

**HIGHLANDS  
COMMUNITY DEVELOPMENT DISTRICT  
HILLSBOROUGH COUNTY, FLORIDA  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2014**

**HIGHLANDS COMMUNITY DEVELOPMENT DISTRICT  
HILLSBOROUGH COUNTY, FLORIDA**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Highlands Community Development District, Hillsborough County, Florida (the "District") as of and for the fiscal year ended September 30, 2014, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### 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, 2014, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

As discussed in Note 7 and other notes to the basic financial statements the District did not have the necessary funds to make certain Series 2005 debt service payments, and as a result, these debt service payments were not made.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 our report dated June 23, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, 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 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.

### **Report on Other Legal and Regulatory Requirements**

We have also issued our report dated June 23, 2015, on our consideration of the District's compliance with the requirements of Section 218.415, Florida Statutes, as required by Rule 10.556(10) of the Auditor General of the State of Florida. The purpose of that report is to provide an opinion based on our examination conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

June 23, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Highlands Community Development District, Hillsborough County, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2014. Please read it in conjunction with the District's Independent Auditor's Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

### FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year resulting in a net position balance of \$1,858,531.
- The change in the District's total net position in comparison with the prior fiscal year was (\$2,248,403), a decrease. The key components of the District's net position and change in net position are reflected in the table in the government-wide financial analysis section.
- At September 30, 2014, the District's governmental funds reported combined ending fund balances of \$1,495,659, a decrease of (\$177,639) in comparison with the prior fiscal year. The fund balance is restricted for a special purpose and debt service, non-spendable for prepaid items, assigned to subsequent year's expenditures and the remainder is unassigned fund balance.

### OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as the introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### 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 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. The District does not have any business-type activities. The governmental activities of the District include the general government (management) and maintenance functions.

The Special Purpose Entity ("SPE"), although legally separate from the District, functions for all practical purposes as a blended component unit of the government, and therefore has been included as an integral part of the primary government.

#### 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.

## OVERVIEW OF FINANCIAL STATEMENTS (Continued)

### 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 District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

At September 30, 2014, the District maintained four individual governmental funds for external reporting. 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, special purpose entity fund, debt service funds and capital projects fund, all of which are considered major funds.

The District adopts annual appropriated budgets for its general and special revenue funds. Budgetary comparison schedules have been provided for the general and special revenue fund to demonstrate compliance with the budgets.

### Notes to the 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

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities at the close of the most recent fiscal year.

Key components of the District's net position are reflected in the following table:

	NET POSITION SEPTEMBER 30,	
	2014	2013
Assets, excluding capital assets	\$ 2,636,823	\$ 2,391,833
Capital assets	14,061,179	13,963,908
Total assets	<u>16,698,002</u>	<u>16,355,741</u>
Liabilities, excluding long-term liabilities	1,489,471	988,807
Long-term liabilities	13,350,000	11,260,000
Total liabilities	<u>14,839,471</u>	<u>12,248,807</u>
Net position		
Net investment in capital assets	711,179	2,731,872
Restricted	1,026,165	1,228,606
Unrestricted	121,187	146,456
Total net position	<u>\$ 1,858,531</u>	<u>\$ 4,106,934</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

A portion of the District's net position reflects its investment in capital assets (e.g. land, land improvements, and infrastructure) less any related debt used to acquire those assets that is still outstanding. These assets are used to provide services to residents; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the District's net position represents resources that are subject to external restrictions on how they may be used. They are funds set aside for debt service under the Bond Indenture or other contractual arrangements. The remaining balance of unrestricted net position may be used to meet the District's other obligations.

The District's net position decreased during the most recent fiscal year. The majority of the decrease represents the extent to which the cost of operations and depreciation expense exceeded ongoing program revenues and the conveyance of completed infrastructure to another entity for maintenance and ownership responsibilities.

Key elements of the change in net position are reflected in the following table:

CHANGES IN NET POSITION		
FOR THE FISCAL YEAR ENDED SEPTEMBER 30,		
	2014	2013
Revenues:		
Program revenues		
Charges for services	\$ 1,159,274	\$ 1,458,978
Operating grants and contributions	164	52,113
Capital grants and contributions	878,259	-
General revenues		
Unrestricted investment earnings	46	44
Total revenues	<u>2,037,743</u>	<u>1,511,135</u>
Expenses:		
General government	188,196	156,288
Maintenance and infrastructure costs	3,132,110	561,531
Bond issue costs	169,273	-
Interest	796,567	852,816
Total expenses	<u>4,286,146</u>	<u>1,570,635</u>
Change in net position	<u>(2,248,403)</u>	<u>(59,500)</u>
Net position - beginning, previously stated	4,106,934	4,811,645
Effect of adoption of GASB No. 65	-	(645,211)
Net position - beginning, as restated	<u>4,106,934</u>	<u>4,166,434</u>
Net position - ending	<u>\$ 1,858,531</u>	<u>\$ 4,106,934</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2014, was \$4,286,146. A portion of the costs of the District's activities were paid by program revenues. Program revenues, comprised primarily of assessments, increased during the current fiscal year. The majority of the increase was the result of contributions for project expenses from the Major Landowner. Total expenses increased in the current fiscal year. The increase in expenses is primarily the result of project costs and the conveyance of completed infrastructure to another entity for maintenance and ownership responsibilities.

