

**COLLIER COUNTY, FLORIDA**  
**WATER AND SEWER DISTRICT**  
**(A Component Unit of Collier County, Florida)**  
Financial Statements and Other Reports

Year Ended September 30, 2018  
(With Report of Independent Certified Public Accountants)

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

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## INDEPENDENT AUDITORS' REPORT

Honorable Board of County Commissioners  
Water and Sewer District  
Collier County, Florida

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Collier County, Florida, Water and Sewer District (District), a component unit of Collier County, Florida, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

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

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2018, and the change in financial position and its cash flows for the year then ended in conformity 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 management's discussion and analysis on pages 4 through 11, the schedules of the District's proportionate share of the net pension liability and of District contributions on page 46 and the schedule of changes in the District's total OPEB liability and related ratios on page 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The schedule of senior debt coverage and schedule of subordinated debt coverage are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Honorable Board of County Commissioners  
Water and Sewer District  
Collier County, Florida

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the District's 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.



**CliftonLarsonAllen LLP**

Naples, Florida  
March 20, 2019

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT,  
(A Component Unit of Collier County, Florida)**

Management's Discussion and Analysis  
(Unaudited)

September 30, 2018

This section of the Collier County, Florida Water and Sewer District (the District) financial report represents management's discussion and analysis of the District's financial performance during the fiscal year ended September 30, 2018. Please read the information presented here in conjunction with the financial statements and notes to the financial statements which follow this section.

**Financial Highlights**

- The District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources as of September 30, 2018 by \$860,752,221. Of this amount, \$171,665,380 is unrestricted and may be used to meet future obligations of the District.
- The District's total net position increased by \$39,566,463 during fiscal year 2018. The increase is largely due to a 2.9% rate increase that went in to effect October 1, 2017 as well as an increase in the number of active customers brought on by new constructions and the acquisition of the Golden Gate Utility System. In addition, water and sewer capital grants and contributions increased by 37.9%, mostly due to increases in developer infrastructure contributions.
- Total net bonded debt, direct placement loans and notes payable owed by the District increased by \$20,260,531 during fiscal year 2018. On February 28, 2018, the Series 2018 Collier County Water and Sewer Revenue Bond (Bank Term Loan) was issued in the par of \$35,965,000 for the purposes of acquiring the Golden Gate Utility System and paying associated costs of issuance. Effective as of the transfer date, the Golden Gate Utility System was included in the District service area. Additional information on debt activity can be found in Note 4 to the financial statements beginning on page 26.

**Overview of the Financial Statements**

This discussion and analysis is an introduction and explanation of the District's basic financial statements and notes to the basic financial statements. There is additional supplementary information following these financial statements that may be of interest to the reader.

**Basic Financial Statements**

The basic financial statements are designed to provide the reader an overview of the financial position of the District and are similar to private sector financial statements. These statements are comprised of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows which are found on pages 12 to 16 of this report.

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Management's Discussion and Analysis (continued)  
(Unaudited)

September 30, 2018

The Statement of Net Position shows the financial position of the District as of September 30, 2018. The statement shows the District's assets and deferred outflows of resources less its liabilities and deferred inflows of resources, with the difference being reported as net position. Changes in net position are useful indicators of financial condition.

The Statement of Revenues, Expenses and Changes in Net Position follows the Statement of Net Position and reports the changes in net position over the fiscal period. All changes in net position are reported as soon as the underlying events that gave rise to the change occur, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported for some items, such as accounts receivable or accrued unused vacation leave, that will manifest themselves in cash inflows and outflows, respectively, in future fiscal periods.

The Statement of Cash Flows allows financial statement users to assess the District's ability to generate sufficient cash flow to meet its obligations in a timely manner. The statement is classified into four categories: 1) cash flows from operating activities, 2) cash flows from non-capital financing activities, 3) cash flows from capital and related financing activities, and 4) cash flows from investing activities.

The notes provide additional information essential to a full understanding of the data provided in the basic financial statements. The notes appear on pages 17 to 46 of this report.

**Financial Analysis**

Changes in net position over time are a useful indicator in assessing financial condition. For fiscal year 2018 the District reported positive balances in all three categories of net position.

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Management's Discussion and Analysis (continued)  
(Unaudited)

September 30, 2018

**Water and Sewer District Net Position**

	<b>2018</b>	<b>2017</b>	<b>Increase (Decrease)</b>	<b>%</b>
Current and other assets	\$ 228,995,206	\$ 207,830,866	\$ 21,164,340	10.2%
Capital assets	849,498,493	814,293,167	35,205,326	4.3%
Total assets	<u>1,078,493,699</u>	<u>1,022,124,033</u>	<u>56,369,666</u>	5.5%
Deferred outflows of resources	<u>12,555,912</u>	<u>13,107,362</u>	<u>(551,450)</u>	-4.2%
Current liabilities	32,180,988	35,436,074	(3,255,086)	-9.2%
Long-term liabilities	<u>196,091,615</u>	<u>177,499,664</u>	<u>18,591,951</u>	10.5%
Total liabilities	<u>228,272,603</u>	<u>212,935,738</u>	<u>15,336,865</u>	7.2%
Deferred inflows of resources	<u>2,024,787</u>	<u>1,109,899</u>	<u>914,888</u>	82.4%
Net position				
Net investment in capital assets	659,500,098	645,340,427	14,159,671	2.2%
Restricted	29,586,743	31,274,311	(1,687,568)	-5.4%
Unrestricted	<u>171,665,380</u>	<u>144,571,020</u>	<u>27,094,360</u>	18.7%
Total net position	<u>\$ 860,752,221</u>	<u>\$ 821,185,758</u>	<u>\$ 39,566,463</u>	4.8%

The largest portion of the District's net position, \$659,500,098 or 76.6%, consists of capital assets such as land, buildings, improvements other than buildings and machinery and equipment, net of depreciation and any outstanding debt related to the construction or purchase of the asset. Capital assets are used to provide services to the citizens of the Collier County Water and Sewer District and consequently do not represent spendable resources.

The District's net position also includes restricted net position of \$29,586,743 and unrestricted net position of \$171,665,380. Restricted net position is subject to external restriction on how they may be used while unrestricted net position may be used to meet the District's ongoing obligations. The District had restrictions of \$19,503,905 for growth related capital expansion, \$300,000 for renewal and replacement and \$9,782,838 for debt service as of September 30, 2018.



**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Management's Discussion and Analysis (continued)  
(Unaudited)

September 30, 2018

**Water and Sewer District Changes in Net Position**

	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>	<u>%</u>
Revenue:				
Charges for services	\$ 145,436,218	\$ 134,633,817	\$ 10,802,401	8.0%
Miscellaneous	321,147	411,203	(90,056)	-21.9%
Total revenues	<u>145,757,365</u>	<u>135,045,020</u>	<u>10,712,345</u>	7.9%
Expenses:				
Personal services	33,695,443	34,569,733	(874,290)	-2.5%
Operating	56,812,458	63,334,462	(6,522,004)	-10.3%
Depreciation and amortization	45,664,287	43,301,502	2,362,785	5.5%
Total expenses	<u>136,172,188</u>	<u>141,205,697</u>	<u>(5,033,509)</u>	-3.6%
Operating income (loss)	9,585,177	(6,160,677)	15,745,854	-255.6%
Net non-operating revenues (expenses)	<u>4,310,845</u>	<u>(2,793,921)</u>	<u>7,104,766</u>	-254.3%
Income (loss) before capital contributions and transfers	13,896,022	(8,954,598)	22,850,620	-255.2%
Capital contributions and transfers	<u>25,670,441</u>	<u>17,795,966</u>	<u>7,874,475</u>	44.2%
Changes in net position	39,566,463	8,841,368	30,725,095	347.5%
Net position, beginning	821,185,758	808,303,612	12,882,146	1.6%
Restatement of net position, net		4,040,778	(4,040,778)	-
Net position, end of the year	<u>\$ 860,752,221</u>	<u>\$ 821,185,758</u>	<u>\$ 39,566,463</u>	4.8%

At September 30, 2018, the District's total net position amounted to \$860,752,221, as compared to \$821,185,758 as of September 30, 2017. Net position changes as a result of operations, non-operating revenues and expenses and capital contributions.

The District's net operating income increased by \$15,745,854 when compared to fiscal year 2017. The increase in net operating income was primarily the result of a 2.9% rate increase effective October 2017 in addition to a 3.6% decrease in total expenses, including depreciation and amortization. The District also added 3,713 customers with the acquisition of the Golden Gate Utility System in March 2018. The District's payments in lieu of taxes paid to the County's General Fund of \$6,482,800 were reclassified from operating expense to transfers in for financial statement purposes. These payments are reclassified pursuant to generally accepted accounting principles as the amount charged is not an approximation of services rendered.

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Management's Discussion and Analysis (continued)  
(Unaudited)

September 30, 2018

For the year ended September 30, 2018, the District reported capital grants and contributions of \$33,751,741, which consists of water and wastewater impact fees of \$14,087,562, \$19,350,529 in developer infrastructure contributions and other contributions of \$313,650. The District charges water and wastewater impact fees on new construction in order to finance growth related capital expenses.

