

Financial Report

September 30, 2018

Zephyr Ridge Community Development District

ZEPHYR RIDGE COMMUNITY DEVELOPMENT DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Zephyr Ridge 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 *Zephyr Ridge Community Development District* (the "District"), 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 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.

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

Opinions

Basis for Adverse Opinion Due to Component Unit

Management has not included financial data for the Special Purpose Entity (“SPE”), which is a legally separate discrete component unit. Accounting principles generally accepted in the United States of America require financial data of this component unit to be reported with the financial data of the District if the nature and significance of its relationship with the District is such that, if excluded, the financial statements of the District would be considered misleading. We believe that the exclusion of the financial data of the above mentioned component unit results in financial statements that are misleading. The amount by which this departure would affect the assets, liabilities, net position, revenues and expenses of the governmental activities is not reasonably determinable.

Adverse Opinion on Governmental Activities

In our opinion, because of the omission of the discrete component unit, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position and the governmental activities of the District, as of September 30, 2018, or the changes in financial position thereof for the fiscal year then ended.

Unmodified Opinion on General, Debt Service 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, Debt Service Fund, and Capital Projects Fund of the District, as of September 30, 2018, 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.

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 Information

As discussed in Notes 9 and 10 to the financial statements, the District was unable to make its current and prior year's debt service payments due to the Developer's nonpayment of assessments owed. The District and Trustee, on behalf of the bondholders, created the SPE, which acquired the Developer's property through purchase of delinquent tax certificates. The SPE will own, manage and dispose of this property on behalf of the bondholders.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated June 17, 2019, 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
June 17, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the *Zephyr Ridge Community Development District's*, (the "District") financial accomplishments provide an overview of the District's financial activities for the year ended September 30, 2018. 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 assets of the District exceeded its liabilities at September 30, 2018 by \$104,850, an increase in net position of \$319,251 in comparison with the prior year.
- At September 30, 2018, the District's governmental funds reported a combined ending fund deficit of \$(9,143,950), a decrease in the deficit of \$233,281 in comparison with the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the *Zephyr Ridge 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 \$104,850 at September 30, 2018. 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):

Zephyr Ridge Community Development District
Statement of Net Position

	September 30, 2018	September 30, 2017
Assets, excluding capital assets	\$ 383,315	\$ 260,768
Capital Assets Not Being Depreciated	<u>12,447,148</u>	<u>12,447,148</u>
Total assets	<u>12,830,463</u>	<u>12,707,916</u>
Liabilities, excluding long-term liabilities	9,740,613	9,852,317
Long-term Liabilities	<u>2,985,000</u>	<u>3,070,000</u>
Total liabilities	<u>12,725,613</u>	<u>12,922,317</u>
Net Position:		
Net investment in capital assets	3,105,705	2,996,240
Restricted for capital projects	8,468	-
Unrestricted	<u>(3,009,323)</u>	<u>(3,210,641)</u>
Total net position	<u>\$ 104,850</u>	<u>\$ (214,401)</u>

The following is a summary of the District's governmental activities for the fiscal years ended September 30, 2018 and 2017.

Changes in Net Position
Year ended September 30,

	2018	2017
Revenues:		
Program revenues	\$ 1,326,944	\$ 878,539
General revenues	31,828	-
Total revenues	<u>1,358,772</u>	<u>878,539</u>
Expenses:		
General government	738,707	769,998
Physical environment	97,368	86,197
Interest on long-term debt	203,446	205,594
Total expenses	<u>1,039,521</u>	<u>1,061,789</u>
Change in net position	319,251	(183,250)
Net position - beginning	<u>(214,401)</u>	<u>(31,151)</u>
Net position - ending	<u>\$ 104,850</u>	<u>\$ (214,401)</u>

As noted above and in the statement of activities, the cost of all governmental activities during the year ended September 30, 2018 was \$1,039,521. The majority of these costs are general government activities.

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, 2018, the District's governmental funds reported combined ending fund deficits of \$(9,143,950). Of this total, \$653 is non-spendable, and the remainder is an unassigned fund deficit of \$(9,144,603).

In current year, the fund balance of the District's general fund increased by \$14,781.

The debt service fund balance increased by \$185,824 due to SPE contributions.

The capital projects fund balance increased by \$32,676 due to the write off of old accounts payable balances.