## GENERAL BUDGETING 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. The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors.

The variance between budgeted and actual general fund revenues for the current fiscal year is mainly the result of the collection in the current fiscal year of delinquent revenue from prior fiscal years. The actual general fund expenditures for the current fiscal year were lower than budgeted amounts due primarily to anticipated costs which were not incurred in the current fiscal year.

A budget for the special purpose entity fund was also adopted pursuant to a tri-party agreement between the District, the SPE and the Trustee. Actual SPE fund expenditures for the fiscal year ended September 30, 2014 were less than appropriations due primarily to anticipated costs which were not incurred in the current fiscal year. Accordingly, inter-fund transfers were less than budgeted amounts.

## CAPITAL ASSETS

At September 30, 2014, the District had \$16,068,105 invested in land and land improvements, an amenity center, landscape and irrigation and water control infrastructure. In the government-wide financial statements depreciation of \$2,006,926 has been taken, which resulted in a net book value of \$14,061,179. More detailed information about the District's capital assets is presented in the notes of the financial statements.

## CAPITAL DEBT

At September 30, 2014, the District had \$14,190,000 in Bonds outstanding for its governmental activities. More detailed information about the District's capital debt is presented in the notes of the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND OTHER EVENTS

The District anticipates starting phase 3 of the project subsequent to fiscal year end. In addition, it is anticipated that the general operations of the District will remain fairly constant.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report or need additional financial information, contact the Highlands Community Development District's Finance Department at 12051 Corporate Boulevard, Orlando, FL 32817.

**HIGHLANDS COMMUNITY DEVELOPMENT DISTRICT  
HILLSBOROUGH COUNTY, FLORIDA  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2014**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and equivalents	\$ 126,177
Assessments receivable	9,109
Due from Major Landowner	265,788
Prepaid items	15,926
Restricted assets:	
Cash and equivalents	4,020
Investments	975,722
Land held for resale	1,240,081
Capital assets:	
Nondepreciable	7,604,176
Depreciable, net	<u>6,457,003</u>
Total assets	<u>16,698,002</u>
<b>LIABILITIES</b>	
Accounts payable	290,724
Due to Landowners	6,273
Due to Bondholders:	
Principal	840,000
Accrued interest payable	352,474
Non-current liabilities:	
Due within one year *	235,000
Due in more than one year	<u>13,115,000</u>
Total liabilities	<u>14,839,471</u>
<b>NET POSITION</b>	
Net investment in capital assets	711,179
Restricted for debt service and other	1,026,165
Unrestricted	<u>121,187</u>
Total net position	<u>\$ 1,858,531</u>

\* The missed debt service payments due for the Series 2005 Bonds is reflected in the due to Bondholders account balance.

See notes to the financial statements

**HIGHLANDS COMMUNITY DEVELOPMENT DISTRICT  
HILLSBOROUGH COUNTY, FLORIDA  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014**

<u>Functions/Programs</u>	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 188,196	\$ 188,196	\$ -	\$ 878,259	\$ 878,259
Maintenance and infrastructure costs	3,132,110	269,963	-	-	(2,862,147)
Bond issue costs	169,273	-	-	-	(169,273)
Interest on long-term debt	796,567	701,115	164	-	(95,288)
Total governmental activities	4,286,146	1,159,274	164	878,259	(2,248,449)
		General revenues:			
		Unrestricted investment earnings			46
		Total general revenues			46
		Change in net position			(2,248,403)
		Net position - beginning			4,106,934
		Net position - ending			\$ 1,858,531

See notes to the financial statements

**HIGHLANDS COMMUNITY DEVELOPMENT DISTRICT  
HILLSBOROUGH COUNTY, FLORIDA  
BALANCE SHEET - GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2014**

	Major Funds				Total Governmental Funds
	General	Special Purpose Entity	Debt Service	Capital Projects	
<b>ASSETS</b>					
Cash and equivalents	\$ 126,177	\$ 4,020	\$ -	\$ -	\$ 130,197
Investments	-	-	974,530	1,192	975,722
Assessment receivable	9,085	-	24	-	9,109
Due from Major Landowner	-	-	-	265,788	265,788
Due from other funds	3,943	-	-	-	3,943
Prepaid items	14,918	-	-	1,008	15,926
Land held for resale	-	1,240,081	-	-	1,240,081
Total assets	<u>\$ 154,123</u>	<u>\$ 1,244,101</u>	<u>\$ 974,554</u>	<u>\$ 267,988</u>	<u>\$ 2,640,766</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 13,175	\$ 16	\$ -	\$ 277,533	\$ 290,724
Due to Landowners	6,273	-	-	-	6,273
Due to other funds	-	-	-	3,943	3,943
Due to Bondholders:					
Principal	-	-	840,000	-	840,000
Total liabilities	<u>19,448</u>	<u>16</u>	<u>840,000</u>	<u>281,476</u>	<u>1,140,940</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue	4,167	-	-	-	4,167
Total deferred inflows of resources	<u>4,167</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,167</u>
<b>Fund balances:</b>					
<b>Nonspendable:</b>					
Prepaid items	14,918	-	-	1,008	15,926
<b>Restricted for:</b>					
Special purpose	-	1,244,085	-	-	1,244,085
Debt service	-	-	134,554	-	134,554
<b>Assigned to:</b>					
Subsequent year's expenditures	109,301	-	-	-	109,301
Unassigned	6,289	-	-	(14,496)	(8,207)
Total fund balances	<u>130,508</u>	<u>1,244,085</u>	<u>134,554</u>	<u>(13,488)</u>	<u>1,495,659</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 154,123</u>	<u>\$ 1,244,101</u>	<u>\$ 974,554</u>	<u>\$ 267,988</u>	<u>\$ 2,640,766</u>

