



**HERITAGE  
PLANTATION  
COMMUNITY  
DEVELOPMENT  
DISTRICT**

**FINANCIAL REPORT**  
**Year Ended September 30, 2017**

HERITAGE PLANTATION COMMUNITY DEVELOPMENT DISTRICT

**TABLE OF CONTENTS**

Year Ended September 30, 2017

	<b><u>Page</u></b>
<b>I. Financial Section:</b>	
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet - Governmental Funds	10
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	13
Notes to Financial Statements	14
<b>II. Compliance Section:</b>	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	28
Independent Auditor's Management Letter	30
Independent Accountant's Report on Compliance with the Requirements of Section 218.415, Florida Statutes	34
Response to Management Comments	35

## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors  
*Heritage Plantation Community Development District*

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of the *Heritage Plantation Community Development District* (the "District"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

**MCDIRMIT DAVIS & COMPANY, LLC**

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

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

## **Opinions**

### *Basis for Qualified Opinion*

The District was unable to provide sufficient competent evidential matter for certain expenditures paid for by the Trustee from the Debt Service Fund. The financial information of the debt service fund is part of the governmental activities and is considered a major fund.

### *Qualified Opinion*

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the District been able to provide sufficient evidential matter for certain selected expenditures paid for by the Trustee from the Debt Service Fund, the financial statements referred to above present fairly, in all material respects, the financial position of the debt service fund and the governmental activities of the district as of September 30, 2017, and the changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Unmodified Opinion on General, and Capital Projects Funds*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, and Capital Projects Fund of the District, as of September 30, 2017, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

As discussed in the notes to the basic financial statements, the District's financial conditions continue to deteriorate as a result of unpaid assessments that remain in default. As a result, certain scheduled debt service payments in prior years were made, in part, by draws on the debt service reserve accounts. In the prior, current, and subsequent fiscal years, certain scheduled debt service payments were not made resulting in events of default. The debt service fund had a deficit fund balance of (\$11,611,392) at September 30, 2017. The District approved a resolution adopting plan to transfer the properties to the County and/or the HOA, and then the District will dissolve. The dissolution is anticipated during fiscal year 2019, pending the completion of the transfer process. The financial statements do not include any adjustments that might result from the dissolution of the District. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis starting on page 4, be presented to supplement the 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*McDiarmid Davis & Company, LLC*

Orlando, Florida  
November 14, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the *Heritage Plantation Community Development District's*, (the "District") financial accomplishments provide an overview of the District's financial activities for the year ended September 30, 2017. Please read it in conjunction with the District's Independent Auditor's Report, financial statements and accompanying notes.

This information is being presented to provide additional information regarding the activities of the District and to meet the disclosure requirements of Government Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* issued June 1999.

### Financial Highlights

- The liabilities of the District exceeded its assets at September 30, 2017 by \$9,478,925, a decrease in net position of \$(1,087,190) in comparison with the prior year.
- At September 30, 2017, the District's governmental funds reported a combined ending fund deficit of \$(11,575,371), an increase in the deficit of \$(728,250) in comparison with the prior year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the *Heritage Plantation Community Development District's* financial statements. The District's financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements.

### Government-Wide Financial Statements

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

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

The government-wide financial statements include all governmental activities that are principally supported by special assessment revenues. The District does not have any business-type activities. The governmental activities of the District include general government and physical environment related functions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Fund Financial Statements

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

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

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

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, debt service fund and capital projects fund, all of which are considered to be major funds.

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

### Notes to Financial Statements

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

### Government-Wide Financial Analysis

Statement of Net position - The District's net position was \$(9,478,925) at September 30, 2017. The following analysis focuses on the net position of the District's governmental activities.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Government-Wide Financial Analysis (Continued):**

Heritage Plantation Community Development District  
Statement of Net Position

	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Assets, excluding capital assets	\$ 316,982	\$ 297,218
Capital Assets being depreciated, net	<u>6,310,332</u>	<u>6,778,853</u>
Total assets	<u>6,627,314</u>	<u>7,076,071</u>
Liabilities, excluding long-term liabilities	12,139,622	259,209
Long-term Liabilities	<u>3,966,617</u>	<u>15,208,597</u>
Total liabilities	<u>16,106,239</u>	<u>15,467,806</u>
Net Position:		
Net investment in capital assets	2,372,827	2,737,471
Restricted for capital projects	36,395	36,263
Unrestricted	<u>(11,888,147)</u>	<u>(11,165,469)</u>
Total net position	<u>\$ (9,478,925)</u>	<u>\$ (8,391,735)</u>

The following is a summary of the District's governmental activities for the fiscal years ended September 30, 2017 and 2016.

