



# HERON ISLES COMMUNITY DEVELOPMENT DISTRICT

FINANCIAL REPORT  
Year Ended September 30, 2017

HERON ISLES COMMUNITY DEVELOPMENT DISTRICT

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Year Ended September 30, 2017

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Supervisors  
*Heron Isles Community Development District*

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

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

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

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

### **Auditor's Responsibility**

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

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

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

**MCDIRMIT DAVIS & COMPANY, LLC**

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

## Opinions

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 the District as of September 30, 2017, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis starting on page 3, 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 June 22, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*McDiarmid Davis & Company, LLC*

Orlando, Florida  
June 22, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

### Financial Highlights

- The liabilities of the District exceeded its assets at September 30, 2017 by \$1,322,048, a decrease of \$237,508 in comparison with the prior year.
- At September 30, 2017, the District's governmental funds reported a combined fund balance of \$238,327, a decrease of \$228,151 in comparison with the prior year.

### Overview of the Financial Statements

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

### Government-Wide Financial Statements

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

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

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

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

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

### **Fund Financial Statements**

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

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

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

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

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

### **Notes to Financial Statements**

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

### **Government-Wide Financial Analysis**

Statement of Net Position - The District's net position was \$(1,322,048) at September 30, 2017. The following analysis focuses on the net position of the District's governmental activities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

#### Heron Isles Community Development District Statement of Net Position

	September 30, 2017	September 30, 2016
Assets, excluding capital assets	\$ 252,121	\$ 479,940
Capital Assets, net of depreciation	1,590,327	1,664,211
Total assets	1,842,448	2,144,151
Liabilities, excluding long-term liabilities	44,019	88,691
Long-term Liabilities	3,120,477	3,140,000
Total liabilities	3,164,496	3,228,691
Net Position:		
Net investment in capital assets	(1,521,506)	(1,475,720)
Restricted for debt service	79,811	220,867
Unrestricted	119,647	170,313
Total net position	<u>\$ (1,322,048)</u>	<u>\$ (1,084,540)</u>

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

#### Changes in Net Position Year ended September 30,

	2017	2016
Revenues:		
Program revenues	\$ 610,557	\$ 627,849
General revenues	341	463
Total revenues	610,898	628,312
Expenses:		
General government	408,023	82,421
Maintenance and operations	263,608	248,021
Interest on long-term debt	176,775	186,731
Total expenses	848,406	517,173
Change in net position	(237,508)	111,139
Net position - beginning of year	(1,084,540)	(1,195,679)
Net position - ending	<u>\$ (1,322,048)</u>	<u>\$ (1,084,540)</u>

As noted above and in the statement of activities, the cost of all governmental activities during the year ended September 30, 2017 was \$848,406. The majority of these costs are comprised of general government expenses.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Financial Analysis of the Government's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At September 30, 2017, the District's governmental funds reported combined ending fund balances of \$238,327. Of this total, \$8,550 is nonspendable, \$6,711 is assigned and \$104,386 is unassigned and available for spending at the District's discretion. The remainder of the fund balance \$118,680 is restricted to indicate it has already been committed to pay debt service and capital project costs.

The fund balance of the general fund decreased \$32,686. The debt service fund balance decreased \$204,040 due to increased debt service payments. The capital projects fund increased \$8,575.

### General Fund Budgetary Highlights

An operating budget was adopted and maintained by the governing board for the District pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. There was one amendment to the September 30, 2017 general fund budget. The legal level of budgetary control is at the fund level.

### Capital Asset and Debt Administration

**Capital Assets** - At September 30, 2017, the District had \$1,590,327 invested in infrastructure, net of accumulated depreciation. More detailed information about the District's capital assets is presented in the notes to the financial statements.

**Capital Debt** - At September 30, 2017, the District had \$3,165,000 in bonds outstanding. More detailed information about the District's capital debt is presented in the notes to the financial statements.

### Requests for Information

If you have questions about this report or need additional financial information, contact the *Heron Isles Community Development District's* Finance Department at 475 West Town Place, Suite 114, St. Augustine, Florida 32092.

