

# **Financial Report**

**September 30, 2018**

## **Palm River Community Development District**

PALM RIVER COMMUNITY DEVELOPMENT DISTRICT

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Year Ended September 30, 2018

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors  
*Palm River Community Development District*

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of the *Palm River Community Development District* (the "District"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express 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 of material misstatement.

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

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

## **Opinions**

### *Basis for Adverse Opinion Due to Component Unit*

Management has not included financial data for the Special Purpose Entity (“SPE”), which is a legally separate discrete component unit. Accounting principles generally accepted in the United States of America require financial data of this component unit to be reported with the financial data of the District if the nature and significance of its relationship with the District is such that, if excluded, the financial statements of the District would be considered misleading. We believe that the exclusion of the financial data of the above mentioned component unit results in financial statements that are misleading. The amount by which this departure would affect the assets, liabilities, net position, revenues and expenses of the governmental activities is not reasonably determinable.

### *Adverse Opinion Due to Component Unit*

In our opinion, because of the omission of the discrete component unit, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position and the governmental activities of the District, as of September 30, 2018, or the changes in financial position thereof for the fiscal year then ended.

### *Unmodified Opinions on General, Debt Service and Capital Projects Funds*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, Debt Service Fund, and Capital Projects Fund of the District, as of September 30, 2018, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *Going Concern*

The accompanying financial statements have been prepared assuming the District will continue as a going concern. As discussed in the Notes to the financial statements, the Developer did not pay all assessments owed to the District. As a result, the District has been unable to make all of its debt service payments due on the Series 2007 Bonds in the current or prior years. In a prior year, the Bond Trustee, on behalf of the Bondholders, formed a SPE to acquire, administer, control, manage, and sell the Developer’s property within the District which the SPE acquired from the Developer’s mortgage holder. The SPE is committed to paying the subject property’s proportionate share of the District’s General Fund operating and maintenance expenditures. The Trustee has withdrawn funds from the District’s Debt Service Fund and Capital Projects Fund for use by the SPE. At September 30, 2018, The District has deficit fund balances in the General Fund and Debt Service Fund of \$160,018 and \$5,645,443 respectively and a total net position deficit of \$3,592,035 and is \$5,882,604 in arrears on matured bond principal and interest due. These conditions raise substantial doubt about the District’s ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## **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 4, be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated June 12, 2019, 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  
June 12, 2019

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of *Palm River Community Development District's*, (the "District") financial accomplishments provide an overview of the District's financial activities for the year ended September 30, 2018. Please read it in conjunction with the District's Independent Auditor's Report, financial statements and accompanying notes.

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

### Financial Highlights

- The liabilities of the District exceeded its assets at September 30, 2018 by \$(3,592,035), a decrease in net position of \$272,489 in comparison with the prior year.
- At September 30, 2018, the District's governmental funds reported a combined fund balance deficit of \$5,787,608, a decrease in fund balance of \$221,146 in comparison with the prior year.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the *Palm River Community Development District's* financial statements. The District's financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the 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 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, maintenance and operations and parks and recreation related functions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Fund Financial Statements

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

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

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

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

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

### Notes to Financial Statements

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

### Government-Wide Financial Analysis

Statement of Net Position - The District's net position was \$(3,592,035) at September 30, 2018. The following analysis focuses on the net position of the District's governmental activities.

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

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

Palm River Community Development District  
Statement of Net Position

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Assets, excluding capital assets	\$ 193,798	\$ 245,766
Capital Assets, net of depreciation	4,654,435	4,782,458
Total assets	<u>4,848,233</u>	<u>5,028,224</u>
Liabilities, excluding long-term liabilities	6,035,268	5,867,770
Long-term Liabilities	2,405,000	2,480,000
Total liabilities	<u>8,440,268</u>	<u>8,347,770</u>
Net Position:		
Net investment in capital assets	(1,625,565)	(1,497,542)
Restricted for capital projects	17,853	17,751
Unrestricted	(1,984,323)	(1,839,755)
Total net position	<u>\$ (3,592,035)</u>	<u>\$ (3,319,546)</u>

The following is a summary of the District's governmental activities for the fiscal years ended September 30, 2018 and 2017.