See notes to the financial statements

**HIGHLANDS COMMUNITY DEVELOPMENT DISTRICT  
HILLSBOROUGH COUNTY, FLORIDA  
RECONCILIATION OF THE BALANCE SHEET- GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2014**

Total fund balances - governmental funds \$ 1,495,659

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 as assets in the governmental funds. The statement of net position includes those capital assets, net of any accumulated depreciation, in the net position of the government as a whole.

Cost of capital assets	16,068,105	
Accumulated depreciation	<u>(2,006,926)</u>	14,061,179

Assets recorded in the governmental fund financial statements that are not available to pay for current-period expenditures are unavailable revenue in the governmental funds.

4,167

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

Accrued interest payable	(352,474)	
Bonds payable*	<u>(13,350,000)</u>	<u>(13,702,474)</u>
Net position of governmental activities		<u><u>\$ 1,858,531</u></u>

\* The missed debt service payments due for the Series 2005 Bonds is reflected in the due to Bondholders account balance.

See notes to the financial statements

**HIGHLANDS COMMUNITY DEVELOPMENT DISTRICT  
HILLSBOROUGH COUNTY, FLORIDA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014**

	Major Funds				Total Governmental Funds
	General	Special Purpose Entity	Debt Service	Capital Projects	
<b>REVENUES</b>					
Major Landowner contributions	\$ -	\$ -	\$ -	\$ 878,259	878,259
Assessments	469,407	-	701,115	-	1,170,522
Interest	46	-	164	-	210
Total revenues	<u>469,453</u>	<u>-</u>	<u>701,279</u>	<u>878,259</u>	<u>2,048,991</u>
<b>EXPENDITURES</b>					
Current:					
General government	130,462	40,589	17,145	-	188,196
Maintenance and operations	360,032	-	-	479,100	839,132
Debt service:					
Principal	-	-	215,000	-	215,000
Interest	-	-	729,780	-	729,780
Bond issue costs	-	-	-	169,273	169,273
Capital outlay	-	-	-	2,390,249	2,390,249
Total expenditures	<u>490,494</u>	<u>40,589</u>	<u>961,925</u>	<u>3,038,622</u>	<u>4,531,630</u>
Excess (deficiency) of revenues over (under) expenditures	(21,041)	(40,589)	(260,646)	(2,160,363)	(2,482,639)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	21,370	52,196	-	-	73,566
Transfers (out)	-	(8,200)	(64,464)	(902)	(73,566)
Bond proceeds	-	-	186,049	2,118,951	2,305,000
Total other financing sources (uses)	<u>21,370</u>	<u>43,996</u>	<u>121,585</u>	<u>2,118,049</u>	<u>2,305,000</u>
Net change in fund balances	329	3,407	(139,061)	(42,314)	(177,639)
Fund balances - beginning	<u>130,179</u>	<u>1,240,678</u>	<u>273,615</u>	<u>28,826</u>	<u>1,673,298</u>
Fund balances - ending	<u>\$ 130,508</u>	<u>\$ 1,244,085</u>	<u>\$ 134,554</u>	<u>\$ (13,488)</u>	<u>\$ 1,495,659</u>

See notes to the financial statements

**HIGHLANDS COMMUNITY DEVELOPMENT DISTRICT  
HILLSBOROUGH COUNTY, FLORIDA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014**

Net change in fund balances - total governmental funds	\$ (177,639)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, the cost of capital assets is eliminated in the statement of activities and capitalized in the statement of net position.	2,390,249
Certain revenues were unavailable for the governmental fund financial statements in the prior fiscal year. In the current fiscal year, these revenues were recorded in the governmental fund financial statements.	(11,248)
Governmental funds report the face amount of Bonds issued as financial resources when debt is first issued, whereas these amounts are eliminated in the statement of activities and recognized as long-term liabilities in the statement of net position.	(2,305,000)
Repayment of long-term liabilities are reported as expenditures in the governmental fund financial statements, but such repayments reduce liabilities in the statement of net position and are eliminated in the statement of activities.	215,000
The change in accrued interest on long-term liabilities between the current and prior fiscal years is recorded in the statement of activities, but not in the governmental fund financial statements.	(66,787)
Conveyances of infrastructure improvements to other governments of previously capitalized capital assets is recorded as an expense in the statement of activities.	(1,901,000)
Depreciation of capital assets is not recognized in the governmental fund financial statements, but is reported as an expense in the statement of activities.	(391,978)
Change in net position of governmental activities	<u>\$ (2,248,403)</u>

See notes to the financial statements

**HIGHLANDS COMMUNITY DEVELOPMENT DISTRICT  
HILLSBOROUGH COUNTY, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY**

Highlands Community Development District ("District") was created on October 7, 2003, by the Board of County Commissioners of Hillsborough County, Florida, Ordinance 03-28 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, power to borrow money and issue bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure.