Changes in Net Position  
Year ended September 30,

	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues		
Operating grants and contribution	\$ 97,408	\$ 934,205
Capital grants and contribution	<u>132</u>	<u>23</u>
Total revenues	<u>97,540</u>	<u>934,228</u>
Expenses:		
General government	118,594	197,823
Physical environment	472,271	468,521
Interest on long-term debt	<u>593,865</u>	<u>593,865</u>
Total expenses	<u>1,184,730</u>	<u>1,260,209</u>
Change in net position	(1,087,190)	(325,981)
Net position - beginning	<u>(8,391,735)</u>	<u>(8,065,754)</u>
Net position - ending	<u>\$ (9,478,925)</u>	<u>\$ (8,391,735)</u>

As noted above and in the statement of activities, the cost of all governmental activities during the year ended September 30, 2017 was \$1,184,730. The majority of these costs are interest on long-term debt.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Financial Analysis of the Government's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At September 30, 2017, the District's governmental funds reported combined ending fund deficits of \$(11,575,371). Of this total, \$36,395 is restricted for capital projects, and the remainder is an unassigned fund deficit of \$(11,611,766).

In current year, the fund balance of the District's general fund decreased \$20,549.

The debt service fund balance decreased by \$707,833 due to principal and interest costs and unpaid assessments.

There was no significant change to the capital projects fund.

### General Fund Budgetary Highlights

An operating budget was adopted and maintained by the governing board for the District pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. There were no amendments to the September 30, 2017 general fund budget. The legal level of budgetary control is at the fund level.

### Capital Asset and Debt Administration

**Capital Assets** - At September 30, 2017, the District had \$6,310,332 invested in land and infrastructure. More detailed information about the District's capital assets is presented in the notes to financial statements.

**Capital Debt** - At September 30, 2017, the District had \$11,360,000 in bonds outstanding, including \$7,385,000 of matured bonds payable. More detailed information about the District's capital debt is presented in the notes to financial statements.

### Requests for Information

If you have questions about this report or need additional financial information, contact the *Heritage Plantation Community Development District's* Finance Department at 12750 Citrus Park Lane, Suite 115, Tampa, FL 33625.

## **FINANCIAL STATEMENTS**

HERITAGE PLANTATION COMMUNITY DEVELOPMENT DISTRICT

**STATEMENT OF NET POSITION**

September 30, 2017

	<b>Governmental Activities</b>
<b>Assets:</b>	
Cash	\$ 5,352
Accounts receivable	50,782
Restricted assets:	
Investments	260,848
Capital assets:	
Capital assets being depreciated, net	<u>6,310,332</u>
Total assets	<u>6,627,314</u>
<b>Liabilities:</b>	
Accounts payable and accrued expenses	56,508
Accrued interest payable	247,269
Matured bonds payable	7,385,000
Matured interest payable	4,450,845
Noncurrent liabilities:	
Due within one year	115,000
Due in more than one year	<u>3,851,617</u>
Total liabilities	<u>16,106,239</u>
<b>Net Position:</b>	
Net investment in capital assets	2,372,827
Restricted for capital projects	36,395
Unrestricted	<u>(11,888,147)</u>
Total net position	<u><u>\$ (9,478,925)</u></u>

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

HERITAGE PLANTATION COMMUNITY DEVELOPMENT DISTRICT

**STATEMENT OF ACTIVITIES**

Year Ended September 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
General government	\$ 118,594	\$ -	\$ 96,575	\$ -
Physical environment	472,271	-	-	-
Interest on long-term debt	593,865	-	833	132
Total governmental activities	<u>\$ 1,184,730</u>	<u>\$ -</u>	<u>\$ 97,408</u>	<u>\$ 132</u>
				(1,087,190)
				Change in Net Position
				(1,087,190)
				Net Position - beginning
				(8,391,735)
				Net Position - ending
				<u>\$ (9,478,925)</u>

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

HERITAGE PLANTATION COMMUNITY DEVELOPMENT DISTRICT

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

September 30, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Cash	\$ 5,352	\$ -	\$ -	\$ 5,352
Investments	-	224,453	36,395	260,848
Accounts receivable	50,782	-	-	50,782
Total assets	<u>\$ 56,134</u>	<u>\$ 224,453</u>	<u>\$ 36,395</u>	<u>\$ 316,982</u>
<b>Liabilities and Fund Balances:</b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 56,508	\$ -	\$ -	\$ 56,508
Matured bonds payable	-	7,385,000	-	7,385,000
Matured interest payable	-	4,450,845	-	4,450,845
Total liabilities	<u>56,508</u>	<u>11,835,845</u>	<u>-</u>	<u>11,892,353</u>
Fund balances:				
Restricted:				
Capital projects	-	-	36,395	36,395
Unassigned	(374)	(11,611,392)	-	(11,611,766)
Total fund balances	<u>(374)</u>	<u>(11,611,392)</u>	<u>36,395</u>	<u>(11,575,371)</u>
Total liabilities and fund balances	<u>\$ 56,134</u>	<u>\$ 224,453</u>	<u>\$ 36,395</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 6,310,332

Liabilities not due and payable from current available resources are not reported in governmental fund statements. All liabilities, both current and long-term, are reported in the government-wide statements.

