

**Highland Meadows II
Community Development District**

ANNUAL FINANCIAL REPORT

September 30, 2021

Highland Meadows II Community Development District

ANNUAL FINANCIAL REPORT

September 30, 2021

TABLE OF CONTENTS

	<u>Page Number</u>
FINANCIAL SECTION	
REPORT OF INDEPENDENT AUDITORS	1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3-8
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds	11
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	15
Notes to Financial Statements	16-31
INDEPENDENT AUDITORS’ REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	32-33
MANAGEMENT LETTER	34-37
INDEPENDENT ACCOUNTANTS’ REPORT/COMPLIANCE WITH SECTION 218.415, FLORIDA STATUTES	38



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REPORT OF INDEPENDENT AUDITORS

To the Board of Supervisors
Highland Meadows II Community Development District
Davenport, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Highland Meadows II Community Development District as of and for the year ended September 30, 2021, 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
Highland Meadows II 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 and each major fund of Highland Meadows II Community Development District, as of September 30, 2021, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

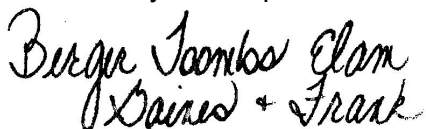
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management 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 July 5, 2022 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 Highland Meadows II Community Development District's internal control over financial reporting and compliance.



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

July 5, 2022

**Highland Meadows II Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2021**

Management's discussion and analysis of Highland Meadows II 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 comprise 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 the private-sector. Emphasis is placed on the net position of governmental activities and the change in net position. Governmental activities are primarily supported by special assessments.

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.

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. Governmental activities funded by the District include general government, physical environment, culture/recreation and debt service.

Fund financial statements present financial information for governmental funds. 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.

**Highland Meadows II Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2021**

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. *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.

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 balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government'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 District's near-term financing decisions. Both the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balances provide reconciliations to facilitate this comparison between governmental funds and governmental activities.

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, capital assets, and long-term debt are some of the items included in the *notes to financial statements*.

Financial Highlights:

The following are the highlights of financial activity for the year ended September 30, 2021.

- The District's total assets exceeded total liabilities by \$3,341,586 (net position). Unrestricted net position \$662,777. Restricted net position was \$974,587. Net investment in capital assets was \$1,704,222.
- Governmental activities revenues totaled \$3,998,042 while governmental activities expenses totaled \$2,290,239.

**Highland Meadows II Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2021**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Financial Analysis of the District

The following schedule provides a summary of the assets, liabilities and net position of the District.

Net Position

	Governmental Activities	
	2021	2020
Current assets	\$ 740,770	\$ 471,911
Restricted assets	2,660,945	3,245,679
Capital assets, net of depreciation	17,776,808	18,220,279
Total Assets	21,178,523	21,937,869
Current liabilities	746,229	724,198
Non-current liabilities	17,090,708	19,579,888
Total Liabilities	17,836,937	20,304,086
Net investment in capital assets	1,704,222	13,469
Net position-restricted	974,587	1,180,645
Net position-unrestricted	662,777	439,669
Total Net Position	\$ 3,341,586	\$ 1,633,783

The increase in current assets is related to the increase in cash and investments in the current year.

The decrease in restricted assets is related to capital asset activity and principal payments on long-term debt in the current year.

The decrease in capital assets is mainly related to current year depreciation.

The decrease in non-current liabilities is related to the principal payments in the current year.

**Highland Meadows II Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2021**

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.

Change in Net Position

	Governmental Activities	
	2021	2020
Program Revenues		
Charges for services	\$ 3,989,963	\$ 3,627,199
General Revenues		
Investments earnings	208	23,481
Other revenues	7,871	635
Total Revenues	<u>3,998,042</u>	<u>3,651,315</u>
Expenses		
General government	152,940	128,266
Physical environment	1,029,988	965,154
Culture/recreation	164,331	132,156
Interest and other charges	942,980	1,370,861
Total Expenses	<u>2,290,239</u>	<u>2,596,437</u>
Change in Net Position	1,707,803	1,054,878
Net Position - Beginning of Year	<u>1,633,783</u>	<u>578,905</u>
Net Position - End of year	<u>\$ 3,341,586</u>	<u>\$ 1,633,783</u>

The increase in charges for services is related to increased prepayments for debt service in the current year.

The increase in general government is related to arbitrage and assessment administration expenses in the current year.

The increase in physical environment is related to increased landscape and related expenses in the current year.

The decrease in interest and other charges is related to the cost of issuance of long-term debt in the prior year.

**Highland Meadows II Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2021**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Capital Assets Activity

The following schedule provides a summary of the District's capital assets as of September 30, 2021 and 2020.