**Capital Assets**

**Water and Sewer District Capital Assets**

	<b>2018</b>	<b>2017</b>	<b>Net Increase (Decrease)</b>	<b>%</b>
Land	\$ 20,427,047	\$ 17,869,764	\$ 2,557,283	14.3%
Buildings	125,101,648	118,464,759	6,636,889	5.6%
Improvements other than buildings	1,194,173,664	1,130,960,662	63,213,002	5.6%
Equipment	46,197,493	35,636,688	10,560,805	29.6%
Construction in progress	56,070,224	59,571,447	(3,501,223)	-5.9%
Total assets	1,441,970,076	1,362,503,320	79,466,756	5.8%
Less accumulated depreciation	(592,471,583)	(548,210,153)	(44,261,430)	8.1%
Total capital assets, net	<u>\$ 849,498,493</u>	<u>\$ 814,293,167</u>	<u>\$ 35,205,326</u>	4.3%

The District's financial statements present capital assets in two distinct groups, those that are depreciated and those not subject to depreciation. Buildings, improvements and equipment are examples of assets that are depreciated, and land and construction in progress are examples of assets that are not depreciated. The District's capital assets, net of accumulated depreciation, increased by \$35,205,326 from \$814,293,167 at the end of fiscal year 2017 to \$849,498,493 at the end of fiscal year 2018.

The District capitalized \$32,296,110 of construction in progress in fiscal year 2018 including \$2,933,428 for utility force main transmission system improvements, \$8,584,792 for master pump systems improvements, \$4,985,563 for Vanderbilt Drive utility improvements, \$5,026,945 for Naples Park basin improvements and \$10,765,382 for other water and wastewater infrastructure projects.

During fiscal year 2018, the District acquired the Golden Gate Utility System from Florida Governmental Utility Authority. As a result of this acquisition, non-depreciable capital assets of \$4,868,672 and depreciable capital assets of \$24,409,284 were recorded by the District.

Additional information regarding the District's capital assets can be found in Note 3 on page 25 of this report.

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Management's Discussion and Analysis (continued)  
(Unaudited)

September 30, 2018

**Debt Administration**

At September 30, 2018 the District had total bonded debt, notes and loans of \$187,954,826, an increase of \$20,260,531 from the previous year.

The following table illustrates the balances of all bonds, notes and loans as of the fiscal years ended September 30, 2018 and 2017:

**Water and Sewer District Outstanding Debt**

	<u>2018</u>	<u>2017</u>	<u>Net Increase (Decrease)</u>	<u>%</u>
Revenue bonds, net	\$ 58,748,362	\$ 59,350,770	\$ (602,408)	-1.0%
Direct placement loans payable	51,261,907	20,824,968	30,436,939	146.2%
Notes payable	<u>77,944,557</u>	<u>87,518,557</u>	<u>(9,574,000)</u>	-10.9%
Total	<u>\$ 187,954,826</u>	<u>\$ 167,694,295</u>	<u>\$ 20,260,531</u>	12.1%

On February 28, 2018, the Series 2018 Collier County Water and Sewer Revenue Bond (Bank Term Loan) was issued in the par amount of \$35,965,000 for purposes of acquiring the Golden Gate Utility System and paying associated costs of issuance. Effective as of the transfer date, the Golden Gate Utility System was included in the District's service area.

Fitch recently reaffirmed a rating of AAA to the District's revenue bonds. A Fitch AAA rating denotes the lowest expectation of default risk and are assigned only in cases of exceptionally strong capacity for the payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events. Rating outlooks indicate the direction a rating is likely to move over a one- to two-year period. In addition, Moody's Investors Service currently rates the District's revenue bonds at Aa1, which is indicative of very low credit risk.

The Constitution of the State of Florida, Florida Statute 200.181 and Collier County set no legal debt limit. Further information regarding the District's long-term debt can be found in Note 4 on pages 26 to 29 of this report.

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Management's Discussion and Analysis (continued)  
(Unaudited)

September 30, 2018

**Economic Factors and Fiscal Year 2019 Budgets and Rates**

The following factors were considered in preparing the District's fiscal year 2019 budget:

- Water production and wastewater collection and treatment overall are anticipated to increase in fiscal year 2019 compared to fiscal year 2018 forecast based on addition of the Golden Gate Utility service area and current growth projections.
- In September 2018, the Board approved a resolution which increased water and wastewater user rates by 2.8% in fiscal year 2019. The increase in revenue for fiscal year 2019 will primarily be used to fund increased personnel services, operating and maintenance expenses, equipment and the capital improvement program. Reserves remain at financially healthy levels.
- Sustained growth has placed pressure on the Collier County Water Sewer District mission of sustainable and compliant services. To meet demand and minimize risk, additional personnel were included in the fiscal year 2019 budget; the motor pool reserve created in fiscal year 2016 was again funded for vehicle replacements; and increases in operating expenses primarily related to addition of the Golden Gate Utility service area, contractual services, PILT, temporary labor, emergency maintenance and repairs, and utility parts were funded.
- The District's Capital Improvement Program in fiscal year 2018 loaned \$40.7 million to the Solid Waste Capital Improvement program to fund the Hurricane Irma disaster debris mission. Focus remained on the most critical and risk sensitive rehabilitation construction projects utilizing a pay-as-you-go approach that continues into fiscal year 2019. As disaster debris mission expenses are recovered, the loaned funds will be returned to projects on a prioritized basis.
- The total number of permits assessed with water and wastewater impact fees in FY18 increased by 2% compared to FY17 while impact fee revenue increased by 13%. FY19 impact fee revenues were budgeted conservatively consistent with forecast trends at the time; however, the current forecast trend for FY19 predicts revenues higher than FY18 actual.
- In fiscal year 2018, the estimated permanent population in the regional potable water service area increased by 9.0% from 186,362 to 203,128, and the estimated permanent population in the wastewater service area increased by 8.1% from 209,075 to 225,926. The large population increases are due to the District integrating the Golden Gate service area, previously served by the Florida Governmental Utility Authority, on February 28, 2018. This new sub-region of the District, an area known as Golden Gate City, includes an estimated 12,404 water and wastewater users and accounts for about three-quarters of the total population increases.

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Management's Discussion and Analysis (continued)  
(Unaudited)

September 30, 2018

- Population growth rates outside of the Golden Gate service area were typical of previous years, at 2.3% and 2.1% for water and wastewater respectively. These typical growth rates are expected to continue in the regional service areas.
- Population growth in the Golden Gate sub-region is negligible, but nearly 8,900 existing well users could become water customers over the next ten years, and nearly 2,600 septic system users could become wastewater customers in ten to twenty years. However, no capital improvement projects to connect additional Golden Gate customers are planned for fiscal year 2019.
- The average annual unemployment rate in the Naples-Immokalee-Marco Island Metropolitan Statistical Area, without seasonal adjustment continues to trend downwards, falling by 0.5% from FY 2017 (4.4%) to FY 2018 (3.7%). As the unemployment rate has decreased, the labor force has risen, reflecting strong employment growth in the region since 2010. Future unemployment rates are projected at or below FY 2018 Bureau of Labor Statistics rates.

The District utilizes a revenue centric approach to evaluate and manage operations. This proactive and prudent business approach has helped the District stay ahead of near term uncertainties, and positioned it to react positively as market conditions improve. These steps also enable the District to meet the ever-changing stringent fiscal requirements established by outside credit rating agencies.

**Contact Information**

This financial report is intended to give the user a general overview of Collier County Water and Sewer District's finances. Any questions resulting from review of this information may be addressed to Collier County Clerk of the Circuit Court, Department of Finance and Accounting, 3299 Tamiami Trail East, Suite #403, Naples, Florida 34112-5746. This office may also be contacted via the internet at [www.collierclerk.com](http://www.collierclerk.com).

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Statement of Net Position

September 30, 2018

**ASSETS**

Current assets:	
Cash and investments	\$ 132,791,761
Receivables:	
Trade, net	13,176,122
Special assessments	98,376
Interest	284,421
Due from other governments	1,031,282
Deposits	2,000
Inventory	5,360,008
Prepaid costs	10,381
Restricted assets:	
Cash and investments	5,309,506
Trade receivable, net	9,066
Interest receivable	43,163
Total current assets	<u>158,116,086</u>
Noncurrent assets:	
Restricted assets:	
Cash and investments	29,534,515
Receivables:	
Special assessments	252,855
Advances	41,091,750
Capital assets:	
Land and nondepreciable capital assets	76,497,271
Depreciable capital assets, net	773,001,222
Total noncurrent assets	<u>920,377,613</u>
Total assets	<u>1,078,493,699</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charges on debt refundings	3,981,935
Deferred outflows of resources related to pensions	8,573,977
Total deferred outflows of resources	<u>12,555,912</u>

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Statement of Net Position (continued)

September 30, 2018

**LIABILITIES**

Current liabilities:

Accounts payable	\$	10,418,292
Wages payable		1,022,151
Retainage payable		1,894,179
Due to county funds		853
Due to other governments		7,502
Compensated absences		1,672,967
Net pension liability		182,178
Notes payable		6,977,250
Bonds and loans payable		4,696,110
Liabilities payable from restricted assets:		
Accounts payable		2,253
Refundable deposits		120,766
Interest payable		1,229,810
Notes payable		2,391,307
Bonds and loans payable		1,565,370
Total current liabilities		32,180,988

Noncurrent liabilities:

Advances from county funds		50,128
Compensated absences		418,242
Total OPEB liability		1,489,494
Net pension liability		21,808,962
Notes payable		68,576,000
Bonds and loans payable, net		103,748,789
Total noncurrent liabilities		196,091,615
Total liabilities		228,272,603

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources related to OPEB		35,566
Deferred inflows of resources related to pensions		1,989,221
Total deferred inflows of resources		2,024,787

**NET POSITION**

Net investment in capital assets		659,500,098
Restricted for growth related capital expansion		19,503,905
Restricted for renewal and replacement		300,000
Restricted for debt service		9,782,838
Unrestricted		171,665,380
Total net position	\$	860,752,221

See accompanying notes.