Accrued interest payable	(247,269)	
Bonds payable	(3,966,617)	(4,213,886)
Net position of governmental activities (page 8)		<u>\$ (9,478,925)</u>

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

HERITAGE PLANTATION COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Landowner contributions	\$ 96,575	\$ -	\$ -	\$ 96,575
Investment income	-	833	132	965
Total revenues	<u>96,575</u>	<u>833</u>	<u>132</u>	<u>97,540</u>
<b>Expenditures:</b>				
Current:				
General government	112,270	6,324	-	118,594
Physical environment	3,750	-	-	3,750
Debt Service:				
Interest	-	593,446	-	593,446
Principal	-	110,000	-	110,000
Total expenditures	<u>116,020</u>	<u>709,770</u>	<u>-</u>	<u>825,790</u>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<u>(19,445)</u>	<u>(708,937)</u>	<u>132</u>	<u>(728,250)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	1,104	-	1,104
Transfers out	(1,104)	-	-	(1,104)
Total other financing sources (uses)	<u>(1,104)</u>	<u>1,104</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(20,549)	(707,833)	132	(728,250)
<b>Fund Balances (Deficits) - beginning of year</b>	<u>20,175</u>	<u>(10,903,559)</u>	<u>36,263</u>	<u>(10,847,121)</u>
<b>Fund Balances (Deficits) - end of year</b>	<u>\$ (374)</u>	<u>\$ (11,611,392)</u>	<u>\$ 36,395</u>	<u>\$ (11,575,371)</u>

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

HERITAGE PLANTATION COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2017

Net change in fund balances - total governmental funds (page 11)	\$ (728,250)
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation on capital assets is not recognized in the governmental fundstatement, however it is reported as an expenses in the statement of activities.	(468,521)
The issuance of long-term debt provides current financial resources, while the repayment of the principal of long-term debt consumes the current financial resources of the District. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
Matured bonds recorded as payable	110,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Amortization of bond discount	<u>(419)</u>
	<u>(419)</u>
Change in net position of governmental activities (page 9)	<u><u>\$ (1,087,190)</u></u>

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

HERITAGE PLANTATION COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2017

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Special assessments	\$ 287,040	\$ 287,040	\$ -	\$ (287,040)
Landowner contributions	50,000	50,000	96,575	46,575
Total revenues	337,040	337,040	96,575	(240,465)
<b>Expenditures:</b>				
Current:				
General government	179,875	179,875	112,270	67,605
Physical environment	157,165	157,165	3,750	153,415
Total expenditures	337,040	337,040	116,020	221,020
<b>Excess of revenues over expenditures</b>	-	-	(19,445)	(19,445)
<b>Other Financing Sources (Uses):</b>				
Transfers out	-	-	(1,104)	(1,104)
Total other financing sources (uses)	-	-	(1,104)	(1,104)
Net change in fund balance	-	-	(20,549)	(20,549)
<b>Fund Balance - beginning of year</b>	20,175	20,175	20,175	-
<b>Fund Balance - end of year</b>	\$ 20,175	\$ 20,175	\$ (374)	\$ (20,549)

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



**NOTES TO FINANCIAL STATEMENTS**

**NOTES TO FINANCIAL STATEMENTS**

Year Ended September 30, 2017

**Note 1 - Summary of Significant Accounting Policies:**

**Reporting Entity**

The *Heritage Plantation Community Development District*, (the "District") was established on May 17, 2005 by Okaloosa County Ordinance 05-50 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The Act provides, among other things, the power to manage basic services for community development, the power to borrow money and issue bonds, and the power to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure. The District was established for the purpose of financing and managing the acquisition, construction, maintenance and operation of a portion of the infrastructure necessary for community development within the District.

The District is governed by the Board of Supervisors (the "Board"), which is composed of five members. The Supervisors are elected on an at large basis by the owners of the property within the District. The Board of Supervisors of the District exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes. Two of the board members is associated with Heritage Plantation Holdings, LLC., (the "majority landowner") at September 30, 2017. The District is economically dependent on the majority landowner.

The Board has the final responsibility for:

1. Allocating and levying assessments.
2. Approving budgets.
3. Exercising control over facilities and properties.
4. Controlling the use of funds generated by the District.
5. Approving the hiring and firing of key personnel.
6. Financing improvements.

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

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

**Government-Wide and Fund Financial Statements**

The financial statements include both government-wide and fund financial statements.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants, contributions and investment income that are restricted to meeting the operational or capital requirements of a particular function or segment and 3) operating-type special assessments that are treated as charges for services (including assessments for maintenance and debt service). Other items not included among program revenues are reported instead as *general revenues*.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the modified *accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Assessments, including debt service assessments and operation and maintenance assessments, are non-ad valorem assessments imposed on all lands located within the District and benefited by the District's activities. Operations and maintenance assessments are levied by the District prior to the start of the fiscal year, which begins October 1<sup>st</sup> and ends on September 30<sup>th</sup>. Operating and maintenance special assessments are imposed upon all benefited lands located in the District. Debt service special assessments are imposed upon certain lots and lands as described in each resolution imposing the special assessment for each series of bonds issued by the District. Certain debt service assessments are collected upon the closing of those lots subject to short-term debt and are used to prepay a portion of the bonds outstanding.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

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

**Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued):**

Assessments and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

**General Fund** - is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Debt Service Fund** - accounts for the accumulation of resources for the annual payment of principal and interest on long-term debt.

