

**South Bay Community  
Development District**

**FINANCIAL STATEMENTS**

**September 30, 2014**



**CRI** CARR  
RIGGS &  
INGRAM

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## **INDEPENDENT AUDITOR'S REPORT**

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

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Bay Community Development District (hereinafter referred to as "District"), as of and for the year ended September 30, 2014, 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***

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.

***Basis for Qualified Opinions on Governmental Activities and Major Governmental Debt Service Fund***

Because of the inadequacy of supporting documentation provided by the Bond Trustee, we were unable to obtain sufficient appropriate audit evidence regarding the amount of the general government expenses and accounts payable in the Debt Service Fund as shown on the accompanying Statement of Activities and Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds for the year ended September 30, 2014 (stated at approximately \$825,000 and \$0, respectively).

***Qualified Opinions***

In our opinion, except for the possible effects of the matter described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the Debt Service Fund of the District as of September 30, 2014, and the respective changes in financial position thereof and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund and the aggregate remaining fund information of the District as of September 30, 2014, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Notes 4 and 8 to the financial statements, as a result of continued lack of funding, the District initiated foreclosure proceedings which were settled in the current and prior years. In fiscal year 2012, a Special Purpose Entity (SPE) was formed for the purpose of taking ownership of certain foreclosed property for the benefit of the bondholders. For the fiscal year ended September 30, 2014, the District did not collect debt service assessments sufficient enough to provide payment of its semi-annual debt service.

***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, as listed in the table of contents, 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 30, 2015, 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 and 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.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida  
June 30, 2015



## **Management's Discussion And Analysis**

## South Bay Community Development District Management's Discussion and Analysis

Our discussion and analysis of the South Bay Community Development District's financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2014. Please read it in conjunction with the District's financial statements, which begin on page 9.

### FINANCIAL HIGHLIGHTS

- At September 30, 2014, the liabilities of the District exceeded its assets by approximately \$12.6 million (deficit).
- The required bond principal and interest payments of \$425,000 and \$2,867,127, respectively, on the Series 2005 A, 2005 B-1, and 2005 B-2 Bonds were not made as of September 30, 2014.

### USING THE ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities on pages 9 – 10 provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements start on page 11. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds.

#### ***Reporting the District as a Whole***

Our analysis of the District as a whole begins on page 5. One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and related changes during the current year. You can think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors; however, such as changes in the District's assessment base and the condition of the District's infrastructure, to assess the overall health of the District.

#### ***Reporting the District's Most Significant Funds***

Our analysis of the District's major funds begins on page 6. The fund financial statements begin on page 11 and provide detailed information about the most significant funds – not the District as a whole.

## South Bay Community Development District Management's Discussion and Analysis

Some funds are required to be established by State law and by bond covenants. All of the District's funds are governmental fund-types.

- *Governmental funds* – All of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

### THE DISTRICT AS A WHOLE

The following table reflects the condensed Statement of Net Position and is compared to the prior year.

<i>September 30,</i>	<b>2014</b>	<b>2013</b>	<b>Change</b>
<b>Assets</b>			
Current and other assets	\$ 9,954,466	\$ 8,342,830	\$ 1,611,636
Capital assets, net	44,666,003	44,666,003	-
<b>Total assets</b>	<b>\$ 54,620,469</b>	<b>\$ 53,008,833</b>	<b>\$ 1,611,636</b>
<b>Liabilities</b>			
Current liabilities	\$ 47,725,617	\$ 44,674,777	\$ 3,050,840
Other liabilities	19,510,000	19,965,000	(455,000)
<b>Total liabilities</b>	<b>67,235,617</b>	<b>64,639,777</b>	<b>2,595,840</b>
<b>Net position</b>			
Net investment in capital assets	(4,549,237)	(4,549,394)	157
Restricted for:			
Capital projects	18,212	18,208	4
Unrestricted	(8,084,123)	(7,099,758)	(984,365)
<b>Total net position (deficit)</b>	<b>(12,615,148)</b>	<b>(11,630,944)</b>	<b>(984,204)</b>
<b>Total liabilities and net position</b>	<b>\$ 54,620,469</b>	<b>\$ 53,008,833</b>	<b>\$ 1,611,636</b>

For more detailed information, see the accompanying Statement of Net Position.

During the fiscal year ended September 30, 2014, total assets and liabilities increased by approximately \$1.6 million and \$2.6 million, respectively. The increase in assets is primarily due to the District conserving its cash in the current year. The increase in liabilities is due to the District's inability to make the semi-annual debt service payments.