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Statement of Revenues, Expenses and Changes in Net Position

Year ended September 30, 2018

<b>Operating revenues:</b>	
Charges for services	\$ 145,436,218
Miscellaneous	321,147
Total operating revenues	<u>145,757,365</u>
<b>Operating expenses:</b>	
Salaries and wages	22,466,298
Employee benefits	11,229,145
Contractual services	22,106,620
Materials, supplies and maintenance	16,501,940
Utilities	6,725,987
Insurance	1,780,697
Fertilizer, herbicides and chemicals	3,622,183
Other operating expenses	6,075,031
Depreciation and amortization	45,664,287
Total operating expenses	<u>136,172,188</u>
Operating income	<u>9,585,177</u>
<b>Non-operating revenues (expenses):</b>	
Operating grants	28,669
Interest income	2,137,412
Insurance reimbursement	8,185,614
Interest expense	(4,801,746)
Loss on disposal of capital assets	(1,239,104)
Net non-operating revenues (expenses)	<u>4,310,845</u>
<b>Income before contributions and transfers</b>	13,896,022
Capital grants and contributions	33,751,741
Transfers from county funds	13,600
Transfers to county funds	<u>(8,094,900)</u>
<b>Change in net position</b>	39,566,463
<b>Net position - beginning</b>	<u>821,185,758</u>
<b>Net position - ending</b>	<u><u>\$ 860,752,221</u></u>

See accompanying notes.



**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Statement of Cash Flows  
Year ended September 30, 2018

<b>Cash flows from operating activities:</b>	
Cash received for services	\$ 144,930,441
Cash received from customers deposits	114,000
Cash payments for refund of deposits	(83,000)
Cash payments for goods and services	(54,612,619)
Cash payments for county funds services	(8,723,550)
Cash payments to employees	(32,618,640)
Net cash provided by operating activities	<u>49,006,632</u>
<b>Cash flows from noncapital financing activities:</b>	
Cash transfers from county funds	574,625
Cash transfers to county funds	(48,802,600)
Net cash used in noncapital financing activities	<u>(48,227,975)</u>
<b>Cash flows from capital and related financing activities:</b>	
System development charges	14,107,445
Special assessment collections	5,330
Receipt from insurance reimbursement	8,211,484
Receipt from utility acquisition	5,913,372
Proceeds from loans	35,965,000
Proceeds from disposal of capital assets	204,197
Payments for capital acquisitions	(33,404,699)
Principal payments on notes	(9,574,000)
Principal payments on state revolving funds	(1,560,000)
Principal payments on bonds	(3,968,061)
Payments to escrow agents	(35,805,989)
Interest and fiscal agent fees paid	(4,750,811)
Net cash used in capital and related financing activities	<u>(24,656,732)</u>
<b>Cash flows from investing activities:</b>	
Interest earned on investments	<u>1,819,498</u>
Net cash provided by investing activities	<u>1,819,498</u>
<b>Net change in cash</b>	<b>(22,058,577)</b>
<b>Cash and investments, October 1, 2017</b>	<u>189,694,359</u>
<b>Cash and investments, September 30, 2018</b>	<u>\$ 167,635,782</u>
Current cash and investments	\$ 132,791,761
Current cash and investments - restricted	5,309,506
Noncurrent cash and investments - restricted	29,534,515
Cash and investments, September 30, 2018	<u>\$ 167,635,782</u>

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Statement of Cash Flows (continued)

Year ended September 30, 2018

**Reconciliation of operating loss to net cash provided  
by operating activities:**

Operating income	\$ 9,585,177
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	45,664,287
Net changes in operating assets and liabilities:	
Trade receivable	(403,853)
Due from other governments	(556,099)
Inventory	(724,783)
Prepaid costs	2,500
Accounts payable	(4,921,126)
Retainage payable	(679,882)
Wages payable	(249,989)
Due to county funds	(31,262)
Due to other governments	(36,130)
Compensated absences	92,553
Refundable deposits	31,000
Total OPEB liability	(44,524)
Deferred inflows of resources related to OPEB	34,241
Net pension liability	317,819
Deferred outflows of resources related to pensions	46,056
Deferred inflows of resources related to pensions	880,647
Total adjustments	39,421,455
Net cash provided by operating activities	<u>\$ 49,006,632</u>

**Supplemental disclosure of noncash investing, capital  
and financing activities:**

Change in fair value of investments	\$ (505,162)
Developer infrastructure contributions	19,340,867
Contributed capital assets	18,612
Change in special assessment receivable	308,320
Capital related accounts payable	4,309,798
Capital assets received from utility acquisition	29,277,956

See accompanying notes.

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Notes to Financial Statements

September 30, 2018

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES**

**REPORTING ENTITY**

Collier County (the County) is a political subdivision of the State of Florida. It is governed by an elected Board of County Commissioners (the Board), which is governed by state statutes and regulations.

The County owns, operates and maintains, within portions of the unincorporated areas of Collier County, the Collier County Water and Sewer District (the District). The District is a blended component unit of Collier County and is included in the County's basic financial statements. The District was established by Chapter 88-499, Laws of Florida, as amended by Chapter 03-353, to provide water, sewer and effluent services to portions of the unincorporated area of Collier County.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the District is accounted for as a business type activity within the financial statements of the County. Business type activities are those (i) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs and expenses, including depreciation and amortization, of providing goods or services to the general public on a continuing basis be financed or recovered through user charges and fees; or (ii) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**BASIC FINANCIAL STATEMENTS**

The basic financial statements consist of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position reports all financial and capital resources of the District. Net Position equal assets and deferred outflows of resources minus liabilities and deferred inflows of resources, and is shown in three categories: net investment in capital assets; restricted net position and unrestricted net position. The Statement of Revenues, Expenses and Changes in Net Position report the results of operations and show the components of the change in net position over the fiscal year. The Statement of Revenues, Expenses and Changes in Net Position is divided into four sections: operating revenues, operating expenses, non-operating revenues and expenses and capital grants and contributions. Operating revenues consist of charges for services, which are amounts charged to customers for a particular service. Grants and contributions refer to revenues restricted for operating or capital use in a particular program.

**MEASUREMENT FOCUS**

The activities of the District are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Notes to Financial Statements (continued)

September 30, 2018

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)**

**CASH, CASH EQUIVALENTS AND INVESTMENTS**

The District participates in the County's pooled cash investment program. Investment income is allocated to individual funds based upon their average daily balance in cash and investment pool. Investments in debt securities are recorded at fair value based upon values obtained from an independent pricing service. Investments in Local Government Surplus Funds Trust Fund (Florida Prime) are stated at fair value. The County categorizes its fair value measurement within the fair value hierarchy established in Government Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*.

**RESTRICTED ASSETS**

District assets are restricted for specific purposes. The debt service restriction is used to evidence the accumulation of resources for debt service payments in the future and required cash reserves. The renewal and replacement restriction is used to accumulate resources set aside to fund asset additions, renewals and replacements. The growth related capital expansion restriction is related to water and wastewater system development charges that may only be spent on growth related capital expansion. Assets are also restricted for the payment of refundable deposits and certain notes payable.

**RECEIVABLES**

The accounts receivables of the District are recorded net of allowances for uncollectible accounts, if any. All non-user receivables over one year old are recorded as uncollectible. The District's unbilled service revenues are accrued at the end of the year by prorating actual subsequent billings.

**SPECIAL ASSESSMENTS RECEIVABLE**

The District has assessed certain customers within the District for capital improvements benefiting only specific areas. These assessments were recorded as revenues at the time of the assessment.

**INVENTORY**

Inventory is comprised of materials and supplies held for use or consumption. Inventory is valued at cost, which approximates market, using the first-in, first-out method. Inventories are reported as an expense when consumed.

**CAPITAL ASSETS**

Capital assets purchased for use in the operations of the District are stated at cost. Contributed collection systems and equipment are recorded at acquisition value on the date of contribution. Depreciation is provided using the straight-line method over the estimated useful lives of the assets ranging from 3-20 years for equipment, 3-30 years for infrastructure, 20-45 years for buildings, and from 4-45 years for improvements other than buildings.

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Notes to Financial Statements (continued)

September 30, 2018

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)**

The District capitalizes expenditures with a cost of \$1,000 or more and with a useful life in excess of one year. Expenditures for maintenance and repairs are charged to operating expenses. The cost of capital assets retired or sold, together with the related accumulated depreciation, is removed from the accounts and any gain or loss on disposition is credited or charged to earnings.

**ACCRUED COMPENSATED ABSENCES**

The District follows the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. This statement provides for the measurement of accrued vacation leave and other compensated absences using the pay or salary rates in effect at the balance sheet date. It also requires additional amounts to be accrued for certain salary related payments associated with the payment of compensated absences.

It is the District's policy to allow employees to accumulate an unlimited number of hours of unused sick leave and up to 440 hours of unused vacation leave. Effective March 1, 1996 the District modified the policy for sick leave pay upon termination. Employees of record on August 2, 1996 may be granted a sick leave payment upon termination for any service period earned prior to August 2, 1996 and a payout of unused vacation up to 440 hours for all employees. No employee hired after August 2, 1996 shall receive payment for accrued sick leave upon termination. Accrued compensated absences are recorded as liabilities in the District's financials.