The District was established for the purposes of financing and managing the acquisition, construction, maintenance and operation of a portion of the infrastructure necessary for community development within the District.

The District is governed by the Board of Supervisors ("Board"), which is composed of five members. The Supervisors are elected on an at large basis by the owners of the property within the District. At September 30, 2014, three of the Board members were affiliated with the Major Landowner. Ownership of land within the District entitles the owner to one vote per acre. The Board of Supervisors of the District exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes.

The Board has the final responsibility for:

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

The financial statements were prepared in accordance with Governmental Accounting Standards Board ("GASB") Statements. 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. Blended component units, although legally separate entities, are, in substance, part of the government's operations.

**Blended Component Unit**

The Special Purpose Entity ("SPE") owns, manages, maintains, and will sell and/or dispose of the property foreclosed upon by the District for the benefit of the District. The SPE is reported as a special revenue fund.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Government-Wide and Fund Financial Statements**

The basic 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.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Government-Wide and Fund Financial Statements (Continued)**

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 (Operating-type special assessments for maintenance and debt service are treated as charges for services.) and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. 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 to be recognized as revenue 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 government 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**

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

Assessments and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. The portion of assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period.

The District reports the following major governmental funds:

### **General Fund**

The general fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

### **Special Purpose Entity Fund**

The special purpose entity fund is a special revenue fund that accounts for the activities of the SPE, a blended component unit of the government. The SPE owns, manages, maintains, and will sell and/or dispose of the property foreclosed upon by the District for the benefit of the Bondholders.

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

#### Debt Service Fund

The debt service fund is used to account for the accumulation of resources for the annual payment of principal and interest on long-term debt.

#### Capital Projects Fund

The 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 government's policy to use restricted resources first for qualifying expenditures, then unrestricted resources as they are needed.

### **Assets, Liabilities and Net Position or Equity**

#### Restricted Assets

These assets represent cash and investments set aside pursuant to Bond covenants or other contractual restrictions.

#### Deposits and Investments

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

The District has elected to proceed under the Alternative Investment Guidelines as set forth in Section 218.415 (17) Florida Statutes. The District may invest any surplus public funds in the following:

- a) The Local Government Surplus Trust Funds, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act;
- b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
- c) Interest bearing time deposits or savings accounts in qualified public depositories;
- d) Direct obligations of the U.S. Treasury.

Securities listed in paragraphs c and d shall be invested to provide sufficient liquidity to pay obligations as they come due. In addition, surplus funds may be deposited into certificates of deposit which are insured and any unspent Bond proceeds are required to be held in investments as specified in the Bond Indenture.

The District records all interest revenue related to investment activities in the respective funds and reports investments at fair value.

#### Land Held for Resale

Land held for resale represents one parcel of land the District has foreclosed on in a prior fiscal year. The land is recorded at the lower of cost or net realizable value. Net realizable value was estimated using the county property appraiser's value of the unsold parcel. See Note 14 – Land Held for Resale for more detailed information.

#### 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.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Assets, Liabilities and Net Position or Equity (Continued)

#### Capital Assets

Capital assets which include property, plant and equipment, and infrastructure assets (e.g., roads, sidewalks and similar items) are reported in the government activities columns 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 (amount not rounded) 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>
Amenity center	25
Landscape & irrigation	10
Infrastructure – water control	40

In the governmental fund financial statements, amounts incurred for the acquisition of capital assets are reported as fund expenditures. Depreciation expense is not reported in the governmental fund financial statements.

#### Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned.

#### 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, as well as issuance costs, are deferred and amortized ratably over the life of the Bonds. Bonds payable are reported net of applicable premiums or discounts. Bond issuance costs are expensed when incurred.

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.

#### Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future reporting period(s). For example, the District would record deferred outflows of resources on the statement of net position related to debit amounts resulting from current and advance refundings resulting in the defeasance of debt (i.e. when there are differences between the reacquisition price and the net carrying amount of the old debt).

Deferred inflows of resources represent an acquisition of net position that applies to future reporting period(s). For example, when an asset is recorded in the governmental fund financial statements, but the revenue is unavailable, the District reports a deferred inflow of resources on the balance sheet until such times as the revenue becomes available.

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Assets, Liabilities and Net Position or Equity (Continued)**

#### Fund Equity/Net Position

In the fund financial statements, governmental funds report non spendable and restricted fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Assignments of fund balance represent tentative management plans that are subject to change.

The District can establish limitations on the use of fund balance as follows:

Committed fund balance – Amounts that can be used only for the specific purposes determined by a formal action (resolution) of the Board of Supervisors. Commitments may be changed or lifted only by the Board of Supervisors taking the same formal action (resolution) that imposed the constraint originally. Resources accumulated pursuant to stabilization arrangements sometimes are reported in this category.

