorded at estimated acquisition cost at the date of donation. 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>
Equipment and Vehicles	5-10
Bridges, Culverts, Roads	15
Buildings	39
Infrastructure	7-50
Intangibles	5-10

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 (expenditure) until then. The District reports deferred outflows on pension earnings, as well as deferred outflows for contributions made during their fiscal year but after the measurement date of the actuarial report.

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. Certain amounts related to pensions must be deferred. Differences between projected and actual earnings on pension plan investments are deferred and amortized over five years.

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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2017

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

Assets, Liabilities and Net Position/Fund Balance - (Continued):

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). In the governmental fund financial statements, fund balances are classified as follows:

- Nonspendable - Amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements.
- Restricted - Amounts that can be spent only for specific purposes because of the District, state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed - 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 Supervisors 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 an action is taken to remove or revise the limitation.
- Assigned - 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 Supervisors is authorized to assign amounts for specific purposes. The Board of Supervisors 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.
- Unassigned - All amounts not included in other spendable classifications.

ST. JOHNS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2017

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

Assets, Liabilities and Net Position/Fund Balance - (Continued):

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

Budgets and Budgetary Accounting - The District is required to adopt an annual budget for the general fund. Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at the fiscal year end. The legal level of budgetary control is at the fund level. Any budget amendments that increase the aggregate budgeted appropriations, at the fund level, must be approved by the Board of Supervisors.

Special Assessments - The District's taxpayer assessment revenue (non ad-valorem) is levied through the Indian River County Tax Collector based on the approved budget submitted to the County by the District on or before September 1 of each tax year. The assessment is included in the County's property tax levy which begins each November 1, and becomes a lien on the first day of the levy year, and is due on or before March 31. Discounts are allowed for early payment. The special assessment rate assessed by the District for the year ended September 30, 2017 was \$110.00 per acre.

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.

ST. JOHNS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2017

Note 2 - Cash and Investments:

Florida Statutes require state and local governmental units to deposit monies with financial institutions classified as "Qualified Public Depositories," a multiple financial institution pool whereby groups of securities pledged by the various financial institutions provide common collateral from their deposits of public funds. This pool is provided as additional insurance to the federal depository insurance and allows for additional assessments against the member institutions, providing full insurance for public deposits.

At year-end, the carrying amount of the District's deposits was \$1,107,625 and the bank balance was \$1,259,159. 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.

The District is authorized to invest in those instruments as established by Florida Statute 218.415. The authorized investments consist of:

- 1) The Local Government Surplus Funds Trust as created by Florida Statute 218.415 or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Florida Statute 163.01
- 2) Securities and Exchange Commission ("SEC") registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- 3) Interest-bearing time deposits or savings accounts in qualified public depositories.
- 4) Direct obligations of the United States Treasury.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The District uses a market approach in measuring fair value that uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or groups of assets and liabilities.

Assets or liabilities are classified into one of three levels. Level 1 is the most reliable and is based on quoted price for identical assets, or liabilities, in an active market. Level 2 uses significant other observable inputs when obtaining quoted prices for identical or similar assets, or liabilities, in markets that are not active. Level 3 is the least reliable, and uses significant unobservable inputs that uses the best information available under the circumstances, which includes the District's own data in measuring unobservable inputs. The District didn't have any investments as defined by GASB Statement No. 72 as of September 30, 2017.

ST. JOHNS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2017

Note 3 - Capital Assets:

Capital asset activity for the year ended September 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, not being depreciated:				
Land	\$ 1,291,736	\$ -	\$ -	\$ 1,291,736
Construction in progress	975,390	243,122	(356,422)	862,090
Total Capital Assets, not being depreciated	<u>2,267,126</u>	<u>243,122</u>	<u>(356,422)</u>	<u>2,153,826</u>
Capital Assets, being depreciated:				
Infrastructure	9,694,469	731,091	(113,904)	10,311,656
Intangibles	-	46,554	-	46,554
Buildings	261,285	81,614	-	342,899
Bridges culverts & roads - other costs	1,538,742	42,520	-	1,581,262
Equipment and vehicles	2,022,832	11,084	(52,947)	1,980,969
Total Capital Assets Being Depreciated	<u>13,517,328</u>	<u>912,863</u>	<u>(166,851)</u>	<u>14,263,340</u>
Less Accumulated Depreciation for:				
Infrastructure	(5,582,795)	(419,733)	113,904	(5,888,624)
Intangibles	-	(4,655)	-	(4,655)
Buildings	(172,757)	(5,225)	-	(177,982)
Bridges culverts & roads - other costs	(1,469,346)	(6,920)	-	(1,476,266)
Equipment and vehicles	(1,614,823)	(142,281)	52,681	(1,704,423)
Total accumulated depreciation	<u>(8,839,721)</u>	<u>(578,814)</u>	<u>166,585</u>	<u>(9,251,950)</u>
Total Capital Assets Being Depreciated, net	<u>4,677,607</u>	<u>334,049</u>	<u>(266)</u>	<u>5,011,390</u>
Capital Assets, net	<u>\$ 6,944,733</u>	<u>\$ 577,171</u>	<u>\$ (356,688)</u>	<u>\$ 7,165,216</u>

Depreciation expense was \$578,814 for the year ended September 30, 2017.

ST. JOHNS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2017

Note 4 - Long-Term Liabilities:

Special Assessment Refunding Bonds - Series 1998

On June 25, 1998, the District issued \$3,675,000 in serial bonds to refinance the outstanding series 1988 bonds. The interest rate was fixed at 5.1% until January 19, 2003. The District modified the outstanding balance at that time to reduce the interest rate to 4.2%. The first interest adjustment reduced the interest rate to 3.9%. A second interest rate was adjusted on May 1, 2013, which reduced the interest rate to 2.11%. Interest is due semi-annually on November 1 and May 1 of each year. Principal payment of \$185,000 is due annually on May 1, until May 1, 2018, with a final principal payment of \$160,000 due at that date. The bonds are secured by available future special assessment levies issued by the District.

Total principal and interest remaining on the Series 1998 Bond as of September 30, 2017 is \$163,391. For the year ended September 30, 2017, principal and interest paid was \$192,316 and total pledged revenue was \$2,692,150.

Line of Credit

The District has a line of credit agreement with Farm Credit of Florida of \$1,000,000. There were no borrowings against the line at September 30, 2017. The line bears interest at 4%. The line is due on demand and accrued interest for advances are payable on demand, otherwise, due annually. The line is collateralized first on all business assets and second on all assessments levied by the District.

A summary of long-term liability activity for the year ended September 30, 2017 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					
Bonds Payable:					
Series 1998 bonds	\$ 345,000	\$ -	\$ (185,000)	\$ 160,000	\$ 160,000
Compensated Absences	5,419	2,603	-	8,022	8,022
Net Pension Liability	415,499	38,451	-	453,950	-
Governmental Activities					
Long-term Liabilities	<u>\$ 765,918</u>	<u>\$ 41,054</u>	<u>\$ (185,000)</u>	<u>\$ 621,972</u>	<u>\$ 168,022</u>

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

Year Ending September

**30,
2018**

<u>Principal</u>	<u>Interest</u>
\$ 160,000	\$ 3,391
<u>\$ 160,000</u>	<u>\$ 3,391</u>

ST. JOHNS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2017

Note 5 - Florida Retirement System:

The District contributes to the Florida Retirement System (FRS), a multiple-employer, cost-sharing, defined-benefit pension plan administered by the State of Florida, for the District's authorized permanent, full-time and part-time employees. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. State Statutes authorizes the State to establish and amend all plan provisions. The State of Florida issues a publicly available report that includes financial statements and required supplementary information for FRS. The report may be obtained by writing to the State of Florida Division of Retirement, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or from the website:

www.dms.myflorida.com/workforce_operations/retirement/publications.

Plan Descriptions - The FRS offers a choice between a defined-benefit plan (Pension Plan) or a defined-contribution plan (Investment Plan) which is administered by the State Board of Administration (SBA). In addition a Health Insurance Subsidy plan (HIS) is offered to assist retired members of any state-administered retirement system in paying the costs of health insurance.