**OPERATING REVENUES AND EXPENSES**

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues for the District are charges to customers for sales and services. Operating expenses for the District include cost of sales and services, administrative costs, and depreciation on capital assets. The District also pays an allocated share of indirect costs to the County's general fund. These costs if incurred autonomously may have been greater than the allocated share. All other revenues and expenses are reported as nonoperating revenues and expenses.

**ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the District to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimated.

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Notes to Financial Statements (continued)

September 30, 2018

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)**

**BOND PREMIUMS, LOSS ON DEFEASANCE AND BOND INSURANCE COSTS**

Bond premiums and bond insurance costs are deferred and amortized over the term of the bonds using the straight-line method which approximates the effective interest method. Bond premiums are presented as an increase to the face amounts of bonds payable, while bond insurance costs are recorded as deferred charges and shown on the face of the Statement of Net Position as a component of noncurrent assets.

Pursuant to GASB 65, *Items Previously Reported as Assets and Liabilities*, the gain or loss on defeasance of debt is reported as a deferred inflow or outflow of resources. The gain or loss is calculated as the difference between the reacquisition price of the refunded debt and the net carrying amount at the time of the refunding. The gain or loss is amortized on a straight line basis over the shorter of the life of the new debt or the remaining life of the old debt as a component of interest expense.

**PENSIONS**

In the statement of net position, liabilities are recognized for the District's proportionate share of each pension plan's net pension liability. For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) and additions to/deductions from FRS's and HIS's fiduciary net position have been determined on the same basis as they are reported by FRS and HIS plans. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds of employee contributions are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**OTHER POST EMPLOYMENT BENEFITS (OPEB)**

In the statement of net position, liabilities are recognized for the District's total OPEB liability as determined by an actuarial review of the healthcare coverage purchased by retirees to continue participation in the County's self-insured health plan. The District is responsible for covering the excess of retiree claims over premium payments made by retirees to the County, which creates an other post employment benefit. OPEB expense is recognized immediately for changes in the OPEB liability resulting from current year service cost, interest on the total OPEB liability and changes of benefit terms or actuarial assumptions.

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Notes to Financial Statements (continued)

September 30, 2018

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)**

**DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

In addition to assets, the statement of financial position reports 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 deferred outflows of resources reported in the District's statement of net position represent changes in actuarial assumptions, changes in the proportion and differences between the District's contributions and proportionate share of contributions and the District's contributions subsequent to the measurement date, relating to the Florida Retirement System (FRS) Pension Plan and the Retiree Health Insurance Subsidy (HIS) Program. In addition, deferred outflows related to the difference between expected and actual economic experience relating to the FRS Pension Plan and the Other Post Employment Benefits Plan were reported. These amounts will be recognized as increases in pension expense and OPEB expense in future years. The District also reports the deferred charge on refunding as a deferred outflow in the statements of net position. A deferred charge results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position reports 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 deferred inflows of resources reported in the District's statement of net position represent the difference between expected and actual economic experience, changes in actuarial assumptions, net difference between projected and actual earnings on investments, and changes in the proportion and differences between the District's contributions and proportionate share of contributions relating to the FRS Pension Plan, the Retiree HIS Program and the OPEB Plan. These amounts will be recognized as reductions in pension expense and OPEB expense in future years. The District has also recorded amounts associated with long term receivables, primarily related to deferred impact fee agreements, as deferred inflows.

**USE OF RESTRICTED AND UNRESTRICTED RESOURCES**

When both restricted and unrestricted resources are available, restricted resources will be used first for incurred expenditures, and unrestricted as needed.

**ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS**

For the year ended September 30, 2018, the financial statements include the impact of the adoption of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The primary objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and the simplification of accounting for interest cost incurred before the end of a construction period. This Statement replaces the requirements of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Notes to Financial Statements (continued)

September 30, 2018

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)**

The statements also include the impact of the adoption of GASB Statement No. 82, *Pension Issues*, and GASB Statement No. 85, *Omnibus 2017*. GASB Statement No. 82 addresses issues regarding the presentation of payroll related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes and the classification of payments made by employers to satisfy employee contribution requirements. GASB Statement No. 85 establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application and postemployment benefits. Lastly, the statements include the impact of the adoption of GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of GASB Statement No. 88 is to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt.

**(2) CASH AND INVESTMENTS**

At September 30, 2018, the District had the following investments and maturities:

<u>Investments</u>	<u>Fair Value</u>	<u>Investment Maturities Within:</u>		
		<u>1 Year</u>	<u>2 Years</u>	<u>3 Years and more</u>
U.S. Treasury Notes	\$ 53,597,864	\$ 48,029,215	\$ 5,568,649	\$ -
U.S. Agency Securities	85,924,806	48,095,046	5,499,617	32,330,143
	<u>\$ 139,522,670</u>	<u>\$ 96,124,261</u>	<u>\$ 11,068,266</u>	<u>\$ 32,330,143</u>

Reconciliation of cash and investments to the District's financial statements, as of September 30, 2018:

Change funds and petty cash	\$ 7,000
Demand deposits	28,106,112
Investments, including cash equivalents	<u>139,522,670</u>
Total cash and investments	<u>\$ 167,635,782</u>
Cash and investments:	
Current unrestricted	\$ 132,791,761
Current restricted	5,309,506
Noncurrent restricted	<u>29,534,515</u>
Total cash and investments	<u>\$ 167,635,782</u>



**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Notes to Financial Statements (continued)

September 30, 2018

**(2) CASH AND INVESTMENTS (CONTINUED)**

**INVESTMENT POLICY**

Cash in excess of operating requirements of the District is pooled and invested by the County in various investments as described below. Earnings from pooled investments are allocated to the District based on the percentage of each fund's average daily balance in the total pool. Each fund's individual equity in the County's investment pool is considered to be a cash equivalent since each fund can deposit or withdraw cash at any time without prior notice or penalty. At September 30, 2018 the District's share of the cash and investment pool was \$167,635,782.

*Florida Statutes Chapter 218* and the County's investment policy, which was adopted by Resolution 2014-060, govern the County's investment practices.

The County is authorized to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, commercial paper, banker's acceptances, repurchase agreements, certificates of deposits, and the Florida PRIME, formerly the Local Government Surplus Funds Trust Fund. The District has adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

**CREDIT RISK**

The County's investment policy limits credit risk by restricting authorized investments to the Florida Local Government Surplus Trust Fund (Florida PRIME), direct obligations of, or obligations backed by the full faith and credit of the United States Government, U.S. government sponsored Corporation/Instrumentalities (except for Student Loan Marketing Association), certificates of deposit collateralized by U.S. Government Securities or Agencies, fixed income mutual funds collateralized by U.S. Government Securities or Agencies, domestic bankers' acceptances rated "AA" or higher, prime commercial paper rated "A-1" and "P-1", tax-exempt obligations rated "AA" or higher and issued by state or local governments, NOW accounts fully collateralized in accordance with Chapter 280, Florida Statutes and qualifying repurchase agreements.

**CUSTODIAL CREDIT RISK**

All cash deposits are held in qualified public depositories pursuant to Florida Statutes Chapter 280, *Florida Security for Public Deposits Act*. Under the act, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits, multiplied by the depository's collateral pledging level. The pledging level may range from 25% to 200% depending upon the depository's financial condition. Any losses to public deposits are covered by applicable deposit insurance, sale of securities pledged as collateral, and if necessary, assessments against other qualified public depositories of the same type as the depository in default.

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Notes to Financial Statements (continued)

September 30, 2018

**(2) CASH AND INVESTMENTS (CONTINUED)**

**INTEREST RATE RISK**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The objective of the investment policy is to match investment cash flow and maturity with known cash needs and anticipated cash flow requirements.

**CONCENTRATION OF CREDIT RISK**

The investment policy establishes limitations on portfolio composition in order to control credit risk. The policy allows 100% of the portfolio to be invested in U.S. government guaranteed securities, 80% to be invested in federal agencies and instrumentalities (excluding mortgage securities), 50% to be invested in Florida PRIME (formerly the Local Government Surplus Funds Trust Fund (SBA Pool)), 30% to be invested in Certificates of Deposit, 25% to be invested in prime commercial paper and 20% to be invested in qualifying repurchase agreements and fixed income mutual funds.

The portion of the County’s portfolio invested in U.S. Government Agencies is detailed as follows, at September 30, 2018:

Issuer	% of Portfolio
Federal Home Loan Bank	12.08%
Federal Farm Credit Bank	16.28%
Federal Home Loan Mortgage Corporation	7.44%
Federal National Mortgage Association	10.65%
Total U.S. Government Agencies	46.45%

**FAIR VALUE MEASUREMENTS**

GASB Statement No, 72, *Fair Value Measurements and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the County has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Notes to Financial Statements (continued)

September 30, 2018

**(2) CASH AND INVESTMENTS (CONTINUED)**

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs, if any, reflect the County’s own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the County’s own data.

The District has the following recurring fair value measurements as of September 30, 2018:

U.S. Treasury Notes classified as Level 1 of the fair value hierarchy were valued using prices quoted in active markets for those securities. As of September 30, 2018, the fair value of the District’s US Treasury Notes was \$53,597,864.

