

**South Bay Community
Development District**

FINANCIAL STATEMENTS

September 30, 2018



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South Bay Community Development District
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September 30, 2018

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INDEPENDENT AUDITORS' 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 and each major fund of South Bay Community Development District (hereinafter referred to as "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

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.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 May 17, 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 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
May 17, 2019



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, 2018. Please read it in conjunction with the District's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- At September 30, 2018, the assets of the District exceeded its liabilities by approximately \$2.7 million.
- During the fiscal year ended September 30, 2018, the District incurred seawall capital outlay expenditures totaling approximately \$244,000, incurred approximately \$1 million of interest expenditures and made principal payments totaling \$300,000.

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 8 – 9 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 10. 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 4. 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.

South Bay Community Development District Management's Discussion and Analysis

Reporting the District's Most Significant Funds

Our analysis of the District's major funds begins on page 5. The fund financial statements begin on page 10 and provide detailed information about the most significant funds – not the District as a whole. 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>	2018	2017	Change
Assets			
Current and other assets	\$ 3,061,656	\$ 3,068,777	\$ (7,121)
Capital assets, net	41,660,793	42,344,842	(684,049)
Total assets	\$ 44,722,449	\$ 45,413,619	\$ (691,170)
Liabilities			
Current liabilities	\$ 2,344,008	\$ 1,999,194	\$ 344,814
Other liabilities	39,714,706	39,291,095	423,611
Total liabilities	42,058,714	41,290,289	768,425
Net position			
Net investment in capital assets	3,308,712	4,771,372	(1,462,660)
Unrestricted	(644,977)	(648,042)	3,065
Total net position	2,663,735	4,123,330	(1,459,595)
Total liabilities and net position	\$ 44,722,449	\$ 45,413,619	\$ (691,170)

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

During the fiscal year ended September 30, 2018, total assets decreased by approximately \$691,000, while total liabilities increased by approximately \$768,000 over the prior fiscal year. The decrease in assets is primarily due to the depreciation on capital assets. The increase in liabilities is due to an increase in long-term debt related to interest accretion, net of the repayment of principal on long-term debt accompanied by the amount due to developer for seawall advances.

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>	2018	2017	Change
Revenues:			
Program revenues:			
Charges for services	\$ 1,802,876	\$ 1,837,035	\$ (34,159)
Grants and contributions	26,202	6,500	19,702
General revenues:			
Interest and other revenues	708	4,063	(3,355)
Total revenues	1,829,786	1,847,598	(17,812)
Expenses:			
General government	188,020	164,284	23,736
Maintenance and operations	1,134,678	1,072,464	62,214
Interest	1,966,683	1,934,759	31,924
Total expenses	3,289,381	3,171,507	117,874
Change in net position	(1,459,595)	(1,323,909)	(135,686)
Net position, beginning of year	4,123,330	5,447,239	(1,323,909)
Net position, ending of year	\$ 2,663,735	\$ 4,123,330	\$ (1,459,595)

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

Revenues did not change significantly from the prior year, while expenses increased by approximately \$118,000. The increase in expenses is primarily due to roadway repairs, increased legal fees and increased interest expenses. The overall result was a \$1,459,595 decrease in net position for fiscal year 2018.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 10) reported a combined fund balance of approximately \$1.765 million, which is a slight decrease from last year's balance that totaled approximately \$1.769 million. Significant transactions are discussed on the following page.

- During the fiscal year ended September 30, 2018, the District incurred seawall capital outlay expenditures totaling approximately \$244,000, incurred approximately \$1 million of interest expenditures and made principal payments totaling \$300,000.

The overall decrease in fund balance for the year ended September 30, 2018 totaled approximately \$4,000.

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 expenditures as compared to the final budget in the amount of \$1,010 and \$27,828, respectively. The variance in expenditures occurred primarily due to the District budgeting for reserves and repairs that were not incurred during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2018, the District had approximately \$41.7 million invested in capital assets (net of accumulated depreciation). This amount represents a net decrease of approximately \$684,000 from the fiscal year 2017 total.

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

<i>September 30,</i>	2018	2017	Change
Capital assets not being depreciated	\$ 17,056,473	\$ 16,812,056	\$ 244,417
Capital assets being depreciated	27,853,947	27,853,947	-
Total, prior to depreciation	44,910,420	44,666,003	244,417
Accumulated depreciation	(3,249,627)	(2,321,161)	(928,466)
Net capital assets	\$ 41,660,793	\$ 42,344,842	\$ (684,049)

More information about the District's capital assets is presented in Note 4 to the financial statements.