**Capital Projects Fund** - accounts for the financial resources to be used for the acquisition or construction of major infrastructure within the District.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance:**

**Restricted Assets** - These assets represent cash and investments set aside pursuant to bond covenants.

**Deposits and Investments** - The District's cash and cash equivalents are considered to be cash on hand and demand deposits.

Investments of the District are reported at fair value, and are categorized within the fair value hierarchy established in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. The District's investments consist of investments authorized per their investment policy adopted in accordance with Section 218.415, Florida Statutes.

**Receivables** - All receivables are shown net of allowance for uncollectible accounts.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

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

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued):**

**Capital Assets** - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of the donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Electrical	20
Roadways	20
Stormwater management	25

**Long Term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are recorded as an expense. Bonds payable are reported net of premiums or discounts.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any item that qualifies for reporting in this category for the year ended September 30, 2017.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

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

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued):**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any item that qualifies for reporting in this category for the year ended September 30, 2017.

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

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

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

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

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Board of Supervisors has authorized the District Manager to assign amounts for specific purposes. The Board of Supervisors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

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

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued):**

exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**Other Disclosures**

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Note 2 - Stewardship, Compliance and Accountability:**

**A. Budgetary Information**

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

The District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
2. Public hearings are conducted to obtain comments.
3. Prior to October 1, the budget is legally adopted by the District Board.
4. All budget changes must be approved by the District Board.
5. The budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

**B. Deficit Fund Balances**

The general fund and debt service fund have deficit fund balances at September 30, 2017.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

**Note 3 - Deposits and Investments:**

**Deposits**

The District's cash balances were entirely covered by federal depository insurance or by a collateral pool pledged to the State Treasurer. Florida Statutes Chapter 280, "Florida Security for Public Deposits Act", requires all qualified depositories to deposit with the Treasurer or another banking institution eligible collateral equal to various percentages of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. governmental and agency securities, state or local government debt, or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

**Investments**

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

Assets or liabilities are classified into one of three levels. Level 1 is the most reliable and is based on quoted price for identical assets, or liabilities, in an active market. Level 2 uses significant other observable inputs when obtaining quoted prices for identical or similar assets, or liabilities, in markets that are not active. Level 3 is the least reliable, and uses significant unobservable inputs that uses the best information available under the circumstances, which includes the District's own data in measuring unobservable inputs.

The District has the following recurring fair value measurements as of September 30, 2017:

- Fidelity government portfolio of \$260,848 are valued using Level 2 inputs.

The District's investment policies are governed by State Statutes and the District Trust Indenture. The District's investment policy allows investments in any financial institution that is a qualified public depository of the State of Florida as identified by the State Treasurer, in accordance with Chapter 280 of the Florida Statutes. Authorized investments include, but are not limited to:

1. The Local Government Surplus Funds Trust Fund (SBA);
2. Securities and Exchange Commission Registered Money Market Funds with the highest credit quality rating from a nationally recognized rating agency;
3. Interest bearing time deposits or savings accounts in qualified public depositories;
4. Direct obligations of the U.S. Treasury.



HERITAGE PLANTATION COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

**Note 3 - Deposits and Investments (Continued):**

**Investments (Continued):**

Investments made by the District at September 30, 2017 are summarized below. In accordance with GASB 31, investments are reported at fair value.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity</u>
Fidelity government portfolio	\$ 260,848	AAAm	26 days

Credit risk:

The District's investment policy limits credit risk by restricting authorized investments to those described. Investments in U.S. Government securities and agencies must be backed by the full faith and credit of the United States Government. Short term bond funds shall be rated by a nationally recognized ratings agency and shall maintain the highest credit quality rating.

Custodial credit risk:

In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be recovered. The District's investment policy requires that bank deposits be secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida, and creates the Public Deposits Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2017, all of the District's bank deposits were in qualified public depositories.

For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At September 30, 2017, none of the investments listed are exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Concentration of credit risk:

The District's investment policy does not specify limits on the amount the District may invest in any one issuer.

HERITAGE PLANTATION COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

**Note 3 - Deposits and Investments (Continued):**

Interest rate risk:

The District's investment policy does not specifically address interest rate risk; however, the general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and in general, avoid speculative investments. The District manages its exposure to declines in fair values by investing primarily in pooled investments that have a weighted average maturity of less than three months.