## South Bay Community Development District Management's Discussion and Analysis

The following schedule compares the Statement of Activities for the current and previous fiscal year.

<i>Year ended September 30,</i>	<b>2014</b>	<b>2013</b>	<b>Change</b>
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 2,352,557	\$ 1,635,807	\$ 716,750
Grants and contributions	1,717	1,967	(250)
General revenues:			
Settlement income	650,000	5,254,991	(4,604,991)
Interest and other revenues	215	15,194	(14,979)
Special item:			
Gain on the cancellation of debt	-	5,110,000	(5,110,000)
<b>Total revenues</b>	<b>3,004,489</b>	<b>12,017,959</b>	<b>(9,013,470)</b>
<b>Expenses:</b>			
General government	1,114,978	1,331,225	(216,247)
Maintenance and operations	115,708	89,135	26,573
Interest	2,758,007	3,057,207	(299,200)
<b>Total expenses</b>	<b>3,988,693</b>	<b>4,477,567</b>	<b>(488,874)</b>
Change in net assets	(984,204)	7,540,392	(8,524,596)
Net position (deficit), beginning	(11,630,944)	(19,171,336)	7,540,392
<b>Net position (deficit), ending</b>	<b>\$ (12,615,148)</b>	<b>\$ (11,630,944)</b>	<b>\$ (984,204)</b>

For more detailed information, see the accompanying Statement of Activities.

Revenues and expenses decreased from the prior year by approximately \$9 million and \$489,000, respectively. The decrease in revenues is primarily due to the receipt of settlement income and cancellation of debt in accordance with the Forbearance and Settlement Agreements entered into in the prior year. The decrease in expenses is due to a decrease in interest expense resulting from the cancellation of debt accompanied by a decrease in legal fees as a majority of the settlements were entered into in the prior year. The overall result was a \$984,204 decrease in net position for fiscal year 2014.

### THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 11) reported a combined fund balance deficit of approximately \$36.2 million, which is a decrease from last year's deficit balance that totaled \$34.6 million. Significant transactions are discussed on the following page.

## South Bay Community Development District Management's Discussion and Analysis

- The required bond principal and interest payments of \$425,000 and \$2,867,127, respectively, on the Series 2005 A, 2005 B-1, and 2005 B-2 Bonds were not made as of September 30, 2014. These amounts were recorded as current year expenditures and added to the debt service obligation.

The overall decrease in fund balance for the year ended September 30, 2014 totaled approximately \$1.5 million.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### **Capital Assets**

At September 30, 2014, the District had approximately \$44.7 million invested in capital.

A listing of capital assets by major category for the current and prior year follows:

<i>September 30,</i>	<b>2014</b>	<b>2013</b>	<b>Change</b>
Land	\$ 16,812,056	\$ 16,812,056	\$ -
Infrastructure under construction	27,853,947	27,853,947	-
<b>Net capital assets</b>	<b>\$ 44,666,003</b>	<b>\$ 44,666,003</b>	<b>\$ -</b>

More information about the District's capital assets is presented in Note 3 to the financial statements.

#### **Debt**

At September 30, 2014, the District had approximately \$50.1 million of bonds outstanding.

A listing of debt amounts outstanding for the current and prior year is as follows:

<i>September 30,</i>	<b>2014</b>	<b>2013</b>	<b>Change</b>
Capital Improvement Revenue Bonds:			
Series 2005 A	\$ 22,175,000	\$ 22,175,000	\$ -
Series 2005 B-1	9,380,000	9,380,000	-
Series 2005 B-2	18,515,000	18,515,000	-
	<b>\$ 50,070,000</b>	<b>\$ 50,070,000</b>	<b>\$ -</b>

More information about the District's long-term debt is presented in Note 4 to the financial statements.

# South Bay Community Development District Management's Discussion and Analysis

## **GOVERNMENTAL FUNDS BUDGETARY HIGHLIGHTS**

An Operating budget was established by the governing board for the District pursuant to the requirements of Florida Statutes. The budget to actual comparison for the general fund, including the original budget and final adopted budget, is shown at page 25.

The District experienced a favorable variance in revenues and expenses as compared to the final budget in the amount of \$1,099 and \$213,574, respectively. The variance in expenditures occurred primarily due to anticipated operating expenditures that were not incurred during the year.

## **FUTURE FINANCIAL FACTORS**

South Bay Community Development District is an independent special district that operates under the provisions of Chapter 190, Florida Statutes. The District operates under an elected Board of Supervisors, which establishes policy and sets assessment rates. Assessment rates for fiscal year 2015 were established to provide for the operations of the District as well as the necessary debt service requirements.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. If you have questions about this report or need additional financial information, contact the South Bay Community Development District's management company at 2501A Burns Road, Palm Beach Gardens, Florida, 33410.