South Bay Community Development District Management's Discussion and Analysis

Debt

At September 30, 2018, the District had approximately \$40.4 million of outstanding debt. This amount represents a net decrease of approximately \$176,000 from the fiscal year 2017 total.

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

<i>September 30,</i>	2018	2017	Change
Capital Improvement Revenue Bonds:			
Series 2005 A	\$ 6,755,000	\$ 6,755,000	\$ -
Capital Improvement Revenue Refunding Bonds:			
Series 2015 A-1	9,035,000	9,335,000	(300,000)
Series 2015 A-2	11,280,000	11,280,000	-
Series 2015 B-1	9,070,000	9,070,000	-
Series 2015 B-2	4,175,000	4,175,000	-
Due to Developer	124,017	-	124,017
	\$ 40,439,017	\$ 40,615,000	\$ (175,983)

More information about the District's long-term debt is presented in Note 5 to the financial statements.

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 2019 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>	2018
	Governmental Activities
Assets	
Cash and cash equivalents	\$ 482,025
Investments	2,570,784
Accounts receivable	8,847
Capital assets:	
Not being depreciated	17,056,473
Depreciable, net	24,604,320
Total assets	44,722,449
Liabilities	
Accounts payable	24,557
Accrued interest payable	1,689,451
Non-current liabilities:	
Due to developer	124,017
Due within one year	630,000
Due in more than one year	39,590,689
Total liabilities	42,058,714
Net position	
Net investment in capital assets	3,308,712
Unrestricted	(644,977)
Total net position	\$ 2,663,735

The accompanying notes are an integral part of these financial statements.

South Bay Community Development District Statement of Activities

Year ended September 30,

2018

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Net (Expense) Revenue and Changes in Net Position
Primary government:					
Governmental activities:					
General government	\$ (188,020)	\$ 244,079	\$ -	\$ 56,059	
Maintenance and operations	(1,134,678)	267,694	-	(866,984)	
Interest	(1,966,683)	1,291,103	26,202	(649,378)	
Total governmental activities	\$ (3,289,381)	\$ 1,802,876	\$ 26,202		(1,460,303)

General revenues

Interest and other revenues	708
Change in net position	(1,459,595)
Net position - beginning of year	4,123,330
Net position - end of year	\$ 2,663,735

The accompanying notes are an integral part of these financial statements.

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

<i>September 30,</i>	2018		
	General	Debt Service	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 464,285	\$ 17,740	\$ 482,025
Investments	-	2,570,784	2,570,784
Accounts receivable	4,928	3,919	8,847
Total assets	\$ 469,213	\$ 2,592,443	\$ 3,061,656
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 24,557	\$ -	\$ 24,557
Debt service obligation	-	1,271,776	1,271,776
Total liabilities	24,557	1,271,776	1,296,333
Fund balances			
Restricted for debt service	-	1,320,667	1,320,667
Unassigned	444,656	-	444,656
Total fund balances	444,656	1,320,667	1,765,323
Total liabilities and fund balances	\$ 469,213	\$ 2,592,443	\$ 3,061,656

The accompanying notes 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>2018</u>
Total fund balances, governmental funds	\$ 1,765,323
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.	41,660,793
Liabilities not due and payable from current resources, including accrued interest, are not reported in the fund financial statements.	(40,762,381)
<u>Total net position - governmental activities</u>	<u>\$ 2,663,735</u>

The accompanying notes 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>	2018		
	General	Debt Service	Total Governmental Funds
Revenues			
Assessments	\$ 511,773	\$ 1,291,103	\$ 1,802,876
Interest and other revenues	708	26,202	26,910
Total revenues	512,481	1,317,305	1,829,786
Expenditures			
Current:			
General government	188,020	-	188,020
Maintenance and operations	206,212	-	206,212
Repayment to developer	120,400	-	120,400
Debt service:			
Principal	-	300,000	300,000
Interest	-	1,019,527	1,019,527
Capital outlay	244,417	-	244,417
Total expenditures	759,049	1,319,527	2,078,576
Excess (deficit) of revenues over expenditures	(246,568)	(2,222)	(248,790)
Other Financing Sources (Uses)			
Developer advances	244,417	-	244,417
Total other financing sources (uses)	244,417	-	244,417
Net change in fund balances	(2,151)	(2,222)	(4,373)
Fund balances, beginning of year	446,807	1,322,889	1,769,696
Fund balances, end of year	\$ 444,656	\$ 1,320,667	\$ 1,765,323