Assigned fund balance – Includes spendable fund balance amounts that are intended to be used for specific purposes that are considered neither restricted nor committed. The Board may also assign fund balance as it does when appropriating fund balance to cover differences in estimated revenue and appropriations in the subsequent year's appropriated budget. Assignments are generally temporary and normally the same formal action need not be taken to remove the assignment.

The District first uses committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Net position is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position in the government-wide financial statements are categorized as net investment in capital assets, restricted or unrestricted. Net investment in capital assets represents net position related to infrastructure and property, plant and equipment. Restricted net position represents the assets restricted by the District's Bond covenants or other contractual restrictions. Unrestricted net position consists of the net position not meeting the definition of either of the other two components.

### **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 3 – BUDGETARY INFORMATION**

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. All annual appropriations lapse at fiscal year end.

**NOTE 3 – BUDGETARY INFORMATION (Continued)**

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

- a) Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
- b) Public hearings are conducted to obtain public comments.
- c) Prior to October 1, the budget is legally adopted by the District Board.
- d) All budget changes must be approved by the District Board.
- e) The budgets are adopted on a basis consistent with generally accepted accounting principles.
- f) Unused appropriation for annually budgeted funds lapse at the end of the year.

**NOTE 4 – 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’s investments were held as follows at September 30, 2014:

	Fair Value	Credit Risk	Maturities
US Bank Money Market Account - Managed	\$ 711,368	Not rated	Not applicable
Money Market Mutual Funds - First American			Weighted average of the fund
Government Obligations Class Y	264,354	S&P AAAM	portfolio: 30 days
Total Investments	<u>\$ 975,722</u>		

*Credit risk* – For investments, credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investment ratings by investment type are included in the preceding summary of investments.

*Concentration risk* – The District places no limit on the amount the District may invest in any one issuer.

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

However, the Bond Indenture limits the type of investments held using unspent proceeds.

**NOTE 5 – INTERFUND TRANSFERS**

Interfund transfers at September 30, 2014 were as follows:

Fund	Transfer in	Transfer out
General	\$ 21,370	\$ -
Special purpose entity	52,196	8,200
Debt service	-	64,464
Capital projects	-	902
Total	<u>\$ 73,566</u>	<u>\$ 73,566</u>

## NOTE 5 – INTERFUND TRANSFERS (Continued)

Transfers are used to move revenues from the fund where collection occurs to the fund where funds have been reallocated for use. The transfers from the debt service fund to the SPE were to fund the SPE's operations in accordance with a tri-party agreement between the District, the SPE, and the Trustee. The transfers from the debt service fund to the general fund represent the movement of excess funds after the extinguishment of the Series 2006B bonds in the current fiscal year. The transfers from the SPE to the general fund were for the SPE's portion of operation and maintenance costs.

## NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land and land improvements	\$ 7,604,176	\$ -	\$ -	\$ 7,604,176
Infrastructure under construction	2,372,861	-	2,372,861	-
Total capital assets, not being depreciated	9,977,037	-	2,372,861	7,604,176
Capital assets, being depreciated				
Amenity center	941,962	140,000	-	1,081,962
Landscape and irrigation	1,788,682	400,000	-	2,188,682
Infrastructure - water control and other	2,871,175	4,223,110	1,901,000	5,193,285
Total capital assets, being depreciated	5,601,819	4,763,110	1,901,000	8,463,929
Less accumulated depreciation for:				
Amenity Center	(188,390)	(43,278)	-	(231,668)
Landscape and irrigation	(998,680)	(218,868)	-	(1,217,548)
Infrastructure - water control and other	(427,878)	(129,832)	-	(557,710)
Total accumulated depreciation	(1,614,948)	(391,978)	-	(2,006,926)
Total capital assets, being depreciated, net	3,986,871	4,371,132	1,901,000	6,457,003
Governmental activities capital assets	\$ 13,963,908	\$ 4,371,132	\$ 4,273,861	\$ 14,061,179

The District estimates that total infrastructure improvements will be approximately \$43,000,000. The master project is divided into Phase 1 and Phase 2. Phase 1 and a portion of Phase 2 construction was funded by Series 2005 and 2006B Bonds. Improvements include roadways, storm water management facilities, water distribution systems, wastewater collection systems, earthwork, landscape/irrigation, and recreation amenities. In addition, off-site roadway improvements are also expected to be financed by the District. Certain capital assets have been conveyed to other governments for maintenance in a prior fiscal year. In the current fiscal year the District completed construction of neighborhood improvements in phase 2B. In the current fiscal year, roads and utilities infrastructure costing \$988,000 and \$913,000, respectively, were conveyed to Hillsborough County for operations and maintenance. As part of the conveyance, the District delivered to the County a warranty bond in the amount of \$135,281 which is in effect until February 7, 2016.

The Major Landowner has agreed to escrow up to \$785,000 related to the completion of the Phase 2A project and costs in excess of the escrow amount needed to complete the Phase 2 project will be the responsibility of the District. Based on this agreement the District has recorded \$706,054 in Major Landowner contributions during fiscal year 2014 of which the Major Landowner owed \$265,788 as of September 30, 2014.