## **Basic Financial Statements**

**South Bay Community Development District  
Statement of Net Position**

<i>September 30,</i>	<b>2014</b>
	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 9,950,505
Accounts receivable	3,961
Capital assets:	
Not being depreciated	44,666,003
Total assets	54,620,469
<b>Liabilities</b>	
Accounts payable	34,964
Accrued interest payable	33,096,590
Non-current liabilities:	
Due within one year	14,594,063
Due in more than one year	19,510,000
Total liabilities	67,235,617
<b>Net position</b>	
Net investment in capital assets	(4,549,237)
Restricted for:	
Capital projects	18,212
Unrestricted	(8,084,123)
Total net position (deficit)	\$ (12,615,148)

*The accompanying footnotes are an integral part of these financial statements.*

**South Bay Community Development District  
Statement of Activities**

*Year ended September 30,*

**2014**

Functions/Programs	Expenses	Charges for Services	<u>Program Revenues</u>		Capital Grants and Contributions	Governmental Activities	Net (Expense) Revenue and Changes in Net Position
			Operating Grants and Contributions				
Primary government:							
Governmental activities:							
General government	\$ (1,114,978)	\$ 393,285	\$ -		\$ -		\$ (721,693)
Maintenance and operations	(115,708)	40,814	-		-		(74,894)
Interest	(2,758,007)	1,918,458	1,713		4		(837,832)
<b>Total governmental activities</b>	<b>\$ (3,988,693)</b>	<b>\$ 2,352,557</b>	<b>\$ 1,713</b>		<b>\$ 4</b>		<b>(1,634,419)</b>

**General revenues**

Settlement income	650,000
Interest and other revenues	215
<b>Total general revenues</b>	<b>650,215</b>
 Change in net position	 (984,204)
 Net position (deficit) - beginning of year	 (11,630,944)
 Net position (deficit) - end of year	 <b>\$ (12,615,148)</b>

*The accompanying footnotes are an integral part of these financial statements.*

**South Bay Community Development District  
Balance Sheet – Governmental Funds**

September 30,

2014

	General	Debt Service	Non-Major	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 26,037	\$ 9,906,256	\$ 18,212	\$ 9,950,505
Accounts receivable	3,961	-	-	3,961
Due from other funds	-	324,781	-	324,781
<b>Total assets</b>	<b>\$ 29,998</b>	<b>\$ 10,231,037</b>	<b>\$ 18,212</b>	<b>\$ 10,279,247</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 34,964	\$ -	\$ -	\$ 34,964
Debt service obligation	-	46,070,937	-	46,070,937
Due to other funds	324,781	-	-	324,781
<b>Total liabilities</b>	<b>359,745</b>	<b>46,070,937</b>	<b>-</b>	<b>46,430,682</b>
<b>Fund balances</b>				
Restricted for capital projects	-	-	18,212	18,212
Unassigned	(329,747)	(35,839,900)	-	(36,169,647)
<b>Total fund balances (deficit)</b>	<b>(329,747)</b>	<b>(35,839,900)</b>	<b>18,212</b>	<b>(36,151,435)</b>
<b>Total liabilities and fund balances</b>	<b>\$ 29,998</b>	<b>\$ 10,231,037</b>	<b>\$ 18,212</b>	<b>\$ 10,279,247</b>

*The accompanying footnotes are an integral part of these financial statements.*

**South Bay Community Development District  
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of  
Net Position**

<u>September 30,</u>	<u>2014</u>
Total fund balances (deficit), governmental funds	\$ (36,151,435)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.	44,666,003
Liabilities not due and payable from current resources, including accrued interest, are not reported in the fund financial statements.	(21,129,716)
<u>Total net position (deficit) - governmental activities</u>	<u>\$ (12,615,148)</u>

*The accompanying footnotes are an integral part of these financial statements.*

**South Bay Community Development District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances –**  
**Governmental Funds**