<u>Description</u>	Governmental Activities	
	<u>2021</u>	<u>2020</u>
Construction in progress	\$ 4,488,903	\$ 4,223,959
Improvements other than buildings	3,222,144	3,222,144
Infrastructure	11,400,470	11,400,470
Recreation facilities and amenities	1,039,376	1,039,376
Accumulated depreciation	<u>(2,374,085)</u>	<u>(1,665,670)</u>
Total Capital Assets (Net)	<u>\$ 17,776,808</u>	<u>\$ 18,220,279</u>

During the year, depreciation was \$708,415, additions to construction in progress were \$264,944.

General Fund Budgetary Highlights

The budget exceeded actual expenditures primarily because security, streetlighting, legal and landscaping expenditures were less than anticipated.

The September 30, 2021 budget was amended for reserve expenditures that were not anticipated in the original budget.

Debt Management

Governmental Activities debt includes the following:

- ◆ In October 2014, the District issued \$1,860,000 Special Assessment Bonds Series 2014 Assessment Area One and \$1,575,000 Special Assessment Bonds Series 2014 Assessment Area Two. The bonds were issued to finance the acquisition and construction of Assessment Areas One and Two. The balances outstanding at September 30, 2021 were \$815,000 and \$1,240,000, respectively.
- ◆ In February 2016, the District issued \$3,645,000 Special Assessment Bonds Series 2016 Assessment Area Three and \$1,785,000 Special Assessment Bonds Series 2016 Assessment Area Four. The bonds were issued to finance the acquisition and construction of Assessment Areas Three and Four. The balance outstanding at September 30, 2021 were \$2,240,000 and \$1,300,000, respectively.

**Highland Meadows II Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2021**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Debt Management (Continued)

- ◆ In March 2017, the District issued \$5,370,000 Special Assessment Bonds Series 2017 Assessment Area Five and \$2,700,000 Special Assessment Bonds Series 2017 Assessment Area Six. The bonds were issued to finance the acquisition and construction of Assessment Areas Five and Six. The balances outstanding at September 30, 2021 were \$4,025,000 and \$1,700,000 respectively.
- ◆ In September 2017, the District issued \$3,950,000 Special Assessment Bonds Series 2017 Assessment Area 4B/C. The bonds were issued to finance the acquisition and construction of Assessment Area 4B/C. The balance outstanding at September 30, 2021 was \$2,350,000.
- ◆ In December 2019, the District issued \$5,765,000 Special Assessment Bonds Series 2019 Assessment Area 7/7A. The bonds were issued to finance the acquisition and construction of Assessment Area 7/7A. The balance outstanding at September 30, 2021 was \$3,765,000.
- ◆ In previous years, the District entered into lease agreements for financing the acquisition of certain playground equipment. The total balance outstanding at September 30, 2021 is \$1,107.

Economic Factors and Next Year's Budget

Highland Meadows II Community Development District does not expect any economic factors to have any significant effect on the financial positions or results of operation of the District in fiscal year 2022.

Request for Information

The financial report is designed to provide a general overview of Highland Meadows II 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 Highland Meadows II Community Development District, Governmental Management Services, 219 Livingston Street, Orlando, Florida 32801.

Highland Meadows II Community Development District
STATEMENT OF NET POSITION
September 30, 2021

	Governmental Activities
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 542,917
Investments	150,051
Special assessments receivable	4,178
Deposits	3,139
Prepaid expenses	40,485
Total Current Assets	740,770
Non-Current Assets	
Restricted assets	
Investments	2,660,945
Capital assets, not being depreciated	
Construction in progress	4,488,903
Capital assets, being depreciated	
Improvements other than buildings	3,222,144
Recreation facilities and amenities	1,039,376
Infrastructure	11,400,470
Less: accumulated depreciation	(2,374,085)
Total Non-Current Assets	20,437,753
Total Assets	21,178,523
LIABILITIES	
Current Liabilities	
Accounts payable and accrued expenses	76,882
Accrued interest	373,240
Bonds payable	295,000
Capital lease payable	1,107
Total Current Liabilities	746,229
Non-Current Liabilities	
Bonds payable, net	17,090,708
Total Liabilities	17,836,937
NET POSITION	
Net investment in capital assets	1,704,222
Restricted for debt service	974,587
Unrestricted	662,777
Total Net Position	\$ 3,341,586

See accompanying notes to financial statements.

Highland Meadows II Community Development District
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2021

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenues and Changes in Net Position Governmental Activities</u>
Primary government			
Governmental Activities			
General government	\$ (152,940)	\$ 207,440	\$ 54,500
Physical environment	(1,029,988)	506,653	(523,335)
Culture/recreation	(164,331)	152,402	(11,929)
Interest and other charges	(942,980)	3,123,468	2,180,488
Total Governmental Activities	<u>\$ (2,290,239)</u>	<u>\$ 3,989,963</u>	<u>1,699,724</u>
General Revenues			
Investment earnings			208
Miscellaneous revenues			7,871
Total General Revenues			<u>8,079</u>
Change in Net Position			1,707,803
Net Position - October 1, 2020			<u>1,633,783</u>
Net Position - September 30, 2021			<u>\$ 3,341,586</u>

See accompanying notes to financial statements.