- 1) The **Pension Plan** members are eligible for retirement after vesting, which occurs at six (6) years of creditable service for regular members enrolled prior to July 1, 2011 and eight (8) years of creditable service if enrolled on or after July 1, 2011. Normal retirement age is attained at the earlier of thirty (30) or (33) years of creditable service, regardless of age, or retirement at age sixty-two (62) or (65) with at least (6) or (8) years of creditable service if enrolled prior to July 1, 2011 or on or after July 1, 2011 respectively. Early retirement may be taken any time after vesting; however, there is a five percent (5%) benefit reduction for each year prior to normal retirement age. Members are also eligible for in line-of-duty or regular disability benefits if permanently and totally disabled and unable to work. Benefits are computed on the basis of age, average final compensation, and service credit.

In addition to the above benefits, the Deferred Retirement Option Program (DROP) allows eligible members to defer receipt of monthly retirement benefit payments while continuing employment with a FRS employer for a period not to exceed 60 months after electing to participate. Deferred monthly benefits are held in the FRS Trust Fund and accrue interest. There aren't any required contributions by DROP participants. District employees participating in DROP are not eligible to participate in the Investment Plan. The employer contribution at fiscal year ended September 30, 2017 is 13.26%.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2017

Note 5 - Florida Retirement System (Continued):

- 2) As provided in Section 121.4501 Florida Statutes, eligible FRS members may elect to participate in the **Investment Plan** in lieu of the FRS defined benefit plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions rates that are based on salary and membership class (Regular Class, Elected District Officers, etc.) as the Pension Plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of plan members. Allocations to the investment member's accounts during the 2016-2017 fiscal year, as established by Section 121.72 Florida Statutes, are based on a percentage of gross compensation, by class, as follows: Regular class 6.30%, Special Risk Administrative Support class 7.95%, Special Risk class 14.00%, Senior Management Service Class 7.67% and District Elected Officers class 11.34%.

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the Pension Plan is transferred to the Investment Plan, the member must have the years of service required for Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on these funds. Nonvested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS-covered employment within the five-year period, the employee will regain control over their account. If the employee does not return within the five-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended September 30, 2017, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the District.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these option. Disability coverage is provided; the member may either transfer the account balance to the Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

Expense: The District's Investment Plan pension expense totaled \$6,243 for the fiscal year ended September 30, 2017.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2017

Note 5 - Florida Retirement System (Continued):

- 3) **Health Insurance Subsidy (HIS)** Program is established by Chapter 112, Florida Statutes and provides insurance subsidy payments to persons who are retired under a state-administered retirement system, or a beneficiary who is a spouse or financial dependent entitled to receive benefits under a state-administered retirement system except those individuals who are pension recipients under Section 121.40, 237.08(18)(a) and 250.22, Florida Statutes, or recipients of health insurance coverage under Section 110.1232, Florida Statutes or any other special pension or relief act are not eligible for such pension payments. A person is deemed retired from a state-administered retirement system when he or she terminated employment with all employers participating in the Florida Retirement System and:
- a. for a member of the Investment Plan, the participant meets the age or service requirements to qualify for normal retirement per Section 121.021(29), Florida Statutes and meets the definition of retiree in Section 121.4501(2), Florida Statutes or
 - b. for a member of the Pension Plan or any employee who maintains creditable service under the pension plan and the investment plan, the member begins drawing retirement benefits from the pension plan. Any person retiring on or after July 1, 2011, as a member of the Florida Retirement System, including a member of the investment plan, must satisfy the vesting requirements for his or her membership class as administered under Chapter 121, Florida Statutes. Any person retiring due to disability must qualify for a regular or in-line-of-duty disability benefit per provisions under Chapter 112, Florida Statutes.

The HIS plan is funded by required contributions from FRS participating employers as set by the Florida legislature. Employer contributions are a percentage of gross compensation for all active FRS members. At fiscal year ended September 30, 2017, the contribution rate was 1.66% of payroll.

The HIS plan provides monthly payment assistance to retirees of state-administered retirement systems in paying their health insurance costs and is administered by the Department of Management Services, Division of Retirement. HIS benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled. For the fiscal year ended September 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payment is at least \$30 but not more than \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under a state-administered retirement system must provide proof of health insurance coverage, which can include Medicare. Terms of the benefits provided by the plan may be amended only by the State Legislature with a change in the Statutes governing the plan.