**Note 4 - Capital Assets:**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital Assets, Being Depreciated:				
Electrical	\$ 498,186	\$ -	\$ -	\$ 498,186
Roadways	6,119,957	-	-	6,119,957
Stormwater management	3,440,357	-	-	3,440,357
Total capital assets, being Depreciated:	<u>\$ 10,058,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,058,500</u>
Less accumulated depreciation for:				
Electrical	(174,363)	(24,909)	-	(199,272)
Roadways	(2,141,986)	(305,998)	-	(2,447,984)
Stormwater management	(963,298)	(137,614)	-	(1,100,912)
Total accumulated depreciation	<u>(3,279,647)</u>	<u>(468,521)</u>	<u>-</u>	<u>(3,748,168)</u>
Total capital assets, being depreciated, net	<u>6,778,853</u>	<u>(468,521)</u>	<u>-</u>	<u>6,310,332</u>
Governmental activities capital assets	<u>6,778,853</u>	<u>(468,521)</u>	<u>-</u>	<u>6,310,332</u>

infrastructure intended to serve the District has been estimated at a total cost of approximately \$30,380,000 and will be constructed in four phases. The construction of phase 1 cost an estimated \$6.4 million. Phase 2 costs were estimated at approximately \$4.6 million, of which approximately \$3.4 million was funded using the Series 2006 Bonds and the balance was supposed to be funded by the initial Developer. The infrastructure will include roadways, stormwater management facilities, recreational facilities, water and wastewater facilities and entry landscaping. The infrastructure improvements for phase 1 were completed and certain improvements for phase 2 have also been completed. The remainder of the project has been placed on hold. Remediation work was to be done by the new majority landowner since some of the infrastructure has fallen into disrepair, but that has not yet been done.

Depreciation expense was charged to the physical environment function/program.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

**Note 5 - Long-Term Liabilities:**

On October 10, 2006, the District issued \$11,805,000 of Capital Improvement Revenue Bonds, consisting of \$4,830,000 Series 2006A due on May 1, 2037 with a fixed interest rate of 5.4% and \$6,975,000 Series 2006B due on November 1, 2013 with a fixed interest rate of 5.1%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is due semiannually on each May 1 and November 1, commencing November 1, 2006. Principal on the Series 2006A Bonds is due annually commencing May 1, 2008 through May 1, 2037. Principal on the Series 2006B Bonds was due in one lump sum payment on November 1, 2013.

The Series 2006A Bonds are subject to redemption at the option of the District prior to their maturity. The Series 2006B Bonds are not subject to optional redemption. The Bonds are subject to extraordinary mandatory redemption prior to their selected maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture.

The Bond Indenture requires that the District maintain adequate funds in a reserve account to meet the debt service reserve requirement as defined in the Indenture. The requirement was not met at September 30, 2017.

The Bond Indenture has certain restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agreed to levy special assessments in annual amounts adequate to provide payment of debt service. Payment of the principal and interest on the Series 2006 Bonds is secured by a pledge of and first lien upon the pledged special assessment revenue. The District is not in compliance with certain requirements of the Bond Indenture due to Developer nonpayment of assessment revenue.

Total principal and interest remaining on the Series 2006 Bonds, as of September 30, 2017 is \$19,219,325, which includes \$11,835,845 of matured bonds and interest payable. The District did not make any debt service payments in the current year. The District also did not make all of its debt service payments due in prior years. There was no special assessment revenue pledged for the current year.

During prior fiscal years, the initial Developer and other property owners failed to make payment on the special assessments which ultimately secure the Bonds. As a result, certain scheduled debt service payments due during prior fiscal years were made, in part, by draws on the debt service reserve accounts. Additionally, as a result of the delinquent assessments, the District did not have sufficient funds in the general fund to finance operations; therefore, certain expenditures were paid out of the trust accounts (including the debt service reserve accounts) to cover the costs of the District's operations, as well as to pay certain default related expenditures. As a result of these payments, there is a deficit of approximately \$307,000 in the Series 2006A debt service reserve account and approximately \$152,000 in the Series 2006B debt service reserve account at September 30, 2017. Expenditures (legal fees, trustee fees, property management fees, etc.) related to default administration were \$441,070 in fiscal year 2015, \$96,790 in fiscal year 2016, and \$6,324 in fiscal year 2017.

HERITAGE PLANTATION COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

**Note 5 - Long-Term Liabilities (Continued):**

Long-term debt activity for the year ended September 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Bonds Payable:					
Series 2006	\$ 4,085,000	\$ -	\$ (110,000)	3,975,000	\$ 115,000
Less original issue discount	(8,802)	-	419	(8,383)	-
Governmental activity long-term liabilities	<u>\$ 4,076,198</u>	<u>\$ -</u>	<u>\$ (109,581)</u>	<u>\$ 3,966,617</u>	<u>\$ 115,000</u>

The beginning balance in the schedule above includes a reduction of \$7,385,000 of principal due in prior years, which remains unpaid. The current year reduction of \$110,000 was accrued to matured bonds payable. At September 30, 2017, matured bonds payable totals \$7,385,000.