Highland Meadows II Community Development District
BALANCE SHEET –
GOVERNMENTAL FUNDS
September 30, 2021

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 542,917	\$ -	\$ -	\$ 542,917
Investments	150,051	-	-	150,051
Assessments receivable	4,178	-	-	4,178
Deposits	2,028	-	1,111	3,139
Prepaid expenses	40,485	-	-	40,485
Restricted assets				
Investments, at fair value	-	2,074,468	586,477	2,660,945
Total Assets	\$ 739,659	\$ 2,074,468	\$ 587,588	\$ 3,401,715
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenses	\$ 76,882	\$ -	\$ -	\$ 76,882
 Fund Balances:				
Nonspendable				
Deposits and prepaid expenses	42,513	-	1,111	43,624
Restricted				
Debt service	-	2,074,468	-	2,074,468
Capital projects	-	-	586,477	586,477
Unassigned	620,264	-	-	620,264
Total Fund Balances	662,777	2,074,468	587,588	3,324,833
Total Liabilities and Fund Balances	\$ 739,659	\$ 2,074,468	\$ 587,588	\$ 3,401,715

See accompanying notes to financial statements.

Highland Meadows II Community Development District
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
September 30, 2021

Total Governmental Fund Balances	\$ 3,324,833
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets not being depreciated, construction in progress, used in governmental activities are not current financial resources and, therefore, are not reported at the fund level.	4,488,903
Capital assets being depreciated, infrastructure, \$11,400,470, improvements other than buildings, \$3,222,144, and recreation facilities and amenities, \$1,039,376, net of accumulated depreciation, \$(2,374,085), used in governmental activities are not current financial resources and therefore, are not reported at the fund level.	13,287,905
Long-term liabilities, including bonds payable, \$(17,435,000), and capital leases, \$(1,107), net of bond discount, net, \$49,292, are not current uses and therefore, are not reported at the fund level.	(17,386,815)
Accrued interest expense for long-term debt is not a current financial use and; therefore, is not reported at the fund level.	<u>(373,240)</u>
Net Position of Governmental Activities	<u><u>\$ 3,341,586</u></u>

See accompanying notes to financial statements.

Highland Meadows II Community Development District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended September 30, 2021

	General	Debt Service	Capital Projects	Total Governmental Funds
Revenues				
Special assessments	\$ 867,392	\$ 3,122,571	\$ -	\$ 3,989,963
Investment earnings	50	122	36	208
Miscellaneous revenues	7,871	-	-	7,871
Total Revenues	<u>875,313</u>	<u>3,122,693</u>	<u>36</u>	<u>3,998,042</u>
Expenditures				
Current				
General government	152,940	-	-	152,940
Physical environment	373,542	-	-	373,542
Culture/recreation	112,362	-	-	112,362
Capital outlay	-	-	264,944	264,944
Debt service				
Principal	12,700	2,460,000	-	2,472,700
Interest	661	983,899	-	984,560
Total Expenditures	<u>652,205</u>	<u>3,443,899</u>	<u>264,944</u>	<u>4,361,048</u>
Excess of revenues over expenditures	<u>223,108</u>	<u>(321,206)</u>	<u>(264,908)</u>	<u>(363,006)</u>
Other financing sources (uses)				
Operating transfers in	-	13	-	13
Operating transfers out	-	-	(13)	(13)
Total Other Financing Sources (Uses)	<u>-</u>	<u>13</u>	<u>(13)</u>	<u>-</u>
Net change in fund balances	223,108	(321,193)	(264,921)	(363,006)
Fund Balances - October 1, 2020	<u>439,669</u>	<u>2,395,661</u>	<u>852,509</u>	<u>3,687,839</u>
Fund Balances - September 30, 2021	<u>\$ 662,777</u>	<u>\$ 2,074,468</u>	<u>\$ 587,588</u>	<u>\$ 3,324,833</u>

See accompanying notes to financial statements.

Highland Meadows II 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, 2021

Net Change in Fund Balances - Total Governmental Funds	\$ (363,006)
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 are allocated over their estimated useful lives as depreciation. This is the amount that capital outlay, \$264,944, was exceeded by depreciation, \$(708,415), in the current period.	(443,471)
Repayments of principal are expenditures at the fund level, but the repayments reduce long-term liabilities in the Statement of Net Position.	2,472,700
Bond discounts are amortized over the life of the bonds as interest. This is the current period amortization.	(1,927)
In the Statement of Activities, interest is accrued on outstanding bonds; whereas in the fund level interest expenditures are reported when due. This is the change in accrued interest in the current period.	<u>43,507</u>
Change in Net Position of Governmental Activities	<u><u>\$ 1,707,803</u></u>

See accompanying notes to financial statements.