ST. JOHNS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2017

Note 5 - Florida Retirement System (Continued):

Pension Plan Fiduciary Net Position - Detailed information regarding the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Contributions - The FRS has many classes of membership. Employer contribution rates are set by law. Rates below include the appropriate retirement contribution rate, 1.66 percent HIS contribution rate, 0.06 percent administrative/educational fee and any applicable UAL rates. These classes, with descriptions and weighted average contribution rates in effect during the period ended September 30, 2017, are as follows:

Regular Class - members not qualifying for other classes (10.92% [includes 3% employee contribution] from July 1, 2017 through September 30, 2017 and 10.52% [includes 3% employee contribution from October 1, 2016 through June 30, 2017.]

Senior Management Service Class – members of senior management who do not elect the optional annuity retirement program (25.71% [includes 3% employee contribution] from July 1, 2017 through September 30, 2017 and 24.77% [includes 3% employee contribution] from October 1, 2016 through June 30, 2017.)

The District's contributions, including employee contributions, to the Pension Plan totaled \$37,069 and to the HIS Plan \$5,699 for the fiscal year ended September 30, 2017.

- 4) **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - At September 30, 2017, the District reported a liability of \$338,799 for its proportionate share of the Pension Plan's net pension liability and \$115,151 for its proportionate share of the HIS Plan net liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The District's proportionate share of the net pension liability was based on the District's 2016-17 fiscal year contributions relative to the 2015-16 fiscal year contributions of all participating members. At June 30, 2017, the District's proportionate share was .001145 percent and .00108 percent, which was an increase (decrease) of (.000003) and .00001 percent from its proportionate share measured as of June 30, 2016 for both the FRS and HIS plans, respectively.

ST. JOHNS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2017

Note 5 - Florida Retirement System (Continued):

For the year ended September 30, 2016, the District recognized pension expense of \$55,226 for the FRS Pension Plan and \$1,977 for the HIS Plan. At September 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to these plans from the following sources:

Description	FRS		HIS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 31,094	\$ 1,877	\$ 16,186	\$ 9,957
Change of assumptions	113,860	-	-	240
Net difference between projected and actual earnings on Pension Plan investments	-	8,396	64	-
Amounts due to changes in the District's contributions and their proportionate share of contributions	37,239	64,107	8,143	42,082
District Pension Plan contributions subsequent to the measurement date	7,726	-	1,401	-
	<u>\$ 189,919</u>	<u>\$ 74,380</u>	<u>\$ 25,794</u>	<u>\$ 52,279</u>

The deferred outflows of resources related to FRS \$7,726 and HIS \$1,401 resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net liability in the year ended September 30, 2017. Other amounts reported for the Plans as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

FRS		HIS	
Fiscal Year Ending September 30:	Amount Recognized	Fiscal Year Ending September 30:	Amount Recognized
2018	\$ 16,376	2018	\$ (4,895)
2019	45,521	2019	(4,907)
2020	20,133	2020	(4,913)
2021	(2,717)	2021	(7,275)
2022	20,103	2022	(3,821)
Thereafter	8,397	Thereafter	(2,075)

ST. JOHNS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2017

Note 5 - Florida Retirement System (Continued):

- 5) **Actuarial Assumptions** - The total liability for the both the FRS and HIS Plans was determined by using the following actuarial assumption, applied to all periods including in the measurement:

	FRS	HIS
Inflation	2.60%	2.60%
Salary Increases, average, including inflation	3.25%	3.25%
Investment rate of return, net of investment expense	7.10%	3.58%
Mortality rates	Generational RP-2000 with Projection Scale BB tables	Generational RP-2000 with Projection Scale BB tables

The actuarial assumptions used in the July 1, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

- 6) **Discount Rate** - The discount rate used to measure the total liability for the FRS Pension Plan was 7.10%. The Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculation of the total pension liability is equal to the long-term expected rate of return.

The discount rate used to measure the HIS plan liability was 3.58%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

ST. JOHNS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2017

Note 5 - Florida Retirement System (Continued):

- 7) **Long-Term Expected Rate of Return** - The long-term expected rate of return on Pension Plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1.00%	3.00%	3.00%	1.80%
Fixed income	18.00%	4.50%	4.40%	4.20%
Global equities	53.00%	7.80%	6.60%	17.00%
Real estate	10.00%	6.60%	5.90%	12.80%
Private equity	6.00%	11.50%	7.80%	30.00%
Strategic investments	12.00%	6.10%	5.60%	9.70%
Total	<u>100.00%</u>			
Assumed Inflation - Mean			2.60%	1.90%