## **FINANCIAL STATEMENTS**

HERON ISLES COMMUNITY DEVELOPMENT DISTRICT

**STATEMENT OF NET POSITION**

September 30, 2017

	<b>Governmental Activities</b>
<b>Assets:</b>	
Cash	\$ 16,386
Investments	108,049
Assessments receivable	905
Prepaid costs	7,500
Deposits	1,050
Restricted assets:	
Temporarily restricted investments	118,231
Capital assets:	
Capital assets not being depreciated	38,761
Capital assets being depreciated, net	1,551,566
Total assets	<u>1,842,448</u>
<b>Liabilities:</b>	
Accounts payable and accrued expenses	13,794
Accrued interest payable	30,225
Noncurrent liabilities:	
Due within one year	120,000
Due in more than one year	3,000,477
Total liabilities	<u>3,164,496</u>
<b>Net Position:</b>	
Net investment in capital assets	(1,521,506)
Restricted for debt service	79,811
Unrestricted	119,647
Total net position	<u>\$ (1,322,048)</u>

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

HERON ISLES COMMUNITY DEVELOPMENT DISTRICT

**STATEMENT OF ACTIVITIES**

Year Ended September 30, 2017

<b><u>Functions/Programs</u></b>	<b>Program Revenue</b>				<b>Net (Expense) Revenue and Changes in Net Position</b>
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
Governmental activities:					
General government	\$ 408,023	\$ 161,419	\$ -	\$ -	\$ (246,604)
Maintenance and operations	263,608	104,287	-	-	(159,321)
Interest on long-term debt	176,775	344,390	458	3	168,076
Total governmental activities	<u>\$ 848,406</u>	<u>\$ 610,096</u>	<u>\$ 458</u>	<u>\$ 3</u>	<u>(237,849)</u>
General Revenues:					
Investment income					<u>341</u>
Change in net position					(237,508)
Net Position - beginning					<u>(1,084,540)</u>
Net Position - ending					<u>\$ (1,322,048)</u>

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

HERON ISLES COMMUNITY DEVELOPMENT DISTRICT

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

September 30, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Cash	\$ 16,386	\$ -	\$ -	\$ 16,386
Investments	108,049	109,587	8,644	226,280
Assessments receivable	457	448	-	905
Prepaid costs	7,500	-	-	7,500
Due from other funds	-	1	-	1
Deposits	1,050	-	-	1,050
Total assets	<u>\$ 133,442</u>	<u>\$ 110,036</u>	<u>\$ 8,644</u>	<u>\$ 252,122</u>
<b>Liabilities and Fund Balances:</b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 13,794	\$ -	\$ -	\$ 13,794
Due to other funds	1	-	-	1
Total liabilities	<u>13,795</u>	<u>-</u>	<u>-</u>	<u>13,795</u>
Fund Balances:				
Nonspendable	8,550	-	-	8,550
Restricted for:				
Debt service	-	110,036	-	110,036
Capital projects	-	-	8,644	8,644
Assigned:				
Subsequent years' expenditures	6,711	-	-	6,711
Unassigned	104,386	-	-	104,386
Total fund balances	<u>119,647</u>	<u>110,036</u>	<u>8,644</u>	<u>238,327</u>
Total liabilities and fund balances	<u>\$ 133,442</u>	<u>\$ 110,036</u>	<u>\$ 8,644</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 1,590,327

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

Accrued interest payable	(30,225)	
Bonds payable	<u>(3,120,477)</u>	<u>(3,150,702)</u>
<b>Net Position of Governmental Activities</b>		<u><u>\$ (1,322,048)</u></u>

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

HERON ISLES COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2017

	<b>General</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>				
Special assessments	\$ 265,706	\$ 267,862	\$ -	\$ 533,568
Assessments-Prepayments	-	76,528	-	76,528
Investment income	341	458	3	802
Total revenues	266,047	344,848	3	610,898
<b>Expenditures:</b>				
Current:				
General government	111,579	-	296,444	408,023
Maintenance and operations	189,724	-	-	189,724
Debt service:				
Interest	-	221,385	-	221,385
Principal	-	3,140,000	-	3,140,000
Total expenditures	301,303	3,361,385	296,444	3,959,132
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<b>(35,256)</b>	<b>(3,016,537)</b>	<b>(296,441)</b>	<b>(3,348,234)</b>
<b>Other Financing Sources (Uses):</b>				
Refunding Bonds issued	-	2,814,998	350,002	3,165,000
Discount on Refunding bonds issued	-	-	(44,917)	(44,917)
Transfers in	2,570	69	-	2,639
Transfers out	-	(2,570)	(69)	(2,639)
Total other financing sources (uses)	2,570	2,812,497	305,016	3,120,083
Net change in fund balances	(32,686)	(204,040)	8,575	(228,151)
<b>Fund Balances - beginning of year</b>	<b>152,333</b>	<b>314,076</b>	<b>69</b>	<b>466,478</b>
<b>Fund Balances - end of year</b>	<b>\$ 119,647</b>	<b>\$ 110,036</b>	<b>\$ 8,644</b>	<b>\$ 238,327</b>