Highland Meadows II Community Development District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND
For the Year Ended September 30, 2021

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Special assessments	\$ 860,299	\$ 860,299	\$ 867,392	\$ 7,093
Investment income	-	-	50	50
Miscellaneous revenues	-	7,841	7,871	30
Total Revenues	<u>860,299</u>	<u>868,140</u>	<u>875,313</u>	<u>7,173</u>
Expenditures				
Current				
General government	162,540	183,368	152,940	30,428
Physical environment	445,455	447,455	373,542	73,913
Culture/recreation	153,484	167,523	112,362	55,161
Debt Service				
Principal	-	-	12,700	(12,700)
Interest	-	-	661	(661)
Total Expenditures	<u>761,479</u>	<u>798,346</u>	<u>652,205</u>	<u>146,141</u>
Net change in fund balances	98,820	69,794	223,108	153,314
Fund Balances - October 1, 2020	<u>13,811</u>	<u>178,706</u>	<u>439,669</u>	<u>260,963</u>
Fund Balances - September 30, 2021	<u>\$ 112,631</u>	<u>\$ 248,500</u>	<u>\$ 662,777</u>	<u>\$ 414,277</u>

See accompanying notes to financial statements.

Highland Meadows II Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of 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 May 28, 2014, by Ordinance 761 and amended on July 27, 2015, by Ordinance 773 and on November 14, 2016 by Ordinance 803 and on May 20, 2019 by Ordinance 889 of the City of Davenport, Florida, pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The District was established for the purposes of financing and managing the acquisition, construction, maintenance and operation of the infrastructure necessary for community development within its jurisdiction. The District is authorized to issue bonds for the purpose, among others, of financing, funding, planning, establishing, acquiring, constructing or re-constructing, enlarging or extending, equipping, operating and maintaining water management, bridges or culverts, district roads, landscaping, street lights and other basic infrastructure projects within or without the boundaries of the Highland Meadows II Community Development District. The District is governed by a five-member Board of Supervisors who are elected for four year terms. The District operates within the criteria established by Chapter 190, Florida Statutes.

As required by GAAP, these financial statements present the Highland Meadows II 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 including, but 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 in Governmental Accounting Standards Board, the District has identified no component units.

Highland Meadows II Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

a. Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Government-wide financial statements report all non-fiduciary information about the reporting government as a whole. These statements include all the governmental activities of the primary government. The effect of interfund activity has been removed from these statements.

Governmental activities are supported by special assessments, and interest. 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 financing 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. 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.

Highland Meadows II Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Measurement Focus and Basis of Accounting (Continued)

b. Fund Financial Statements (Continued)

Governmental Funds

The District implemented the 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. The classifications include non-spendable, restricted, committed, assigned and unassigned.

The District has various policies governing the fund balance classifications.

Nonspendable 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 amounts that can only be used for specific purposes pursuant to the constraints imposed by a formal action of the government's highest level of decision-making authority.

Assigned Fund Balance – This classification consists of the Board of Supervisors' intent to be used for specific purposes but are neither restricted nor committed. The assigned fund balances can also be assigned by the District's management company.

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 – 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

Highland Meadows II Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Measurement Focus and Basis of Accounting (Continued)

b. Fund Financial Statements (Continued)

Governmental Funds (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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.

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.

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 other financing sources) and decreases (expenditures and other financing uses) 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 are recorded only when payment is due.

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.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for the annual payment of principal and interest on long-term debt.

Capital Projects Fund – Accounts for construction of infrastructure improvements within the District.

Highland Meadows II Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Basis of Presentation (Continued)

b. Non-current Governmental Assets/Liabilities

GASB Statement 34 requires that non-current governmental assets, such as infrastructure and improvements, and non-current governmental liabilities, such as general obligation bonds, 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.

Cash equivalents include time deposits and certificates of deposit with original maturities of three months or less and held in a qualified public depository as defined by Section 280.02, Florida Statutes.

b. Restricted Assets

Certain assets of the District and a corresponding liability or portion of net position is 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 assets, qualified expenses are considered to be paid first from restricted net position and then from unrestricted net position.

Highland Meadows II Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

c. Capital Assets

Capital assets, which include construction in progress, improvements other than buildings, recreation facilities and amenities and infrastructure, are reported in the governmental activities column in the government-wide statements.

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:

Infrastructure	20 years
Improvements other than buildings	20 years
Recreation facilities and amenities	20 years

d. Unamortized Bond Discount

Bond discounts are presented on the government-wide financial statements. The costs are amortized over the life of the bonds. For financial reporting, the unamortized bond discount is netted against the applicable long-term debt.

e. Budgets

Budgets are prepared and adopted after public hearings for the governmental funds, pursuant to Chapter 190, 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.

Highland Meadows II Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

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, \$3,324,833, differs from “net position” of governmental activities, \$3,341,586, 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 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.