<i>Year ended September 30,</i>	<b>2014</b>			
	<b>General</b>	<b>Debt Service</b>	<b>Non-Major</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>				
Assessments	\$ 434,099	\$ 1,583,529	\$ -	\$ 2,017,628
Prepayment revenue	-	334,929	-	334,929
Settlement income	150,000	500,000		650,000
Interest and other revenues	215	1,713	4	1,932
<b>Total revenues</b>	<b>584,314</b>	<b>2,420,171</b>	<b>4</b>	<b>3,004,489</b>
<b>Expenditures</b>				
Current:				
General government	289,511	825,467	-	1,114,978
Maintenance and operations	115,708	-	-	115,708
Debt service:				
Principal	-	425,000	-	425,000
Interest	-	2,867,127	-	2,867,127
<b>Total expenditures</b>	<b>405,219</b>	<b>4,117,594</b>	<b>-</b>	<b>4,522,813</b>
Excess (deficit) of revenues over expenditures	179,095	(1,697,423)	4	(1,518,324)
<b>Other Financing Sources (Uses)</b>				
Transfers in	310,318	-	-	310,318
Transfers out	-	(310,318)	-	(310,318)
<b>Total other financing sources (uses)</b>	<b>310,318</b>	<b>(310,318)</b>	<b>-</b>	<b>-</b>
Net change in fund balances	489,413	(2,007,741)	4	(1,518,324)
Fund balances (deficit), beginning of year	(819,160)	(33,832,159)	18,208	(34,633,111)
<b>Fund balances (deficit), end of year</b>	<b>\$ (329,747)</b>	<b>\$ (35,839,900)</b>	<b>\$ 18,212</b>	<b>\$ (36,151,435)</b>

*The accompanying footnotes are an integral part of these financial statements.*

**South Bay Community Development District  
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund  
Balances of Governmental Funds to the Statement of Activities**

<i>Year ended September 30,</i>	<b>2014</b>
Net change in fund balances - governmental funds	\$ (1,518,324)
Governmental funds report principal payments on bonds as expenditures when they become due regardless of whether they are paid, whereas these amounts have no effect on the Statement of Net Position.	425,000
The change in accrued interest between the current and prior year is recorded on the Statement of Activities but not on the fund financial statements.	109,120
Change in net position of governmental activities	\$ (984,204)

*The accompanying footnotes are an integral part of these financial statements.*

## South Bay Community Development District Notes to Financial Statements

### NOTE 1 – NATURE OF ORGANIZATION

The South Bay Community Development District (the “District”) was established on February 24, 2004 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes, by Hillsborough County Ordinance No. 04-17. 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 a Board of Supervisors (“Board”), which is comprised 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.

In October 2012, a Special Purpose Entity (SPE), South Bay CDD Holdings, Inc., was formed for the purpose of taking ownership of certain foreclosed property for the benefit of the bondholders. The SPE is wholly-owned and managed by the Bond Trustee. The District does not have control or ownership of the SPE. In connection with the SPE, however, the Bond Trustee paid \$575,119 in expenses on its behalf during the year ending September 30, 2014.

The Board has the final responsibility for:

1. Allocating and levying special 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.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth by Generally Accepted Accounting Principles (GAAP) as defined by the Governmental Accounting Standards Board (GASB) in statements No. 14 and No. 61. Based on the foregoing criteria, no potential component units were found.

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to GAAP as applicable to governments in accordance with those promulgated by GASB. The following is a summary of the more significant policies:

## South Bay Community Development District Notes to Financial Statements

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

#### ***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 the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by assessments, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The business-type activities are reported separately in government-wide financial statements; however, at September 30, 2014, the District did not have any significant business-type activities. Therefore, no business-type activities are reported. Assessments and other items not properly included as program revenues (i.e., charges to customers or applicants who purchase, use, or directly benefit from goods or services) are reported as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

#### ***Measurement Focus, Basis of Accounting and Basis of 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 the related cash flows. Assessments are recognized as revenues in the year for which they are levied. Grants and other 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 District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Assessments, including debt service assessments along with operation and maintenance assessments, are non-ad valorem special assessments imposed on all lands located within the District and benefited by the District's activities. Assessments are levied and certified for collection 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 benefited lands located in the District. Debt service special assessments are imposed upon certain lots and lands as described in each resolution imposing the special assessment for each series of bonds issued by the District.

## South Bay Community Development District Notes to Financial Statements

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

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

The District reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the District. It is used to account for all financial resources except those required to be accounted for in other funds.

Debt Service Fund – The Debt Service Fund Series 2005 is used to account for the accumulation of resources for the annual payment of principal and interest on long-term debt.

For the year ended September 30, 2014, the District does not report any proprietary funds.

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. When committed, assigned, or unassigned resources are available for use in the governmental fund financial statements, it is the government's policy to use committed resources first, followed by assigned resources, then unassigned resources as needed.

