

**HERITAGE HARBOUR SOUTH
COMMUNITY DEVELOPMENT DISTRICT**

FINANCIAL REPORT

Year Ended September 30, 2013

HERITAGE HARBOUR SOUTH COMMUNITY DEVELOPMENT DISTRICT

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, and each major fund of the District, as of September 30, 2013, 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 May 14, 2014, 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.

McDiernit Davis & Company, LLC

Orlando, Florida
May 14, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the *Heritage Harbour South Community Development District's* (the "District") financial accomplishments provide an overview of the District's financial activities for the fiscal year ended September 30, 2013. Please read it in conjunction with the District's Independent Auditor's Report, financial statements and accompanying notes.

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

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities at September 30, 2013 by \$16,609,849, a decrease of \$913,127 in comparison with the prior year. Net position was also decreased by \$246,349 due to implementation of new GASB's.
- At September 30, 2013, the District's governmental funds reported a combined fund balance of \$628,197, a decrease of \$512,335 in comparison with the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the *Heritage Harbour South Community Development District's* financial statements. The District's financial statements are comprised of 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, liabilities, and deferred inflows/outflows of resources, with the difference between the three 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, physical environment, culture and recreation and roads and streets 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 two 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 and debt service, 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 \$16,609,849 at September 30, 2013. The analysis that follows focuses on the net position of the District's governmental activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-Wide Financial Analysis (Continued):

Heritage Harbour South Community Development District
Statement of Net Position

	September 30, 2013	September 30, 2012
Assets, excluding capital assets	\$ 675,283	\$ 1,420,621
Capital assets, net of depreciation	24,439,040	25,207,224
Total assets	25,114,323	26,627,845
Deferred charge on refunding	65,017	-
Liabilities, excluding long-term liabilities	228,424	264,849
Long-term liabilities	8,341,067	8,593,671
Total liabilities	8,569,491	8,858,520
Net position:		
Net investment in capital assets	16,555,445	17,530,018
Restricted for debt service	-	121,253
Unrestricted	54,404	118,054
Total net position	\$ 16,609,849	\$ 17,769,325

The following is a summary of the District's governmental activities for the fiscal years ended September 30, 2013 and 2012.

Changes in Net Position
Year ended September 30,

	2013	2012
Revenues:		
Program revenues	\$ 1,159,388	\$ 1,253,845
General revenues	3,523	281
Total revenues	1,162,911	1,254,126
Expenses:		
General government	509,079	223,869
Physical environment	599,855	772,801
Roads and streets	191,069	216,887
Culture and recreation	140,381	-
Interest on long-term debt	635,654	561,789
Total expenses	2,076,038	1,775,346
Change in net position	(913,127)	(521,220)
Net position - beginning, as previously stated	17,769,325	18,290,545
Effect of adoption of GASB No. 65	(246,349)	-
Net position - beginning, as restated	17,522,976	18,290,545
Net position - ending	\$ 16,609,849	\$ 17,769,325

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-Wide Financial Analysis (Continued):

As noted above and in the statement of activities, the cost of all governmental activities during the year ended September 30, 2013 was \$2,076,038. The majority of these costs are comprised of physical environment expense and interest on long-term debt. Physical environment expense primarily consists of depreciation expense. Program revenues are primarily comprised of assessments.

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, 2013, the District's governmental funds reported combined ending fund balances of \$628,197. Of this total, \$34,163 is nonspendable, \$548,944 is restricted, and \$45,090 is committed.

The fund balance of the general fund decreased by \$38,741 in the current year due to expenditures exceeding assessments. The debt service fund balance decreased \$473,594 due to using available resources in the current bond refunding.

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 amendments to the September 30, 2013 general fund budget to increase appropriations for additional legal expenditures. The legal level of budgetary control is at the fund level.