The Major Landowner also paid \$172,205 of Phase 2 project costs directly to vendors in the current fiscal year which have been recorded as Major Landowner contributions.

Depreciation expense was charged to the maintenance and operation function.

## **NOTE 7 – LONG TERM LIABILITIES**

At September 30, 2014, the District had Bond issues as follows:

### **Series 2005**

On October 6, 2005, the District issued \$22,935,000 of Capital Improvement Revenue Bonds, Series 2005 due on May 1, 2036, with a fixed interest rate of 5.55%. 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 Bonds is to be paid serially commencing May 1, 2007, through May 1, 2036.

The Series 2005 Bonds are subject to redemption at the option of the District prior to their maturity. The Bonds are subject to extraordinary mandatory redemption prior to their selected maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture.

Certain lands/parcels that have Series 2005 assessments were foreclosed on by the District. See Note 11 for additional details.

### **Series 2013**

On January 15, 2013, the District issued \$2,860,000 of Special Assessment Revenue Bonds, Series 2013 consisting of \$475,000 Term Bonds Series 2013A due on November 1, 2023 with a fixed interest rate of 5.5%, \$825,000 Term Bonds Series 2013A due on November 1, 2033 with a fixed interest rate of 6.25%, and \$1,560,000 Term Bonds Series 2013A due on May 1, 2012 with a fixed interest rate of 6.75%. The Bonds were issued to finance the acquisition and construction of Phase 2B improvements for the benefit of the lands therein. Interest is to be paid semiannually on each May 1 and November 1. Principal on the Bonds is to be paid serially commencing November 1, 2014 through November 1, 2043.

### **Series 2014**

On January 21, 2014, the District issued \$2,305,000 of Special Assessment Revenue Bonds, Series 2014 consisting of \$505,000 Term Bonds Series 2014 due on November 1, 2027 with a fixed interest rate of 6.25% and \$1,800,000 Term Bonds Series 2014 due on November 1, 2044 with a fixed interest rate of 7.25%. The Bonds were issued to finance the acquisition and construction of Phase 2A improvements for the benefit of the lands therein. Interest is to be paid semiannually on each May 1 and November 1. Principal on the Bonds is to be paid serially commencing November 1, 2015 through November 1, 2044.

For the Series 2005, Series 2013, and Series 2014 Bonds, the Bond Indentures established debt service reserve requirements 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.

### **Bond Compliance**

The District was in compliance with the Series 2013 and Series 2014 reserve requirements at September 30, 2014. The District was not in compliance with the 2005 reserve requirement at September 30, 2014. At September 30, 2014, the District had a deficit of approximately \$403,630 in its 2005 reserve account.

In the current and prior fiscal years, the District did not have the necessary funds to make certain Series 2005 debt service payments, and as a result, these debt service payments were not made. This amount is reflected as due to the Bondholders in the financial statements.

## NOTE 7 – LONG TERM LIABILITIES (Continued)

### Long-term debt activity

Changes in long-term liability activity for the fiscal year ended September 30, 2014, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Special Assessment Bonds Series 2005	\$ 9,025,000	\$ -	\$ -	\$ 9,025,000	\$ 1,040,000 *
Special Assessment Bonds Series 2006B	25,000	-	25,000	-	-
Special Assessment Bonds Series 2013	2,860,000	-	-	2,860,000	35,000
Special Assessment Bonds Series 2014	-	2,305,000	-	2,305,000	-
Total	\$ 11,910,000	\$ 2,305,000	\$ 25,000	\$ 14,190,000	\$ 1,075,000

\* Includes the missed debt service payments due for the Series 2005 Bonds which were not paid.

At September 30, 2014, the scheduled debt service requirements on the long-term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2015	\$ 1,075,000 *	\$ 844,975	\$ 1,919,975
2016	270,000	784,411	1,054,411
2017	290,000	769,115	1,059,115
2018	310,000	752,693	1,062,693
2019	320,000	735,301	1,055,301
2020-2024	1,905,000	3,381,345	5,286,345
2025-2029	2,520,000	2,709,372	5,229,372
2030-2034	3,340,000	1,944,568	5,284,568
2035-2039	2,365,000	741,835	3,106,835
2040-2044	1,620,000	273,064	1,893,064
2045	175,000	6,344	181,344
Total	\$ 14,190,000	\$ 12,943,023	\$ 27,133,023

\* Includes the missed debt service payments due for the Series 2005 Bonds which were not paid.

## NOTE 8 – MAJOR LANDOWNER TRANSACTIONS

The Major Landowner owns a portion of land within the District; therefore, assessment revenues in the general and debt service funds include the assessments levied on those lands owned by the Major Landowner. Additionally, the Major Landowner contributed \$878,259 to the capital projects fund in the current fiscal year.

## NOTE 9 – CONCENTRATION

The District's activity is dependent upon the continued involvement of Major Landowner, the loss of which could have a material adverse effect on the District's operations.

## NOTE 10 – EVENT OF DEFAULT

During a prior fiscal year, the District declared the occurrence of an event of default in accordance with the Bond Indenture. The occurrence of an event of default creates certain remedial rights and remedies in favor of the Trustee. Pursuant to the Indenture, the owners of a majority in aggregate principal amount of the Bonds then outstanding may direct the Trustee with regard to such rights and remedies following an event of default and upon provision of indemnity satisfactory to the Trustee and in accordance with provisions of the Indenture.