#### ***Cash, Deposits and Investments***

The District maintains deposits with "Qualified Public Depositories" as defined in Chapter 280, Florida Statutes. All Qualified Public Depositories must place with the Treasurer of the State of Florida securities in accordance with collateral requirements determined by the State's Chief Financial Officer. In the event of default by a Qualified Public Depository, the State Treasurer will pay public depositors all losses. Losses in excess of insurance and collateral will be paid through assessments between all Qualified Public Depositories.

Under this method, all the District's deposits are fully insured or collateralized at the highest level of security as defined by GASB, Statement Number 40, *Deposits and Investment Disclosures (An Amendment of GASB, Statement Number 3)*.

The District is authorized to invest in financial instruments as established by Section 218.415, Florida Statutes. The authorized investments include among others negotiable direct or indirect obligations which are secured by the United States Government; the Local Government Surplus Trust Funds as created by Section 218.405, Florida Statutes; SEC registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and interest-bearing time deposits or savings accounts in authorized financial institutions.

## South Bay Community Development District Notes to Financial Statements

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

#### ***Capital Assets***

Capital assets, which include primarily infrastructure assets (e.g., roads, sidewalks, water management systems and similar items), are reported in the 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 and estimated historical cost if purchased or constructed. Donated 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 asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government will be depreciated using the straight-line method over the estimated useful lives once the systems have been completed and placed in service.

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.

#### ***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 or effective interest method. Bonds payable are reported net of these premiums or discounts. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current period expenses.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of the 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***

In addition to assets, the statement of financial position includes 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 of this type of item at September 30, 2014.

## South Bay Community Development District Notes to Financial Statements

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

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 of this type of item at September 30, 2014.

#### ***Fund Equity***

Net position in the government-wide financial statements represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is categorized as net investment in capital assets, restricted or unrestricted. Net investment in capital assets represents assets related to infrastructure and property, plant and equipment, net of any related debt. Restricted net position represents the assets restricted by the District's bond covenants.

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the District board through approval of resolutions. Assigned fund balance is a limitation imposed by a designee of the District board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes.

#### ***Budgets***

The District is required to establish a budgetary system and an approved annual budget. Annual budgets are legally adopted on a basis consistent with GAAP for the General Fund. Any revision to the budget must be approved by the District Board. The budgets are compared to actual expenditures. In instances where budget appropriations and estimated revenues have been revised during the year, budget data presented in the financial statements represent final authorization amounts.

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. A public hearing is conducted to obtain 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. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

## South Bay Community Development District Notes to Financial Statements

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

#### *Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### NOTE 3 – CAPITAL ASSETS

The following is a summary of changes in the capital assets for the year ended September 30, 2014:

	Beginning Balance	Additions	Transfers and Conveyances	Ending Balance
<b>Governmental Activities:</b>				
<i>Capital assets not being depreciated</i>				
Land	\$ 16,812,056	\$ -	\$ -	\$ 16,812,056
Infrastructure under construction	27,853,947	-	-	27,853,947
<b>Total capital assets, not being depreciated</b>	<b>44,666,003</b>	<b>-</b>	<b>-</b>	<b>44,666,003</b>
Governmental activities capital assets, net	\$ 44,666,003	\$ -	\$ -	\$ 44,666,003

The total cost of the Series 2005 project was originally estimated to be \$73.2 million. In connection with the restructuring agreement entered into in March 2015, the cost of the Series 2005 estimated project was amended to \$44.8 million and the engineer certified the project complete. The infrastructure under construction will be considered placed in service in fiscal year 2015.

### NOTE 4 – BONDS PAYABLE

In March 2005, the District issued \$57,445,000 of Capital Improvement Revenue Bonds, Series 2005 consisting of \$22,755,000 Series 2005 A, \$16,175,000 Series 2005 B-1, and \$18,515,000 of Series 2005 B-2 Bonds with fixed interest rates of 5.950%, 5.125%, and 5.375%, respectively. The Bonds were issued to finance a portion of the acquisition and construction of certain improvements for the benefit of the District. Interest is paid semiannually on each May 1 and November 1. Principal on the Series 2005 A Bonds is paid serially commencing on May 1, 2007 through May 1, 2036. The Series 2005 B-1 and 2005 B-2 Bonds, a portion of which remain outstanding, were due in full on November 1, 2009 and May 1, 2013, respectively.

For the fiscal year ended September 30, 2014, the District did not make its semi-annual debt service payments. At September 30, 2014, the District had failed to make any debt service payments since May 2009. The unpaid principal and interest during the fiscal year 2014 was added to the District's debt service obligation liability on the fund-level Balance Sheet. At September 30, 2014, this liability totaled \$46,070,937. In December 2014, the District did make interest payments on its Series 2005 bonds totaling approximately \$5 million.