Capital Asset and Debt Administration

Capital Assets - At September 30, 2013, the District had \$24,439,040 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, 2013, the District had \$8,410,000 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 *Heritage Harbour South Community Development District's* Finance Department at 3434 Colwell Avenue, Suite 200, Tampa, Florida 33614.

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2013

Note 1 - Summary of Significant Accounting Policies:

Reporting Entity

The *Heritage Harbour South Community Development District*, (the "District") was established by Manatee County Ordinance 01-45 enacted on August 31, 2001 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The Act provides, among other things, the power to manage basic services for community development, the power to borrow money and issue bonds, and the power to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure. The District was established for the purpose of financing and managing the acquisition, construction, maintenance and operation of a portion of the infrastructure necessary for community development within the District.

The District is governed by the Board of Supervisors (the "Board"), which is composed of five members. Five Supervisors are elected on an at large basis by qualified electors that reside within the District. They exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

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 special assessments are levied by the District prior to the start of the fiscal year which begins October 1st and ends on September 30th. 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, 2013

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 is used to account for and report all financial resources not accounted for or reported in another fund.

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

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. The District's investments consist of investments authorized per their investment policy adopted 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

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

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

Capital Assets - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the 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 estimated fair market 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:

<u>Assets</u>	<u>Years</u>
Earthwork	30
Landscape and irrigation	15
Lighting and electrical	15
Permitting and professional services	20-25
Utilities	25
Roadways	20
Culture and recreation	20
Stormwater and mitigation	25

Long Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized ratably over the life of the bonds. Bond issuance costs are reported as expenses. Bonds payable are reported net of applicable premiums or discounts.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as 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 debt service expenditures.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

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 has only one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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, 2013.

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).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

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

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

New Accounting Standards Implemented - During fiscal year 2013, the District implemented three new accounting standards as follows:

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements - This statement incorporates into the GASB's authoritative literature certain guidance that previously could only be found in certain FASB and AICPA pronouncements issued on or after November 30, 1989 and eliminates the selection to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position - This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and identifies net position as the residual of all other elements presented in a statement of financial position. This statement amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources (previously reported as assets and liabilities) into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

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

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

New GASB Statements Implemented (Continued) - GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*- This statement provides additional guidance for the items listed in GASB 63 and includes additional changes in accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This Statement requires that debt issuance costs be expensed in the period the debt was issued. This Statement also requires that taxes and lease revenues received prior to the period to which they relate to be classified as Unavailable Revenue (a deferred inflow). The implementation of GASB 65 resulted in the write off of Bond issue costs and the effect of adoption of GASB 65 is the reduction of beginning net position by \$246,349 of the governmental activities. The effect on fiscal year 2012 had the implementation of GASB 65 occurred earlier would have resulted in a decrease in expenses of the governmental activities by \$11,717.

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:

The District is required to establish a budgetary system and an approved Annual Budget. Annual Budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. The legal level of budgetary control is at the fund level. Any budget amendments that increase the aggregate budgeted appropriations, at the fund level, must be approved by the Board of Supervisors.

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

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

Investments are stated at fair value, which is the amount for which an investment could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Fair value is based on quoted market prices. Changes in the fair value of investments are recognized as revenue and included in investment revenue. Investment revenue is recognized as earned and is recorded in the respective funds related to the investment activity.

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

1. The Local Government Surplus Funds Trust Fund (SBA);
2. Securities and Exchange Commission Registered Money Market Funds with the highest credit quality rating from a nationally recognized rating agency;
3. Interest-bearing time deposits or savings accounts in qualified public depositories;
4. Direct obligations of the U.S. Treasury;
5. Short-term bond funds investing in U.S. Government securities or U.S. Government Agency Securities;
6. Securities of registered investment companies (mutual funds) that are limited to obligations of the U.S. Government or any agency or instrumentality thereof.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

Note 3 - Deposits and Investments (Continued):

Investments (Continued)