Changes in Net Position  
Year ended September 30,

	<b>2018</b>	<b>2017</b>
Revenues:		
Program revenues	\$ 466,050	\$ 364,487
General revenues	158	184
Total revenues	<u>466,208</u>	<u>364,671</u>
Expenses:		
General government	390,633	257,187
Maintenance and operations	196,735	216,590
Parks and recreation	19,683	24,571
Roads and streets	26	-
Interest on long-term debt	131,620	135,652
Total expenses	<u>738,697</u>	<u>634,000</u>
Change in net position	(272,489)	(269,329)
Net Position - beginning	(3,319,546)	(3,146,209)
Prior Period Adjustment	-	95,992
Net Position - ending	<u>\$ (3,592,035)</u>	<u>\$ (3,319,546)</u>

As noted above and in the statement of activities, the cost of all governmental activities during the year ended September 30, 2018 was \$738,697. The majority of these costs are comprised of general government and maintenance and operations expenses.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Financial Analysis of the Government's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balances 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, 2018, the District's governmental funds reported a combined ending fund deficit of \$(5,787,608). Of this total, \$6,700 is nonspendable, \$17,853 is restricted, and the remainder is an unassigned negative fund balance of \$(5,812,161).

The fund balance of the general fund increased by \$14,510 primarily due to an increase in transfers in. The debt service fund balance decreased by \$235,758 because debt service expenditures exceeded special assessment revenue. There was no significant change to the capital projects fund balance.

### 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 were no amendments to the general fund budget. The legal level of budgetary control is at the fund level.

### Capital Asset and Debt Administration

**Capital Assets** - At September 30, 2018, the District had \$4,654,435 invested in land and 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, 2018, the District had \$6,280,000 in bonds outstanding including \$3,875,000 of matured bonds payable. 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 *Palm River Community Development District's* Finance Department at 2005 Pan Am Circle, Suite 300, Tampa, Florida 33607.

## **FINANCIAL STATEMENTS**

PALM RIVER COMMUNITY DEVELOPMENT DISTRICT

**STATEMENT OF NET POSITION**

September 30, 2018

	<b>Governmental Activities</b>
<b>Assets:</b>	
Cash	\$ 40,749
Assessments receivable	1,465
Deposits	6,700
Restricted assets:	
Temporarily restricted investments	144,884
Capital assets:	
Capital assets not being depreciated	2,058,341
Capital assets being depreciated, net	2,596,094
Total assets	<u>4,848,233</u>
<b>Liabilities:</b>	
Accounts payable and accrued expenses	7,515
Due to developer	91,287
Accrued interest payable	53,862
Matured bonds payable	3,875,000
Matured interest payable	2,007,604
Noncurrent liabilities:	
Due within one year	80,000
Due in more than one year	2,325,000
Total liabilities	<u>8,440,268</u>
<b>Net Position</b>	
Net investment in capital assets	(1,625,565)
Restricted for capital projects	17,853
Unrestricted	(1,984,323)
Total net position	<u>\$ (3,592,035)</u>

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

PALM RIVER COMMUNITY DEVELOPMENT DISTRICT

**STATEMENT OF ACTIVITIES**

Year Ended September 30, 2018

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenue</b>			<b>Net (Expense)</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Revenue and Changes in Net Position</b>
Governmental activities:					
General government	\$ 390,633	\$ 65,268	\$ -	\$ -	\$ (325,365)
Maintenance and operations	196,735	32,871	-	-	(163,864)
Parks and recreation	19,683	3,289	-	-	(16,394)
Roads and streets	26	4	-	-	(22)
Interest on long-term debt	131,620	112,940	251,576	102	232,998
Total governmental activities	<u>\$ 738,697</u>	<u>\$ 214,372</u>	<u>\$ 251,576</u>	<u>\$ 102</u>	<u>(272,647)</u>
General Revenues:					
Miscellaneous income					140
Interest earnings					<u>18</u>
Total general revenues					158
Change in net position					(272,489)
Net Position - beginning					<u>(3,319,546)</u>
Net Position - ending					<u>\$ (3,592,035)</u>