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

HERON ISLES COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2017

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

Net Change in Fund Balances - total governmental funds (page 10)	\$ (228,151)
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Depreciation on Capital Assets is not recognized in the Governmental Fund Statement; however, it is reported as an expense in the Statement of Activities.	(73,884)
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Repayments of long-term liabilities are reported as expenditures in Governmental Funds, while repayments reduce long-term liabilities in the Statement of Net Position.	3,140,000
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The issuance of bonds provide current financial resources to Governmental Funds, but does not have any effect on government wide activities.

Bonds payable issued	(3,165,000)	
Discount on bonds payable	44,917	
	<hr/>	(3,120,083)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest	45,004	
Amortization of Bond discount	(394)	
	<hr/>	\$ 44,610

Change in Net Position of Governmental Activities (page 8)	<hr/> <hr/>	\$ (237,508)
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The accompanying Notes to Financial Statements are an integral part of this statement.

HERON ISLES COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2017

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Special Assessments	\$ 259,163	\$ 265,250	\$ 265,706	\$ 456
Investment Income	-	341	341	-
Total revenues	259,163	265,591	266,047	456
<b>Expenditures:</b>				
Current:				
General government	94,164	112,043	111,579	464
Operation and maintenance	175,421	193,951	189,724	4,227
Total expenditures	269,585	305,994	301,303	4,691
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<b>(10,422)</b>	<b>(40,403)</b>	<b>(35,256)</b>	<b>5,147</b>
<b>Other Financing Sources (Uses):</b>				
Transfers In	3,055	2,570	2,570	-
Net change in fund balance	(7,367)	(37,833)	(32,686)	5,147
Fund Balance - beginning	152,333	152,333	152,333	-
Fund Balance - ending	<u>\$ 144,966</u>	<u>\$ 114,500</u>	<u>\$ 119,647</u>	<u>\$ 5,147</u>

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

## **NOTES TO FINANCIAL STATEMENTS**

**NOTES TO FINANCIAL STATEMENTS**

Year Ended September 30, 2017

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

**Reporting Entity**

The *Heron Isles Community Development District*, (the "District") was established by Nassau County Ordinance 2004-41 enacted on September 1, 2004 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The Act provides, among other things, the power to manage basic services for community development, the power to borrow money and issue bonds, and the power to levy and collect non-ad valorem assessments for the financing and delivery of capital infrastructure. The District was established for the purpose of financing and managing the acquisition, construction, maintenance and operation of a portion of the infrastructure necessary for community development within the District.

The District is governed by the Board of Supervisors (the "Board"), which is composed of five members. At present, the Supervisors are elected on an at large basis by the owners of the property within the District. The Board of Supervisors of the District exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes. Heron Isles Joint Venture, LLP (the "Developer") owns a significant portion of the land within the District. At September 30, 2017, one Board of Supervisor was associated with the Developer. The District is economically dependent on the Developer.

The Board has the final responsibility for, among other things:

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

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

HERON ISLES COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

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

**Government-Wide and Fund Financial Statements**

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

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

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

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

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

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

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

The District reports the following major governmental funds:

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

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

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

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

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

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

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

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

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

HERON ISLES COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

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

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

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<b>Assets</b>	<b>Years</b>
Stormwater System	30
Roadways and Other	30

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

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

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

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

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

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

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

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

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

**Fund Balance Policies (Continued):**

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Board of Supervisors has authorized the District Manager to assign amounts for specific purposes. The Board of Supervisors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above and additional action is essential to either remove or revise a commitment.