Investments made by the District at September 30, 2013 are summarized below. In accordance with GASB 31, investments are reported at fair value.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity</u>
Wells Fargo Advantage Government Money Market Fund	\$ 548,944	AAAm	44 days

Credit Risk

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

Custodial 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, 2013, 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 district 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, 2013, 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 Risk

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

HERITAGE HARBOUR SOUTH COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

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 - Capital Assets:

Capital asset activity for the year ended September 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 15,752,186	\$ -	\$ -	\$ 15,752,186
Capital assets being depreciated:				
Earthwork	1,904,564	-	-	1,904,564
Landscape and irrigation	1,708,347	-	-	1,708,347
Lighting and electrical	393,381	-	-	393,381
Permitting and professional services	3,078,055	-	-	3,078,055
Utilities	717,494	-	-	717,494
Roadways	3,805,275	-	-	3,805,275
Parks and recreation	1,926,276	-	-	1,926,276
Stormwater and mitigation	2,480,548	-	-	2,480,548
Total capital assets being depreciated	<u>16,013,940</u>	<u>-</u>	<u>-</u>	<u>16,013,940</u>
Less accumulated depreciation for:				
Earthwork	(544,680)	(63,485)	-	(608,165)
Landscape and irrigation	(953,757)	(113,890)	-	(1,067,647)
Lighting and electrical	(235,275)	(26,225)	-	(261,500)
Permitting and professional services	(1,280,032)	(151,285)	-	(1,431,317)
Utilities	(216,506)	(28,700)	-	(245,206)
Roadways	(1,607,594)	(189,063)	-	(1,796,657)
Parks and recreation	(853,271)	(96,314)	-	(949,585)
Stormwater and mitigation	(867,787)	(99,222)	-	(967,009)
Total accumulated depreciation	<u>(6,558,902)</u>	<u>(768,184)</u>	<u>-</u>	<u>(7,327,086)</u>
Total capital assets being depreciated, net	<u>9,455,038</u>	<u>(768,184)</u>	<u>-</u>	<u>8,686,854</u>
Governmental activities capital assets, net	<u>\$ 25,207,224</u>	<u>\$ (768,184)</u>	<u>\$ -</u>	<u>\$ 24,439,040</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

Note 4 - Capital Assets (Continued):

Depreciation expense for 2013 was charged in the amounts of \$482,807 to physical environment expense, \$189,063 to roads and streets expense, and \$96,314 to culture and recreation expense. The District improvements are complete.

Note 5 - Long-Term Liabilities:

Capital Improvement Revenue Bonds Series 2002

In October 2002, the District issued \$43,980,000 of Capital Improvement Revenue Bonds Series 2002, consisting of \$7,715,000 Series 2002A Bonds due on May 1, 2034 with a fixed interest rate of 6.5% and \$36,265,000 Series 2002B Bonds due on November 1, 2008 with a fixed interest rate of 5.4%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District.

Interest is to be paid semiannually on each May 1 and November 1. Principal on the Series 2002A Bonds is to be paid annually commencing May 1, 2005 through May 1, 2034. The Series 2002B Bonds have been paid in full.

The Series 2002A Bonds are subject to redemption at the option of the District, in whole or in part at any time on or after May 1, 2013 at a redemption price as set forth in the Bond Indenture. The Series 2002A Bonds are 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, 2013.

The Series 2002A Bonds were refunded in the current year. For the year ended September 30, 2013, principal and interest paid was \$7,372,210 and total special assessment revenue pledged was \$575,905.

Current Refunding of Bonds Payable

The District issued Capital Improvement Revenue Refunding Bonds Series 2013 to refund the Series 2002A Capital Improvement Revenue Bonds. The refunding was undertaken to reduce total future debt service payments. This transaction resulted in an economic gain of \$639,353 and a reduction of \$1,555,341 in future debt service payments.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

Note 5 - Long-Term Liabilities (Continued):

Capital Improvement Revenue Bonds Series 2003

In November 2003, the District issued \$10,315,000 of Capital Improvement Revenue Bonds Series 2003, consisting of \$2,235,000 Series 2003A Bonds due on May 1, 2035 with a fixed interest rate of 6.2% and \$8,080,000 Series 2003B Bonds due on November 1, 2008 with a fixed interest rate of 5.25%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District.