At September 30, 2017, the scheduled debt service requirements on the bonds payable, excluding matured amounts, were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 115,000	\$ 253,530
2019	120,000	247,320
2020	125,000	240,840
2021	135,000	234,090
2022	140,000	226,800
2023 - 2027	830,000	1,011,420
2028 - 2032	1,085,000	761,130
2033 - 2037	1,425,000	433,350
	<u>\$ 3,975,000</u>	<u>\$ 3,408,480</u>

**Note 6 - Inter-fund Transfers:**

Inter-fund transfers for the fiscal year ended September 30, 2017 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Debt Service	<u>\$ 1,104</u>

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

**Note 7 - Related Party Transactions:**

**Bondholder Contribution**

The majority bondholder has agreed to fund the repositioning and restructuring costs associated with making infrastructure improvements to sell the developer lands, and restructure the Series 2006 Bonds. For the year ended September 30, 2017 contributions from the bondholder of \$92,070 were recognized as revenue, which is 94% of total revenues.

**Note 8 - Risk Management:**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance from independent third parties. The District has not had any settlements that exceeded insurance coverage during the last three years.

**Note 9 - Developer Transactions**

Southeastern Consulting and Development Company, Inc. ("Southeastern"), the initial Developer, owned a significant portion of land within the District during fiscal year 2016 and, as such, was responsible for the payment of the majority of the assessments necessary to fund the District's operations. Southeastern filed chapter 11 bankruptcy protection during a prior fiscal year and stopped funding the District. Due to the bankruptcy, the District was prevented from pursuing further collection actions in relation to Southeastern's property. As collectability was deemed both uncertain and unlikely, this revenue has not been recognized in the financial statements. During fiscal year 2016, Southeastern sold the property it owns in the District to Heritage Plantation Holdings, LLC which is now the majority landowner of the District. See Note 11 below for additional information.

**Note 10 - Pending Litigation**

**Michael Gibson 2013 CA 001719**

Michael Gibson, a property owner within the District ("Plaintiff"), filed a complaint against the District, Heritage Plantation Homeowners' Association, Inc., Phoenix Realty Partners, Inc., and the District's Board of Supervisors Louis S. Weitman, Douglas Turner, William Smith, and Richard Bennett on April 12, 2013, asserting the District breached its fiduciary duty and violated election procedures. Plaintiff also requested declaratory and injunctive relief as to assessments levied by the District. During the fiscal year ending September 30, 2017, an order was entered staying the proceedings by order of the Okaloosa County Circuit Court as a result of the proceedings in the United States Bankruptcy Court for the Northern District of Florida, Tallahassee Division, in Case No.: 14-40331-KKS ("Southeastern Bankruptcy"). Subsequent to year end, this case has been dismissed.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

**Note 10 - Pending Litigation (Continued)**

**Michael Gibson 2013 CA 002008**

Michael Gibson, a property owner within the District ("Plaintiff"), filed a complaint against the District and the District's Board of Supervisors, Louis S. Weitman, Douglas Turner, William Smith, and Richard Bennett on April 22, 2013, asserting the District violated the Sunshine Law and requesting declaratory relief regarding any negotiations or agreements for restructuring the Heritage Plantation Community Development District Capital Improvement Revenue Bonds, Series 2006A ("Series 2006A Bonds") and the Heritage Plantation Community Development District Capital Improvement Revenue Bonds, Series 2006B ("Series 2006B Bonds" and, together with the Series 2006A Bonds, the "Bonds"). During the fiscal year ending September 30, 2017, an order was entered staying the proceedings by order of the Okaloosa County Circuit Court as a result of the proceedings in the United States Bankruptcy Court for the Northern District of Florida, Tallahassee Division, in Case No.: 14-40331-KKS ("Southeastern Bankruptcy"). Subsequent to year end, this case has been dismissed.

**Note 11 - Claims Regarding Unpaid Assessments**

The debt assessments securing the Bonds and levied on lands owned by Southeastern and certain other landowners remain in default. The District previously filed claims in the Southeastern Bankruptcy relating to the debt assessment liens. The District's debt assessment liens survived the Southeastern Bankruptcy. Because the debt assessments are still unpaid but no formal foreclosure litigation has been filed, it is impracticable to render a decision whether the likelihood of loss would be "probable," "remote" or otherwise, or to estimate any potential loss. However, the District believes that it has a meritorious cause of action if it were to make a decision to foreclose on the defaulted assessments.

As a component of the settlement incorporated in the Southeastern Bankruptcy's approved Chapter 11 bankruptcy plan ("Southeastern Settlement Plan"), the Operation and Maintenance Assessments ("O&M Assessments") currently due on property subject to the Southeastern Bankruptcy has been reduced to zero in exchange for the new majority landowner's payment of all of the District's outstanding accounts payables and the establishment of a budget funding agreement with the new majority landowner for any remaining operation and maintenance expenses incurred during Fiscal Year 2015-2016 ("Fiscal Year 2015-2016 Funding Agreement").