(1) As outlined in the Pension Plan's investment policy

- 8) **Sensitivity of the District's Proportionate Share of the Net Position Liability to Changes in the Discount Rate** - The following represents the District's proportionate share of the net pension liability of the FRS and HIS Plans calculated using the discount rate of 7.10% and 3.85% respectively. Also presented is what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

<u>FRS Plan</u>	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	6.10%	7.10%	8.10%
District's Proportionate Share of the Net Pension Liability	\$ 613,205	\$ 338,799	\$ 110,978
<u>HIS Plan</u>	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	2.58%	3.58%	4.58%
District's Proportionate Share of the Net Pension Liability	\$ 131,402	\$ 115,151	\$ 101,614

ST. JOHNS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2017

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 - Contingencies:

During the ordinary course of its operations, the District is a party to various claims, legal actions, and complaints. In 2012, the District entered into a settlement agreement to settle litigation. However, District management does not believe that the pump station described in the settlement agreement will perform its function as designed. The District has budgeted for a three year project to address the drainage and discharge issues.

On January 9, 2017, the trial court ordered the District to comply with the Settlement Agreement and construct, maintain, and operate Pump Station 10. In addition, the District must pay reasonable attorney fees and other plaintiff costs. The cost of complying with the trial court order will range from \$ 1 to \$ 1.5 million.

Note 8 - 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 currently has no OPEB liability due to the following conditions:

The only other postemployment benefit the District offers is the ability for retirees to self-pay under the District's group health plan.

The average number of self-paying retirees at any one time has not exceeded one for the last five years.

The District does not expect this situation to change in the foreseeable future.

Accordingly, the District has a net OPEB obligation at September 30, 2017 of zero.

Note 9 - Subsequent Events:

In January 2018, the District signed a \$750,000 variable rate non-revolving commitment loan with a commitment expiration of July 31, 2018. The loan accrues interest at LIBOR plus 3%, at issuance the rate was 4.625%. At maturity, the outstanding principal balance will be renewed for a four year term loan with annual principal and interest payments beginning May 2019.

REQUIRED SUPPLEMENTARY INFORMATION

ST. JOHNS IMPROVEMENT DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
NET PENSION LIABILITY**

Last 10 Fiscal Years*

Florida Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.001145390%	0.001151540%	0.001415649%	0.001877314%
District's proportionate share of the net pension liability	\$ 338,799	\$ 290,765	\$ 182,850	\$ 114,544
District's covered-employee payroll	\$ 289,855	\$ 276,658	\$ 293,772	*
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	116.89%	105.10%	62.24%	*
Plan fiduciary net position as a percentage of the total pension liability	83.89%	84.88%	92.00%	96.09%

HIS Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.001076934%	0.001070254%	0.001321043%	0.001797940%
District's proportionate share of the net pension liability	\$ 115,151	\$ 124,734	\$ 134,726	\$ 168,112
District's covered-employee payroll	\$ 289,855	\$ 276,658	\$ 293,772	*
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	39.73%	45.09%	45.86%	*
Plan fiduciary net position as a percentage of the total pension liability	1.64%	0.97%	0.50%	0.99%

* Information for prior years not available

ST. JOHNS IMPROVEMENT DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS

Last 10 Fiscal Years*

Florida Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 38,552	\$ 34,780	\$ 36,536
Contributions in relation to the contractually required contribution	<u>(38,552)</u>	<u>(34,780)</u>	<u>(36,536)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered-employee payroll	 \$ 289,855	 \$ 276,658	 \$ 293,772
 Contributions as a percentage of covered-employee payroll	 13.30%	 12.57%	 12.44%

HIS Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 5,699	\$ 5,486	\$ 5,050
Contributions in relation to the contractually required contribution	<u>(5,699)</u>	<u>(5,486)</u>	<u>(5,050)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered-employee payroll	 \$ 285,855	 \$ 276,658	 \$ 293,772
 Contributions as a percentage of covered-employee payroll	 1.99%	 1.98%	 1.72%

* Information for prior years not available

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
St. Johns Improvement 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 and the major fund of St. Johns Improvement District as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise St. Johns Improvement District's basic financial statements, and have issued our report thereon dated March 22, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered St. Johns Improvement 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 St. Johns Improvement District's internal control. Accordingly, we do not express an opinion on the effectiveness of St. Johns Improvement 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a deficiency in internal control, described in Appendix A of the accompanying report to management that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether St. Johns Improvement 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*.