**Other Disclosures**

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

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

**Budgetary Information**

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

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

1. Each year the District Manager submits to the District Board proposed budgets for the fiscal year commencing the following October 1.
2. A public hearing is conducted to obtain public comments.
3. Prior to October 1, the budget is legally adopted by the District Board.
4. Subject to certain limited exceptions set forth in the District's appropriation resolutions adopted each year, all budget changes must be approved by the District Board.
5. The budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

**Note 3 - Deposits and Investments:**

**Deposits**

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

**Investments**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

Under GASB 72, assets or liabilities are classified into one of three levels. Level 1 is the most reliable and is based on quoted prices for identical assets, or liabilities, in an active market. Level 2 uses significant other observable inputs when obtaining quoted prices for identical or similar assets, or liabilities, in markets that are not active. Level 3 is the least reliable, and uses significant unobservable inputs that uses the best information available under the circumstances, which includes the District's own data in measuring unobservable inputs.

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

- Money market mutual funds of \$266,079 are valued using Level 2 inputs.

The District's investment policy is governed by State Statutes and the District Trust Indenture. This policy allows investments in any financial institution that is a qualified public depository of the State of Florida as identified by the State Treasurer, in accordance with Chapter 280 of the Florida Statutes. Authorized investments are:

1. The State Board of Administration Local Government Investment Pool (SBA);
2. Securities and Exchange Commission Registered Money Market Funds with the highest credit quality rating from a nationally recognized rating agency;
3. Interest-bearing savings accounts and certificates of deposit in state-certified qualified public depositories;
4. Direct obligations of the U.S. Treasury.

HERON ISLES COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

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

**Investments (Continued):**

The SBA is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating procedures consistent with the requirements for a 2a-7-like fund for the Florida Prime Fund. Therefore, the pool account balance can be used as fair value for financial reporting.

Investments made by the District at September 30, 2017 are summarized below.

<b>Investment Type</b>	<b>Fair Value</b>	<b>Credit Rating</b>	<b>Weighted Average Maturity</b>
U.S. Bank Money Market Funds	\$ 266,079	AAAm	N/A
Local Government Investment Pool:			
Florida Prime	201	AAAm	51 days
	<u>\$ 266,280</u>		

**Credit Risk:**

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

**Custodial Credit Risk:**

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

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

**Concentration of Credit Risk:**

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

HERON ISLES COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

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

**Investments (Continued):**

Interest Rate Risk:

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

**Note 4 - Interfund Transfers:**

During 2017, \$2,570 was transferred from the debt service fund into the general fund, as per the bond indenture. \$69 was transferred from the capital projects fund to the debt service fund.

**Note 5 - Capital Assets:**

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>				
Capital Assets, not being depreciated:				
Land and land improvements	\$ 38,761	\$ -	\$ -	\$ 38,761
Total capital assets, not being depreciated	38,761	-	-	38,761
Capital Assets Being Depreciated:				
Infrastructure-Stormwater management	585,036	-	-	585,036
Infrastructure-roadways and other	1,631,486	-	-	1,631,486
Total capital assets, being depreciated	2,216,522	-	-	2,216,522
Less Accumulated Depreciation for:				
Infrastructure-stormwater management	(156,008)	(19,501)	-	(175,509)
Infrastructure-roadways and other	(435,064)	(54,383)	-	(489,447)
Total accumulated depreciation	(591,072)	(73,884)	-	(664,956)
Total capital assets being depreciated, net	1,625,450	(73,884)	-	1,551,566
Governmental activities capital assets, net	<u>\$ 1,664,211</u>	<u>\$ (73,884)</u>	<u>\$ -</u>	<u>\$ 1,590,327</u>

Depreciation expense for 2017 in the amount of \$73,884 was charged to maintenance and operations. District improvements are complete.

HERON ISLES COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

**Note 6 - Long-Term Liabilities:**

**Capital Improvement Revenue Bonds Series 2005**

On January, 2005, the District issued \$4,935,000 of Capital Improvement Revenue Bonds, Series 2005 due on May 1, 2036 with a fixed interest rate of 5.75%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the property within the District. Interest is paid semiannually on each May 1 and November 1. Principal is payable annually commencing May 1, 2007 through May 1, 2036.

The Series 2005 Bonds are subject to redemption at the option of the District, in whole or in part at a redemption price set forth in the Bond Indenture. The Series 2005 Bonds are subject to optional and extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Indenture.

The Bond Indenture requires that the District maintain adequate funds in a reserve account to meet the debt service reserve requirement as defined in the Indenture. This requirement has been met at September 30, 2017.

The Bond Indenture has certain restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agreed to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. Payment of principal and interest on the 2005 Bonds is secured by a pledge of and a first lien upon the pledged special assessment revenue. The District is in compliance with the requirements of the Bond Indenture.