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, 2018 general fund budget. The legal level of budgetary control is at the fund level.

Capital Asset and Debt Administration

Capital Assets - At September 30, 2018, the District had \$12,447,148 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, 2018, the District had \$9,396,131 in bonds outstanding, including \$6,411,131 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 *Zephyr Ridge Community Development District's* Finance Department at 12750 Citrus Park Lane, Suite 115, Tampa, FL 33625.

FINANCIAL STATEMENTS

ZEPHYR RIDGE COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF NET POSITION

September 30, 2018

	Governmental Activities
Assets:	
Cash	\$ 98,765
Prepaid costs	653
Assessments receivable	46,133
Restricted assets:	
Temporarily restricted investments	237,764
Capital assets:	
Capital assets not being depreciated	12,447,148
Total assets	<u>12,830,463</u>
Liabilities:	
Accounts payable and accrued expenses	5,724
Accrued interest payable	213,348
Matured bonds payable	6,411,131
Matured interest payable	3,110,410
Noncurrent liabilities:	
Due within one year	90,000
Due in more than one year	2,895,000
Total liabilities	<u>12,725,613</u>
Net Position:	
Net investment in capital assets	3,105,705
Restricted for capital projects	8,468
Unrestricted	<u>(3,009,323)</u>
Total net position	<u>\$ 104,850</u>

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

ZEPHYR RIDGE COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF ACTIVITIES

Year Ended September 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</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	\$ 738,707	\$ 90,076	\$ 99,070	\$ -	\$ (549,561)
Physical environment	97,368	8,623	-	-	(88,745)
Interest on long-term debt	203,446	141,054	988,032	89	925,729
Total governmental activities	<u>\$ 1,039,521</u>	<u>\$ 239,753</u>	<u>\$ 1,087,102</u>	<u>\$ 89</u>	<u>\$ 287,423</u>
			General revenues:		
			Miscellaneous		31,828
			Total general revenues		<u>31,828</u>
			Change in Net Position		319,251
			Net Position - beginning		<u>(214,401)</u>
			Net Position - ending		<u>\$ 104,850</u>

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

ZEPHYR RIDGE COMMUNITY DEVELOPMENT DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2018

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets:				
Cash	\$ 98,765	\$ -	\$ -	\$ 98,765
Investments	-	229,296	8,468	237,764
Assessments receivable	20,773	25,360	-	46,133
Prepaid costs	653	-	-	653
Total assets	<u>\$ 120,191</u>	<u>\$ 254,656</u>	<u>\$ 8,468</u>	<u>\$ 383,315</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenses	\$ 5,724	\$ -	\$ -	\$ 5,724
Matured bonds payable	-	6,411,131	-	6,411,131
Matured interest payable	-	3,110,410	-	3,110,410
Total liabilities	<u>5,724</u>	<u>9,521,541</u>	<u>-</u>	<u>9,527,265</u>
Fund balances:				
Nonspendable	653	-	-	653
Unassigned	113,814	(9,266,885)	8,468	(9,144,603)
Total fund balances	<u>114,467</u>	<u>(9,266,885)</u>	<u>8,468</u>	<u>(9,143,950)</u>
Total liabilities and fund balances	<u>\$ 120,191</u>	<u>\$ 254,656</u>	<u>\$ 8,468</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.	12,447,148
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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	(213,348)	
Bonds payable	(2,985,000)	(3,198,348)
Net position of governmental activities (page 8)		<u>\$ 104,850</u>

