

**Heritage Isles
Community Development District**

ANNUAL FINANCIAL REPORT

September 30, 2019

Heritage Isles Community Development District

ANNUAL FINANCIAL REPORT

September 30, 2019

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Berger, Toombs, Elam,
Gaines & Frank

Certified Public Accountants PL

600 Citrus Avenue
Suite 200
Fort Pierce, Florida 34950

772/461-6120 // 461-1155
FAX: 772/468-9278

REPORT OF INDEPENDENT AUDITORS

To the Board of Supervisors
Heritage Isles Community Development District
Hillsborough County, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Heritage Isles Community Development District (the "District") as of and for the year ended September 30, 2019, and the related notes to 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

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

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

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

Fort Pierce / Stuart

To the Board of Supervisors
Heritage Isles Community Development District

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of Heritage Isles Community Development District, as of September 30, 2019, and the respective changes in financial position, cash flows for the Enterprise Fund and the budgetary comparison for the General and Special Revenue Funds 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 Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 6, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts. 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 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 Heritage Isles Community Development District's internal control over financial reporting and compliance.



Berger, Toombs, Elam, Gaines & Frank
Certified Public Accountants PL
Fort Pierce, Florida

March 6, 2020

**Heritage Isles Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019**

Management's discussion and analysis of Heritage Isles Community Development District's (the "District") financial performance provides an objective and easily readable analysis of the District's financial activities. The analysis provides summary financial information for the District and should be read in conjunction with the District's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's basic financial statements are comprised of three components; 1) *Government-wide financial statements*, 2) *Fund financial statements*, and 3) *Notes to financial statements*. The *Government-wide financial statements* present an overall picture of the District's financial position and results of operations. The *Fund financial statements* present financial information for the District's major funds. The *Notes to financial statements* provide additional information concerning the District's finances.

The Government-wide financial statements are the **statement of net position** and the **statement of activities**. These statements use accounting methods similar to those used by private-sector companies. Emphasis is placed on the net position of governmental activities and business-type activities and the change in net position. Governmental activities are primarily supported by special assessments. Business-type activities are supported by charges to the users of those activities, such as golf course and restaurant service charges.

The **statement of net position** presents information on all assets and liabilities of the District, with the difference between assets and liabilities reported as net position. Net position are reported in three categories; 1) net investment in capital assets, 2) restricted and 3) unrestricted. Assets, liabilities, and net position are reported for all Governmental activities separate from the assets, liabilities, and net position of business-type activities.

The **statement of activities** presents information on all revenues and expenses of the District and the change in net position. Expenses are reported by major function and program revenues relating to those functions are reported, providing the net cost of all functions provided by the District. To assist in understanding the District's operations, expenses have been reported as governmental activities or business-type activities. Governmental activities financed by the District include physical environment and general and administrative. Business-type activities financed by user charges include golf course and restaurant services.

Fund financial statements present financial information for governmental funds and the enterprise fund. These statements provide financial information for the major funds of the District. Governmental fund financial statements provide information on the current assets and liabilities of the funds, changes in current financial resources (revenues and expenditures), and current available resources. The enterprise fund financial statements provide information on all assets and liabilities of the funds, changes in the economic resources (revenues and expenses), and total economic resources.

**Heritage Isles Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund financial statements include a **balance sheet** and a **statement of revenues, expenditures and changes in fund balances** for all governmental funds. A **statement of revenues, expenditures, and changes in fund balances – budget and actual**, is provided for the District's General Fund and Special Revenue Fund. For the enterprise fund, a **statement of fund net position**, a **statement of revenues, expenses, and changes in fund net position**; and a **statement of cash flows** are presented. *Fund financial statements* provide more detailed information about the District's activities. Individual funds are established by the District to track revenues that are restricted to certain uses or to comply with legal requirements

The *government-wide financial statements* and the *fund financial statements* provide different pictures of the District. The government-wide financial statements provide an overall picture of the District's financial standing, split between Governmental Activities and Business-type Activities. These statements are comparable to private-sector companies and give a good understanding of the District's overall financial health and how the District paid for the various activities, or functions, provided by the District. All assets of the District, including buildings, land and roads are reported in the **statement of net position**. All liabilities, including principal outstanding on bonds, and future employee benefits obligated but not paid by the District, are included. The **statement of activities** includes depreciation on all long-lived assets of the District, but transactions between the different functions of the District have been eliminated in order to avoid "doubling up" the revenues and expenses. The *fund financial statements* provide a picture of the major funds of the District. In the case of governmental activities, outlays for long-lived assets are reported as expenditures and long-term liabilities, such as general obligation bonds, are not included in the fund financial statements. To provide a link from the *fund financial statements* to the *government-wide financial statements*, a reconciliation is provided from the *fund financial statements* to the *government-wide financial statements*.

Notes to financial statements provide additional detail concerning the financial activities and financial balances of the District. Additional information about the accounting practices of the District, investments of the District, long term debt, and capital assets are some of the items included in the *notes to the financial statements*.

Financial Highlights

The following are the highlights of financial activity for the year ended September 30, 2019.

- ◆ The District's total assets exceeded total liabilities by \$19,945,962 (net position). Net investment in capital assets for Governmental Activities was \$17,935,521. Net investment in capital assets for Business-type Activities was \$2,372,902. Unrestricted net position for Governmental Activities was \$1,532,838 and for Business-type Activities was \$(3,039,582). Restricted net position for Governmental Activities was \$1,144,283.

**Heritage Isles Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Financial Highlights (Continued)

- ◆ Governmental Activities revenues totaled \$2,313,837 while Governmental Activities expenses and transfers totaled \$2,386,755. Business-type Activities revenues and transfers totaled \$1,366,261 while Business-type Activities expenses totaled \$1,382,653.

Financial Analysis of the District

The following schedule provides a summary of the assets, liabilities and net position of the District. It is not intended to be a complete presentation of government-wide financial activity.

Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current assets	\$ 2,726,904	\$ 2,652,715	\$ (1,975,251)	\$ (2,082,577)	\$ 751,653	\$ 570,138
Restricted assets	-	205,280	1,045	1,024	1,045	206,304
Capital assets, net	18,187,505	18,887,276	2,744,869	2,751,401	20,932,374	21,638,677
Total Assets	<u>20,914,409</u>	<u>21,745,271</u>	<u>770,663</u>	<u>669,848</u>	<u>21,685,072</u>	<u>22,415,119</u>
Deferred outflows	-	8,651	-	-	-	8,651
Current liabilities	179,460	496,378	1,133,167	948,170	1,312,627	1,444,548
Non-current liabilities	122,307	571,984	304,176	371,966	426,483	943,950
Total Liabilities	<u>301,767</u>	<u>1,068,362</u>	<u>1,437,343</u>	<u>1,320,136</u>	<u>1,739,110</u>	<u>2,388,498</u>
Net Position						
Net investment in						
capital assets	17,935,521	18,001,204	2,372,902	2,319,041	20,308,423	20,320,245
Restricted	1,144,283	1,235,440	-	-	1,144,283	1,235,440
Unrestricted	1,532,838	1,448,916	(3,039,582)	(2,969,329)	(1,506,744)	(1,520,413)
Total Net Position	<u>\$ 20,612,642</u>	<u>\$ 20,685,560</u>	<u>\$ (666,680)</u>	<u>\$ (650,288)</u>	<u>\$ 19,945,962</u>	<u>\$ 20,035,272</u>

The decrease in capital assets for business-type activities was primarily the result of current year depreciation. The decrease in capital assets for governmental activities was due to depreciation and disposals in excess of additions in the current year.

The decrease in total liabilities for governmental activities was primarily the result of principal payments on long-term debt in the current year.

The increase in total liabilities for the business-type activities was primarily related to the increase in accrued and matured interest payable due to not making the scheduled debt service payment.

**Heritage Isles Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Financial Analysis of the District (Continued)

The following schedule provides a summary of the changes in net position of the District and is presented at the government-wide level for comparison purposes. It is not intended to be a complete presentation of District-wide financial activity.

Change in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<u>Program Revenues</u>						
Charges for services	\$ 2,281,479	\$ 2,128,327	\$ 1,242,509	\$ 1,097,692	\$ 3,523,988	\$ 3,226,019
Grants and contributions	23,334	27,750	-	-	23,334	27,750
<u>General Revenues</u>						
Investment earnings	8,374	4,474	2,843	1,528	11,217	6,002
Miscellaneous	650	4,838	14,048	20,931	14,698	25,769
Total Revenues	<u>2,313,837</u>	<u>2,165,389</u>	<u>1,259,400</u>	<u>1,120,151</u>	<u>3,573,237</u>	<u>3,285,540</u>
<u>Expenses</u>						
General government	172,267	154,161	-	-	172,267	154,161
Physical environment	935,633	909,813	-	-	935,633	909,813
Culture and recreation	1,129,570	1,109,659	-	-	1,129,570	1,109,659
Interest on						
long-term debt	42,424	64,756	-	-	42,424	64,756
Golf course	-	-	1,307,227	1,237,503	1,307,227	1,237,503
Restaurant	-	-	75,426	85,873	75,426	85,873
Total Expenses	<u>2,279,894</u>	<u>2,238,389</u>	<u>1,382,653</u>	<u>1,323,376</u>	<u>3,662,547</u>	<u>3,561,765</u>
Transfers	<u>(106,861)</u>	<u>(119,782)</u>	<u>106,861</u>	<u>119,782</u>	<u>-</u>	<u>-</u>
Change in Net Position	(72,918)	(192,782)	(16,392)	(83,443)	(89,310)	(276,225)
Net Position - Beginning of Year	<u>20,685,560</u>	<u>20,878,342</u>	<u>(650,288)</u>	<u>(566,845)</u>	<u>20,035,272</u>	<u>20,311,497</u>
Net Position - End of Year	<u>\$ 20,612,642</u>	<u>\$ 20,685,560</u>	<u>\$ (666,680)</u>	<u>\$ (650,288)</u>	<u>\$ 19,945,962</u>	<u>\$ 20,035,272</u>

The increase in governmental activities charges for services was related to an increase in special assessments in the current year.

The increase in golf course expenses for business-type activities is mainly due to increased payroll and chemicals expenses.

**Heritage Isles Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Capital Assets Activity

The following schedule provides a summary of the District's capital assets activity as of September 30, 2019.

<u>Description</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land and improvements	\$ 2,769,142	\$ 2,268,000	\$ 5,037,142
Buildings and improvements	3,283,345	820,110	4,103,455
Infrastructure	22,602,260	3,578,363	26,180,623
Equipment	166,173	610,445	776,618
Accumulated depreciation	<u>(10,633,415)</u>	<u>(4,532,049)</u>	<u>(15,165,464)</u>
 Total Capital Assets (Net)	 <u>\$ 18,187,505</u>	 <u>\$ 2,744,869</u>	 <u>\$ 20,932,374</u>

Governmental activities activity in the current year includes depreciation of \$709,885, the disposal of equipment, \$7,789 and capital asset additions of equipment, \$17,903.

Business-type activities changes in the current year include depreciation of \$41,315 and additions to equipment of \$34,783.

General Fund Budgetary Highlights

The budget exceeded actual expenditures for the year primarily because of lower capital outlay than were anticipated.

The September 30, 2019 budget was amended to separate the gatehouse expenditures and increase the amounts for capital outlay and transfers out.

Debt Management

Governmental Activities debt includes the following:

- ◆ In August 2008, the District issued \$3,090,000 Series 2008 Special Assessment Revenue Refunding Bonds. The proceeds of these bonds were used for the payment and retirement of the outstanding series 1998B. The balance outstanding was retired during the year.

**Heritage Isles Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Debt Management (Continued)

- ◆ In July 2016, the District instituted a \$500,000 note payable from a local bank. The loan was issued to fund a construction project within the District. The principal balance at September 30, 2019 was \$251,984.

Business Activities Debt includes the following:

- ◆ In February 1999, the District issued \$8,785,000 Series 1999 Recreational Revenue Bonds. The 1999 Bonds were used to finance the acquisition, construction and installation of certain additions and improvements to the District's recreational facility. The Recreational Revenue Bonds are secured by a pledge of Gross Revenues under the Indenture, which are defined as all income and monies received by the District from the rates, fees, rentals, charges and other income collected by the District for the use of the products, services and facilities of the golf course and restaurant to be provided by the District. The District has not made a scheduled payment since April 1, 2009. The scheduled payments not made or tendered total \$285,000 and are reflected as matured bonds payable. In January 2012, a tender offer was accepted by approximately 4% of bondholders, which resulted in the retirement of \$140,000 in outstanding bonds and a redemption gain of \$119,000. In December 2012, a tender offer was accepted by approximately 82% of bondholders, which resulted in the retirement of \$2,975,000 and a redemption gain of \$2,231,250. In December 2014, an additional \$10,000 of principal was retired at a \$7,500 gain. As of September 30, 2019, the outstanding un-matured balance was \$350,000.

Economic Factors and Next Year's Budget

Heritage Isles Community Development District does not expect any economic factors to have a significant effect on the financial position or results of operations of the District in fiscal year 2020.