Construction in progress	\$	4,488,903
Improvements other than buildings		3,222,144
Infrastructure		11,400,470
Recreational facilities and amenities		1,039,376
Accumulated depreciation		<u>(2,374,085)</u>
Total		<u><u>\$ 17,776,808</u></u>

Highland Meadows II Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

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, 2021 were:

Bonds payable	\$ (17,435,000)
Bond discount, net	49,292
Capital lease payable	<u>(1,107)</u>
Total	<u>\$ (17,386,815)</u>

Accrued interest

Accrued liabilities in the Statement of Net Position differ from the amount reported in governmental funds due to the accrued interest on bonds.

Accrued interest	<u>\$ (373,240)</u>
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2. Explanation of Differences Between the Governmental Fund Operating Statements and the Statement of Activities

The “net change in fund balances” for government funds, \$(363,006), differs from the “change in net position” for governmental activities, \$1,707,803, 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 below.

Capital related items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets 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 as depreciation. The following is the amount that capital outlay exceeded depreciation in the current year.

Capital outlay	\$ 264,944
Depreciation	<u>(708,415)</u>
Total	<u>\$ (443,471)</u>

Highland Meadows II Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

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)

Long-term debt transactions

Repayments of bond principal are expenditures at the fund level but reduce liabilities in the Statement of Net Position. The issuance of new debt is an other financing source at the fund level but it increases long-term liabilities in the Statement of Net Position.

Principal payments	<u>\$ 2,472,700</u>
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Bond discounts are amortized over the life of the bonds as interest. This is the amount of current period amortization.

Bond discount amortization	<u>\$ (1,927)</u>
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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.

Change in accrued interest payable	<u>\$ 43,507</u>
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NOTE C – CASH AND INVESTMENTS

All deposits are held in qualified public depositories and are included on the accompanying balance sheet and statement of net position 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. The investment policy of the District follows the provisions of Chapter 280, Florida Statutes regarding deposits and investments. As of September 30, 2021, the District's bank balance was \$543,634 and the carrying value was \$542,917. The District controls its exposure to custodial credit risk because it 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.

Highland Meadows II Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

NOTE C – CASH AND INVESTMENTS (CONTINUED)

Investments

As of September 30, 2021, the District had the following investments and maturities:

Investment	Maturity	Fair Value
First American Treasury Obligation	13 Days *	\$ 2,660,945
Florida PRIME	49 Days*	150,051
Total		\$ 2,810,996

* Weighted Average Maturity

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 uses significant unobservable inputs that uses the best information available under the circumstances, which includes the District's own data in measuring unobservable inputs.

Based on the criteria in the preceding paragraph, the investment in First American Treasury Obligation is a Level 1 asset.

The District's investment policy allows management to invest funds in investments permitted under Section 218.415, Florida Statutes. The investment in Florida PRIME is measured at amortized cost. Florida PRIME has established policies and guidelines regarding participant transactions and the authority to limit or restrict withdrawals or impose a penalty for an early withdrawal. As of September 30, 2021, there were no redemption fees, maximum transaction amounts, or any other requirements that would limit daily access to 100 percent of the account value.

Interest Rate Risk

The District monitors investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Highland Meadows II Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

NOTE C – CASH AND INVESTMENTS (CONTINUED)

Credit Risk

The District's investments in treasury funds, commercial paper, 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. As of September 30, 2021, the District's investments in the First American Treasury Obligation and Florida PRIME were rated AAAM by Standard & Poor's.

Concentration of Credit Risk

The District places no limit on the amount it may invest in any one issuer. The investment in First American Treasury Obligation Funds represents 95% of the District's total investments. The District's investments in Florida PRIME represents 5% of the District's total investments.

The types of deposits and investments and their level of risk exposure as of September 30, 2021 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. In addition, the District has the ability to hold investments to maturity that have fair values less than cost. The District's investments are recorded at book value.

NOTE D – SPECIAL ASSESSMENT REVENUES

Assessments are non-ad valorem assessments on benefitted property within the District. Operating and Maintenance Assessments are based upon adopted budget and levied annually. Debt Service Assessments are levied when bonds are issued and collected annually. The District may collect assessments directly or utilize the uniform method of collection (Chapter 197.3632, Florida Statutes). Direct collected assessments are due as determined by annual assessment resolution adopted by the Board of Supervisors. Assessments collected under the uniform method are mailed by County Tax Collector on November 1 and due on or before March 31 of each year. Property owners may prepay a portion or all of the Debt Service Assessments on their property subject to various provisions in the bond documents.

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.