## South Bay Community Development District Notes to Financial Statements

### NOTE 4 – BONDS PAYABLE (Continued)

Long-term liability activity for the year ended September 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities</i>					
Bonds Payable:					
Series 2005 A	\$ 22,175,000	\$ -	\$ -	\$ 22,175,000	\$ 2,665,000
Series 2005 B-1	9,380,000	-	-	9,380,000	9,380,000
Series 2005 B-2	18,515,000	-	-	18,515,000	18,515,000
	<b>\$ 50,070,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 50,070,000</b>	<b>\$ 30,560,000</b>

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

<i>Year Ending September 30,</i>	<b>Principal</b>	<b>Interest</b>	<b>Service</b>
2015	\$ 30,560,000	\$ 18,023,301	\$ 48,583,301
2016	480,000	1,160,845	1,640,845
2017	510,000	1,132,285	1,642,285
2018	540,000	1,101,940	1,641,940
2019	575,000	1,069,810	1,644,810
2020 - 2024	3,450,000	4,791,833	8,241,833
2025 - 2029	4,635,000	3,632,773	8,267,773
2030 - 2034	6,250,000	2,073,278	8,323,278
2035 - 2036	3,070,000	276,675	3,346,675
	<b>\$ 50,070,000</b>	<b>\$ 33,262,740</b>	<b>\$ 83,332,740</b>

The Bond Indenture requires that the District maintain adequate funds in reserve accounts to meet the debt service reserve requirements as defined in the Indenture. The requirement has not been met for the fiscal year ended September 30, 2014. Subsequent to year end, as described below, the District restructured its bonds.

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. As described above, the District is not in compliance with the requirements of the Bond Indenture. Subsequent to year end, as described below, the District restructured its bonds.

## South Bay Community Development District Notes to Financial Statements

### NOTE 4 – BONDS PAYABLE (Continued)

Subsequent to year end, the District and other parties entered into a restructuring agreement. In conjunction with the restructure, \$11,630,000 of outstanding bond principal was cancelled, and \$31,275,000 was exchanged for Series 2015 Capital Improvement Revenue Refunding Bonds. The existing bondholders also agreed to waive delinquent interest on the exchanged bonds. A remaining amount totaling \$7,165,000 of the Series 2005 Bonds was not exchanged. The unexchanged bonds are subordinate in all respects to the payment of the principal and interest on the Series 2015 Bonds, and the rights of the owners of the unexchanged 2005 bonds are subordinate to the rights of the holders of the Series 2015 Bonds in every respect.

The Restructuring Agreement also provides that the District shall not certify any portion of the unreleased 2005 Assessments for collection until the earlier of: (i) the occurrence of an Event of Default under the Restructuring Agreement, (ii) principal and interest of the Un-Exchanged 2005 Bonds being forgiven pursuant to the Restructuring Agreement or (iii) March 27, 2017. Therefore, it is expected that the monies available to pay debt service on the unexchanged 2005 Bonds, at least during this period of forbearance with respect to the unreleased 2005 Assessments, will be limited to the unexchanged bond revenues, if any, resulting from a sale or sales by the SPE of the Transferred Lands.

In March 2015, the District issued \$34,495,000 of Capital Improvement Revenue Refunding Bonds Series 2015. The Series 2015 bonds were issued with various terms. The Series 2015 A-2 and 2015 B-2 bonds, as shown below, were exchanged at a deep discount which will accrete over a period of time to the principal amount of the bonds.

Series	Initial Principal Amount	Conversion Date Accreted Value	Interest Rate	Maturity Date	Principal Payments Commencing	Interest Payments Commencing
2015 A-1	\$ 9,970,000	\$ 9,970,000	5.950%	May 1, 2036	May 1, 2015	May 1, 2015
2015 A-2	8,928,571	11,280,000	6.600%	May 1, 2036	May 1, 2019	May 1, 2019
2015 B-1	9,070,000	9,070,000	5.125%	May 1, 2020	May 1, 2020	May 1, 2015
2015 B-2	3,304,680	4,175,000	6.600%	May 1, 2025	May 1, 2025	May 1, 2019
	<u>\$ 31,273,251</u>	<u>\$ 34,495,000</u>				

The “conversion date accreted value” represents the initial principal amount of the bonds plus accrued interest between the date of issuance and the date interest payments commence on each separate issue.