The accompanying notes 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>	2018
Net change in fund balances - governmental funds	\$ (4,373)
Capital outlay, reported as expenditures in the governmental funds, is shown as capital assets on the Statement of Net Position.	244,417
Governmental funds report principal payments on bonds and repayment to developer as expenditures when debt is paid, whereas these payments are eliminated in the Statement of Activities and recognized as a reduction in bonds payable and due to developer, respectively, in the Statement of Net Position.	420,400
Depreciation on capital assets is not recognized in the fund financial statements but is reported as an expense in the Statement of Activities.	(928,466)
The accretion of the discount on deep discount bonds is not recognized in the governmental fund statements but is reported as an expense in the Statement of Activities.	(905,637)
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.	(41,519)
Developer advances are reported as other financing sources in the governmental funds, whereas the amount is included in long-term liabilities in the Statement of Net Position.	(244,417)
Change in net position of governmental activities	\$ (1,459,595)

The accompanying notes 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.

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). 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, 2018, 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 1st and ends on September 30th. 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 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, 2018, 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 direct obligations of the U.S. Treasury; 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. Estimated useful lives for financial reporting purposes are as follows:

<u>Asset</u>	<u>Years</u>
Infrastructure	30

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.

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.

South Bay Community Development District Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position and Balance Sheet – Governmental Funds 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, 2018.

In addition to liabilities, the Statement of Financial Position and Balance Sheet – Governmental Funds 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, 2018.

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.

South Bay Community Development District Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- A. Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
- B. 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.

NOTE 3: INVESTMENTS

The District's investments consist of money market funds in which shares are owned in the fund rather than the underlying investments. In accordance with GAAP, these amounts are reported at amortized cost.

The following is a summary of the District's investments:

<u>September 30,</u>	<u>2018</u>	<u>Credit Risk</u>	<u>Maturities</u>
Short-term Money Market Funds	\$ 2,570,784	S&P AAAM	24 days

Custodial credit risk - For an investment, custodial credit risk is the risk that the District will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The District has no formal policy for custodial risk. At September 30, 2018, none of the investments listed above are exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Concentration risk – The District's investment policy requires diversification, but does not specify limits on types of investments.

Interest rate risk – The District does not have a formal policy for addressing interest rate risk; however, investments are made with discretion, to seek reasonable returns, preserve capital, and in general, avoid speculative investments. The District manages its exposure to declines in fair values from interest rate changes by reviewing the portfolio on an ongoing basis for changes in effective yield amounts.

South Bay Community Development District Notes to Financial Statements

NOTE 4: CAPITAL ASSETS

The following is a summary of changes in the capital assets for the year ended September 30, 2018:

	Beginning Balance	Additions	Transfers and Conveyances	Ending Balance
Governmental Activities:				
<i>Capital assets not being depreciated</i>				
Land	\$ 16,812,056	\$ -	\$ -	\$ 16,812,056
Infrastructure under construction	-	244,417	-	244,417
Total capital assets, not being depreciated	16,812,056	244,417	-	17,056,473
<i>Capital assets being depreciated</i>				
Infrastructure	27,853,947	-	-	27,853,947
Total capital assets, being depreciated	27,853,947	-	-	27,853,947
<i>Less accumulated depreciation</i>				
Infrastructure	(2,321,161)	(928,466)	-	(3,249,627)
Total accumulated depreciation	(2,321,161)	(928,466)	-	(3,249,627)
Total capital assets, being depreciated, net	25,532,786	(928,466)	-	24,604,320
Governmental activities capital assets, net	\$ 42,344,842	\$ (684,049)	\$ -	\$ 41,660,793

Depreciation expense of \$928,466 was allocated to maintenance and operations on the accompanying Statement of Activities.