Highland Meadows II Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

NOTE E – CAPITAL ASSETS

Capital Asset activity for the year ended September 30, 2021 was as follows:

	Balance October 1, 2020	Additions	Deletions	Balance September 30, 2021
<u>Governmental Activities:</u>				
Capital assets, not being depreciated:				
Construction in progress	\$ 4,223,959	\$ 264,944	\$ -	\$ 4,488,903
Capital assets, being depreciated:				
Improvements other than buildings	3,222,144	-	-	3,222,144
Infrastructure	11,400,470	-	-	11,400,470
Recreation facilities and amenities	1,039,376	-	-	1,039,376
Total Capital Assets Being Depreciated	<u>15,661,990</u>	<u>-</u>	<u>-</u>	<u>15,661,990</u>
Less accumulated depreciation for:				
Improvements other than buildings	(372,407)	(161,107)	-	(533,514)
Infrastructure	(1,171,797)	(495,339)	-	(1,667,136)
Recreation facilities and amenities	(121,466)	(51,969)	-	(173,435)
Total Accumulated Depreciation	<u>(1,665,670)</u>	<u>(708,415)</u>	<u>-</u>	<u>(2,374,085)</u>
Governmental Activities Capital Assets	<u>\$ 18,220,279</u>	<u>\$ (443,471)</u>	<u>\$ -</u>	<u>\$ 17,776,808</u>

Depreciation of \$656,446 was charged to physical environment and \$51,969 was charged to culture/recreation.

Highland Meadows II Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

NOTE F – LONG-TERM DEBT

The following is a summary of activity in the long-term debt of the District for the year ended September 30, 2021:

Long-term debt at October 1, 2020	\$ 19,895,000
Principal payments	<u>(2,460,000)</u>
Long-term debt at September 30, 2021	17,435,000
Less bond discount, net	<u>(49,292)</u>
Total Long-term debt, net, September 30, 2021	<u>\$ 17,385,708</u>

Long-term debt is comprised of the following:

In October 2014, the District issued \$1,860,000 Special Assessment Bonds Series 2014 Assessment Area One maturing on November 1, 2045 with a fixed interest rate ranging from 5.50% to 6.25%. The bonds were issued to finance the acquisition and construction of Assessment Area One. Interest is to be paid semiannually on each May 1 and November 1. Principal is to be paid serially commencing November 1, 2016. The balance outstanding at September 30, 2021 was \$815,000.

In October 2014, the District issued \$1,575,000 Special Assessment Bonds Series 2014 Assessment Area Two maturing November 1, 2044 with fixed interest rates ranging from 5.125% and 5.50%. The bonds were issued to finance the acquisition and construction of Assessment Area Two. Interest is to be paid semiannually on each May 1 and November 1. Principal is to be paid serially commencing November 1, 2015. The balance outstanding at September 30, 2021 was \$1,240,000.

In February 2016, the District issued \$3,645,000 Special Assessment Bonds Series 2016 Assessment Area Three maturing on May 1, 2046 with fixed interest rates ranging from 4.00% to 6.00%. The bonds were issued to finance the acquisition and construction of Assessment Area Three. Interest is to be paid semiannually on each May 1 and November 1. Principal is to be paid serially commencing May 1, 2017. The balance outstanding at September 30, 2021 was \$2,240,000.

In February 2016, the District issued \$1,785,000 Special Assessment Bonds Series 2016 Assessment Area Four maturing on May 1, 2046 with fixed interest rates ranging from 4.00% to 6.00%. The bonds were issued to finance the acquisition and construction of Assessment Area Four. Interest is to be paid semiannually on each May 1 and November 1. Principal is to be paid serially commencing May 1, 2017. The balance outstanding at September 30, 2021 was \$1,300,000.

In March 2017, the District issued \$5,370,000 Special Assessment Bonds Series 2017 Assessment Area Five maturing on November 1, 2047 with fixed interest rates ranging from 4.25% to 5.50%. The bonds were issued to finance the acquisition and construction of Assessment Area Five. Interest is to be paid semiannually on each May 1 and November 1. Principal is to be paid serially commencing November 1, 2018. The balance outstanding at September 30, 2021 was \$4,025,000.

Highland Meadows II Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

NOTE F – LONG-TERM DEBT (CONTINUED)

In March 2017, the District issued \$2,700,000 Special Assessment Bonds Series 2017 Assessment Area Six maturing on November 1, 2047 with fixed interest rates ranging from 4.25% to 5.50%. The bonds were issued to finance the acquisition and construction of Assessment Area Six. Interest is to be paid semiannually on each May 1 and November 1. Principal is to be paid serially commencing November 1, 2018. The balance outstanding at September 30, 2021 was \$1,700,000.

In September 2017, the District issued \$3,950,000 Special Assessment Bonds Series 2017 Assessment Area 4B/C maturing on November 1, 2048 with fixed interest rates ranging from 3.50% to 5.00%. The bonds were issued to finance the acquisition and construction of Assessment Area 4B/C. Interest is to be paid semiannually on each May 1 and November 1. Principal is to be paid serially commencing November 1, 2019. The balance outstanding at September 30, 2021 was \$2,350,000.