Request for Information

The financial report is designed to provide a general overview of Heritage Isles Community Development District's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District Manager, Inframark Infrastructure Management Services, 210 N. University Drive, Suite 702, Coral Springs, Florida 33071.

Heritage Isles Community Development District
STATEMENT OF NET POSITION
September 30, 2019

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and equivalents	\$ 554,042	\$ 73,530	\$ 627,572
Accounts receivable	-	593	593
Due from other governments	18,222	-	18,222
Prepaid expenses	11,730	1,890	13,620
Inventories	-	37,166	37,166
Deposits	34,680	4,050	38,730
Internal balances	2,108,230	(2,108,230)	-
Cash and equivalents - restricted for customer deposits	-	15,750	15,750
Total Current Assets	<u>2,726,904</u>	<u>(1,975,251)</u>	<u>751,653</u>
Non-Current Assets			
Restricted assets			
Investments	-	1,045	1,045
Capital assets not being depreciated			
Land and improvements	2,769,142	2,268,000	5,037,142
Capital assets being depreciated			
Buildings and improvements	3,283,345	820,110	4,103,455
Infrastructure	22,602,260	3,578,363	26,180,623
Equipment	166,173	610,445	776,618
Less: accumulated depreciation	(10,633,415)	(4,532,049)	(15,165,464)
Total Non-Current Assets	<u>18,187,505</u>	<u>2,745,914</u>	<u>20,933,419</u>
Total Assets	<u>20,914,409</u>	<u>770,663</u>	<u>21,685,072</u>
LIABILITIES			
Current Liabilities			
Accounts payable and accrued expenses	49,783	94,742	144,525
Customer deposits, payable from restricted assets	-	15,750	15,750
Other current liabilities	-	13,804	13,804
Accrued interest	-	221,666	221,666
Matured bonds payable	-	285,000	285,000
Matured interest payable	-	434,414	434,414
Capital lease payable	-	7,791	7,791
Notes payable	129,677	-	129,677
Bonds payable	-	60,000	60,000
Total Current Liabilities	<u>179,460</u>	<u>1,133,167</u>	<u>1,312,627</u>
Non-Current Liabilities			
Capital lease payable	-	16,106	16,106
Notes payable	122,307	-	122,307
Bonds payable, net	-	288,070	288,070
Total Non-Current Liabilities	<u>122,307</u>	<u>304,176</u>	<u>426,483</u>
Total Liabilities	<u>301,767</u>	<u>1,437,343</u>	<u>1,739,110</u>
NET POSITION			
Net investment in capital assets	17,935,521	2,372,902	20,308,423
Restricted for debt service	2,874	-	2,874
Restricted for special revenue	1,141,409	-	1,141,409
Unrestricted	1,532,838	(3,039,582)	(1,506,744)
Total Net Position	<u>\$ 20,612,642</u>	<u>\$ (666,680)</u>	<u>\$ 19,945,962</u>

See accompanying notes to financial statements.

Heritage Isles Community Development District
BALANCE SHEET – GOVERNMENTAL FUNDS
September 30, 2019

ASSETS	General	Special Revenue	2008 Debt Service	Total Governmental Funds
Cash and equivalents	\$ 443,450	\$ 110,592	\$ -	\$ 554,042
Due from other funds	1,056,301	1,692,365	-	2,748,666
Due from other governments	7,760	7,588	2,874	18,222
Prepaid expenses	11,730	-	-	11,730
Deposits	34,680	-	-	34,680
Total Assets	\$ 1,553,921	\$ 1,810,545	\$ 2,874	\$ 3,367,340
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable/accrued expenses	\$ 21,083	\$ 28,700	\$ -	\$ 49,783
Due to other funds	-	640,436	-	640,436
Total Liabilities	\$ 21,083	\$ 669,136	\$ -	\$ 690,219
Fund Balances				
Nonspendable:				
Deposits	34,680	-	-	34,680
Prepaid expenses	11,730	-	-	11,730
Restricted - debt service	-	-	2,874	2,874
Committed - recreation	-	936,584	-	936,584
Assigned:				
First quarter operations	173,349	204,825	-	378,174
Unassigned	1,313,079	-	-	1,313,079
Total Fund Balances	1,532,838	1,141,409	2,874	2,677,121
Total Liabilities and Fund Balances	\$ 1,553,921	\$ 1,810,545	\$ 2,874	\$ 3,367,340

See accompanying notes to financial statements.

Heritage Isles Community Development District
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
September 30, 2019

Total Governmental Fund Balance	\$ 2,677,121
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets not being depreciated, land and improvements, used in governmental activities are not current financial resources, and therefore are not reported at the fund statement level.	2,769,142
Capital assets being depreciated, infrastructure, \$22,602,260, improvements, \$3,283,345, and equipment, \$166,173, net of accumulated depreciation, \$(10,633,415), used in governmental activities are not current financial resources, and therefore are not reported at the fund level.	15,418,363
Long-term liabilities, notes payable, are not due and payable in the current period and; therefore, are not reported at the fund level.	<u>(251,984)</u>
Net Position of Governmental Activities	<u><u>\$ 20,612,642</u></u>

See accompanying notes to financial statements.

Heritage Isles Community Development District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended September 30, 2019

	<u>General</u>	<u>Special Revenue</u>	<u>2008 Debt Service</u>	<u>Total Governmental Funds</u>
Revenues				
Special assessments	\$ 959,552	\$ 938,316	\$ 355,372	\$ 2,253,240
Charges for services	-	28,239	-	28,239
Miscellaneous revenues	-	650	-	650
Investment earnings	2,515	-	5,859	8,374
Total Revenues	<u>962,067</u>	<u>967,205</u>	<u>361,231</u>	<u>2,290,503</u>
Expenditures				
Current				
General government	172,267	-	-	172,267
Physical environment	600,178	-	-	600,178
Culture and recreation	-	747,351	-	747,351
Capital outlay	-	17,903	-	17,903
Debt service				
Principal	-	125,861	635,000	760,861
Interest	-	9,580	32,421	42,001
Other	-	-	4,234	4,234
Total Expenditures	<u>772,445</u>	<u>900,695</u>	<u>671,655</u>	<u>2,344,795</u>
Excess of revenues over/(under) expenditures	189,622	66,510	(310,424)	(54,292)
Other financing sources (uses)				
Capital contributions	-	23,334	-	23,334
Operating transfers in	-	-	105,700	105,700
Operating transfers out	(105,700)	(106,861)	-	(212,561)
Total Other Financing Sources/(Uses)	<u>(105,700)</u>	<u>(83,527)</u>	<u>105,700</u>	<u>(83,527)</u>
Net change in fund balances	83,922	(17,017)	(204,724)	(137,819)
Fund Balances - October 1, 2018	<u>1,448,916</u>	<u>1,158,426</u>	<u>207,598</u>	<u>2,814,940</u>
Fund Balances - September 30, 2019	<u>\$ 1,532,838</u>	<u>\$ 1,141,409</u>	<u>\$ 2,874</u>	<u>\$ 2,677,121</u>

See accompanying notes to financial statements.