The Series 2005 Capital Improvement Revenue Bonds were refunded during 2017 with the issuance of Capital Improvement Revenue Refunding Bonds, Series 2017A-1 and Series 2017A-2. For the year ended September 30, 2017 principal and interest paid was \$3,361,385. Total special assessment revenue pledged for the year was \$326,725.

**Refunding of Bonds Payable**

The District issued Capital Improvement Refunding Revenue Bonds, Series 2017 to refund the Series 2005 Bonds, provide additional funding for capital improvements, and finance certain issuance costs. The refunding was undertaken to reduce total future debt service payments. This transaction resulted in an economic gain of \$ 212,106 and a reduction of \$589,458 in future debt service payments.

HERON ISLES COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

**Note 6 - Long-Term Liabilities (Continued):**

**Capital Improvement Revenue Refunding Bonds Series 2017**

In June 2017, the District issued \$3,165,000 of Capital Improvement Revenue Refunding Bonds Series 2017, consisting of \$1,195,000 Series 2017A-1 Serial Bonds due on May 1, 2028 with interest rates of 2.00% to 2.75%; \$390,000 Series 2017A-1 Term Bonds due May 1, 2036 with interest of 3.125%; \$730,000 Series 2017A-1 Term Bonds due May 1, 2036 with interest of 3.375% and \$850,000 Series 2017A-2 Bonds due on May 1, 2036 with interest rates of 5.00%. The Bonds were issued to refund the Series 2005 Capital Improvement Revenue Bonds.

Interest is to be paid semiannually on each May 1 and November 1. Principal on the Series 2017 Bonds is to be paid annually commencing November 1, 2017 through May 1, 2036.

The Series 2017 Bond is subject to redemption at the option of the District, in whole or in part at any time on or after May 1, 2036 at a redemption price as set forth in the Bond Indenture. The Series 2017 Bond is subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occur as outlined in the Bond Indenture.

The Bond Indenture established a debt service reserve requirement as well as other restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agrees to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The District is in compliance with those requirements of the Bond Indenture at September 30, 2017. In addition, the District has purchased bond insurance to meet the reserve requirement.

Total principal and interest remaining on the Series 2017 Bonds as of September 30, 2017 is \$4,392,980. There was no principal or interest paid for the year ended September 30, 2017. Total special assessment revenue pledged for the year was \$17,665.

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

	<b><u>Beginning Balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending Balance</u></b>	<b><u>Due Within One Year</u></b>
<b>Governmental activities:</b>					
Bonds Payable:					
Series 2005	\$ 3,140,000	\$ -	\$ (3,140,000)	\$ -	\$ -
Series 2017	-	3,165,000	-	3,165,000	120,000
less discount	-	(44,917)	394	(44,523)	-
Governmental activity long-term liabilities	<u>\$ 3,140,000</u>	<u>\$ 3,120,083</u>	<u>\$ (3,139,606)</u>	<u>\$ 3,120,477</u>	<u>\$ 120,000</u>

HERON ISLES COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2017

**Note 6 - Long-Term Liabilities (Continued):**

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

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 120,000	\$ 89,348
2019	130,000	103,006
2020	130,000	99,506
2021	135,000	96,006
2022	140,000	92,406
2023 - 2027	765,000	399,969
2028 - 2032	905,000	265,364
2033 - 2036	840,000	82,375
	<u>\$ 3,165,000</u>	<u>\$ 1,227,980</u>

**Note 7 - Related Party Transaction:**

Assessments from Developer

The Developer owns a portion of land within the District; therefore, assessment revenue in the general and debt service funds include the assessments levied on those lots owned by the Developer. The Developer's portion of special assessment revenue for the year ended September 30, 2017 totaled \$151,895 which is 25% of total special assessment revenue.

Concentrations

A significant portion of the District's activity is dependent upon the continued involvement of the Developer, the loss of which could have a material adverse effect on the District's operations.

**Note 8 - Management Company:**

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

**Note 9 - Risk Management:**

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

## **COMPLIANCE SECTION**

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

To the Board of Supervisors  
*Heron Isles Community Development District*

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the *Heron Isles Community Development District* (the "District") as of and for the year ended September 30, 2017, which collectively comprise the District's financial statements and have issued our report thereon dated June 22, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**MCDIRMIT DAVIS & COMPANY, LLC**

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*McDiarmid Davis & Company, LLC*

Orlando, Florida  
June 22, 2018

## **MANAGEMENT COMMENTS**

Board of Supervisors  
*Heron Isles Community Development District*

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

We have audited the financial statements of the *Heron Isles Community Development District* (the "District"), as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated June 22, 2018.