In December 2019, the District issued \$5,765,000 Special Assessment Bonds Series 2019 Assessment Area 7/7A maturing on November 1, 2050 with fixed interest rates ranging from 3.375% to 4.375%. The bonds were issued to finance the acquisition and construction of Assessment Area 7/7A. Interest is to be paid semiannually on each May 1 and November 1. Principal is to be paid serially commencing May 1, 2020. The balance outstanding at September 30, 2021 was \$3,765,000.

The annual requirements to amortize the principal and interest of long-term debt outstanding as of September 30, 2021 are as follows:

Year Ending September 30,	Principal	Interest	Total
2022	\$ 295,000	\$ 891,133	\$ 1,186,133
2023	335,000	877,612	1,212,612
2024	360,000	862,693	1,222,693
2025	375,000	846,114	1,221,114
2026	385,000	828,949	1,213,949
2027-2031	2,240,000	3,841,881	6,081,881
2032-2036	2,855,000	3,198,600	6,053,600
2037-2041	3,685,000	2,351,616	6,036,616
2042-2046	4,725,000	1,223,828	5,948,828
2047-2051	2,180,000	187,437	2,367,437
Totals	<u>\$ 17,435,000</u>	<u>\$ 15,109,863</u>	<u>\$ 32,544,863</u>

Highland Meadows II Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

NOTE F – LONG-TERM DEBT (CONTINUED)

Summary of Significant Bonds Resolution Terms and Covenants

The District levies special assessments pursuant to Section 190.022, Florida Statutes and the assessment rolls are approved by resolutions of the District Board. The collections are to be strictly accounted for and applied to the debt service of the bond series for which they were levied. The District covenants to levy special assessments in annual amounts adequate to provide for payment of principal and interest on the bonds. Payment of principal and interest is dependent on the money available in the debt service fund and the District’s ability to collect special assessments levied.

The Series 2014 Bonds are subject to redemption prior to maturity, in whole on any date, or in part at any time on or after November 1, 2028, at the redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption. The Series 2014 Bonds are subject to extraordinary mandatory redemption prior to their selected maturity date in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture.

The Series 2016 Bonds are subject to redemption prior to maturity, in whole on any date, or in part at any time on or after May 1, 2029, at the redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption. The Series 2016 Bonds are subject to extraordinary mandatory redemption prior to their selected maturity date in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture.

The Series 2017 Bonds are subject to redemption prior to maturity, in whole on any date, or in part at any time on or after November 1, 2027, at the redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption. The Series 2017 Bonds are subject to extraordinary mandatory redemption prior to their selected maturity date in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture.

The bond indentures provide for Debt Service Reserve Funds, which shall be held by the Trustee separate and apart from all other funds. The following is a schedule of reserve requirements and balances in the reserve accounts at September 30, 2021:

	<u>Reserve Balance</u>	<u>Reserve Requirement</u>
Special Assessment Bonds, Series 2014 Area 1	\$ 140,000	\$ 140,000
Special Assessment Bonds, Series 2014 Area 2	\$ 55,165	\$ 48,488
Special Assessment Bonds, Series 2016 Area 3	\$ 86,762	\$ 86,759
Special Assessment Bonds, Series 2016 Area 4	\$ 50,879	\$ 50,878
Special Assessment Bonds, Series 2017 Area 5	\$ 145,098	\$ 145,094
Special Assessment Bonds, Series 2017 Area 6	\$ 61,939	\$ 61,938
Special Assessment Bonds, Series 2017 Area 4B/C	\$ 78,931	\$ 78,931
Special Assessment Bonds, Series 2019 Area 7/7A	\$ 139,714	\$ 114,553

Highland Meadows II Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

NOTE G – CAPITAL LEASE PAYABLE

In a prior year, the District entered into a 60-month capital lease agreement for certain playground equipment. The lease agreement qualified as a capital lease for accounting purposes; and therefore, have been recorded at the present value of the future minimum lease payments. The property acquired through the capital lease totaled \$55,037 and has a carrying value of \$40,581.

The future minimum lease obligation and the net present value of these minimum lease payments at September 30, 2021 were as follows:

Year Ending September 30,	Lease Payment
2022	\$ 1,113
Less: amount representing interest	6
Present value of minimum lease payments	\$ 1,107

NOTE H – 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. Settled claims from these risks have not exceeded commercial insurance coverage over the past three years.

NOTE I – ECONOMIC DEPENDENCY AND RELATED PARTIES

A substantial portion of the District’s activity is dependent upon the continued involvement of the developers, the loss of which could have a materially adverse effect on the District. At September 30, 2021, the developers owned or controlled a large portion of the assessable property located within District boundaries. All five Board of Supervisors are employed by the developer or its affiliates at September 30, 2021.