NOTE 5: BONDS PAYABLE

In March 2015, the District exchanged a portion of its Series 2005 A Bonds, Series 2005 B-1 Bonds, and Series 2005 B-2 Bonds for Capital Improvement Revenue Refunding Bonds, Series 2015 A-1, 2015 A-2, 2015 B-1, and 2015 B-2. The Series 2015 bonds were issued with various terms. The Series 2015 A-2 and 2015 B-2 bonds, as shown below, were exchanged for 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
	\$ 31,273,251	\$ 34,495,000				

South Bay Community Development District Notes to Financial Statements

NOTE 5: BONDS PAYABLE (Continued)

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.

In conjunction with the restructure, a remaining amount totaling \$6,755,000 of the Series 2005A 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.

At September 30, 2016, a debt service obligation for all accrued and unpaid interest on the unexchanged Series 2005A bonds totaled \$1,271,776. During the year ended September 30, 2018, the District made no payments on the outstanding obligation.

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. The District has not certified any portion of the unreleased 2005 assessments for collection as of the date of this report. 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.

The balance of bonds payable at September 30, 2018 is summarized as follows:

<i>September 30,</i>	2018
Bond principal balance	\$ 40,315,000
Less unamortized bond accretion	(94,311)
Net bonds payable	\$ 40,220,689

The Bond Indentures have 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. The District is in compliance with the requirements of the Bond Indentures.

The Bond Indentures require that the District maintain adequate funds in reserve accounts to meet the debt service reserve requirements as defined in the Indentures. The requirements have been met for the fiscal year ended September 30, 2018.

South Bay Community Development District Notes to Financial Statements

NOTE 5: BONDS PAYABLE (Continued)

At September 30, 2018, the scheduled debt service requirements on long-term debt were as follows:

<i>Year Ending September 30,</i>	Principal	Interest	Total Debt Service
2019	\$ 630,000	\$ 1,512,435	\$ 2,142,435
2020	9,740,000	1,982,755	11,722,755
2021	710,000	1,475,713	2,185,713
2022	755,000	1,430,965	2,185,965
2023	810,000	1,383,378	2,193,378
2024 - 2028	9,065,000	5,256,718	14,321,718
2029 - 2033	6,710,000	2,947,783	9,657,783
2034 - 2036	11,895,000	661,673	12,556,673
	\$ 40,315,000	\$ 16,651,420	\$ 56,966,420

NOTE 6: CHANGES IN LONG-TERM LIABILITIES

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

	Beginning Balance	Additions/ Accretion	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities</i>					
Bonds Payable:					
Series 2005 A	\$ 6,755,000	\$ -	\$ -	\$ 6,755,000	\$ -
Series 2015 A-1	9,335,000	-	(300,000)	9,035,000	630,000
Series 2015 A-2	11,280,000	-	-	11,280,000	-
Series 2015 B-1	9,070,000	-	-	9,070,000	-
Series 2015 B-2	4,175,000	-	-	4,175,000	-
Bond accretion discount	(1,048,905)	954,594	-	(94,311)	-
Due to Developer	-	244,417	(120,400)	124,017	-
	\$ 39,566,095	\$ 1,199,011	\$ (420,400)	\$ 40,344,706	\$ 630,000

NOTE 7: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. 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 8: 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 9: CONCENTRATIONS

In fiscal year 2008, the former developer abandoned the project. The former 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 four of the mortgage holders and received a summary judgement against one of the mortgage holders, which has been assigned to the SPE.

During the year ended September 30, 2018, the District directly assessed Lennar Homes, LLC, a subsequent developer of the District, \$40,046 and \$212,888 for operations and maintenance and debt service assessments, respectively. In addition Len-Little Harbor, LLC, a subsidiary of the subsequent developer, was assessed \$300,141 for operations and maintenance and debt service through the tax collector. The District also directly assessed a significant landowner \$156,071 and \$446,291 for operations and maintenance and debt service assessments, respectively. The District also directly assessed the SPE \$104,763 for operations and maintenance assessments.

A significant portion of the District's activity is dependent upon the continued involvement of the SPE and significant landowners. The loss of significant involvement could have a material adverse effect on the District's operations.

NOTE 10: RELATED PARTY TRANSACTIONS

During the year ended September 30, 2018, the District entered into a construction funding agreement with Len-Little Harbor, LLC ("Len-Little"), a subsidiary of the subsequent developer, Lennar Homes, LLC, to make available to the District such funds as are necessary to enable the District to proceed with the design, engineering, and construction of the needed seawall repairs for a total amount of \$344,000 together with such amounts authorized pursuant to any written change order as governed by the construction agreement.