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

PALM RIVER COMMUNITY DEVELOPMENT DISTRICT

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

September 30, 2018

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Cash	\$ 40,749	\$ -	\$ -	\$ 40,749
Investments	-	132,614	12,270	144,884
Assessments receivable	718	747	-	1,465
Due from other funds	-	106,800	5,583	112,383
Prepaid costs	-	-	-	-
Deposits	6,700	-	-	6,700
Total assets	<u>\$ 48,167</u>	<u>\$ 240,161</u>	<u>\$ 17,853</u>	<u>\$ 306,181</u>
<b>Liabilities and Fund Balances:</b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 4,615	\$ 3,000	\$ -	\$ 7,615
Due to other funds	112,383	-	-	112,383
Due to developer	91,187	-	-	91,187
Matured bonds payable	-	3,875,000	-	3,875,000
Matured interest payable	-	2,007,604	-	2,007,604
Total liabilities	<u>208,185</u>	<u>5,885,604</u>	<u>-</u>	<u>6,093,789</u>
Fund Balances:				
Nonspendable	6,700	-	-	6,700
Restricted for capital projects	-	-	17,853	17,853
Unassigned	<u>(166,718)</u>	<u>(5,645,443)</u>	<u>-</u>	<u>(5,812,161)</u>
Total fund balances	<u>(160,018)</u>	<u>(5,645,443)</u>	<u>17,853</u>	<u>(5,787,608)</u>
Total liabilities and fund balances	<u>\$ 48,167</u>	<u>\$ 240,161</u>	<u>\$ 17,853</u>	

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

Capital Assets used in Governmental Activities are not financial resources and therefore are not reported in the funds. 4,654,435

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

Accrued interest payable	(53,862)	
Bonds payable	<u>(2,405,000)</u>	<u>(2,458,862)</u>
<b>Net Position of Governmental Activities</b>		<u><u>\$ (3,592,035)</u></u>

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

PALM RIVER COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2018

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Special assessments	\$ 101,432	\$ 112,940	\$ -	\$ 214,372
Bondholder Contributions	-	250,000	-	250,000
Investment income	18	1,576	102	1,696
Miscellaneous income	140	-	-	140
Total revenues	<u>101,590</u>	<u>364,516</u>	<u>102</u>	<u>466,208</u>
<b>Expenditures:</b>				
Current:				
General government	55,121	335,512	-	390,633
Maintenance and operations	67,812	900	-	68,712
Roads and Streets	26	-	-	26
Parks and Recreation	19,683	-	-	19,683
Debt Service:				
Interest	-	133,300	-	133,300
Principal	-	75,000	-	75,000
Total expenditures	<u>142,642</u>	<u>544,712</u>	<u>-</u>	<u>687,354</u>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<u>(41,052)</u>	<u>(180,196)</u>	<u>102</u>	<u>(221,146)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	55,562	-	-	55,562
Transfers out	-	(55,562)	-	(55,562)
Total other financing sources (uses)	<u>55,562</u>	<u>(55,562)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	14,510	(235,758)	102	(221,146)
<b>Fund Balances (Deficit) - beginning of year</b>	<u>(174,528)</u>	<u>(5,409,685)</u>	<u>17,751</u>	<u>(5,566,462)</u>
<b>Fund Balances (Deficit) - end of year</b>	<u>\$ (160,018)</u>	<u>\$ (5,645,443)</u>	<u>\$ 17,853</u>	<u>\$ (5,787,608)</u>

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

PALM RIVER COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 20178

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

Net Change in Fund Balances - total governmental funds (page 11)	\$ (221,146)
Governmental funds report capital outlays as expenditures. In the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	(128,023)
Repayments of long-term liabilities are reported as expenditures in governmental funds, while repayments reduce long-term liabilities in the statement of net position.	75,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Change in accrued interest	<u>1,680</u>
Change in Net Position of Governmental Activities (page 9)	<u>\$ (272,489)</u>

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

PALM RIVER COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2018

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Special Assessments	\$ 144,427	\$ 144,427	\$ 101,432	\$ (42,995)
Miscellaneous Income	-	-	140	140
Total revenues	<u>144,427</u>	<u>144,427</u>	<u>101,572</u>	<u>(42,855)</u>
<b>Expenditures:</b>				
Current:				
General government	60,732	60,732	55,121	5,611
Maintenance and operations	71,015	71,015	67,812	3,203
Parks and recreation	12,680	12,680	19,683	(7,003)
Total expenditures	<u>144,427</u>	<u>144,427</u>	<u>142,616</u>	<u>1,811</u>
Excess (Deficit) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>(41,044)</u>	<u>(41,044)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	55,562	55,562
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>55,562</u>	<u>55,562</u>
Net change in fund balance	-	-	14,518	14,518
<b>Fund Balance (Deficit) - beginning of year</b>	<u>(174,528)</u>	<u>(174,528)</u>	<u>(174,528)</u>	<u>-</u>
<b>Fund Balance (Deficit) - end of year</b>	<u>\$ (174,528)</u>	<u>\$ (174,528)</u>	<u>\$ (160,010)</u>	<u>\$ 14,518</u>

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



**NOTES TO FINANCIAL STATEMENTS**

**NOTES TO FINANCIAL STATEMENTS**

Year Ended September 30, 2018

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

**Reporting Entity**

The *Palm River Community Development District*, (the "District") was created by Hillsborough County Ordinance 06-20 enacted on August 8, 2006 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. The Supervisors are elected on an at large basis by the owners of the property within the District. The Board of Supervisors of the District exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes. One of the Board members is associated with the Developer, Taylor Morrison, at September 30, 2018.