### NOTE 5 – 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 maintains commercial insurance coverage to mitigate the risk of loss. Coverage may not extend to all situations. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this commercial coverage in the previous three years.

## South Bay Community Development District Notes to Financial Statements

### NOTE 6 – 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 (Board appointed non-voting positions) of the District. Under the agreement, the District compensates the management company for management, accounting, financial reporting, and other administrative costs.

### NOTE 7 – INTERFUND BALANCES AND TRANSFERS

At September 30, 2014, the General Fund owed the Debt Service Fund \$324,781. The outstanding balance between funds is primarily for assessments collected in the General Fund that have not yet been transferred to the Debt Service Fund. During the fiscal year ended September 30, 2014, the interfund balance was reduced by \$310,318 as a result of the District utilizing existing Debt Service Fund resources to partially fund General Fund operations. This amount is shown as an Interfund transfer on the accompanying Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds.

### NOTE 8 – CONCENTRATION

In fiscal year 2008, the former developer abandoned the project. The Developer was succeeded in interest by the mortgage holders on each of the five respective development parcels. Subsequent to the developer abandoning the project, the District entered into forbearance and settlement agreements with three of the mortgage holders and received a summary judgement against one of the mortgage holders, which has been assigned to the SPE.

In October 2013, the District and trustee entered into a forbearance and settlement agreement with Harborside Suites, LLC (“Harborside”). In accordance with the agreement, Harborside remitted \$500,000 to the District for a partial payment of the Series 2005 B-2 bonds to be applied against accrued interest. The remaining Series 2005 B-2 assessments due from Harborside will forbear collection for a period of two years. Subsequent to the forbearance period above, Harborside shall pay the remaining \$2,048,877 in \$500,000 increments every six months with the last installment to include the remaining \$48,877. As to the Series 2005 A assessments allocated to the unplatted portion of the retained lands, the District will forbear collection and enforcement for a period of two years from the closing date.

In addition, Harborside remitted \$150,000 to the District for full and complete satisfaction of all attorneys’ fees and other costs of collection incurred by the District in connection with the foreclosure action.

A significant portion of the District’s activity is dependent on the continued involvement of the SPE and mortgage holder whom acquired interest of the property formerly owned by the Developer, the loss of which could have a material adverse effect on the District’s operations.



## South Bay Community Development District Notes to Financial Statements

### **NOTE 9 – SUBSEQUENT EVENT**

The District is a plaintiff in a foreclosure lawsuit against Bahia Sun Associates, Limited Partnership. On January 14, 2015, the judge entered an order that the amount due and owed to the District was \$4,733,962, which was to bear interest at the applicable statutory rate. The property was sold on the courthouse steps on March 4, 2015 to the District as the highest bidder. On March 17, 2015, the clerk of court issued a certificate of title to the property to the District.



**Required Supplemental Information  
(Other Than MD&A)**

**South Bay Community Development District  
Budget to Actual Comparison Schedule – General Fund**

<i>Year ended September 30,</i>	<b>2014</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
<b>Revenues</b>				
Assessments	\$ 741,793	\$ 433,000	\$ 434,099	\$ 1,099
Settlement income	-	150,000	150,000	-
Interest and other revenues	240	215	215	-
<b>Total revenues</b>	<b>742,033</b>	<b>583,215</b>	<b>584,314</b>	<b>1,099</b>
<b>Expenditures</b>				
General government	477,683	501,443	289,511	211,932
Maintenance and operations	264,350	117,350	115,708	1,642
<b>Total expenditures</b>	<b>742,033</b>	<b>618,793</b>	<b>405,219</b>	<b>213,574</b>
Excess (deficit) of revenues over expenditures	\$ -	\$ (35,578)	\$ 179,095	\$ 214,673

**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  
South Bay 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, each major fund, and the aggregate remaining fund information of South Bay Community Development District (hereinafter referred to as the “District”), as of and for the 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 report thereon dated June 30, 2015.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency identified below as item IC2010-01 to be a material weakness.

## IC2010-01: Supporting Documentation

- Condition: The District has approximately \$365,000 of expenditures recorded relating to the Debt Service Fund that has no supporting documentation available to verify their existence, appropriateness and proper classification.
- Criteria: Internal controls should be in place to provide reasonable assurance that expenditures are appropriate and properly recorded.
- Cause: The expenditures were made from a trust account over which District management has no direct control or authority. The funds were removed from the account by the Bond Trustee and transferred to a different account. No supporting documentation was provided to District management regarding the use of these funds, and no indication is given on the investment trust statement as to the use of these funds.
- Effect: Because no supporting documentation is available to District management, expenditures may be made that are inappropriate for the District to pay, they may be improperly classified on the District's financial statements, or they may be recorded in the incorrect period.
- Recommendation: We understand District management has attempted to obtain supporting documentation for these types of expenditures but has been denied access by the Bond Trustee. We recommend the District continue to pursue the supporting documentation and continue to explain to those involved the importance of transparency when using governmental-entity funds. Ultimately, the District should have sufficient documentation to support all expenditures.