In accordance with the agreement, the funds provided shall be reimbursed to the Developer from (i) existing District funds; (ii) proceeds collected by the District as part of its fiscal year 2019 operation and maintenance assessments and/or (iii) proceeds collected by the District as part of its fiscal year 2020 operation and maintenance assessments, if necessary. Reimbursements to Len-Little shall be made by the District in accordance with the following schedule:

South Bay Community Development District Notes to Financial Statements

NOTE 10: RELATED PARTY TRANSACTIONS (Continued)

- a. First Repayment shall be no later than September 30, 2018 wherein the District shall reimburse Len-Little the lesser of the then total disbursement of seawall funds to date or 35% of the seawall funds; and
- b. Second repayment shall be no later than March 31, 2019, wherein the District shall reimburse Len-Little for the lesser of the then total disbursement of Seawall Funds to date or an additional 35% of the seawall funds, less the contribution (i.e. \$50,000) as adjusted pursuant to the settlement agreement for credit against assessments paid. The District may reimburse Len-Little for the total disbursement of seawall funds as of that date, if the District elects.
- c. If the second repayment does not constitute payment in full of the Seawall Funds disbursed in conjunction with the seawall repairs, then the third repayment shall be not later than March 31, 2020, wherein the District shall reimburse Len-Little for the remaining amount of the funds disbursed as part of the seawall funds for completing the Seawall Repairs.

During the year ended September 30, 2018, the District received \$244,417 from Len-Little for funding of the Seawall repairs, which is recorded as Developer advance on the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds. The District repaid Len-Little \$120,400 in September 2018, which is recorded as Repayment to developer on the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds. The outstanding amount owed to Len-Little at September 30, 2018 totaled \$124,017, which is detailed in Note 6.

Subsequent to year end, the District received \$99,583 from Len-Little for the funding of the remaining Seawall repairs. The District incurred a similar amount of Seawall repairs subsequent to year end.

NOTE 11: SUBSEQUENT EVENTS

Subsequent to year end, the Series 2015A-2 and Series 2015B-2 bonds were converted, and the first principal payment became due May 1, 2019. These bonds were set up for property owned by the SPE, as discussed in Note 9, who has yet to find a buyer for this property, thus the first scheduled payment was not made. The District did not possess the funds to make this payment, and therefore, are in default related to these bonds.

Subsequent to year end, the District filed a lawsuit against Little Harbor Development LP, related to their certain rights of ingress/egress and use of property within the District. The ultimate outcome of this legal matter is unknown at this time.



**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>	2018			
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues				
Assessments	\$ 510,083	\$ 510,764	\$ 511,773	\$ 1,009
Interest and other revenues	360	707	708	1
Total revenues	510,443	511,471	512,481	1,010
Expenditures				
General government	216,443	200,060	188,020	12,040
Maintenance and operations	294,000	222,000	206,212	15,788
Repayment to developer	-	120,400	120,400	-
Capital outlay	-	244,417	244,417	-
Total expenditures	510,443	786,877	759,049	27,828
Excess (deficit) of revenues over expenditures	-	(275,406)	(246,568)	28,838
Other Financing Sources (Uses)				
Developer advances	-	244,417	244,417	-
Total other financing sources (uses)	-	244,417	244,417	-
Net change in fund balances	\$ -	\$ (30,989)	\$ (2,151)	\$ 28,838



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INDEPENDENT AUDITORS' 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 and each major fund of South Bay Community Development District (hereinafter referred to as 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 May 17, 2019.

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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
May 17, 2019



Carr, Riggs & Ingram, LLC
Certified Public Accountants
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Miramar Beach, Florida 32550

MANAGEMENT LETTER

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

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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, 2018, and have issued our report thereon dated May 17, 2019.

Auditors' 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 Reporting Requirements

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountant'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 May 17, 2019, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations made in the preceding annual 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 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 District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific condition(s) met. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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

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

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 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

May 17, 2019



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INDEPENDENT ACCOUNTANTS' 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, 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. Those standards require that we plan and performed the examination to obtain reasonable assurance about whether the District complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the District complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide 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.

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
May 17, 2019