On February 18, 2016, the District's Board of Supervisors adopted Resolution 2016-04 approving the Southeastern Settlement Plan, the Fiscal Year 2015-2016 Funding Agreement, and reduced all outstanding O&M Assessments on all property within the District to zero including, but not limited to, O&M Assessments for Fiscal Years 2011-2012, 2012-2013, 2013-2014, 2014-2015, and 2015-2016.

On February 18, 2016, the District's Board of Supervisors adopted Resolution 2016-05 approving another component of the Southeastern Settlement Plan directing District Counsel to vacate the Final Judgment of Foreclosure in Case No.: 09-CA-7620 before the First Judicial Circuit Court, Okaloosa County, Florida ("Circuit Court") for two hundred ninety-seven (297) platted residential lots subject to the Southeastern Bankruptcy in exchange for decelerating the past and future principal installments for the debt assessments securing the Bonds on those two hundred ninety-seven (297) platted lots. On April 13, 2016, the Circuit Court entered an order vacating the Final Judgment of Foreclosure as recorded in Okaloosa County, Florida.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

**Note 11 - Claims Regarding Unpaid Assessments (Continued)**

Subsequent to fiscal year end, certain properties within the District have not paid the Fiscal Year 2017 O&M Assessments. The District has not yet undertaken any action to foreclose these defaulted assessments, and, accordingly, it is impracticable to render a decision whether the likelihood of loss would be "probable," "remote" or otherwise, or to estimate any potential loss. However, the District believes that it has a meritorious cause of action if it were to make a decision to foreclose on the defaulted assessments.

Subsequent to year end all outstanding bonds have been surrendered and the District has adopted a resolution releasing and extinguishing all special assessment liens, including, but not limited to, all liens for operation and maintenance assessments and liens securing District debt. Thus, the claims regarding unpaid assessments are no longer outstanding.

**Note 12 - Management Company**

The District has contracted with a management company to perform management services, which include financial and accounting services. Certain employees of the management company also serve as officers (Board appointed non-voting positions) of the District. Under the agreement, the District compensates the management company for management, accounting, financial reporting, and other administrative costs.

**Note 13 - Subsequent Events:**

**Bonds**

Subsequent to year end, the District was unable to make the November 2017 interest payments due on the Series 2006 Bonds. The District's inability to make its scheduled debt service payments when it is due is considered an event of default. Also, the Series 2006 debt service reserve accounts have not been replenished; therefore, the District is still not in compliance with the requirements of the Bond Indenture. In December 2017 the District surrendered the remaining outstanding bonds.

**District Dissolution**

The Board is in the process of dissolving the District which will include transferring capital assets owned by the District to other entities for ownership and maintenance responsibilities.

**Note 14 - Going Concern Considerations:**

The District did not have sufficient funds to make certain scheduled debt service payments in the current year and prior fiscal years and, as a result, the payments were not made. As a result, the Bonds are in default. The District approved a resolution adopting plan to transfer the properties to the County and/or the HOA, and then the District will dissolve. The dissolution is anticipated during fiscal year 2018, pending the completion of the transfer process. The financial statements do not include any adjustments that might result from the dissolution of the District.

## **COMPLIANCE SECTION**



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

To the Board of Supervisors  
*Heritage Plantation Community Development District*

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the *Heritage Plantation Community Development District* (the "District") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the District's financial statements and have issued our report thereon dated November 14, 2018 which includes an explanatory paragraph regarding the qualified opinion for the debt service fund and the governmental activities due to the lack of sufficient competent evidential matter and an emphasis of matters paragraph.

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, 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 certain instances of noncompliance or other matters that are required to be reported under government and auditing standards. See Appendix A of the accompanying report to management dated November 14, 2018.

We noted certain other matters that we reported to management of the District, in a separate letter dated November 14, 2018. The District's response to our findings identified in our audit is included in this report. We did not audit the District's response, and accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*McDiernit Davis & Company, LLC*

Orlando, Florida  
November 14, 2018

**INDEPENDENT AUDITOR’S MANAGEMENT LETTER**

Board of Supervisors  
*Heritage Plantation Community Development District*

**Report on the Financial Statements**

We have audited the financial statements of the *Heritage Plantation Community Development District* (the “District”) as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated November 14, 2018, which includes an explanatory paragraph regarding the qualified opinion for the debt service fund and the governmental activities due to the lack of sufficient competent evidential matter and an emphasis of matters paragraph.

**Auditor’s Responsibility**

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

**Other Reporting Requirements**

We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards; and Independent Accountant’s Report on an examination conducted in accordance with AICPA Professional Standards, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated November 14, 2018, should be considered in conjunction with this management letter.