**Berger, Toombs, Elam,
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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Supervisors
Highland Meadows II Community Development District
Davenport, 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 Highland Meadows II Community Development District, as of and for the year ended September 30, 2021, and the related notes to the financial statements, and have issued our report thereon dated July 5, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Highland Meadows II Community Development District's internal control over financial reporting (internal control) as a basis for designing 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 Highland Meadows II Community Development District's internal control. Accordingly, we do not express an opinion on the effectiveness of Highland Meadows II Community Development 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and 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.

Board of Supervisors
Highland Meadows II Community Development District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Highland Meadows II 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*.

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*

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

July 5, 2022



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Certified Public Accountants PL

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MANAGEMENT LETTER

To the Board of Supervisors
Highland Meadows II Community Development District
Davenport, Florida

Report on the Financial Statements

We have audited the financial statements of the Highland Meadows II Community Development District as of and for the year ended September 30, 2021, and have issued our report thereon dated July 5, 2022.

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 Reports and Schedule

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 July 5, 2022, 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. There were no findings or recommendations in the preceding financial audit report.

To the Board of Supervisors
Highland Meadows II Community Development District

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 Highland Meadows II 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 Highland Meadows II Community Development District did not meet one of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.b. and 10.556(8), Rules of the Auditor General, we applied financial conditions assessment procedures as of September 30, 2021 for the Highland Meadows II Community Development District. It is management's responsibility to monitor the Highland Meadows II 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.

Specific Information

The information provided below was provided by management and has not been audited; therefore, we do not express an opinion or provide any assurance on the information.

As required by Section 218.39(3)(c), Florida Statutes, and Section 10.554(1)(i)6, Rules of the Auditor General, the Highland Meadows II Community Development District reported:

- 1) The total number of district employees compensated in the last pay period of the District's fiscal year: 0
- 2) The total number of independent contractors to whom nonemployee compensation was paid in the last month of the District's fiscal year: 13
- 3) All compensation earned by or awarded to employees, whether paid or accrued, regardless of contingency: N/A
- 4) All compensation earned by or awarded to nonemployee independent contractors, whether paid or accrued, regardless of contingency: \$919,262
- 5) Each construction project with a total cost of at least \$65,000 approved by the District that is scheduled to begin on or after October 1, 2020, together with the total expenditures for such project: The District had no construction projects during the year.
- 6) A budget variance based on the budget adopted under Section 189.016(4), Florida Statutes, before the beginning of the fiscal year being reported if the District amends a final adopted budget under Section 189.016(6), Florida Statutes: The budget was amended, see the following page.

To the Board of Supervisors
Highland Meadows II Community Development District

As required by Section 218.39(3)(c), Florida Statutes, and Section 10.554(1)(i)8, Rules of the Auditor General, the Highland Meadows II Community Development District reported:

- 7) The rate or rates of non-ad valorem special assessments imposed by the District: General Fund, \$626.43, and Debt Service Fund, \$568.77 - \$1,148.60.
- 8) The amount of special assessments collected by or on behalf of the District: Total Special Assessments collected was \$3,989,963
- 9) The total amount of outstanding bonds issued by the District and the terms of such bonds: See Note F, pages 28-30.

	Original Budget	Actual	Variance with Original Budget Positive (Negative)
Revenues			
Special assessments	\$ 860,299	\$ 867,392	\$ 7,093
Interest income	-	50	50
Miscellaneous revenues	-	7,871	7,871
Total Revenues	<u>860,299</u>	<u>875,313</u>	<u>15,014</u>
Expenditures			
Current			
General government	162,540	152,940	9,600
Physical environment	445,455	373,542	71,913
Culture/recreation	153,484	112,362	41,122
Debt Service			
Principal	-	12,700	(12,700)
Interest	-	661	(661)
Total Expenditures	<u>761,479</u>	<u>652,205</u>	<u>109,274</u>
Net change in fund balances	98,820	223,108	124,288
Fund Balances - October 1, 2020	<u>13,811</u>	<u>439,669</u>	<u>425,858</u>
Fund Balances - September 30, 2021	<u>\$ 112,631</u>	<u>\$ 662,777</u>	<u>\$ 550,146</u>

To the Board of Supervisors
Highland Meadows II Community Development District

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 findings.

Purpose of this Letter

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



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

To the Board of Supervisors
Highland Meadows II Community Development District
Davenport, Florida

We have examined Highland Meadows II Community Development District's compliance with Section 218.415, Florida Statutes during the year ended September 30, 2021. Management is responsible for Highland Meadows II Community Development District's compliance with those requirements. Our responsibility is to express an opinion on Highland Meadows II 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 Highland Meadows II 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 Highland Meadows II Community Development District's compliance with the specified requirements.

In our opinion, Highland Meadows II Community Development District complied, in all material respects, with the aforementioned requirements during the year ended September 30, 2021.

*Berger Toombs Elam
Gaines & Frank*

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July 5, 2022