#### **NOTE 11 – LAND HELD FOR RESALE**

The land that the District foreclosed upon held by the SPE consisted of three parcels. Two of the parcels were sold in a prior year. The third parcel of land was valued by the Hillsborough County Property Appraiser at \$1,240,081 as of January 17, 2012. Therefore, the District has recorded the value of the land held for resale by the SPE based on the property appraiser's valuation which management feels approximates fair market value at the time of the land was recorded as land held for resale.

#### **NOTE 12 – MANAGEMENT COMPANY**

The District has contracted with a management company to perform management advisory services, which include financial and accounting advisory services. Certain employees of the management company also serve as officers of the District. Under the agreement, the District compensates the management company for management, accounting, financial reporting, computer and other administrative costs.

#### **NOTE 13 – RELATED PARTY AGREEMENT**

In the prior fiscal year, the District entered into a clubhouse management contract with Landmark Investment Services. Two of the board members abstained from the original vote to accept the contract because they were affiliated with Landmark Investment Services. The District paid Landmark \$16,200 in connection with this contract in the current fiscal year.

#### **NOTE 14 – 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. The District has obtained commercial insurance from independent third parties to mitigate the costs of these risks; coverage may not extend to all situations. Settled claims from these risks have not exceeded commercial insurance coverage over the past three years.

#### **NOTE 15 – SUBSEQUENT EVENTS**

##### **Petition to expand District boundaries**

Subsequent to year end, the District filed a petition with Hillsborough County to add approximately 35 acres to the District.

##### **Series 2005A Debt Service Payments**

Subsequent to year end the District made the required debt service interest payments on the Series 2005 Bonds. In addition, pursuant to the direction of the owners of 100% of the Series 2005 Bonds and the Indenture, the Trustee called \$305,000 in aggregate principal amount of the Bonds (the "Redeemed Bonds") for redemption by lottery on May 1, 2015, in accordance with their terms, at a redemption price equal to the par amount of the Redeemed Bonds.

**HIGHLANDS COMMUNITY DEVELOPMENT DISTRICT  
HILLSBOROUGH COUNTY, FLORIDA  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014**

	Budgeted Amounts Original & Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>			
Assessments	\$ 445,565	\$ 469,407	\$ 23,842
Interest	25	46	21
Total revenues	445,590	469,453	23,863
<b>EXPENDITURES</b>			
Current:			
General government	205,375	130,462	74,913
Maintenance and operations	441,949	360,032	81,917
Total expenditures	647,324	490,494	156,830
Excess (deficiency) of revenues over (under) expenditures	(201,734)	(21,041)	180,693
<b>OTHER FINANCING SOURCES</b>			
Carry forward	193,534	-	(193,534)
Transfers in	8,200	21,370	13,170
Total other financing sources	201,734	21,370	(180,364)
Net change in fund balances	\$ -	329	\$ 329
Fund balance - beginning		130,179	
Fund balance - ending		\$ 130,508	

See notes to required supplementary information

**HIGHLANDS COMMUNITY DEVELOPMENT DISTRICT  
HILLSBOROUGH COUNTY, FLORIDA  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL – SPECIAL PURPOSE ENTITY FUND  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014**

	Budgeted Amounts Original & Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>EXPENDITURES</b>			
Current:			
General government	\$ 73,242	\$ 40,589	\$ 32,653
Total expenditures	73,242	40,589	32,653
Excess (deficiency) of revenues over (under) expenditures	(73,242)	(40,589)	32,653
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in	73,242	52,196	(21,046)
Transfer out to general fund		(8,200)	(8,200)
Total other financing sources (uses)	73,242	43,996	(29,246)
Net change in fund balances	\$ -	3,407	\$ 3,407
Fund balance - beginning		1,240,678	
Fund balance - ending		\$ 1,244,085	

See notes to required supplementary information

**HIGHLANDS COMMUNITY DEVELOPMENT DISTRICT  
HILLSBOROUGH COUNTY, FLORIDA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

The District is required to establish a budgetary system and an approved Annual Budget for the general fund. The District's budgeting process is based on estimates of cash receipts and cash expenditures which are approved by the Board. The budget approximates a basis consistent with accounting principles generally accepted in the United States of America (generally accepted accounting principles).

The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors.

The variance between budgeted and actual general fund revenues for the current fiscal year is mainly the result of the collection in the current fiscal year of delinquent revenue from prior fiscal years. The actual general fund expenditures for the current fiscal year were lower than budgeted amounts due primarily to anticipated costs which were not incurred in the current fiscal year.

A budget for the special purpose entity fund was also adopted pursuant to a tri-party agreement between the District, the SPE and the Trustee. Actual SPE fund expenditures for the fiscal year ended September 30, 2014 were less than appropriations due primarily to anticipated costs which were not incurred in the current fiscal year. Accordingly, inter-fund transfers were less than budgeted amounts.



**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  
Highlands Community Development District  
Hillsborough County, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Highlands Community Development District, Hillsborough County, Florida ("District") as of and for the fiscal year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our opinion thereon dated June 23, 2015, which includes an emphasis of matter paragraph.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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*.