U.S. Agency obligations classified as Level 2 of the fair value hierarchy were valued using quoted prices for similar assets in active markets for those securities. As of September 30, 2018, the fair value of the District’s US Agency obligations was \$85,924,808.

**(3) CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2018 is as follows:

	October 1, 2017	Additions	Deductions	Reclass	September 30, 2018
Land and non-depreciable assets	\$ 17,869,764	\$ 2,557,283	\$ -	\$ -	\$ 20,427,047
Construction in progress	59,571,447	32,296,110	946,649	(34,850,684)	56,070,224
Total assets not depreciated	77,441,211	34,853,393	946,649	(34,850,684)	76,497,271
Buildings	118,464,759	6,650,789	13,900	-	125,101,648
Improvements other than buildings	1,130,960,662	36,951,340	500,000	26,761,662	1,194,173,664
Equipment	35,636,688	3,866,534	1,394,751	8,089,022	46,197,493
Total assets depreciated	1,285,062,109	47,468,663	1,908,651	34,850,684	1,365,472,805
Less accumulated depreciation	548,210,153	45,664,479	1,403,049	-	592,471,583
Total depreciable assets, net	736,851,956	1,804,184	505,602	34,850,684	773,001,222
Total capital assets, net	\$ 814,293,167	\$ 36,657,577	\$ 1,452,251	\$ -	\$ 849,498,493

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Notes to Financial Statements (continued)

September 30, 2018

**(4) LONG-TERM OBLIGATIONS**

**SUMMARY OF CHANGES IN LONG-TERM OBLIGATIONS**

The following is a summary of changes in the District's long-term obligations for the year ended September 30, 2018:

	October 1, 2017	Additions	Deductions	September 30, 2018	Due within one year
Bonds payable	\$ 48,105,000	\$ -	\$ -	\$ 48,105,000	\$ -
Premium on bonds payable	11,245,770	-	602,408	10,643,362	-
Direct placement loans payable	20,824,968	35,965,000	5,528,061	51,261,907	6,261,480
Notes payable	87,518,557	-	9,574,000	77,944,557	9,368,557
Compensated absences	1,998,656	1,535,582	1,443,029	2,091,209	1,672,967
Total	<u>\$ 169,692,951</u>	<u>\$ 37,500,582</u>	<u>\$ 17,147,498</u>	<u>\$ 190,046,035</u>	<u>\$ 17,303,004</u>

**SUMMARY OF DEBT SERVICE REQUIREMENTS TO MATURITY**

The annual debt service requirements to maturity for all bonds and notes outstanding at September 30, 2018 are as follows:

Fiscal Year	Revenue Bonds		Direct Placement Loans		Notes Payable		Totals
	Principal	Interest	Principal	Interest	Principal	Interest	
2019	\$ -	\$ 2,405,250	\$ 6,261,480	\$ 1,112,167	\$ 9,368,557	\$ 1,401,822	\$ 20,549,276
2020	-	2,405,250	6,384,464	991,822	9,027,000	1,234,368	20,042,904
2021	-	2,405,250	6,499,963	869,013	9,189,000	1,071,882	20,035,108
2022	-	2,405,250	6,961,000	743,893	7,891,000	906,480	18,907,623
2023	-	2,405,250	3,505,000	606,235	8,034,000	764,442	15,314,927
2024-28	-	12,026,250	18,815,000	1,723,753	31,554,000	1,776,312	65,895,315
2029-33	27,835,000	9,378,250	2,835,000	68,323	2,881,000	51,858	43,049,431
2034-38	20,270,000	2,060,000	-	-	-	-	22,330,000
Totals	<u>\$ 48,105,000</u>	<u>\$ 35,490,750</u>	<u>\$ 51,261,907</u>	<u>\$ 6,115,206</u>	<u>\$ 77,944,557</u>	<u>\$ 7,207,164</u>	<u>\$ 226,124,584</u>

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Notes to Financial Statements (continued)

September 30, 2018

**(4) LONG-TERM OBLIGATIONS (CONTINUED)**

DESCRIPTIONS OF BOND ISSUES AND NOTES PAYABLE

Revenue bonds payable and notes payable at September 30, 2018 consisted of the following:

<b>Revenue Bonds</b>	
\$48,105,000 2016 Collier County Water and Sewer Refunding Revenue Bonds due in annual installments of \$5,035,000 to \$7,090,000 through July 1, 2036; interest at 5.00% and collateralized by a lien on and a pledge of net revenues of the Collier County Water and Sewer District. Bonds were issued for purposes of currently refunding all of the District's remaining 2006 Water and Sewer Revenue Bonds.	<u>\$ 48,105,000</u>
Total Revenue Bonds	<u>\$ 48,105,000</u>
<b>Direct Placement Loans</b>	
\$17,769,080 2013 Collier County Water and Sewer Refunding Revenue Bond (Bank Term Loan) due in annual installments of \$1,369,430 to \$4,312,275 through July 1, 2021; interest at 1.47% and collateralized by a lien on and a pledge of net revenues of the Collier County Water and Sewer District. Loan was issued to currently refund all of the District's 2003B Water and Sewer Refunding Revenue Bonds.	\$ 4,281,907
\$17,687,000 2015 Collier County Water and Sewer Refunding Revenue Bond (Bank Term Loan) due in annual installments of \$2,533,000 to \$4,561,000 through July 1, 2022; interest at 1.75% and collateralized by a lien on and a pledge of net revenues of the Collier County Water and Sewer District. Loan was issued to advance refund a portion of the District's 2006 Water and Sewer Revenue Bonds.	12,575,000
\$35,965,000 2018 Collier County Water and Sewer Revenue Bond (Bank Term Loan) due in annual installments of \$1,560,000 to \$3,945,000 through July 1, 2029; interest at 2.41% and collateralized by a lien on and a pledge of net revenues of the Collier County Water and Sewer District. Loan was issued to finance the acquisition of water and wastewater utility facilities within the Golden Gate Community.	<u>34,405,000</u>
Total Direct Placement Loans	<u>\$ 51,261,907</u>

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Notes to Financial Statements (continued)

September 30, 2018

**(4) LONG-TERM OBLIGATIONS (CONTINUED)**

<b>Notes Payable</b>	
\$166,580 County Water and Sewer District agreement with private developer payable through use of sewer impact fee credits. Non-interest bearing agreement.	\$ 65,557
\$89,982,000 2016 County Water and Sewer District Refunding Revenue Note with Florida Community Bank, N.A., due in monthly installments of \$2,881,000 to \$9,574,000 through July 1, 2029; interest at 1.80% and collateralized by a subordinated pledge on the net revenues of the Collier County Water and Sewer District. Loan was issued to currently refund all of the District's State Revolving Fund Loans.	<u>77,879,000</u>
Total Notes Payable	<u>\$ 77,944,557</u>
Total Obligations	<u>\$ 177,311,464</u>
Unamortized Bond Premium	<u>\$ 10,643,362</u>
Obligations, Net	<u>\$ 187,954,826</u>
Less Current Portion of Obligations Payable from Unrestricted Assets	<u>\$ (11,673,360)</u>
Less Current Portion of Obligations Payable from Restricted Assets	<u>\$ (3,956,677)</u>
Long-Term Portion of Obligations, Net	<u><u>\$ 172,324,789</u></u>

**CURRENT YEAR FINANCING ACTIVITIES**

On November 14, 2017, the Board of County Commissioners of Collier County, Florida and ex-officio as the governing Board of the District authorized the acquisition of the real and personal property owned or utilized by the Florida Governmental Utility Authority to provide water and wastewater services in Collier County, Florida, in the Golden Gate Community, known as the Golden Gate Utility System (System). The transfer date was set as March 1, 2018 and the purchase price for the System was established as the amount required to repay all outstanding bonds and any additional obligations related to the System. On February 28, 2018, the Series 2018 Collier County Water and Sewer Revenue Bond was issued in the par amount of \$35,965,000 for purposes of acquiring the System and paying associated costs of issuance. Effective as of the transfer date, the Golden Gate Utility System was included in the District service area.

**COLLIER COUNTY, FLORIDA  
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Notes to Financial Statements (continued)

September 30, 2018

**(4) LONG-TERM OBLIGATIONS (CONTINUED)**

**RESTRICTIVE COVENANTS**

Official statements and County resolutions authorizing the revenue bonds establish certain accounts and determine the order in which certain revenues are to be deposited into those accounts, as well as establish reserve requirements. Management believes that all required balances were maintained.

The District has pledged future water and sewer customer revenues, net of certain operating expenses, to repay \$99,366,907 in Series 2013, 2015, 2016 and 2018 revenue bonds. Proceeds from the bonds were used for the refinancing of bonds issued for purposes of rehabilitation or expansion of the District's water and sewer systems. Principal and interest are payable through July 1, 2036, solely from the net revenues and certain other fees and charges derived from operation of the District. The pledge of net revenues by the District from the operation of the District does not constitute a lien upon the system or any other property of the District. The resolutions authorizing the revenue bonds include an obligation for the District to fix, establish and maintain such rates and collect such fees so as to provide in each year net revenues, as defined in the bond resolutions, which together with system development fees (impact fees) and special assessment proceeds (if applicable) received shall be at least 125% of the annual debt service requirements for the bonds; provided, however, that net revenues in each fiscal year shall be adequate to pay at least 100% of the annual debt service on the bonds. Fiscal year 2018 pledged revenues, net of operating expenses (excluding depreciation and amortization), were \$65,336,148, and \$79,423,710 when system development fees were included. Principal and interest paid on the bonds during fiscal year 2018 totaled \$8,577,955, providing coverage of 762% and 926%, respectively. In addition, bond covenants require a renewal and replacement amount equal to \$300,000 in the District funds. The District was in compliance with these covenants for the year ended September 30, 2018.