### **Auditor's Responsibility**

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

### **Other Reporting Requirements**

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Auditor's Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in these reports, which are dated June 22, 2018, should be considered in conjunction with this management letter.

### **Prior Audit Findings**

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no such findings in the preceding annual financial audit report.

### **Official Title and Legal Authority**

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

**MCDIRMIT DAVIS & COMPANY, LLC**

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## **Financial Condition and Management**

Section 10.554(1)(i)5.a., Rules of the Auditor General, requires that us to apply appropriate procedures and communicate the results of our determination as to whether or not the District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific condition(s) met. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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

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

## **Annual Financial Report**

Section 10.554(1)(i)5.b. 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 the annual financial report for the District for the fiscal year ended September 30, 2017, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2017. In connection with our audit, we determined that these two reports were in agreement.

## **Additional Matters**

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

## **Purpose of this Letter**

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

*McDiernit Davis & Company, LLC*

Orlando, Florida  
June 22, 2018

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

To the Board of Supervisors  
*Heron Isles Community Development District*

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

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

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

*McDirmit Davis & Company, LLC*

Orlando, Florida  
June 22, 2018

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

To the Board of Supervisors  
*Heron Isles Community Development District*

We have audited the financial statements of Heron Isles Community Development District (the "District") as of and for the year ended September 30, 2017, and have issued our report thereon dated June 22, 2018. Professional standards require that we advise you of the following matters relating to our audit.

### **Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated April 2, 2018, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

### **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

### **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year ended September 30, 2017. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of depreciation is based on the estimated useful lives of the capital assets. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

## **Significant Difficulties Encountered During the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

## **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatements that were identified as a result of our audit procedures were brought to the attention of and corrected by management: An adjustment in the amount of \$81,258 to remove financial guarantee of bond insurance from miscellaneous income and investment asset accounts.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

### **Representations Requested from Management**

We have requested certain written representations from management, which are included in the attached letter dated June 22, 2018.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### **Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

This report is intended solely for the information and use of the Board and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

*McDiernit Davis & Company, LLC*

Orlando, Florida  
June 22, 2018.

# **Heron Isles**

## **Community Development District**

5385 N Nob Hill Road, Sunrise, Florida 33351 ~ Phone: (954) 721-8681 ~ Fax: (954) 721-9202

June 22, 2018

McDermitt Davis & Company, LLC  
934 North Magnolia Ave., Suite 100  
Orlando, FL 32803

This representation letter is provided in connection with your audit of the governmental activities and each major fund of Heron Isles Community Development District as of September 30, 2017 and for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, and results of operations of the various opinion units of Heron Isles Community Development District in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of June 22, 2018.

### **Financial Statements**

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated April 2, 2018 for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility for 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* as amended, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
- All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Special items and extraordinary items have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- We have reviewed capital assets and infrastructure for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have appropriately recorded the adjustment, if necessary.
- All required supplementary information is measured and presented within the prescribed guidelines.
- With regard to investments and other instruments reported at fair value:
  - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
  - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
  - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.

- There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

## Information Provided

- We have provided you with:
  - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- Heron Isles Community Development District has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which Heron Isles Community Development District is contingently liable.
- WE have disclosed to you all nonexchange financial guarantees, under which we are obligated and have declared liabilities and disclosed properly in accordance with GASB Statement No. 70. *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, for those guarantees where it is more likely than not that the District will make a payment on any guarantee.
- For nonexchange financial guarantees where we have declared liabilities, the amount of the liability recognized is the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. Where there was no best estimate but a range of estimated future outflows has been established, we have recognized the minimum amount within the range.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year.

Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
  - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
  - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
  - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
  - Continuing disclosure consent decree agreements or filings with the Securities and Exchange Commission and we have filed updates on a timely basis in accordance with the agreements (Rule 240, 15c2-12).
- Heron Isles Community Development District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Signed: \_\_\_\_\_

Title: \_\_\_\_\_

*[Signature]*  
*Asst. Treasurer*

Signed: \_\_\_\_\_

Title: \_\_\_\_\_

*[Signature]*  
*Secretary*  
*Dore de Nagy*