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

ZEPHYR RIDGE COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2018

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues:				
Special assessments	\$ 98,699	\$ 141,054	\$ -	\$ 239,753
SPE contributions	99,070	985,376	-	1,084,446
Investment and other income	-	2,656	31,917	34,573
Total revenues	<u>197,769</u>	<u>1,129,086</u>	<u>31,917</u>	<u>1,358,772</u>
Expenditures:				
Current:				
General government	85,620	37,664	-	123,284
Physical environment	97,368	-	-	97,368
Debt Service:				
Interest	-	204,416	-	204,416
Principal	-	85,000	-	85,000
SPE Costs	-	615,423	-	615,423
Total expenditures	<u>182,988</u>	<u>942,503</u>	<u>-</u>	<u>1,125,491</u>
Excess (Deficit) of Revenues Over Expenditures	<u>14,781</u>	<u>186,583</u>	<u>31,917</u>	<u>233,281</u>
Other Financing Sources (Uses):				
Transfers in	-	-	759	759
Transfers out	-	(759)	-	(759)
Total other financing sources (uses)	<u>-</u>	<u>(759)</u>	<u>759</u>	<u>-</u>
Net change in fund balances	14,781	185,824	32,676	233,281
Fund Balances (Deficits) - beginning of year	<u>99,686</u>	<u>(9,452,709)</u>	<u>(24,208)</u>	<u>(9,377,231)</u>
Fund Balances (Deficits) - end of year	<u>\$ 114,467</u>	<u>\$ (9,266,885)</u>	<u>\$ 8,468</u>	<u>\$ (9,143,950)</u>

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

ZEPHYR RIDGE 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, 2018

Net change in fund balances - total governmental funds (page 11) \$ 233,281

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

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 85,000

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:

Change in accrued interest 970

Change in net position of governmental activities (page 9) \$ 319,251

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

ZEPHYR RIDGE COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Special assessments	\$ 179,108	\$ 179,108	\$ 98,699	\$ (80,409)
SPE contributions	-	-	99,070	99,070
Total revenues	179,108	179,108	197,769	18,661
Expenditures:				
Current:				
General government	89,615	89,615	85,620	3,995
Physical environment	94,003	94,003	97,368	(3,365)
Total expenditures	183,618	183,618	182,988	630
Excess of revenues over expenditures	(4,510)	(4,510)	14,781	19,291
Net change in fund balance	(4,510)	(4,510)	14,781	19,291
Fund Balance - beginning of year	99,686	99,686	99,686	-
Fund Balance - end of year	\$ 95,176	\$ 95,176	\$ 114,467	\$ 19,291

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, 2018

Note 1 - Summary of Significant Accounting Policies:

Reporting Entity

The *Zephyr Ridge Community Development District*, (the "District") was established on October 25, 2005 by Pasco County Ordinance 05-36 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. Four of the board members are associated with Zephyr Ridge Holdings, Inc., (the "SPE") at September 30, 2018. The District is economically dependent on the SPE.

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, 2018

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 1st and ends on September 30th. These 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, 2018

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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2018

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. All capital asset acquisition and construction costs are considered land or infrastructure under construction at September 30, 2018.

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, 2018.

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, 2018.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2018

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

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

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

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

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

The committed fund balance classification includes fund balance amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Board of 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 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2018

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

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 debt service fund has a deficit fund balance at September 30, 2018.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2018

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, 2018:

- Money market mutual funds of \$237,764 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.

ZEPHYR RIDGE COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2018

Note 3 - Deposits and Investments (Continued):

Investments (Continued):

Investments made by the District at September 30, 2018 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 CL III	\$ 237,764	AAAm	36 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, 2018, 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, 2018, 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.

ZEPHYR RIDGE COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2018

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 - Receivables

Amounts receivable by the District at September 30, 2018 included the following:

	General Fund	Debt Service Fund
Due from SPE	\$ 20,773	\$ -
Due from others	-	25,360
	<u>\$ 20,773</u>	<u>\$ 25,360</u>

Note 5 - Capital Assets:

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

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 4,437,020	\$ -	\$ -	\$ 4,437,020
Infrastructure under construction	8,010,128	-	-	8,010,128
Governmental activities capital assets, net	<u>\$ 12,447,148</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,447,148</u>

Major construction on the District has been suspended until a new developer takes over the project. Due to a future change in developer and possible changes to the project, there is no current estimate available of costs to complete District improvements.

Note 6 - Long-Term Liabilities:

On May 1, 2006, the District issued \$10,425,000 of Capital Improvement Revenue Bonds, consisting of \$3,705,000 Series 2006A due on May 1, 2037 with a fixed interest rate of 5.625% and \$6,720,000 Series 2006B due on May 1, 2013 with a fixed interest rate of 5.25%. 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 May 1, 2013.

ZEPHYR RIDGE COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2018

Note 6 - Long-Term Liabilities (Continued):

The Series 2006A Bonds are subject to redemption at the option of the District, in whole or in part at any time after May 1, 2015 at a redemption price set forth in the Bond Indenture. The Series 2006B Bonds are not subject to optional redemption prior to maturity.