**Heritage Isles Community Development District
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2019**

Net Changes in Fund Balances - Total Governmental Funds \$ (137,819)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation. This is the amount by which depreciation, \$(709,885) and loss on disposal, \$(7,789) exceeded capital additions, \$17,903, in the current period. (699,771)

Repayments of long term debt are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the Statement of Net Position. 760,861

The deferred amount of refunding is amortized in the Statement of Activities, but not in the governmental funds. This is the amount of current year amortization. (8,651)

In the Statement of Activities, interest is accrued on outstanding bonds; whereas in governmental funds, interest expenditures are reported when due. This is the decrease in accrued interest from the prior year to the current year. 12,462

Change in Net Position of Governmental Activities \$ (72,918)

See accompanying notes to financial statements.

Heritage Isles Community Development District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND
For the Year Ended September 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Special assessments	\$ 809,418	\$ 956,298	\$ 959,552	\$ 3,254
Charges for services	-	1,000	-	(1,000)
Investment earnings	276	276	2,515	2,239
Total Revenues	<u>809,694</u>	<u>957,574</u>	<u>962,067</u>	<u>4,493</u>
Expenditures				
Current				
General government	160,415	163,475	172,267	(8,792)
Physical environment	532,981	604,659	600,178	4,481
Capital Outlay	-	77,569	-	77,569
Total Expenditures	<u>693,396</u>	<u>845,703</u>	<u>772,445</u>	<u>73,258</u>
Excess of revenues over/(under) expenditures	<u>116,298</u>	<u>111,871</u>	<u>189,622</u>	<u>77,751</u>
Other financing sources/(uses)				
Transfers out	-	(105,700)	(105,700)	-
Net change in fund balances	<u>116,298</u>	<u>6,171</u>	<u>83,922</u>	<u>77,751</u>
Fund Balances - October 1, 2018	<u>1,455,955</u>	<u>1,448,916</u>	<u>1,448,916</u>	<u>-</u>
Fund Balances - September 30, 2019	<u>\$ 1,572,253</u>	<u>\$ 1,455,087</u>	<u>\$ 1,532,838</u>	<u>\$ 77,751</u>

See accompanying notes to financial statements.

Heritage Isles Community Development District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – SPECIAL REVENUE FUND
For the Year Ended September 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Special assessments	\$ 1,082,016	\$ 935,136	\$ 938,316	\$ 3,180
Charges for services	19,500	19,500	28,239	8,739
Miscellaneous revenues	-	-	650	650
Total Revenues	<u>1,101,516</u>	<u>954,636</u>	<u>967,205</u>	<u>12,569</u>
Expenditures				
Current				
Culture and recreation	803,356	769,860	747,351	22,509
Capital outlay	-	8,002	17,903	(9,901)
Debt Service				
Principal	135,441	135,441	125,861	9,580
Interest	-	-	9,580	(9,580)
Total Expenditures	<u>938,797</u>	<u>913,303</u>	<u>900,695</u>	<u>12,608</u>
Excess of revenues over expenditures	162,719	41,333	66,510	25,177
Other Financing Sources/(Uses)				
Capital contributions	-	-	23,334	23,334
Transfers out	(106,861)	(106,861)	(106,861)	-
Total Other Financing Sources/(Uses)	<u>(106,861)</u>	<u>(106,861)</u>	<u>(83,527)</u>	<u>23,334</u>
Net change in fund balances	<u>55,858</u>	<u>(65,528)</u>	<u>(17,017)</u>	<u>48,511</u>
Fund Balances - October 1, 2018	<u>1,219,419</u>	<u>1,252,014</u>	<u>1,158,426</u>	<u>(93,588)</u>
Fund Balances - September 30, 2019	<u>\$ 1,275,277</u>	<u>\$ 1,186,486</u>	<u>\$ 1,141,409</u>	<u>\$ (45,077)</u>

See accompanying notes to financial statements.

Heritage Isles Community Development District
STATEMENT OF FUND NET POSITION – ENTERPRISE FUND
September 30, 2019

ASSETS	
Current Assets	
Cash and equivalents	\$ 73,530
Accounts receivable	593
Prepaid expenses	1,890
Inventories	37,166
Deposits	4,050
Cash restricted for customer deposits	15,750
Total Current Assets	<u>132,979</u>
Non-Current Assets	
Restricted assets	
Investments	1,045
Land and improvements	2,268,000
Infrastructure	3,578,363
Buildings and improvements	820,110
Equipment	610,445
Less: Accumulated depreciation	<u>(4,532,049)</u>
Total Non-Current Assets	<u>2,745,914</u>
Total Assets	<u>2,878,893</u>
 LIABILITIES	
Current Liabilities	
Accounts payable and accrued expenses	94,742
Customer deposits payable from restricted assets	15,750
Other current liabilities	13,804
Due to other funds	2,108,230
Accrued interest payable	221,666
Matured bonds payable	285,000
Matured interest payable	434,414
Capital lease payable	7,791
Bonds payable	60,000
Total Current Liabilities	<u>3,241,397</u>
Non-Current Liabilities	
Capital lease payable	16,106
Bonds payable, net	<u>288,070</u>
Total Non-Current Liabilities	<u>304,176</u>
Total Liabilities	<u>3,545,573</u>
 NET POSITION	
Net investment in capital assets	2,372,902
Unrestricted	<u>(3,039,582)</u>
Total Net Position	<u>\$ (666,680)</u>

See accompanying notes to financial statements.

Heritage Isles Community Development District
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION – ENTERPRISE FUND
September 30, 2019

Operating Revenues:	
Charges for services	\$ 1,242,509
Miscellaneous revenues	14,048
Total Operating Revenues	1,256,557
 Operating Expenses:	
Personal services	554,492
Contractual and professional services	33,117
Supplies and expenses	331,757
Repairs and maintenance	110,003
Utilities	69,178
Rent and lease expense	165,795
Depreciation	41,315
Total Operating Expenses	1,305,657
Operating Income(Loss)	(49,100)
 Non-Operating Revenues (Expenses):	
Interest expense	(76,996)
Interest earnings	2,843
Total Non-Operating Revenue (Expenses)	(74,153)
Transfers	106,861
Change in Net Position	(16,392)
Net Position - October 1, 2018	(650,288)
Net Position - September 30, 2019	\$ (666,680)

See accompanying notes to financial statements.

