# Somerset Community Development District

**FINANCIAL STATEMENTS** 

September 30, 2016



# Somerset Community Development District Table of Contents September 30, 2016

<b>REPORT</b> Independent Auditors' Report	1
FINANCIAL STATEMENTS Management's Discussion And Analysis (required supplemental information)	3
Basic Financial Statements Government-Wide Financial Statements	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements	
Balance Sheet – Governmental Funds	10
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	11
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	13
Notes to Financial Statements	14
Required Supplemental Information (other than MD&A)	
Budget to Actual Comparison Schedule - General Fund	23
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 <i>Government Auditing Standards</i>	24
Management Letter	26
Independent Accountant's Report - Compliance with Section 218.415 Florida Statutes	28



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#### INDEPENDENT AUDITORS' REPORT

To the Board of Supervisors Somerset Community Development District Walton County, Florida

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Somerset Community Development District (hereinafter referred to as "District"), as of and for the year ended September 30, 2016, 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2016, 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.

### **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 provide any assurance.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2017, 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.

Can, Rigge & Ingram, L.L.C.

Miramar Beach, Florida May 18, 2017

# Management's Discussion And Analysis

Our discussion and analysis of the Somerset Community Development District's financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2016. Please read it in conjunction with the District's financial statements, which begin on page 8.

### FINANCIAL HIGHLIGHTS

- At September 30, 2016, the liabilities of the District exceed its assets by approximately \$5.4 million (deficit).
- During the fiscal year ended September 30, 2016, the District incurred approximately \$774,000 of interest expenditures and repaid principal of \$385,000.

### 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.

### 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 yearend 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.

September 30,	2016	2015	Change
Assets			
Current and other assets	\$ 1,647,248	\$ 1,516,204	\$ 131,044
Capital assets, net	7,568,828	8,005,429	(436,601)
Total assets	\$ 9,216,076	\$ 9,521,633	\$ (305,557)
Liabilities			
Current liabilities	\$ 761,309	\$ 740,031	\$ 21,278
Otherliabilities	13,825,000	14,230,000	(405,000)
Total liabilities	14,586,309	14,970,031	(383,722)
Net position			
Net investment in capital assets	(2,210,483)	(2,039,927)	(170,556)
Restricted for:			
Debt service	151,686	124,782	26,904
Unrestricted	(3,311,436)	(3,533,253)	221,817
Total net position (deficit)	 (5,370,233)	 (5,448,398)	 78,165
Total liabilities and net position	\$ 9,216,076	\$ 9,521,633	\$ (305,557)

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

During the fiscal year ended September 30, 2016, total assets and liabilities decreased by approximately \$306,000 and \$384,000, respectively. The decrease in assets is primarily a result of depreciation on capital assets. The decrease in liabilities is primarily due to the repayment of outstanding long-term bond principal.

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

Year ended September 30,	2016	2015	Change
Revenues:			
Program revenues:			
Charges for services	\$ 1,603,970	\$ 1,367,319	\$ 236,651
Grants and contributions	2,023	-	2,023
General revenues:			
Interest	251	147	104
Total revenues	1,606,244	1,367,466	238,778
Expenses:			
General government	79,177	87,925	(8,748)
Maintenance and operations	683,472	645,205	38,267
Interest	765,430	785,218	(19,788)
Total expenses	1,528,079	1,518,348	9,731
Change in net position	78,165	(150,882)	229,047
Net position (deficit), beginning of year	(5,448,398)	(5,297,516)	(150,882)
Net position (deficit), end of year	\$ (5,370,233)	\$ (5,448,398) \$	5 78,165

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

Revenues increased approximately \$239,000 over the previous fiscal year, while expenses did not change significantly from the prior year. The increase is primarily due to the increase in budgeted assessments. The overall result was a \$78,165 increase in net position for fiscal year 2016.

### 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 \$1.6 million, which is an increase over last year's balance that totaled approximately \$1.5 million. Significant transactions are discussed below.

• During the fiscal year ended September 30, 2016, the District incurred approximately \$774,000 of interest expenditures and repaid principal of \$385,000.

The overall increase in fund balance for the year ended September 30, 2016 totaled approximately \$121,000.

### CAPITAL ASSET AND DEBT ADMINISTRATION

### **Capital Assets**

At September 30, 2016, the District had approximately \$7.6 million invested in capital assets (net of accumulated depreciation). This amount represents a net decrease of approximately \$437,000 from the fiscal year 2015 total.

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

September 30,	2016	2015	Change
Capital assets being depreciated	\$ 10,915,038	\$ 10,915,038	\$ -
Accumulated depreciation	(3,346,210)	(2,909,609)	(436,601)
Net capital assets	\$ 7,568,828	\$ 8,005,429	\$ (436,601)

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

### Debt

At September 30, 2016, the District had approximately \$14.2 million of bonds outstanding. This amount represents a decrease of \$385,000 from the fiscal year 2015 total.