The District's Response to Findings

St. Johns Improvement District's responses to the findings identified in our audit are described in the accompanying letter. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

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
March 22, 2018

MANAGEMENT COMMENTS

Board of Commissioners
St. Johns Improvement District

Report on the Financial Statements

We have audited the financial statements of *St. Johns Improvement District* (the "District"), as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated March 22, 2018.

Auditor's Responsibility

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

Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and 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*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated March 22, 2018, 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, except for the deficiency described in Appendix A.

Tabulation of Uncorrected Audit Findings		
Current Year Finding #	2015-16 FY Finding #	2014-15 FY Finding #
2017-01	2016-01	2015-01

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 notes to the financial statements.

Financial Condition and Management

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, requires that we apply appropriate procedures and communicate 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 for the District. 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.

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

Annual Financial Report

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, requires that we apply appropriate procedures and communicate the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 2017, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2017. In connection with our audit, we determined that these two reports were in agreement.

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but 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.

McDermitt Davis & Company, LLC

Orlando, Florida
March 22, 2018

ST. JOHNS IMPROVEMENT DISTRICT
APPENDIX A - SIGNIFICANT DEFICIENCY

Year Ended September 30, 2017

ML17-01 - Internal Controls Over the Preparation of Financial Statements

Criteria

AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit*, requires auditors to evaluate whether or not the District employees have the necessary qualifications and training to record the District's financial transactions or prepare its financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Condition

During the course of our audit, we had to recommend that four adjusting entries be posted, and make several adjustments to capital asset balances, in order for financial statements to be prepared.

Cause

Due to the small size of the District, none of the staff has the necessary qualifications and training to prepare the financial statements.

Effect

Misstatements in financial reporting may go undetected.

Recommendation

We recommend that District staff receive additional training on governmental accounting standards, as well as make all required adjustments to the year-end financial statements.

To the Board of Directors
St. Johns Improvement District

We have audited the financial statements of St. Johns Improvement District as of and for the year ended September 30, 2017, and have issued our report thereon dated March 22, 2018. 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 October 20, 2017, 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 St. Johns Improvement 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 finding regarding a significant control deficiency over financial reporting noted during our audit in a separate letter to you dated March 22, 2018.

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.

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 St. Johns Improvement District is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2017. 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.

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 following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

- Accrue an additional \$4,758 reimbursement received after year end
- \$2,276 adjustment of prepaid costs to actual
- Reduce inventory \$35,078 to adjust to actual
- Accrue additional FRS payable of \$3,016

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 St. Johns Improvement 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 March 22, 2018.

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 St. Johns Improvement 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 St. Johns Improvement District's auditors.

This report is intended solely for the information and use of the Board of Commissioners and management of St. Johns Improvement 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

Orlando, Florida
March 22, 2018

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

Board of Commissioners
St. Johns Improvement District

We have examined St. Johns Improvement District's (the District) compliance with the requirements of Section 218.415, Florida Statutes, during the year ended September 30, 2017. 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, St. Johns Improvement District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2017.

McDirmit Davis & Company, LLC

Orlando, Florida
March 22, 2018



April 5th, 2018

RE: Comments and Recommendations from Auditor CY 16-17

Board of Supervisors,

For CY 16-17, the Auditors had one finding relative to internal controls. The following is my response to that finding;

ML16-01 - Internal Controls Over the Preparation of Financial Statements:

Finding: SAS No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, requires auditors to evaluate whether or not the District employees have the necessary qualifications and training to record the District's financial transactions or prepare its financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Recommendation: The Auditor recommends that the district employees continue to make improvements in recording adjusting journal entries when needed. This will require a review of the general ledger regularly to make sure accounts are correct.

Response: Management acknowledges and accepts this deficiency. This deficiency has been minimized from prior years; with on-going training, the intent is to continue to minimize this deficiency in future years. All journal entries have been entered. In addition, the District has an accounting firm under contract to assist with financial procedures as well as having a finance committee to review reports generated on a board meeting basis.

Sincerely,

A handwritten signature in blue ink that reads "John Frederick Lang".

John Frederick Lang
Administrator
St Johns Improvement District

JFL: MH