We noted certain matters that we reported to management of the District in a separate letter dated June 23, 2015.

The District's responses to the findings identified in our audit are described in the accompanying Management Letter. We did not audit the District's responses and, accordingly, we express no opinion on them.

**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.

June 23, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE  
REQUIREMENTS OF SECTION 218.415, FLORIDA STATUTES, REQUIRED BY  
RULE 10.556(10) OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

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

We have examined Highlands Community Development District, Hillsborough County, Florida's ("District") compliance with the requirements of Section 218.415, Florida Statutes, in accordance with Rule 10.556(10) of the Auditor General of the State of Florida during the fiscal year ended September 30, 2014. Management is responsible for 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, accordingly, included examining, on a test basis, evidence about 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 District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the fiscal year ended September 30, 2014.

This report 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, management, and the Board of Supervisors of Highlands Community Development District, Hillsborough County, Florida and is not intended to be and should not be used by anyone other than these specified parties.

June 23, 2015



**MANAGEMENT LETTER PURSUANT TO THE RULES OF  
THE AUDITOR GENERAL FOR THE STATE OF FLORIDA**

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

**Report on the Financial Statements**

We have audited the accompanying basic financial statements of Highlands Community Development District, Hillsborough County, Florida, ("District") as of and for the fiscal year ended September 30, 2014, and have issued our report thereon dated June 23, 2015, which includes an emphasis of matter paragraph.

**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 Florida Auditor General.

**Other Reports and Schedule**

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*; and Independent Auditor's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated June 23, 2015, should be considered in conjunction with this management letter.

**Purpose of this Letter**

The purpose of this letter is to comment on those matters required by Chapter 10.550 of the Rules of the Auditor General for the State of Florida. Accordingly, in connection with our audit of the financial statements of the District, as described in the first paragraph, we report the following:

- I. Current year findings and recommendations.**
- II. Status of prior year findings and recommendations.**
- III. Compliance with the Provisions of the Auditor General of the State of Florida.**

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, as applicable, management, and the Board of Supervisors of Highlands Community Development District, Hillsborough County, Florida and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank Highlands Community Development District, Hillsborough County, Florida and the personnel associated with it, for the opportunity to be of service to them in this endeavor as well as future engagements, and the courtesies extended to us.

June 23, 2015

## REPORT TO MANAGEMENT

### I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

#### **2014-01 Financial Condition Assessment**

Observation: In the current and prior fiscal years, the District did not have the necessary funds to make certain Series 2005 debt service payments, and as a result, these debt service payments were not made. In add

Recommendation: The District should take the necessary steps to alleviate the deteriorating financial conditions.

Reference Numbers for Prior Year Findings: 2011-01, 2012-01, and 2013-01

Management Response: The District has successfully foreclosed on the property within the District that serves as security for the repayment of its 2005 bond debt. The District's foreclosure suit was eventually successful and title to the developer-owned property within the District was obtained by the District. Most of this foreclosed property was sold to a new owner and the proceeds of the sale transferred to the District's bondholders to satisfy bond debt service. Some of the foreclosed property is still being held by the District for the benefit of its bondholders. The District is cooperating with its bondholders in negotiating a sale of this property. When the last parcel of foreclosed property is sold, the District's remaining delinquent bond debt will be written down to the net proceeds realized from the sale. This will allow the District to move ahead without continuing delinquencies. Due to the District's successful foreclosure, District staff members consider the District's financial problems to be substantially solved and the financial conditions to no longer be deteriorating.

#### **2013-02 Reserve Requirement**

Observation: The Series 2005 Debt Service reserve requirement was not met as of September 30, 2014.

Recommendation: The District should make the necessary arrangements to ensure funds are available to comply with the debt service reserve requirement.

Reference Numbers for Prior Year Findings: 2011-02, 2012-02, and 2013-02

Management Response: The District's reserve funds have been utilized to help secure and maintain title to the properties that served as security for the delinquent bond debt payments. Such actions are consistent with governing bond trust indentures.

### II. PRIOR YEAR FINDINGS

#### **2013-01 Financial Condition Assessment**

Current Status: See current year findings.

#### **2013-02 Reserve Requirement**

Current Status: See current year findings.

## REPORT TO MANAGEMENT (Continued)

### III. COMPLIANCE WITH THE PROVISIONS OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

Unless otherwise required to be reported in the auditor's report on compliance and internal controls, the management letter shall include, but not be limited to the following:

1. A statement as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

There were no significant findings and recommendations made in the preceding annual financial audit report for the fiscal year ended September 30, 2013, except as noted above.

2. Any recommendations to improve the local governmental entity's financial management.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported for the fiscal year ended September 30, 2014, except as noted above.

3. 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.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported, for the fiscal year ended September 30, 2014, except as noted above.

4. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.

5. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2014 financial audit report.

6. In connection with our audit, we determined that the District has met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes. The District failed to make certain scheduled debt service payments due on the Series 2005 Bonds, as a result of a lack of funds. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and determined that a deteriorating financial condition was noted. See Findings section above for additional information. It is management's responsibility to monitor 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.