**Prior Audit Findings**

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

<b>Tabulation of Uncorrected Audit Findings</b>		
<b>Current Year Finding #</b>	<b>2015-16 FY Finding #</b>	<b>2014-2015 FY Finding #</b>
2017-001 & 2017-002	2016-01	2015-01

## **Official Title and Legal Authority**

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

## **Financial Condition and Management**

Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific condition(s) met. In connection with our audit, we determined that the District met two of the conditions described in Section 218.503(1), Florida Statutes. These conditions are described in Appendix B.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the District. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. Deteriorating financial conditions were noted and are described in Appendix B.

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

## **Annual Financial Report**

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

## **Additional Matters**

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

## **Purpose of this Letter**

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

*McDiernit Davis & Company, LLC*

Orlando, Florida  
November 14, 2018

HERITAGE PLANTATION COMMUNITY DEVELOPMENT DISTRICT

**APPENDIX A - COMPLIANCE VIOLATIONS OF LAWS, REGULATIONS  
AND CONTRACTUAL PROVISIONS**

Year Ended September 30, 2017

**2017-001 - Failure to Make Bond Debt Service Payments When Due**

Criteria

The Special Assessment Revenue Bonds Series 2006 require annual principal and semiannual interest payments.

Condition

In the current year and prior years, the District did not pay required debt service on the Series 2006 Bonds.

Cause

The District was unable to make the required debt service payments due to the nonpayment of debt assessments owed to the District.

Effect

At September 30, 2017, the District was not in compliance with the requirements of the Bond Indenture and has met a financial emergency condition as described in Florida Statute Section 218.503(1).

Recommendation

We recommend the District utilize all legal remedies available to collect delinquent assessments to bring debt service payments current.

**2017-002 - Failure to Meet Debt Service Reserve Requirements**

Criteria

The Trust Indenture requires the District to keep minimum amounts in the Debt Service Reserve Accounts.

Condition

At September 30, 2017, the Series 2006 Debt Service Reserve Accounts were deficient.

Cause

In prior years, Debt Service Reserves were used to pay debt service on the Bonds due to the former Developer's nonpayment of assessments owed.

Effect

The District is not in compliance with the Trust Indentures.

Recommendation

We recommend the District utilize all legal remedies available to collect delinquent assessments to replenish the Debt Service Reserve Accounts.

**APPENDIX B - FINANCIAL EMERGENCY CONDITIONS**

Year Ended September 30, 2017

**2017-001 - Failure to Make Bond Debt Service Payments When Due**

In the current year and prior years, the District did not pay required debt service on the Series 2006 Bonds as a result of lack of funds; therefore, the District meets Section 218.503(1)(a) as a financial emergency condition.

**2017-003 - Failure to Pay Claims from Creditors within 90 Days**

At September 30, 2017, the District had payables that were due to creditors and were greater than 90 days old, which were unpaid due to a lack of funds; therefore, the District meets Section 218.503(1)(b) as a financial emergency condition.

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

Board of Supervisors  
*Heritage Plantation Community Development District*

We have examined Heritage Plantation Community Development District's (the "District") compliance with the requirements of Section 218.415, Florida Statutes, during the year ended September 30, 2017. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

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

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2017.

*MCDIRMIT DAVIS & COMPANY, LLC*

Orlando, Florida  
November 14, 2018

# HERITAGE PLANTATION COMMUNITY DEVELOPMENT DISTRICT

DISTRICT OFFICE · 120 RICHARD JACKSON BLVD · SUITE 220 · PANAMA CITY BEACH, FLORIDA 32407

November 14, 2018

## **Response to Management letter for the fiscal year ended September 30, 2017.**

### **Management Letter finding 2017-001 Failure to Make Bond Debt Service Payments When Due:**

The auditor notes that the District did not pay the required debt service on the Series 2006 Bonds.

#### **District response to the findings:**

As noted in Note 13 of the audit, in December of 2017, the District surrendered the remaining outstanding bonds and no longer has a debt obligation.

### **Management Letter finding 2017-002 Failure to Meet Debt Service Reserve Requirements:**

The auditor notes that the District's Series 2006 Debt Service Reserve Accounts were deficient.

#### **District response to the findings:**

As noted in Note 13 of the audit, in December of 2017, the District surrendered the remaining outstanding bonds and no longer has a debt obligation.

### **Management Letter finding 2017-003 Failure to Pay Claims from Creditors within 90 Days:**

The auditor notes that at September 30, 2017, the District had payables that were due to creditors and were greater than 90 days old.



# HERITAGE PLANTATION COMMUNITY DEVELOPMENT DISTRICT

DISTRICT OFFICE · 120 RICHARD JACKSON BLVD · SUITE 220 · PANAMA CITY BEACH, FLORIDA 32407

## **District response to the findings:**

The District was able to pay the creditors subsequent to year end following the collection of certain unpaid assessments.

A handwritten signature in black ink, appearing to read "Scott Brizendine". The signature is stylized with large, overlapping loops and a long horizontal stroke at the end.

Scott Brizendine  
Treasurer  
Heritage Plantation Community Development District.