The Series 2006A and 2006B Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by 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, 2018.

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, 2018 is \$15,136,767, which includes \$9,521,541 of matured bonds and interest payable. The District paid \$369,953 of matured bonds and interest during the year. Special assessment revenue pledged for the current year was \$141,054.

Long-term debt activity for the year ended September 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds Payable:					
Series 2006	\$ 3,070,000	\$ -	\$ (85,000)	\$ 2,985,000	\$ 90,000
Governmental activity long-term liabilities	<u>\$ 3,070,000</u>	<u>\$ -</u>	<u>\$ (85,000)</u>	<u>\$ 2,985,000</u>	<u>\$ 90,000</u>

The beginning balance in the schedule above includes a reduction of \$6,435,000 of principal due in prior years, which remains unpaid. The current year reduction of \$85,000 was accrued to matured bonds payable. At September 30, 2018, matured bonds payable totals \$6,411,131.

ZEPHYR RIDGE COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2018

Note 6 - Long-Term Liabilities (Continued):

At September 30, 2018, the scheduled debt service requirements on the bonds payable, excluding matured amounts, were as follows:

Year Ending September 30,	Governmental Activities	
	Principal	Interest
2019	\$ 90,000	\$ 203,239
2020	95,000	198,176
2021	100,000	192,833
2022	105,000	187,208
2023	115,000	181,301
2024 - 2028	670,000	803,007
2029 - 2033	895,000	590,663
2034 - 2038	915,000	273,799
	<u>\$ 2,985,000</u>	<u>\$ 2,630,226</u>

Note 7 - Related Party Transactions:

SPE

Revenue of \$1,084,446 was recognized from SPE contributions during the year for payment of current year and prior year assessments due.

Assessments

Two minor landowners paid assessments totaling \$110,943 which amounts to 33% of total special assessment revenue.

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 filed any claims under this commercial coverage during the last three years.

ZEPHYR RIDGE COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2018

Note 9 - Special Purpose Entity:

In a prior fiscal year, the District and Trustee, on behalf of the bondholders, created Zephyr Ridge Holdings, Inc., a Special Purpose Entity (SPE) to apply for tax deeds on the purchased certificates and to acquire, own, manage and dispose of this property. In February 2012, the Trustee, as directed by the bondholders, purchased outstanding tax certificates encumbering the former Developer's property within the District, which represents 88% of the total District property. The debt service and operating and maintenance assessments continue to constitute a lien on this property. In November 2013, the District reached an agreement with the SPE and Trustee, wherein the District agreed to forgive all outstanding Operating and Maintenance assessments in exchange for a one-time payment in the amount of approximately \$186,000, which represents the accounts payable balance of the general fund at September 30, 2013. Additionally, the SPE has agreed to pay its share of Operating and Maintenance assessments in fiscal year 2014 and thereafter. The agreement also holds in abeyance the collection of debt service assessments related to lands owned by the SPE, until the lands are sold. During the year, the District collected \$82,177 of assessments as a result of lots sold.

Note 10 - Subsequent Events:

Subsequent to year end, the District was unable to make the November 2018 interest payments and May 2019 principal and interest payments due on the Series 2006 Bonds.

In March 2019, the District paid \$1,026,000 of matured interest on the Series 2006A bonds, and paid \$1,266,304 of matured interest on the Series 2006B Bonds.

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
Zephyr Ridge 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 *Zephyr Ridge Community Development District* (the "District") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the District's financial statements and have issued our report thereon dated June 17, 2019 which includes an explanatory paragraph regarding the adverse opinion for the omission of the discrete component unit and deteriorating financial conditions.

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 identified a deficiency that we consider to be a material weakness as described in Appendix A.

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. See Appendix B of the accompanying report to management dated June 17, 2019.

We noted certain other matters that we reported to management of the District, in a separate letter dated June 17, 2019. 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
June 17, 2019

MANAGEMENT COMMENTS

Board of Supervisors
Zephyr Ridge Community Development District

Report on the Financial Statements

We have audited the financial statements of the *Zephyr Ridge Community Development District* (the “District”) as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated June 17, 2019, which includes an explanatory paragraph regarding the adverse opinion for the omission of the discrete component unit and deteriorating financial conditions.