The District has a note outstanding in the amount of \$77,879,000 with Florida Community Bank, N.A. This note is collateralized by a lien on pledged revenues consisting of net revenues from the operations of the County Water and Sewer System and system development fees. The lien is subordinate in all respects to the liens placed upon pledged revenues established by bonded indebtedness. The District's note was in compliance with these covenants for the year ended September 30, 2018.

**COLLIER COUNTY, FLORIDA  
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Notes to Financial Statements (continued)

September 30, 2018

**(5) DEFINED BENEFIT PENSION PLANS**

**BACKGROUND**

The Florida Retirement System (FRS) was created by Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan, to assist retired members of any State-administered retirement system in paying the costs of health insurance.

Essentially all regular employees of the District are eligible to enroll as members of the State-administered FRS. 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 FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of the two cost-sharing, multiple employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services' web site ([www.dms.myflorida.com](http://www.dms.myflorida.com)).

The District's pension expense totaled \$3,339,192 for both the FRS Pension Plan and HIS Plan for the year ended September 30, 2018.



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Notes to Financial Statements (continued)

September 30, 2018

**(5) DEFINED BENEFIT PENSION PLANS (CONTINUED)**

FLORIDA RETIREMENT SYSTEM PENSION PLAN

PLAN DESCRIPTION

The Florida Retirement System Pension Plan (FRS Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (DROP) for eligible employees. The general classes of membership are as follows:

*Regular Class* – Members of the FRS who do not qualify for membership in the other classes.

*Elected County Officers Class* – Members who hold specified elective offices in local government.

*Senior Management Service Class (SMSC)* – Members in senior management level positions.

*Special Risk Class* – Members who are special risk employees, such as law enforcement officers, meet the criteria to qualify for this class.

Employees enrolled in the FRS Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the FRS Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the FRS Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Employees enrolled in the FRS Plan may include up to 4 years of credit for military service toward creditable service. The FRS Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The FRS Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the FRS Plan to defer receipt of monthly benefit payments while continuing employment with an FRS participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

**COLLIER COUNTY, FLORIDA  
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Notes to Financial Statements (continued)

September 30, 2018

**(5) DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**BENEFITS PROVIDED**

Benefits under the FRS Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits.

The following chart shows the percentage value for each year of service credit earned:

<u>Class, Initial Enrollment and Retirement Age/Years of Service:</u>	<u>% Value (per year of service)</u>
Regular Class members initially enrolled before July 1, 2011	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement up to age 63 or with 31 years of service	1.63
Retirement up to age 64 or with 32 years of service	1.65
Retirement up to age 65 or with 33 or more years of service	1.68
Regular Class members initially enrolled on or after July 1, 2011	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement up to age 66 or with 34 years of service	1.63
Retirement up to age 67 or with 35 years of service	1.65
Retirement up to age 68 or with 36 or more years of service	1.68
Elected County Officers' Class	3.00
Senior Management Service Class	2.00
Special Risk Class	
Service from December 1, 1970 through September 30, 1974	2.00
Service on and after October 1, 1974	3.00

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. FRS Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

**COLLIER COUNTY, FLORIDA  
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Notes to Financial Statements (continued)

September 30, 2018

**(5) DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**CONTRIBUTIONS**

The Florida Legislature establishes contribution rates for participating employers and employees. Effective July 1, 2011, all FRS Plan members (except those in DROP) are required to make 3% employee contributions on a pretax basis. The employer contribution rates by job class for the periods from October 1, 2017 through June 30, 2018 and from July 1, 2018 through September 30, 2018, respectively, were as follows: Regular employees-7.92% and 8.26%; County Elected Officials-45.50% and 48.70%; Senior Management Services-22.71% and 24.06%; and DROP participants-13.26% and 14.03%. The District's contributions to the FRS Plan were \$1,443,502 for the year ended September 30, 2018.

**PENSION COSTS**

At September 30, 2018, the District reported a liability of \$15,016,938 for its proportionate share of the FRS Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. The District's proportion of the net pension liability was based on the District's contributions received by FRS during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of FRS's participating employers. At June 30, 2018, the District's proportion was 0.049856%, which was an decrease of 0.000083% from its proportion measured as of June 30, 2017.

For the year ended September 30, 2018, the District recognized pension expense of \$2,691,810 for its proportionate share of FRS's pension expense. In addition, the District reported its proportionate share of FRS's deferred outflows of resources and deferred inflows of resources from the following sources:

**FRS Deferred Inflows/Outflows**

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 1,272,160	\$ 46,173
Changes in Actuarial Assumptions	4,906,805	-
Net Difference Between Projected and Actual Earnings on Plan Investments	-	1,160,242
Changes in Proportionate Share	402,360	33,586
District Contributions Subsequent to the Measurement Date	403,221	-
Total	\$ 6,984,546	\$ 1,240,001

**COLLIER COUNTY, FLORIDA  
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Notes to Financial Statements (continued)

September 30, 2018

**(5) DEFINED BENEFIT PENSION PLANS (CONTINUED)**

Deferred outflows of resources related to pensions of \$403,221, resulting from District contributions to the FRS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as an increase in pension expense as follows:

Year Ending September 30	Amount
2019	\$ 2,046,830
2020	1,436,505
2021	251,201
2022	904,374
2023	606,390
Thereafter	96,024

**ACTUARIAL ASSUMPTIONS**

The total pension liability in the July 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60% per year
Salary Increases	3.25% Average, Including Inflation
Investment Rate of Return	7.00%, Net of Pension Plan Investment Expense

Mortality rates were based on the Generational RP-2000 with Projection Scale BB. The actuarial assumptions used in the July 1, 2018, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

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.

**COLLIER COUNTY, FLORIDA  
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Notes to Financial Statements (continued)

September 30, 2018

**(5) DEFINED BENEFIT PENSION PLANS (CONTINUED)**

The target allocation, as outlined in the FRS Plan's investment policy, and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.0%	2.9%	2.9%	1.8%
Fixed income	18.0%	4.4%	4.3%	4.0%
Global equity	54.0%	7.6%	6.3%	17.0%
Real estate (property)	11.0%	6.6%	6.0%	11.3%
Private equity	10.0%	10.7%	7.8%	26.5%
Strategic investments	6.0%	6.0%	5.7%	8.6%
Totals	<u>100.0%</u>			
Assumed inflation - Mean			2.6%	1.9%

**DISCOUNT RATE**

The discount rate used to measure the total pension liability was 7.00% for the FRS Plan. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, 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 long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**PENSION LIABILITY SENSITIVITY**

The following presents the District's proportionate share of the net pension liability for the FRS Plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
FRS Plan Discount Rate	6.00%	7.00%	8.00%
District's Proportionate Share of the FRS Plan Net Pension Liability	\$ 27,406,542	\$ 15,016,938	\$ 4,726,640

**COLLIER COUNTY, FLORIDA  
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Notes to Financial Statements (continued)

September 30, 2018

**(5) DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**PENSION PLAN FIDUCIARY NET POSITION**

Detailed information about the FRS Plan's fiduciary's net position is available in a separately-issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report. That report may be obtained through the Florida Department of Management Services website at <http://www.dms.myflorida.com>.

**RETIREE HEALTH INSURANCE SUBSIDY PROGRAM**

**PLAN DESCRIPTION**

The Retiree Health Insurance Subsidy Program (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

**BENEFITS PROVIDED**

For the fiscal year ended June 30, 2018, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

**CONTRIBUTIONS**

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. The FRS contribution rate rates include a 1.66% HIS Plan subsidy for the periods October 1, 2017 through June 30, 2018 and from July 1, 2018 through September 30, 2018, respectively, pursuant to Section 112.363, Florida Statutes. The District contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan 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. The District's contributions to the HIS Plan were \$357,199 for the year ended September 30, 2018.

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Notes to Financial Statements (continued)

September 30, 2018

**(5) DEFINED BENEFIT PENSION PLANS (CONTINUED)**

PENSION COSTS

At September 30, 2018, the District reported a liability of \$6,974,202 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. The District's proportion of the net pension liability was based on the District's contributions received during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all participating employers. At June 30, 2018, the District's proportion was 0.065893%, which was an increase of 0.001347% from its proportion measured as of June 30, 2017.

For the year ended September 30, 2018, the District recognized pension expense of \$647,382 for its proportionate share of HIS's pension expense. In addition, the District reported its proportionate share of HIS's deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 106,772	\$ 11,849
Changes in Actuarial Assumptions	775,618	737,371
Net Difference Between Projected and Actual Earnings on Plan Investments	4,210	-
Changes in Proportionate Share	606,829	-
District Contributions Subsequent to the Measurement Date	96,002	-
Total	<u>\$ 1,589,431</u>	<u>\$ 749,220</u>

Deferred outflows of resources related to pensions of \$96,002, resulting from District contributions to the HIS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as an increase in pension expense as follows:

Year Ending September 30	Amount
2018	\$ 223,951
2019	223,596
2020	193,242
2021	115,016
2022	(24,750)
Thereafter	13,154

**COLLIER COUNTY, FLORIDA  
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Notes to Financial Statements (continued)

September 30, 2018

**(5) DEFINED BENEFIT PENSION PLANS (CONTINUED)**

ACTUARIAL ASSUMPTIONS

The total pension liability in the July 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60% per year
Salary Increases	3.25% Average, Including Inflation
Municipal Bond Rate	3.87%

Mortality rates were based on the Generational RP-2000 with Projection Scale BB. The actuarial assumptions used in the July 1, 2018, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

DISCOUNT RATE

The discount rate used to measure the total pension liability was 3.87% for the HIS Plan. 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.