Heritage Isles Community Development District
STATEMENT OF CASH FLOWS – ENTERPRISE FUND
September 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,261,719
Payments to suppliers for goods and services	(878,470)
Payments to employees for services	(552,354)
Net Cash Used by Operating Activities	<u>(169,105)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating transfers in	<u>106,861</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(34,783)
Payments on capital lease	(7,442)
Interest paid on capital leases	(1,276)
Net Cash Used by Capital and Related Financing Activities	<u>(43,501)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(21)
Interest on cash and investments	2,843
Net Cash Provided/(Used) by Investing Activities	<u>2,822</u>
Net decrease in cash and cash equivalents	(102,923)
Cash and equivalents - October 1, 2018	<u>192,203</u>
Cash and equivalents - September 30, 2019	<u>\$ 89,280</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating income	\$ (49,100)
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation expense	41,315
Decrease in accounts receivable	2,060
Decrease in prepaid expenses	962
Increase in inventories	(6,356)
Decrease in operating related due to other funds	(206,915)
Increase in accounts payable and accrued expenses	45,827
Decrease in customer deposits	(250)
Increase in other current liabilities	3,352
Net Cash Used by Operating Activities	<u>\$ (169,105)</u>
 Other Disclosures	
Retirement of debt	\$ 55,000
Increase in matured interest payable	\$ 26,802

See accompanying notes to financial statements.

Heritage Isles Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Heritage Isles Community Development District (the “District”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District’s more significant accounting policies are described below.

1. Reporting Entity

The District was established on October 4, 1997 by the Hillsborough County Board of Commissioners under the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes, and was adopted as Hillsborough County Ordinance 97-12, under the name of Heritage Isles Community Development District. The District was established for the purposes of financing and managing the acquisition, construction, maintenance and operation of a portion of the infrastructure necessary for the community development within the District.

The District is governed by a five-member Board of Supervisors (the “Board”), who are elected on an at large basis by owners of the property within the District. Among the primary powers, which the Act provides, the Board may exercise the power to manage basic service for community development, the power to borrow money and issue bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure, subject to the approval of applicable State administrative agencies.

As required by GAAP, these financial statements present the Heritage Isles Community Development District (the primary government), as a stand-alone government. The reporting entity for the District includes all functions of government in which the District’s Board exercises oversight responsibility which includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, significant ability to influence operations and accountability for fiscal matters.

Based upon the application of the above-mentioned criteria as set forth by the Governmental Accounting Standards Board, the District has identified no component units.

2. Measurement Focus and Basis of Accounting

The basic financial statements of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to financial statements

Heritage Isles Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Measurement Focus and Basis of Accounting (Continued)

a. Government-wide Financial Statements

Government-wide financial statements report all non-fiduciary information about the reporting government as a whole. These statements include separate columns for the governmental and business-type activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by special assessments and interest, are reported separately from business-type activities. Program revenues include charges for services and special assessments. Program revenues are netted with program expenses in the Statement of Activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as an other financial source.

Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

b. Fund Financial Statements

The underlying accounting system of the District is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually.

Governmental Funds

The District classifies fund balance according to Governmental Accounting Standards Board Statement 54 – Fund Balance Reporting and Governmental Fund Type Definitions. The Statement requires the fund balance for governmental funds to be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Heritage Isles Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Measurement Focus and Basis of Accounting (Continued)

b. Fund Financial Statements (Continued)

Governmental Funds (Continued)

The District has various policies governing the fund balance classifications.

Non-spendable Fund Balance – This classification consists of amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted Fund Balance – This classification includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed Fund Balance – This classification consists of contractual obligations which require formal approval from the Board of Supervisors. This type of fund balance can only be removed by the Board of Supervisors through the same approval process.

Assigned Fund Balance – This classification consists of the Board of Supervisors' intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned Fund Balance – This classification is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. Unassigned fund balance is considered to be utilized first when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Fund Balance Spending Hierarchy – For all governmental funds except special revenue funds, when restricted, committed, assigned, and unassigned fund balances are combined in a fund, qualified expenditures are paid first from restricted or committed fund balance, as appropriate, then assigned and finally unassigned fund balances.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Interest associated with the current fiscal period is considered to be an accrual item and so has been recognized as revenue of the current fiscal period. Revenues are considered to be available when they are collected within the current period or soon 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.

Heritage Isles Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Measurement Focus and Basis of Accounting (Continued)

b. Fund Financial Statements (Continued)

Governmental Funds (Continued)

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of “available spendable resources”. Governmental fund operating statements present increases (revenues) and decreases (expenditures) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an other financing source rather than as a fund liability.

Debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Enterprise Funds

In the fund financial statements, the enterprise fund is presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, enterprise funds are presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Enterprise fund operating statements present increases (revenues) and decreases (expenses) in total net position. The District applies all GASB pronouncements as well as all FASB Statements and Interpretations, APB Opinions and Accounting Research Bulletins, issued on or before November 30, 1989, which do not conflict with, or contradict, GASB pronouncements.

Heritage Isles Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Measurement Focus and Basis of Accounting (Continued)

b. Fund Financial Statements (Continued)

Enterprise Funds (Continued)

Enterprise fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as investment earnings, result from non-exchange transactions or ancillary activities. Amounts paid to acquire capital assets are capitalized as assets in the fund financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the fund financial statements, rather than as other financing sources.

Amounts paid to reduce long-term indebtedness are reported as a reduction of the related liabilities, rather than as an expense.

3. Basis of Presentation

a. Governmental Major Funds

General Fund – The 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.

Special Revenue Fund – The Special Revenue Fund accounts for all financial resources generated by the fitness facility.

2008 Debt Service Fund – The 2008 Debt Service Fund accounts for debt service requirements for the District’s Outstanding Special Assessment Refunding Bond, Series 2008.

b. Enterprise Major Fund

Enterprise Fund – The Enterprise Fund accounts for the operations of the Golf Course, Pro Shop and Restaurant, which are funded by proceeds from operations of these facilities, including green fees, cart fees and restaurant lease.

Heritage Isles Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Basis of Presentation (Continued)

c. Non-Current Governmental Assets/Liabilities

GASB Statement 34 requires that non-current governmental assets, such as land and buildings, and non-current governmental liabilities, such as general obligation bonds, due to developer and accrued compensated absences be reported in the governmental activities column in the government-wide Statement of Net Position.

4. Assets, Liabilities, and Net Position or Equity

a. Cash and Investments

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

The District is authorized to invest in those financial instruments as established by Section 218.415, Florida Statutes. The authorized investments consist of:

1. Direct obligations of the United States Treasury;
2. The Local Government Surplus Funds Trust or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperative Act of 1969;
3. Interest-bearing time deposits or savings accounts in authorized qualified public depositories;
4. Securities and Exchange Commission, registered money market funds with the highest credit quality rating from a nationally recognized rating agency.