The District's response to the finding identified in our audit is described below. We did not audit the District's response and, accordingly, we express no opinion on it.

- Management Response: Because the Bonds are in default, the Trustee does not need the District's approval to pay these expenditures. The District has requested the supporting documentation from the Trustee for expenditures made by the Trustee from District Trust Accounts. The Trustee has not provided the requested information. The District will continue to request documentation from the Trustee for financial transactions processed through District accounts.

## 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

- IC2010-02: The District is not in compliance with certain provisions of its Bond Indenture including those relating to 1) levying and collecting assessment to provide payment of debt service, 2) maintaining adequate funds in debt service reserve accounts, and 3) making its semi-annual debt service principal and interest payments.

The District's response to the finding identified in our audit is described below. We did not audit the District's response and, accordingly, we express no opinion on it.

- In 2008, the South Bay Developer abandoned the project. Because the District was economically dependent on the Developer, the deteriorating financial condition exists.

The District has engaged in five lawsuits for foreclosure against the developer and other entities behind the developer, primarily conventional lenders who lent money for vertical construction. Either judgments have been entered against or settlements have been entered into with the respective lenders. A purpose of the Special Purpose Entity (SPE), which was created by the bondholders, is to pursue the sale of the lands obtained via the settlements.

In March 2015, the Series 2005 Bonds were restructured. A portion of the Series 2005 Bonds were cancelled by the Bondholders and the majority of the remaining Bonds were replaced by the Series 2015 Refunding Bonds.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida  
June 30, 2015



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Certified Public Accountants  
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Suite 210  
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## MANAGEMENT LETTER

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

### Report on the Financial Statements

We have audited the financial statements of the South Bay Community Development District ("District") as of and for the fiscal year ended September 30, 2014, and have issued our report thereon dated June 30, 2015.

### 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*. Disclosures in this report, which is dated June 30, 2015, should be considered in conjunction with this management letter.

### Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. The items noted as IC2010-01 and IC2010-02 on pages 26 and 27 were included in the preceding annual audit report but have not been corrected. These comments were also included in the second preceding financial audit report.

### Official Title and Legal Authority

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

## **Financial Condition**

Section 10.554(1)(i)5.a., Rules of the Auditor General, requires that we report the results of our determination as to whether or not the District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District met the condition described in Section 218.503(1)(a), Florida Statutes. The District failed to make bond debt service payments as a result of a lack of funds. The financial emergency conditions were a result of a deteriorating financial condition for the reason described below. The District's response is present on page 28.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. It was determined a deteriorating financial condition exists with respect to the District. In fiscal year 2008, the former developer abandoned the project and was succeeded in interest by the mortgage holders on each of the five respective development parcels. In October 2012, a Special Purpose Entity (SPE) was formed for the purpose of taking ownership of certain foreclosed properties for the benefit of the bondholders. The SPE is wholly-owned and managed by the Bond Trustee. The District does not have control or ownership of the SPE. In connection with the SPE, however, the Bond Trustee paid \$575,119 in expenses on its behalf during the year ending September 30, 2014.

For the fiscal year ended September 30, 2014, the District did not make its semi-annual debt service payments. The District has failed to make any debt service payment since May 2009. The unpaid principal and interest during the fiscal year 2014 was added to the District's debt service obligation liability on the fund-level Balance Sheet. At September 30, 2014, this liability totaled \$46,070,937. Subsequent to year end, the District and other parties entered into a restructuring agreement. In conjunction with the restructure, \$11,630,000 of outstanding principal was cancelled and \$31,275,000 was exchanged for Series 2015 Capital Improvement Revenue Refunding Bonds.

## **Annual Financial Report**

Section 10.554(1)(i)5.b., Rules of the Auditor General, requires that we report the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 2014, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2014. In connection with our audit, we determined that these two reports were in agreement.

## **Other Matters**

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

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address 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 have 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.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida  
June 30, 2015



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## **INDEPENDENT ACCOUNTANT'S REPORT**

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

We have examined South Bay Community Development District's compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended September 30, 2014. 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, 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, 2014.

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

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida  
June 30, 2015