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 June 17, 2019, 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.

Tabulation of Uncorrected Audit Findings		
Current Year Finding #	2016-17 FY Finding #	2015-16 FY Finding #
09-01	09-01	09-01
09-02	09-02	09-02
12-01	12-01	12-01

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 one of the conditions described in Section 218.503(1), Florida Statutes. These conditions are described in Appendix C.

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 C.

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.

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
June 17, 2019

APPENDIX A - MATERIAL WEAKNESS

Year Ended September 30, 2018

12-01 - Failure to Include Component Unit Financial Statements in the Financial Report

Criteria

Generally accepted accounting principles require that the District include the financial statements of the Special Purpose Entity in their audited financial report as a discretely-presented component unit.

Condition

The SPE is not included as a component unit in the District's financial report.

Cause

Due to the lack of control by the District and that the SPE's primary beneficiary is the Bondholders; the District's position is that the SPE is not a component unit of the District.

Effect

McDirmit Davis could not audit these records nor include them as a discretely-presented component unit in the District's government-wide financial statements.

Recommendation

We recommend that the District include the SPE as a discretely-presented component unit of the District's government-wide financial statements.

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

Year Ended September 30, 2018

09-01 - 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, 2018, 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.

09-02 - 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, 2018, 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.

ZEPHYR RIDGE COMMUNITY DEVELOPMENT DISTRICT

APPENDIX C - FINANCIAL EMERGENCY CONDITIONS

Year Ended September 30, 2018

09-01 - 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.

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

Board of Supervisors
Zephyr Ridge Community Development District

We have examined Zephyr Ridge Community Development District’s (the “District”) compliance with the requirements of Section 218.415, Florida Statutes, during the year ended September 30, 2018. 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, 2018.

MCDIRMIT DAVIS & COMPANY, LLC

Orlando, Florida
June 17, 2019

ZEPHYR RIDGE COMMUNITY DEVELOPMENT DISTRICT

DISTRICT OFFICE · 5844 OLD PASCO ROAD · SUITE 100 · WESLEY CHAPEL, FLORIDA 33544

June 11, 2019

Response to the Management Letter for the fiscal year ended September 30, 2018

Management Letter finding 09-01:

The auditor noted that in the current and prior years the District did not pay the required debt service on the Series 2006 Bonds.

District response to the finding:

As discussed in the notes to the financial statements, the Trustee, as directed by the Bondholders, previously purchased outstanding tax certificates encumbering the Developer's property within the District. In a prior year, the District and Trustee, on behalf of the bondholders, created a SPE to apply for tax deeds on the purchased certificates and to acquire, own, manage and dispose of this property. In fiscal year 2012, the SPE acquired the property subject to debt assessments, which represents 88% of the total District property. The debt service and operating and maintenance assessments continue to constitute a lien on this property. During a prior year a funding agreement was reached which included abeyance of the collection of debt service assessments related to the lands owned by the SPE until the lands are sold. With this abeyance of debt service assessments, no assessments will be collected to enable the District to pay the debt service payments when due.

Management Letter finding 09-02:

The auditor noted that the District's Series 2006 debt service reserve accounts were deficient at September 30, 2018.

District response to the finding:

As noted above, a SPE was created to own, manage and dispose of the property for the benefit of the bondholders. Funds in the debt service reserve accounts, and others, are utilized to pay the trustee, counsel and other agents engaged to protect the security interests of the bondholders. It is uncertain at this time as to when and if the debt service reserve will be replenished if the land is sold.

Management Letter finding 12-01:

The auditor noted that the SPE is not included as a component unit in the District's financial report.

District response to the finding:

Management does not agree that the Special Purpose Entity should be included as a discretely-presented component unit on the government-wide financial statements. In summary, management feels that it would be misleading to the users of the financial statements to include the SPE as a component unit for the following reasons. The District has no ownership and/or control over the SPE and in no way can it impose its will on the SPE. In addition, the District will not benefit from the activities of the SPE. When

the land held by the SPE is sold, the proceeds will be paid to the Bondholders to satisfy the Bond debt. The District will not be responsible for any deficiency between the net proceeds of the sale and the associated Bond debt.



Scott Brizendine
Treasurer
Zephyr Ridge Community Development District