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 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. Management has determined that there are no entities considered to be component units of the District.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2018

**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 and contributions 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. Assessments are levied by the District prior to the start of the fiscal year which begins October 1<sup>st</sup> and ends on September 30<sup>th</sup>. Operation and maintenance special assessments are imposed upon all 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.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2018

**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 general fund, debt service fund, and capital projects fund are considered to be major funds. The District reports the following governmental funds:

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

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

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

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

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

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

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

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

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

**Receivables** - All receivables are shown net of allowance for uncollectible amounts.

PALM RIVER COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2018

**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 applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	20-40
Furniture and Equipment	7

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

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2018

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

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

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any item that qualifies for reporting in this category for the year ended September 30, 2018.

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, 2018.

**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.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2018

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

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

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

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

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 an additional action is essential to either remove or revise a commitment.

**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.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2018

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

**A. Budgetary Information**

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

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

1. Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
2. Public hearings are conducted to obtain taxpayer 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.

**B. Deficit Fund Equity**

The general fund and debt service fund have deficit fund balances at September 30, 2018, causing a total fund balance deficit.



**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2018

**Note 3 - Deposits and Investments:**

**Deposits**

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

**Investments**

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

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

The District has the following recurring fair value measurements as of September 30, 2018:

- Money market mutual funds of \$144,884 are valued using Level 2 inputs.

Instead of establishing a written investment policy, the District elected to limit investments to those approved by Florida Statutes and the District Trust Indenture. 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.

PALM RIVER COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2018

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

**Investments (Continued)**

Investments made by the District at September 30, 2018 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>
Fidelity Treasury Fund	\$ 144,884	AAAm	18 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 Credit Risk:

In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires that bank deposits be secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida, and creates the Public Deposits Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2018, all of the District's bank deposits were in qualified public depositories.

For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. September 30, 2018, none of the investments listed are exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk:

The District 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. 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.

PALM RIVER COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2018

**Note 4 - Interfund Receivables, Payables and Transfers:**

At September 30, 2018, the general fund owed the capital projects fund \$5,583 for expenditures paid out of the trust funds as directed by the trustee. The general fund owed the debt service fund \$106,800 for prior year assessments collected, and not yet remitted.

The debt service fund transferred \$55,562 to the general fund to cover operating and maintenance assessments as directed by the trustee.

**Note 5 - Capital Assets:**

Capital asset activity for the year ended September 30, 2018 was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 2,058,341	\$ -	\$ -	\$ 2,058,341
Total capital assets not being depreciated	2,058,341	-	-	2,058,341
Capital Assets Being Depreciated:				
Infrastructure	3,905,100	-	-	3,905,100
Furniture and equipment	15,481	-	-	15,481
Total capital assets being depreciated	3,920,581	-	-	3,920,581
Less Accumulated Depreciation for:				
Infrastructure	(1,180,983)	(128,023)	-	(1,309,006)
Furniture and equipment	(15,481)	-	-	(15,481)
Total accumulated depreciation	(1,196,464)	(128,023)	-	(1,324,487)
Total capital assets being depreciated, net	2,724,117	(128,023)	-	2,596,094
Governmental activities capital assets, net	\$ 4,782,458	\$ (128,023)	\$ -	\$ 4,654,435

Depreciation expense for 2018 was charged to maintenance and operations expense.

PALM RIVER COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2018

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

On February 8, 2007 the District issued \$6,630,000 of Special Assessment Revenue Bonds, Series 2007. The bonds consist of \$3,320,000 Term Bonds due on May 1, 2036 with a fixed interest rate of 5.375%, and \$3,310,000 Term Bonds due on May 1, 2013 with a fixed interest rate of 5.15%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is paid semiannually on each May 1 and November 1, commencing May 1, 2007. Principal on the Series 2007A Bonds is payable serially commencing May 1, 2007 through May 1, 2036. Principal on the Series 2007B Bonds was due on May 1, 2013.

The Series 2007 Bonds are subject to redemption at the option of the District prior to their maturity. The Series 2007 Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Indenture.