PENSION LIABILITY SENSITIVITY

The following presents the District's proportionate share of the net pension liability for the HIS Plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
HIS Plan Discount Rate	2.87%	3.87%	4.87%
District's Proportionate Share of the HIS Plan Net Pension Liability	\$ 7,943,207	\$ 6,974,202	\$ 6,166,480



**COLLIER COUNTY, FLORIDA  
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Notes to Financial Statements (continued)

September 30, 2018

**(5) DEFINED BENEFIT PENSION PLANS (CONTINUED)**

PENSION PLAN FIDUCIARY NET POSITION

Detailed information about the HIS Plan’s fiduciary’s net position is available in a separately-issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report. That report may be obtained through the Florida Department of Management Services website at <http://www.dms.myflorida.com>.

SUMMARY

The aggregate amount of net pension liability, related deferred outflows of resources, deferred inflows of resources and pension expense for the District’s defined benefit pension plans are summarized below:

	FRS Plan	HIS Plan	Total
Net pension liability	\$ 15,016,938	\$ 6,974,202	\$ 21,991,140
Deferred outflows of resources related to pension	6,984,546	1,589,431	8,573,977
Deferred inflows of resources related to pension	1,240,001	749,220	1,989,221
Pension expense	2,691,810	647,382	3,339,192

**(6) DEFINED CONTRIBUTION PLAN**

The Florida State Board of Administration (SBA) administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA’s annual financial statements and in the State of Florida Comprehensive Annual Financial Report. 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. District employees participating in DROP are not eligible to participate in the Investment 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 contribution rates that are based on salary and membership class (Regular Class, Elected County Officers, etc.), as the FRS defined benefit 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 plan, including the FRS Financial Guidance Program, are funded through an employer contribution of .06% percent of payroll from July 1, 2017 to June 30, 2018 and .06% of payroll from July 1, 2018 to June 30, 2019 and by forfeited benefits of plan members. The District’s Investment Plan pension expense totaled \$215,143 for the year ended September 30, 2018.

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Notes to Financial Statements (continued)

September 30, 2018

**(6) DEFINED CONTRIBUTION PLAN (CONTINUED)**

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Non-vested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2018, 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 options. Disability coverage is provided; the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

**(7) RISK MANAGEMENT**

The District is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. A self-insurance internal service fund is maintained by the County to administer insurance activities relating to workers' compensation, health and property and casualty, which cover general, property, auto, public official and crime liabilities. Under these programs, the self-insurance fund provides coverage up to a maximum amount for each claim. The County purchases commercial insurance for claims in excess of coverage provided by the self-insurance fund and for all other covered risks of loss.

<u>Claim type</u>	<u>County's Coverage</u>	<u>Excess carrier's Coverage</u>
Property and casualty claims	\$50,000-\$500,000 (\$250,000 named storm deductible; 3% deductible of reported values per damaged building; subject to \$5,000,000 deductible cap)	\$50,000 - \$75,000,000
Auto liability claims	\$300,000	\$300,001 - \$5,000,000
Employee health claims	\$450,000	\$400,001 - Unlimited
Workers' compensation claims	\$500,000	\$500,001 - Statutory

**COLLIER COUNTY, FLORIDA  
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Notes to Financial Statements (continued)

September 30, 2018

**(7) RISK MANAGEMENT (CONTINUED)**

The claims loss reserve for workers' compensation, health and property and casualty recorded by the County of \$9,252,073 reported at September 30, 2018 was calculated by third party actuaries based upon GASB Statement 30, *Risk Financing Omnibus*, which requires that a liability for claims be reported when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. The estimated liabilities for unpaid losses related to workers' compensation and property and casualty were discounted at 3.5%. It should be noted that the discount rate is an estimate based on the expected rate of return over extended periods. The estimated liabilities for unpaid losses related to health were not discounted as their turnover period is much shorter.

All divisions of the County, excluding the Sheriff, participate in this program. Charges to operating departments are based upon amounts believed by management to meet the required annual payouts during the fiscal year and to pay for the estimated operating costs of the programs. For the year ended September 30, 2018, the District was charged \$312,782, \$5,920,407 and \$1,778,420 respectively, for workers' compensation, health, and property and casualty self-insurance programs.

**(8) OTHER POST EMPLOYMENT BENEFITS**

**PLAN DESCRIPTION AND BENEFITS PROVIDED**

The District participates in a group health care plan that covers eligible retirees, and their dependents, of the Board of County Commissioners (the Board) and all Constitutional Officers with the exception of the Sheriff. The Board administers the plan and establishes the benefits. In accordance with Florida Statute 112.0801, employees who retire and immediately begin receiving benefits from the FRS have the option of paying premiums to continue in the County's health insurance plan at the same group rate as for active employees.

The County offers an OPEB Plan that subsidizes the cost of health care for its retirees who have at least 60% of eligible accrued sick leave remaining at the time of retirement and have completed 15 years of continuous service with the Board. In addition, the retiree must retire from the County, be at least 55 years of age or have completed 30 years of service under the FRS and be eligible to receive an FRS benefit with no break in time.

The County's OPEB Plan is currently being funded on a pay as you go basis. No trust or agency fund has been established for the plan. The plan does not issue a separate financial report, however additional actuarial information regarding the plan as a whole is disclosed in the notes to the financial statements of Collier County.

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Notes to Financial Statements (continued)

September 30, 2018

**(8) OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

PARTICIPANT DATA

As of September 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	6
Active employees	<u>402</u>
Total employees	<u><u>408</u></u>

THE OPEB LIABILITY

The District's total OPEB liability of \$1,489,494 was measured as of September 30, 2018 and was determined by an actuarial valuation as of October 1, 2017. The following table shows the changes in the District's share of the County's total OPEB liability for the year ended September 30, 2018.

	<b>Total OPEB Liability</b>
Balance, as of September 30, 2017	<u>\$ 1,534,018</u>
Changes:	
Service cost	45,107
Interest	23,582
Changes in assumptions	(20,766)
Benefit payments	<u>(92,447)</u>
Net changes	<u>(44,524)</u>
Balance, as of September 30, 2018	<u><u>\$ 1,489,494</u></u>

OPEB LIABILITY DISCOUNT RATE SENSITIVITY

The following presents the District's share in the County's total OPEB liability, as well as what the total OPEB liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
OPEB Plan Discount Rate	2.25%	3.25%	4.25%
Total OPEB Liability	\$ 1,594,810	\$ 1,489,494	\$ 1,394,212

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Notes to Financial Statements (continued)

September 30, 2018

**(8) OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

OPEB LIABILITY HEALTHCARE TREND RATE SENSITIVITY

The following presents the District's share in the County's total OPEB liability, as well as what the total OPEB liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

OPEB Healthcare Trend Rate	5.00%	6.00%	7.00%
Total OPEB Liability	\$ 1,365,875	\$ 1,489,494	\$ 1,633,003

DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES RELATED TO OPEB

For the year ended September 30, 2018, the District's OPEB expense was \$68,689. In addition, the District reported deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 1,024
Changes in assumptions	-	34,542
	\$ -	\$ 35,566

Amounts reported as deferred inflows of resources related to OPEB will be amortized over 4.12 years and will be recognized as follows:

Year Ending September 30	Amount
2019	\$ 8,693
2020	8,693
2021	8,693
2022	8,480
Thereafter	1,007

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Notes to Financial Statements (continued)

September 30, 2018

**(8) OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

**ACTUARIAL METHODS AND ASSUMPTIONS**

Actuarial valuations of an ongoing plan involve estimates of the value 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.

Calculations for financial reporting purposes are based on the benefits provided under terms of the plan as understood by the employer and the plan members in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, 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.

The actuarial methods are:

Actuarial cost method	Entry Age Actuarial
-----------------------	---------------------

The actuarial assumptions are:

Discount rate	3.25% (Based on the 20 year AA municipal bond rate)
Healthcare cost trend rate	6% decreasing to 5% in 2021 and thereafter
Salary increase	3%
New employees	None

Mortality rates were based on the RP-2014 Mortality Fully Generational tables using Projection Scale MP-2018.

Since the most recent valuation, the following changes have been made:

The actuarial cost method changed from using the Unit Credit Actuarial cost method to the Entry Age Actuarial cost method.

The discount rate was changed from 2.8% to 3.25%.

The mortality assumption has been updated from RP-2014 Mortality Fully Generational using Projection Scale MP-2016 to RP 2014 Mortality Fully Generational using Projection Scale MP-2018

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Notes to Financial Statements (continued)

September 30, 2018

**(9) INTERGOVERNMENTAL TRANSACTIONS**

The District purchases services such as information technology, telecommunications and fleet maintenance from the Collier County, Florida Board of County Commissioners. The District is also allocated a portion of the County's indirect service charge. During the year ending September 30, 2018, the District purchased, and was allocated, operating and capital services in the amount of \$8,723,550 and \$109,323 respectively. Such amounts are included in operating expenses in the accompanying statement of revenue, expenses and changes in net position or have been capitalized as part of construction projects.