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less and held in a qualified public depository as defined by Section 280.02, Florida Statutes.

Heritage Isles Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Assets, Liabilities, and Net Position or Equity (Continued)

b. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported as “internal balances”.

c. Inventories

Inventories are recorded at cost using the first-in-first-out basis and recognized as expenses as they are consumed.

d. Restricted Net Position

Certain net position of the District are classified as restricted on the Statement of Net Position because their use is limited either by law through constitutional provisions or enabling legislation; or by restrictions imposed externally by creditors. In a fund with both restricted and unrestricted net position, qualified expenses are considered to be paid first from restricted net position and then from unrestricted net position.

e. Capital Assets

Capital assets, which include land, buildings and improvements, infrastructure, equipment and construction in progress, are reported in the applicable governmental or business-type activities column.

The District defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. The valuation basis for all assets is historical cost.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation of capital assets is computed and recorded by utilizing the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Buildings and improvements	10-30 years
Equipment	5-30 years
Infrastructure	10-40 years

**Heritage Isles Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2019**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Assets, Liabilities, and Net Position or Equity (Continued)

f. Deferred Outflows of Resources

Deferred outflow of resources is the consumption of net position by the government that is applicable to a future reporting period. Deferred amount on refunding is amortized and recognized as a component of interest expense over the life of the bond.

g. Budgets

Budgets are prepared and adopted after public hearings for the governmental funds, pursuant to the requirements of the Florida Statutes. The District utilizes the same basis of accounting for budgets as it does for revenues and expenditures in its various funds. The legal level of budgetary control is at the fund level. All budgeted appropriations lapse at year end. Formal budgets are adopted for the general and debt service funds. As a result, deficits in the budget columns of the accompanying financial statements may occur.

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. Explanation of Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

“Total fund balances” of the District’s governmental funds, \$2,677,121, differs from “net position” of governmental activities, \$20,612,642, reported in the Statement of Net Position. This difference primarily results from the long-term economic focus of the Statement of Net Position versus the current financial resources focus of the governmental fund balance sheet. The effect of the differences is illustrated below.

Capital related items

When capital assets (land, buildings, infrastructure and equipment that are to be used in governmental activities) are purchased or constructed, the cost of those assets is reported as expenditures in governmental funds. However, the Statement of Net Position included those capital assets among the assets of the District as a whole.

Land and improvements	\$ 2,769,142
Infrastructure	22,602,260
Buildings and improvements	3,283,345
Equipment	166,173
Accumulated depreciation	<u>(10,633,415)</u>
Total	<u>\$ 18,187,505</u>

Heritage Isles Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

1. Explanation of Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position (Continued)

Long-term debt transactions

Long-term liabilities applicable to the District’s governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Position. Balances at September 30, 2019 were:

Notes payable	\$ <u>(251,984)</u>
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2. Explanation of Differences Between the Governmental Fund Operating Statements and the Statement of Activities

The “net changes in fund balances” for government funds, \$(137,819), differs from the “change in net position” for governmental activities, \$(72,918), reported in the Statement of Activities. The differences arise primarily from the long-term economic focus of the Statement of Activities versus the current financial resources focus of the governmental funds. The effect of the differences is illustrated as follows.

Capital related items

When capital assets for governmental activities are purchased or constructed, they are reported as expenditures in governmental funds. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation. This is the amount that depreciation exceeded capital outlay in the current period.

Depreciation	\$ (709,885)
Loss on disposal of assets	(7,789)
Capital additions	<u>17,903</u>
Total	<u>\$ (699,771)</u>

Heritage Isles Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

2. Explanation of Differences Between the Governmental Fund Operating Statements and the Statement of Activities (Continued)

Deferred outflows of resources

The amortization of the deferred amount on refunding reported in the Statement of Activities does not require the use of current financial resources; therefore, it is not reported as an expenditure in governmental funds.

Deferred amount on refunding current year amortization \$ (8,651)

Long-term debt transactions

Repayments of principal are reported as expenditures in the governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used.

Principal payments \$ 760,861

Some expenses reported in the Statement of Activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.

Net change in accrued interest payable \$ 12,462

NOTE C – CASH AND INVESTMENTS

All deposits are held in qualified public depositories and are included on the accompanying balance sheet as cash and investments.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk, however, they follow the provisions of Chapter 280, Florida Statutes regarding deposits and investments. As of September 30, 2019, the District's bank balance was \$761,308 and the carrying value was \$643,322. Exposure to custodial credit risk was as follows. The District maintains all deposits in a qualified public depository in accordance with the provisions of Chapter 280, Florida Statutes, which means that all deposits are fully insured by Federal Depositors Insurance or collateralized under Chapter 280, Florida Statutes.

**Heritage Isles Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2019**

NOTE C – CASH AND INVESTMENTS (Continued)

Investments

As of September 30, 2019, the District had the following investments and maturities:

Investment	Maturities	Fair Value
Managed Money Market	N/A	\$ 1,024

The District categorizes its fair value measurements within the fair value hierarchy recently 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 use significant unobservable inputs that uses the best information available under the circumstances, which includes the District's own data in measuring unobservable input.

The District does not have any investments that meet the criteria.

The District's investment policy allows management to invest funds in investments permitted under Section 218.415, Florida Statutes.

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District's investments in treasury funds and government loans are limited by state statutory requirements and bond compliance. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

The types of deposits and investments and their level of risk exposure as of September 30, 2019 were typical of these items during the fiscal year then ended. The District considers any decline in fair value for certain investments to be temporary.

Heritage Isles Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE D – SPECIAL ASSESSMENT REVENUES

Special assessment revenues recognized for the 2018-2019 fiscal year were levied in October 2018. All taxes are due and payable on November 1 or as soon as the assessment roll is certified and delivered to the Tax Collector. Per Section 197.162, Florida Statutes, discounts are allowed for early payment at the rate of 4% in November, 3% in December, 2% in January, and 1% in February. Taxes paid in March are without discount.

All unpaid taxes become delinquent as of April 1. Virtually all unpaid taxes are collected via the sale of tax certificates on or prior to, June 1; therefore, there were no material taxes receivable at fiscal year end.

NOTE E – LEASE AGREEMENT

In November 2017, the District entered into a restaurant lease agreement to manage and operate its restaurant facility. The agreement commenced on November 1, 2017 and expires October 31, 2020. The monthly base rate change fluctuates from \$4,700 to \$5,300 for the first term with the option to renew for an additional term. In addition to the base rate, the District will receive three percent of gross revenues, less various costs, beginning in November 2018.