The Bond Indenture requires that the District maintain adequate funds in a reserve account to meet the debt service reserve requirement as defined in the Indenture. The requirement has not been met at September 30, 2018. In addition, the District has not made any scheduled debt service payments since May 2009. Accordingly, the District has recorded on its fund-level statements a debt service obligation totaling \$5,882,604, which represents the unpaid principal and interest payments.

The Bond Indenture has certain restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agreed to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. Payment of principal and interest on the Series 2007 Bonds is secured by a pledge of and first lien upon the pledged special assessment revenue. The District is not in compliance with the requirements of the Bond Indenture.

Total principal and interest remaining on the Series 2007 Revenue Bonds at September 30, 2018 is \$9,702,305, of this amount \$3,857,500 is recorded as matured bonds payable, and \$2,007,604 is recorded as matured interest payable. For the year ended September 30, 2018, no principal or interest was paid. Interest due of \$133,300 and principal due of \$75,000 was accrued to matured interest payable and matured bonds payable. Total special assessment revenue pledged for the year was \$112,940.

PALM RIVER COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2018

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

Long-term debt activity for the year ended September 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Bonds Payable:					
Series 2007A	\$ 2,480,000	\$ -	\$ (75,000)	\$ 2,405,000	\$ 80,000
Governmental activity long-term liabilities	<u>\$ 2,480,000</u>	<u>\$ -</u>	<u>\$ (75,000)</u>	<u>\$ 2,405,000</u>	<u>\$ 80,000</u>

The above schedule shows a principal reduction of \$75,000 that was due but was not paid. The beginning balance is reduced by \$3,800,000, which was also not paid, but accrued to matured bonds payable in prior years. At year end, total matured bonds payable is \$3,875,000.

At September 30, 2018, 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>
2019	\$ 80,000	\$ 129,269
2020	85,000	124,969
2021	90,000	120,400
2022	95,000	115,563
2023	100,000	110,456
2024 - 2028	595,000	464,669
2029 - 2033	780,000	285,681
2034 - 2036	580,000	63,694
	<u>\$ 2,405,000</u>	<u>\$ 1,414,701</u>

PALM RIVER COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2018

**Note 7 - Related Party Transactions and Concentrations:**

The original landowner of the District was Palm River of Tampa, Inc.

During the year ended September 30, 2018, the remaining developer of the District is Taylor Morrison of Florida, Inc.

At September 30, 2018, Palm River 2007 Holdco, LLC, the Special Purpose Entity, and Taylor Morrison of Florida, Inc., the remaining developer, collectively owned the majority of the land comprising the District.

At September 30, 2018, the District owed the Developer \$91,187 from prior years. The Developer's portion of special assessment revenue for the year ended September 30, 2018 totaled \$162,622 which is approximately 35% of total revenue.

With the acknowledgement of the Bondholders, the District removed from the tax roll the operating and maintenance and debt service assessments on the property owned within the District by Palm River of Tampa, Inc., effective for the year ending September 30, 2008, and began invoicing Palm River of Tampa, Inc. directly for such assessments. Palm River of Tampa, Inc. failed to pay such direct assessments. Pursuant to a special warranty deed recorded December 30, 2008, Palm River of Tampa, Inc. conveyed the lots it owned within the District, to General Financial, Inc., the mortgage holder of the lots.

As a result of the non-payment of operating and maintenance and debt service assessments, first by Palm River of Tampa, Inc. and subsequently by General Financial, Inc., the bond Trustee, on behalf of the bondholders, formed a special purpose entity ("SPE"), Palm River 2007 Holdco, LLC, controlled by the Bond Trustee to act on behalf of and for the benefit of the bondholders.

The SPE entered into an agreement with the District and the Bond Trustee, allowing the SPE to acquire, administer, control, manage, sell and distribute sale proceeds from the lots in the District owned by General Financial, Inc. The SPE acquired the lots owned by General Financial, Inc. in July 2010. The SPE has agreed to pay the proportionate share of the District's operating and maintenance expenditures relating to the aforementioned lots.

The District's ability to continue as a going concern is dependent upon the continued involvement of the remaining developer and the Bondholders.

**Note 8 - Risk Management:**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage since inception of the District.

**Note 9 - Subsequent Events:**

Subsequent to year end, the District was unable to make the November 2018 and May 2019 principal and interest payments due on the Series 2007 Bonds.

**COMPLIANCE SECTION**

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

To the Board of Supervisors  
*Palm River Community Development District*

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and each major fund of the *Palm River Community Development District* (the "District") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 12, 2019 which includes an explanatory paragraph regarding the adverse opinion for the omission of the discrete component unit.