**(10) COMMITMENTS AND CONTINGENCIES**

**SIGNIFICANT COMMITMENTS**

The District has active construction projects at the end of the fiscal year. The projects include construction and improvements for the water and sewer system. As of September 30, 2018, the District's significant commitments with contractors were approximately \$16,511,882. In addition, the District has non-construction related encumbrances for purchase orders involving goods or services ordered but not received by the end of the fiscal year. The non-construction encumbrances as of September 30, 2018 were \$2,234,551.

**STATE AND FEDERAL GRANTS**

Grant monies received and disbursed by the District are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the District does not believe that such disallowances, if any, would have a material effect on the financial position of the District.

**ARBITRAGE REBATE**

In accordance with the Tax Reform Act of 1986, any interest earnings on borrowed construction funds in excess of the interest costs incurred are required to be rebated to the federal government. There was no arbitrage rebate liability as of September 30, 2018.

**HURRICANE IRMA**

On September 10, 2017, Category 3 Hurricane Irma made landfall in Collier County. Statewide, an estimated 6.5 million Floridians were ordered to evacuate, mostly those living on barrier islands or in coastal areas, in mobile or sub-standard homes and in low lying or flood prone areas. Mandatory evacuations were ordered for portions of Collier County. The primary impacts of Hurricane Irma were widespread power outages and debris, coastal flooding and beach erosion. The District has spent approximately \$10.7 million on recovery efforts and has budgeted an additional \$5.9 million in the 2019 fiscal year. In fiscal year 2018, the District recognized \$8 million in insurance proceeds. The District continues to expect significant reimbursements from insurance, the Federal Emergency Management Agency (FEMA) and State of Florida.

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Notes to Financial Statements (continued)

September 30, 2018

**(11) SUBSEQUENT EVENT**

On March 12, 2019, the Collier County Board of County Commissioners, acting as the ex-officio governing board of the Collier County Water-Sewer District (District) approved a resolution authorizing the issuance of bonds to finance utility infrastructure expansion in the northeast service area to serve future residents and businesses. The bonds issued will not exceed a principal amount of \$85 million, the proceeds of which are to be used for the costs of construction, funding of additional debt service reserve and closing costs. The bonds will be publicly offered on April 2, 2019 and awarded to the bidder that provides the lowest interest cost to the District.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
FLORIDA RETIREMENT SYSTEM PENSION PLAN  
LAST TEN FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's Proportion of the Net Pension Liability	0.049856174%	0.049939500%	0.045947588%	0.044520510%	0.042891627%
District's Proportionate Share of the Net Pension Liability	\$ 15,016,938	\$ 14,771,709	\$ 11,601,802	\$ 5,750,421	\$ 2,617,020
District's Covered Payroll *	\$ 22,477,847	\$ 19,641,639	\$ 19,080,417	\$ 17,975,192	\$ 17,049,860
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll	66.81%	75.21%	60.80%	31.99%	15.35%
Plan Fiduciary Net Position as a Percentage of the total Pension Liability	84.26%	83.89%	84.88%	92.00%	96.09%

\* Covered Payroll consists of pensionable wages calculated as of the respective measurement date, restated for periods 2014 to 2017 pursuant to GASB No. 82, *Pension Issues*.

**SCHEDULE OF DISTRICT CONTRIBUTIONS  
FLORIDA RETIREMENT SYSTEM PENSION PLAN  
LAST TEN FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 1,443,502	\$ 1,306,266	\$ 1,228,060	\$ 1,093,798	\$ 1,043,595
Contributions in Relation to the Contractually Required Contribution	(1,443,502)	(1,306,266)	(1,228,060)	(1,093,798)	(1,043,595)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll - Fiscal Year *	\$ 22,188,318	\$ 21,556,779	\$ 19,675,811	\$ 18,176,447	\$ 17,266,312
Contributions as a Percentage of Covered Payroll	6.51%	6.06%	6.24%	6.02%	6.04%

\* Covered Payroll - Fiscal Year consists of pensionable wages calculated for the respective fiscal year, restated for periods 2014 to 2017 pursuant to GASB No. 82, *Pension Issues*.

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
RETIREE HEALTH INSURANCE SUBSIDY PROGRAM  
LAST TEN FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's Proportion of the Net Pension Liability	0.065893122%	0.064545961%	0.059573615%	0.056934535%	0.055245360%
District's Proportionate Share of the Net Pension Liability	\$ 6,974,202	\$ 6,901,552	\$ 6,943,058	\$ 5,806,427	\$ 5,165,576
District's Covered Payroll *	\$ 22,477,847	\$ 19,641,639	\$ 19,080,417	\$ 17,975,192	\$ 17,049,860
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll	31.03%	35.14%	36.39%	32.30%	30.30%
Liability	2.15%	1.64%	0.97%	0.50%	0.99%

\* Covered Payroll consists of pensionable wages calculated as of the respective measurement date pursuant to GASB No. 82, *Pension Issues*.

**SCHEDULE OF COUNTY CONTRIBUTIONS  
RETIREE HEALTH INSURANCE SUBSIDY PROGRAM  
LAST TEN FISCAL YEARS\***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 357,199	\$ 351,961	\$ 328,290	\$ 236,871	\$ 186,891
Contributions in Relation to the Contractually Required Contribution	(357,199)	(351,961)	(328,290)	(236,871)	(186,891)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered - Fiscal Year *	\$ 22,188,318	\$ 21,556,779	\$ 19,675,811	\$ 18,176,447	\$ 17,266,312
Contributions as a Percentage of Covered Payroll	1.61%	1.63%	1.67%	1.30%	1.08%

\* Covered Payroll - Fiscal Year consists of pensionable wages calculated pursuant to GASB No. 82, *Pension Issues*.

*Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the District will present information for only those years for which information is available.*

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

**SCHEDULE OF CHANGES IN THE DISTRICT'S  
TOTAL OPEB LIABILITY AND RELATED RATIOS  
LAST TEN FISCAL YEARS**

	<u>2018</u>	<u>2017</u>
Service Cost	\$ 45,107	\$ 76,702
Interest	23,582	41,865
Differences between expected and actual experience	-	43,278
Changes of assumptions or other inputs	(20,766)	-
Benefit payments	<u>(92,447)</u>	<u>(89,499)</u>
Net change in total OPEB liability	(44,524)	72,346
Total OPEB liability, beginning	<u>1,534,018</u>	<u>1,461,672</u>
Total OPEB liability, ending	<u>\$ 1,489,494</u>	<u>\$ 1,534,018</u>

*Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the District will present information for only those years for which information is available.*

## **SUPPLEMENTARY INFORMATION**

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Senior Debt Coverage

September 30, 2018  
(Unaudited)

The following is a computation of the District's senior debt coverage for fiscal year 2018:

Operating revenue	\$ 145,757,365
Non-operating revenue	10,118,515
Gross revenue	<u>155,875,880</u>
Less: Operating expenses before depreciation and amortization	<u>90,507,901</u>
Net revenue	65,367,979
System development fees	<u>14,087,562</u>
Total amount available for debt service	<u><u>\$ 79,455,541</u></u>
Bond debt service requirements (1)	\$ 8,577,955
Bond debt service coverage (2)	926%
Bond debt service coverage (3)	762%

- (1) Amount of principal and interest paid in fiscal year 2018 for bonds.
- (2) Total amount available for debt service divided by bond debt service requirements must be greater than 125%.
- (3) Net revenue divided by bond debt service requirements must be greater than 100%.

**COLLIER COUNTY, FLORIDA  
WATER AND SEWER DISTRICT  
(A Component Unit of Collier County, Florida)**

Subordinate Debt Coverage

September 30, 2018  
(Unaudited)

The following is a computation of the District's subordinate debt coverage for fiscal year 2018:

Operating revenue	\$ 145,757,365
Non-operating revenue	10,118,515
Gross revenue	<u>155,875,880</u>
Less: Operating expenses before depreciation and amortization	<u>90,507,901</u>
Net revenue	65,367,979
System development fees	<u>14,087,562</u>
Total amount available for debt service	<u>\$ 79,455,541</u>
Bond debt service requirements (1)	\$ 8,577,955
Debt service coverage from net revenues available for bond debt service (2)	926%
Adjusted net revenues available for subordinated debt service (3)	\$ 70,877,586
Subordinated debt service requirements (4)	\$ 11,148,028
Subordinated debt service coverage (5)	636%

- (1) Amount of principal and interest paid in fiscal year 2018 for bonds.
- (2) Total amount available for debt service, divided by the annual bond debt service requirements.
- (3) Calculated as net revenue less bond debt service requirements.
- (4) Amount of principal and interest paid in fiscal year 2018 for subordinated debt.
- (5) Adjusted net revenues available for subordinated debt service divided by subordinated debt service requirements must be greater than 115% or 125%, depending upon the individual loan agreement.



**INDEPENDENT AUDITORS' 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**

Honorable Board of County Commissioners  
Water and Sewer District  
Collier County, Florida

We have audited, in accordance with the 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 statement of net position and the related statement of revenues, expenses, and changes in net position and cash flows of the Collier County, Florida, Water and Sewer District (District), a component unit of Collier County, Florida, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 20, 2019.

**Internal Control Over Financial Reporting**

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

Honorable Board of County Commissioners  
Water and Sewer District  
Collier County, Florida

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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.



**CliftonLarsonAllen LLP**

Naples, Florida  
March 20, 2019