Interest is to be paid semiannually on each May 1 and November 1. Principal on the Series 2003A Bonds is to be paid annually commencing May 1, 2006 through May 1, 2035. The Series 2003B Bonds have been paid in full.

The Series 2003A Bonds are subject to redemption at the option of the District, in whole or in part at any time on or after May 1, 2013 at a redemption price as set forth in the Bond Indenture. The Series 2003A Bonds are 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, 2013.

The principal and interest remaining on the Series 2003A Bonds as of September 30, 2013 is \$3,396,430. For the year ended September 30, 2013, principal and interest paid was \$166,560 and total special assessment revenue pledged was \$154,643.

Capital Improvement Revenue Refunding Bonds Series 2013

In July 2013, the District issued \$6,580,000 of Capital Improvement Revenue Refunding Bonds Series 2013, consisting of \$5,915,000 Series 2013A-1 Bonds due on May 1, 2034 with interest rates of 4.765% to 5.15% and \$665,000 Series 2013A-2 Bonds due on May 1, 2034 with a fixed interest rate of 6%. The Bonds were issued to refund the Series 2002A Capital Improvement Revenue Bonds.

Interest is to be paid semiannually on each May 1 and November 1. Principal on the Series 2013A Bonds is to be paid annually commencing May 1, 2014 through May 1, 2034.

The Series 2013A Bonds are subject to redemption at the option of the District, in whole or in part at any time on or after May 1, 2014 at a redemption price as set forth in the Bond Indenture. The Series 2013A Bonds are 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.

HERITAGE HARBOUR SOUTH COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

Note 5 - Long-Term Liabilities (Continued):

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, 2013.

The principal and interest remaining on the Series 2013A Bonds as of September 30, 2013 is \$10,574,942. For the year ended September 30, 2013, no principal and interest was paid and no special assessment revenue was pledged.

Long-term debt activity for the year ended September 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
Series 2002A	\$ 6,740,000	\$ -	\$ (6,740,000)	\$ -	\$ -
Series 2003A	1,880,000	-	(50,000)	1,830,000	40,000
Less: issue discount	(26,329)	-	1,145	(25,184)	-
Series 2013A	-	6,580,000		6,580,000	210,000
Less: issue discount	-	(44,276)	527	(43,749)	-
Governmental activity long-term liabilities	<u>\$ 8,593,671</u>	<u>\$ 6,535,724</u>	<u>\$ (6,788,328)</u>	<u>\$ 8,341,067</u>	<u>\$ 250,000</u>

At September 30, 2013, 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>
2014	\$ 250,000	\$ 357,142
2015	255,000	422,538
2016	265,000	409,556
2017	275,000	396,036
2018	285,000	381,968
2019 - 2023	1,600,000	1,679,570
2024 - 2028	2,050,000	1,224,747
2029 - 2033	2,670,000	639,312
2034 - 2035	760,000	50,503
	<u>\$ 8,410,000</u>	<u>\$ 5,561,372</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

Note 6 - Committed Funds:

In the current year, committed fund balance of \$45,090 in the general fund are for a reserve to assist in the immediate restoration efforts that would be necessary in the event of a natural disaster.

Note 7 - 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

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 and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

See management comments, in a separate letter dated May 14, 2014.

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.

McDiarmid Davis & Company, LLC

Orlando, Florida
May 14, 2014

- Section 10.554(1)(i)5., 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.
- Section 10.554(1)(i)6.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of 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.
- Section 10.554(1)(i)6.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the District for the fiscal year ended September 30, 2013, 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, 2013. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)6.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. 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.

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, 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
May 14, 2014