NOTE F – INTERFUND BALANCES

Interfund balances at September 30, 2019 consisted of the following:

	Interfund Receivables	Interfund Payables
General Fund	\$ 1,056,301	\$ -
Special Revenue Fund	1,692,365	640,436
Enterprise Fund	-	2,108,230
Total	\$ 2,748,666	\$ 2,748,666

Amounts due to the General Fund represent temporary operating advances due from the Special Revenue Fund and Enterprise Fund.

Amounts due to the Special Revenue Fund are a result of funding operating deficiencies of the Golf Course/Restaurant Enterprise Fund.

During the year, the Special Revenue Fund transferred \$106,861 to the Enterprise Fund and the General Fund transferred \$105,700 to the Debt Service Fund.

Heritage Isles Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE G – CAPITAL ASSETS

Capital Asset activity for the year ended September 30, 2019 was as follows:

	Balance October 1, 2018	Additions	Deletions	Balance September 30, 2019
<u>Governmental Activities:</u>				
Capital assets, not being depreciated:				
Land and improvements	\$ 2,769,142	\$ -	\$ -	\$ 2,769,142
Capital assets, being depreciated:				
Infrastructure	22,602,260	-	-	22,602,260
Equipment	179,151	17,903	(30,881)	166,173
Buildings and improvements	3,283,345	-	-	3,283,345
Total Capital Assets, Being Depreciated	<u>26,064,756</u>	<u>17,903</u>	<u>(30,881)</u>	<u>26,051,778</u>
Less accumulated depreciation for:				
Infrastructure	(9,618,651)	(581,657)	-	(10,200,308)
Equipment	(85,028)	(17,370)	23,092	(79,306)
Buildings and improvements	(242,943)	(110,858)	-	(353,801)
Total Accumulated Depreciation	<u>(9,946,622)</u>	<u>(709,885)</u>	<u>23,092</u>	<u>(10,633,415)</u>
Total Capital Assets Depreciated, Net	<u>16,118,134</u>	<u>(691,982)</u>	<u>(7,789)</u>	<u>15,418,363</u>
Governmental Activities Capital Assets, Net	<u>\$ 18,887,276</u>	<u>\$ (691,982)</u>	<u>\$ (7,789)</u>	<u>\$ 18,187,505</u>

Depreciation was charged to physical environment, \$327,666, and culture and recreation, \$382,219.

Heritage Isles Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE G – CAPITAL ASSETS (CONTINUED)

The following is a summary of changes in the Business-type Activities capital assets for the year ended September 30, 2019.

	Balance October 1, 2018	Additions	Deletions	Balance September 30, 2019
Capital assets, not being depreciated:				
Land and improvements	\$ 2,268,000	\$ -	\$ -	\$ 2,268,000
Capital assets, being depreciated:				
Buildings and improvements	820,110	-	-	820,110
Infrastructure	3,578,363	-	-	3,578,363
Equipment	575,662	34,783	-	610,445
Total Capital Assets, Being Depreciated	4,974,135	34,783	-	5,008,918
Less accumulated depreciation for:				
Buildings and improvements	(496,710)	(28,074)	-	(524,784)
Infrastructure	(3,578,363)	-	-	(3,578,363)
Equipment	(415,661)	(13,241)	-	(428,902)
Total accumulated depreciation	(4,490,734)	(41,315)	-	(4,532,049)
Total capital assets depreciated, net	483,401	(6,532)	-	476,869
Business-Type Activities Capital Assets	\$ 2,751,401	\$ (6,532)	\$ -	\$ 2,744,869

Depreciation was charged to the following functions:

Golf Course	\$ 41,315
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NOTE H – LONG TERM DEBT

Governmental Activities

The following is a summary of activity for long-term debt of the Governmental Activities for the year ended September 30, 2019:

Long-term debt at October 1, 2018	\$ 1,012,845
Principal payments	(760,861)
Long-term debt at September 30, 2019	\$ 251,984

Heritage Isles Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE H – LONG-TERM DEBT (CONTINUED)

Long-term debt for Governmental Activities is comprised of the following:

Notes Payable

The District issued Series 2016 notes payable with principal due each month beginning in October 2017 and interest due each month beginning October 2016 at 4% interest. Current portion is \$129,677. \$ 251,984

The annual requirements of principal and interest for the notes payable are as follows:

Year Ending September 30,	Principal	Interest	Total
2020	\$ 129,677	\$ 5,764	\$ 135,441
2021	122,307	1,831	124,138
Totals	\$ 251,984	\$ 7,595	\$ 259,579

Business-type Activities

The following is a summary of activity for long-term debt of the Business-type Activities for the year ended September 30, 2019:

Long-term debt at October 1, 2018	\$ 405,000
Principal payments	(55,000)
Long-term debt at September 30, 2019	<u>\$ 350,000</u>

Recreational Revenue Bonds Series 1999

\$8,785,000 Series 1999 Recreational Revenue Bonds due in annual principal installments beginning in October 1999. Interest at 7.10% is due in April and October. \$ 350,000

Heritage Isles Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE H – LONG-TERM DEBT (CONTINUED)

Recreational Revenue Bonds Series 1999

The Recreational Revenue Bonds are secured by a pledge of revenues under the Indenture, which are defined as all income and monies received by the District from the rates, fees, rentals, charges and other income collected by the District for the use of the products, services and facilities of the golf course to be provided by the District.

The District has not reimbursed the reserve funds in the current year which were used to make a scheduled payment in a prior year. As a result of not making all of the scheduled debt service payments since April 2009, the following amounts are recognized in the accompanying financial statements.

Matured bonds payable	\$	285,000
Matured interest payable	\$	434,414

The annual requirements to amortize the principal and interest of enterprise fund bonds payable as of September 30, 2019 are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 60,000	\$ 22,720	\$ 82,720
2021	65,000	18,283	83,283
2022	70,000	13,490	83,490
2023	75,000	8,343	83,343
2024	<u>80,000</u>	<u>2,840</u>	<u>82,840</u>
Totals	<u>\$ 350,000</u>	<u>\$ 65,676</u>	<u>\$ 415,676</u>

The District continues to communicate with the bondholders to attempt to cure the bond default. In January 2012, approximately 4% of the bondholders accepted a tender offer. As a result, \$140,000 of the total outstanding principal was retired and a redemption gain of \$119,000 was recognized. In December 2012, approximately 82% of the bondholders accepted a tender offer. As a result, \$2,975,000 of the total outstanding principal was retired and a redemption gain of \$2,231,250 was recognized. In December 2013, an additional \$10,000 of outstanding principal was retired and a redemption gain of \$7,500 was recognized.