Internal Control Over Financial Reporting

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

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

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



## 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 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Appendix A to this report.

We noted certain other matters that we reported to management of the District in a separate letter dated June 12, 2019. The District's response to our findings identified in our audit is included in this report. We did not audit the District's response, and accordingly, we express no opinion on it.

## 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.

*McDiernit Davis & Company, LLC*

Orlando, Florida  
June 12, 2019

**MANAGEMENT COMMENTS**

Board of Supervisors  
*Palm River Community Development District*

**Report on the Financial Statements**

We have audited the financial statements of the *Palm River Community Development District*, (the “District”) as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated June 12, 2019 which includes an adverse opinion on the government wide statements.

**Auditor’s Responsibility**

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

**Other Reporting Requirements**

We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Auditor’s Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated June 12, 2019, should be considered in conjunction with this management letter.

**Prior Audit Findings**

Section 10.554(1)(i)1., Rules of the Auditor General, require that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report except as noted below.

<b>Tabulation of Uncorrected Audit Findings</b>		
<b>Current Year Finding #</b>	<b>2016-17 FY Finding #</b>	<b>2015-16 FY Finding #</b>
2018 - 01	2017 - 01	2016 - 01
2018 - 02	2017 - 02	2016 - 02

**Official Title and Legal Authority**

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

## **Financial Condition and Management**

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the *Palm River Community Development District* has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify of the specific condition(s) met. In connection with our audit, we determined that the *Palm River Community Development District* met one of the conditions described in Section 218.503(1), Florida Statutes. These conditions are described in Appendix B.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the District. It is management's responsibility to monitor the *Palm River Community Development District* 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. Deteriorating financial conditions were noted and are described in Appendix B.

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

## **Additional Matters**

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

## **Purpose of this Letter**

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

*McDiernit Davis & Company, LLC*

Orlando, Florida  
June 12, 2019

PALM RIVER COMMUNITY DEVELOPMENT DISTRICT

**APPENDIX A - COMPLIANCE VIOLATIONS OF LAWS, REGULATIONS AND CONTRACTUAL PROVISIONS**

Year Ended September 30, 2018

**18-01 - Failure to Make Debt Service Payments When Due**

**Criteria**

The Special Assessment Revenue Bonds Series 2007A and 2007B require semiannual interest payments and annual principal payments per the bond indenture.

**Condition**

In the current and prior years, the District did not pay the interest and principal due on the Series 2007A and 2007B Bonds.

**Cause**

The District did not receive sufficient debt service assessments due to a Developer's non-payment and the subsequent Special Purpose Entity's acquisition of the Developer's land within the District.

**Effect**

The District is not in compliance with the Trust Indenture and has met a financial emergency condition as described in Section 218.503(1).

**Recommendation**

We recommend the District utilize all remedies available to bring debt service current.

***Management Response:*** Management will utilize all remedies available to bring debt service payments current.

**18-02 - Failure to Meet Debt Service Reserve Account Requirements**

**Criteria**

The Bond Trust Indentures require the District to maintain minimum balances in the Debt Service Reserve accounts.

**Condition**

At September 30, 2018, the Debt Service Reserve account requirements exceeded the balances in the Debt Service Reserve accounts.

**Cause**

The Debt Service Reserve accounts were used to make prior year debt service payments on the Series 2007A and 2007B bonds and to provide funds to the Special Purpose Entity for its use.

**Effect**

The District is not in compliance with the Bond Trust Indentures

**Recommendation**

We recommend the District utilize all remedies available to replenish the Debt Service Reserve Accounts.

***Management Response:*** Management will utilize all remedies available to replenish the Debt Service Reserve accounts.

PALM RIVER COMMUNITY DEVELOPMENT DISTRICT

**APPENDIX B - CONDITIONS OF FINANCIAL EMERGENCY**

Year Ended September 30, 2018

**18-01 - Failure to Make Debt Service Payments When Due**

In the current year, the District did not pay the principal and interest due on the Series 2007 Bonds, as a result of lack of funds; therefore the District meets Section 218.503(1)(a) as a financial emergency condition.

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

Board of Supervisors  
Palm River Community Development District

We have examined Palm River Community Development District's (the District) compliance with the requirements of Section 218.415, Florida Statutes, during the year ended September 30, 2018. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

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

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2018.

*MCDIRMIT DAVIS & COMPANY, LLC*

Orlando, Florida  
June 12, 2019