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

September 30,	2016	2015	Change
Series 2005 bonds	\$ 14,230,000	\$ 14,615,000	\$ (385,000)

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

### **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 23.

The District experienced a favorable variance in revenues as compared to the budget in the amount of \$251 and an unfavorable variance in expenditures of \$9,147. Neither variance is considered significant.

### FUTURE FINANCIAL FACTORS

Somerset 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 2017 were established to provide for the operations of the District.

### 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 Somerset Community Development District's finance department at 12750 Citrus Park Lane, Suite 115, Tampa, Florida 33625.

**Basic Financial Statements** 

# Somerset Community Development District Statement of Net Position

September 30,	2016				
	Governmental				
	Activities				
Assets					
Cash and cash equivalents	\$ 197,989				
Investments	1,437,626				
Prepaid expenses	11,633				
Capital assets, net	7,568,828				
Total assets	9,216,076				
Liabilities					
Accounts payable	24,310				
Accrued expenses payable	17,753				
Accrued interest payable	314,246				
Non-current liabilities:					
Due within one year	405,000				
Due in more than one year	13,825,000				
Total liabilities	14,586,309				
Net position					
Net investment in capital assets	(2,210,483				
Restricted for:					
Debt service	151,686				
Unrestricted	(3,311,436				
Total net position (deficit)	\$ (5,370,233				

# Somerset Community Development District Statement of Activities

		<u>venues</u> Operating	Re C	et (Expense) evenue and Changes in <u>et Position</u>
			C	Changes in
				•
			<u>N</u>	<u>et Position</u>
Charges	_	Operating		
Charges	-			
0	for	Grants and	Go	overnmental
Service	s C	ontributions		Activities
\$ 73	,572 \$	- 5	\$	(5,605)
379	,396	-		(304,076)
1,151	,002	2,023		387,595
\$ 1,603	,970 \$	2,023		77,914
	Service \$ 73 379 1,151	\$	Charges for Grants and Services Contributions \$ 73,572 \$ - 379,396 - 1,151,002 2,023	Charges for Grants and Go Services Contributions \$ 73,572 \$ - \$ 379,396 - 1,151,002 2,023

### **General revenues**

Interest	251
Change in net position	78,165
Net position (deficit) - beginning of year	(5,448,398)
Net position (deficit) - end of year	\$ (5,370,233)

# Somerset Community Development District Balance Sheet – Governmental Funds

September 30,			2016		
					Total
				Go	overnmental
	General	De	ebt Service		Funds
Assets					
Cash and cash equivalents	\$ 197,989	\$	-	\$	197,989
Investments	-		1,437,626		1,437,626
Prepaid expenditures	11,633		-		11,633
Total assets	\$ 209,622	\$	1,437,626	\$	1,647,248
	 	-		-	
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 24,310	\$	-	\$	24,310
Accrued expenditures payable	17,753		-		17,753
Total liabilities	42,063		-		42,063
Fund balances					
Nonspendable	11,633		-		11,633
Restricted for debt service	-		1,437,626		1,437,626
Assigned for capital reserves	160,272		-		160,272
Unassigned	(4,346)		-		(4,346)
Total fund balances	167,559		1,437,626		1,605,185
Total liabilities and fund balances	\$ 209,622	\$	1,437,626	\$	1,647,248

# Somerset Community Development District Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position

September 30,	2016
Total fund balances, governmental funds	\$ 1,605,185
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.	7,568,828
Liabilities not due and payable from current resources, including accrued interest, are not reported in the fund financial statements.	(14,544,246)
Total net position (deficit) - governmental activities	\$ (5,370,233)

### Somerset Community Development District Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

Year ended September 30,			2016		
				Go	Total overnmental
	General	De	bt Service		Funds
Revenues					
Assessments	\$ 452,968	\$	1,151,002	\$	1,603,970
Interest	251		2,023		2,274
Total revenues	453,219		1,153,025		1,606,244
Expenditures					
Current:					
General government	79,177		-		79,177
Maintenance and operations	246,871		-		246,871
Debt service:					
Principal	-		385,000		385,000
Interest	-		773,932		773,932
Total expenditures	326,048		1,158,932		1,484,980
Excess (deficit) of revenues					
over expenditures	127,171		(5,907)		121,264
Fund balances, beginning of year	40,388		1,443,533		1,483,921
Fund balances, end of year	\$ 167,559	\$	1,437,626	\$	1,605,185

### Somerset Community Development District Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities

Year ended September 30,	2016
Net change in fund balances - governmental funds	\$ 121,264
Depreciation on capital assets is not recognized in the fund financial statements but is reported as an expense in the Statement of Activities.	(436,601)
Governmental funds report principal payments on bonds when debt is paid, whereas these payments are eliminated in the Statement of Activities and recognized as a decrease in bonds payable in the Statement of Net Position.	385,000
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.	8,502
Change in net position of governmental activities	\$ 78,165

#### **NOTE 1: NATURE OF ORGANIZATION**

The Somerset Community Development District (the "District") was established on April 1, 2005 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes, by Walton County Ordinance No. 05-04. 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 landowners of the District. As of September 30, 2016, certain Supervisors were affiliated with the Developer of the community, EBSCO Gulf Coast Development, Inc. The Board of Supervisors of the District exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes.