Heritage Isles Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE H – LONG-TERM DEBT (CONTINUED)

Recreational Revenue Bonds, Series 1999 (Continued)

Summary of Significant Bond Resolution Terms and Covenants

Depository Funds

The bond resolution established certain funds and determines the order in which revenues are to be deposited into these funds. A description of these funds, including their purpose, is as follows:

1. Bond Reserve Fund – For deposit of an amount equal to the maximum annual debt service on the bonds. The monies in the reserve account are not available for any purpose other than the payment of the principal installments of and interest on the bonds.

The following is a schedule of required reserve deposits as of September 30, 2019.

	Reserve Requirement	Reserve Balance
Series 1999 Recreational Revenue Bond	\$ 86,005	\$ 1,045

NOTE I – CAPITAL LEASE

The District entered into two lease agreements for certain golf course equipment during the year ended September 30, 2018. The lease agreements qualify as capital leases for accounting purposes, and therefore, have been recorded at the present value of future minimum lease payment as of the lease inception date. The first lease commenced in November 2017 for a term of 60 months. The second lease commenced in June 2018 for a term of 48 months. As of September 30, 2019, the District held equipment under capital lease of \$36,174, with accumulated depreciation of \$7,235.

The future minimum lease payments and net present value of minimum lease payments at September 30, 2019 were as follows:

Year Ending September 30,	Amount
2020	\$ 8,718
2021	8,718
2022	7,632
2023	514
Total minimum lease payments	25,582
Less: amount representing interest	(1,685)
Present value of minimum lease payments	\$ 23,897

Heritage Isles Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE J – OPERATING LEASES

Business-type Activities

The golf course entered into lease agreements for golf carts, beverage carts, maintenance equipment, and restaurant equipment. The lease terms range from 48 to 60 months and \$158,709 was recognized as an expense in 2019. The future minimum payments on the lease are as follows:

<u>Year Ending September 30,</u>	<u>Payments</u>
2020	\$ 115,517
2021	71,764
2022	5,020
2023	4,101
2024	335
Total	<u>\$ 196,737</u>

NOTE K – RISK MANAGEMENT

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no claims or settled claims from these risks that have exceeded commercial insurance coverage over the past three years.



Berger, Toombs, Elam,
Gaines & Frank

Certified Public Accountants PL

600 Citrus Avenue
Suite 200
Fort Pierce, Florida 34950

772/461-6120 // 461-1155
FAX: 772/468-9278

**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 Isles Community Development District
Hillsborough County, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Heritage Isles Community Development District, as of and for the year ended September 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated March 6, 2020.

Internal Control Over Financial Reporting

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

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 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Supervisors
Heritage Isles Community Development District
Hillsborough County, Florida

Compliance and Other Matters

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

Certain compliance issued are noted in our separate letter dated March 6, 2020 included on pages 40-42.

Purpose of this Report

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



Berger, Toombs, Elam, Gaines & Frank
Certified Public Accountants
Fort Pierce, Florida

March 6, 2020



Berger, Toombs, Elam, Gaines & Frank

Certified Public Accountants PL

600 Citrus Avenue
Suite 200
Fort Pierce, Florida 34950

772/461-6120 // 461-1155
FAX: 772/468-9278

MANAGEMENT LETTER

To the Board of Supervisors
Heritage Isles Community Development District
Hillsborough County, Florida

Report on the Financial Statements

We have audited the financial statements of the Heritage Isles Community Development District as of and for the year ended September 30, 2019, and have issued our report thereon dated March 6, 2020.

Auditor's Responsibility

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

Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and our Independent Auditor's Report on an examination conducted in accordance with AICPA Professionals Standards, AT-C Section 315 regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in that report, which is dated March 6, 2020, 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 made to address findings and recommendations made in the preceding financial audit report. The following findings or recommendations were made in the preceding financial audit report:

Finding 2009-01

The District continues to meet a condition described in Section 218.503, Florida Statutes in that it failed to make the required debt service payments on the Series 1999 Recreational Revenue Bond, which are secured by the pledged revenue of the Golf Course and Restaurant.

Management Response

The District continues to work with the bondholders to remedy the default.

Fort Pierce / Stuart

To the Board of Supervisors
Heritage Isles Community Development District

Finding 2014-01

The Restaurant and Golf Course operated at a deficit for the fiscal years ended September 30, 2014, 2015, 2016, 2017 and 2018. The Restaurant and Golf Course again operated at a deficit for the year ended September 30, 2019.

Management Response

The District is attempting to stabilize the restaurant operation and improve revenues of the golf course.

Financial Condition and Management

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, requires us to apply appropriate procedures and communicate the results of our determination as to whether or not Heritage Isles Community Development District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific conditions met. In connection with our audit, we determined that the Heritage Isles Community Development District did meet one of the conditions described in Section 218.503(1), Florida Statutes (See Finding 2009-01).

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial conditions assessment procedures as of September 30, 2019 for the Heritage Isles Community Development District. It is management's responsibility to monitor the Heritage Isles Community Development District's financial condition; our financial condition assessment was based in part on the representations made by management and the review of the financial information provided by the same.

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

Additional Matters

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



Berger, Toombs, Elam,
Gaines & Frank

Certified Public Accountants PL

To the Board of Supervisors
Heritage Isles Community Development District

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.

*Berger Toombs Elam
Gaines + Frank*

Berger, Toombs, Elam, Gaines & Frank
Certified Public Accountants PL
Fort Pierce, Florida

March 6, 2020



Berger, Toombs, Elam,
Gaines & Frank

Certified Public Accountants PL

600 Citrus Avenue
Suite 200
Fort Pierce, Florida 34950

772/461-6120 // 461-1155
FAX: 772/468-9278

**INDEPENDENT ACCOUNTANT'S REPORT/COMPLIANCE
WITH SECTION 218.415, FLORIDA STATUTES**

To the Board of Supervisors
Heritage Isles Community Development District
Hillsborough County, Florida

We have examined Heritage Isles Community Development District's compliance with Section 218.415, Florida Statutes during the year ended September 30, 2019. Management is responsible for Heritage Isles Community Development District's compliance with those requirements. Our responsibility is to express an opinion on Heritage Isles Community Development 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, accordingly, included examining, on a test basis, evidence about Heritage Isles Community Development 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 Heritage Isles Community Development District's compliance with the specified requirements.

In our opinion, Heritage Isles Community Development District complied, in all material respects, with the aforementioned requirements during the year ended September 30, 2019.

*Berger Toombs Elam
Gaines & Frank*

Berger, Toombs, Elam, Gaines & Frank
Certified Public Accountants PL
Fort Pierce, Florida

March 6, 2020