The Board has the final responsibility for:

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

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:

### Government-wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements.

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

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, 2016, 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, operation and maintenance. Operation and maintenance assessments are levied and certified for collection and debt assessments are 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.

### 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:

<u>General Fund</u> – 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.

<u>Debt Service Fund</u> – 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, 2016, 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.

### 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 are depreciated using the straight-line method over the following estimated useful lives: erosion control structures: 25 years; surface water treatment: 25 years.

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.

### 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.

### 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.

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

### 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, 2016.

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, 2016.

### 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. Certain revisions 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. During fiscal year ended September 30, 2016, actual expenditures exceeded budgeted appropriations.

### 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. District manager can approve certain changes to line item appropriation within the fund.
- 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 GASB 72, Fair Value Measurement and Application, these amounts are reported at amortized cost.

September 30,	2016	Credit Risk	Maturities		
Short-term Money Market Funds	\$ 1,437,626	S&P AAAm	39 days		
Total investments	\$ 1,437,626				

*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, 2016, the money market funds are not 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.

### **NOTE 4: CAPITAL ASSETS**

The following is a summary of changes in the capital assets for the year ended September 30, 2016:

	Beginning						Ending
	Balance		Additions	. [	Disposals		Balance
Governmental Activities:							
Capital assets being depreciated							
Erosion control structures	\$ 93	33,321	\$-	\$	-	\$	933,321
Surface water treatment	9,98	31,717	-		-		9,981,717
Total capital assets, being depreciated	10,91	L5,038	-		-	1	10,915,038
Less accumulated depreciation							
Erosion control structures	29	98,664	37,333		-		335,997
Surface water treatment	2,61	L0,945	399,268		-		3,010,213
Total accumulated depreciation	2,90	)9,609	436,601		-		3,346,210
Total capital assets, being depreciated, net	8,00	)5,429	(436,601	.)	-		7,568,828
Governmental activities capital assets, net	\$ 8,00	)5,429	\$(436,601	)\$	-	\$	7,568,828

Depreciation expense of \$436,601 was allocated to maintenance and operations on the accompanying Statement of Activities.

### NOTE 5: BONDS PAYABLE

On July 12, 2005, the District issued \$21,045,000 of Capital Improvement Revenue Bonds, Series 2005 consisting of \$2,875,000 Series 2005 Term Bonds and \$18,170,000 of Series 2005 Term Bonds with a fixed interest rate of 5% and 5.3%, and maturing May 1, 2015 and May 1, 2037, respectively. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the property within the District. Interest is paid semiannually on each May 1 and November 1. Principal is paid serially commencing on May 1, 2008 through May 1, 2037.

The 2005 Bonds maturing in May 2037 may, at the option of the District, be called for redemption as a whole, at any time, or in part on any interest payment date on or after May 1, 2015 at a redemption price set forth in the Bond Indenture.

The Bond Indentures for all series 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 Indenture.

### **NOTE 5: BONDS PAYABLE (Continued)**

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, 2016.

Long-term liability activity for the year ended September 30, 2016, was as follows:

	E	Beginning					Ending	Du	e Within
		Balance	Ac	ditions	Reductions		Balance	One Year	
Governmental Activities									
Bonds Payable:									
Series 2005	\$	14,615,000	\$	-	\$	(385,000)	\$14,230,000	\$	405,000

The remaining scheduled debt service requirements on long-term debt are as follows:

					Total Debt		
Year Ending September 30,	Principal			Interest		Service	
2017	\$	405,000	\$	753,528	\$	1,158,528	
2018		400,000		732,725		1,132,725	
2019		425,000		711,525		1,136,525	
2020		445,000		689,000		1,134,000	
2021		470,000		665,415		1,135,415	
2022 - 2026		2,755,000		2,925,865		5,680,865	
2027 - 2031		3,600,000		2,111,255		5,711,255	
2032 - 2036		4,685,000		1,048,340		5,733,340	
2037		1,045,000		55,385		1,100,385	
	\$	14,230,000	\$	9,693,038	\$	23,923,038	

The District made a bond principal prepayment of \$25,000 on November 1, 2016, which is included in the short-term portion of bonds payable.

### **NOTE 6: 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. The District has not filed any claims under this commercial coverage during the last three years.

#### **NOTE 7: MANAGEMENT COMPANY**

The District has contracted with a management company to perform management services, which include financial and accounting 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 8: RELATED PARTY TRANSACTIONS**

During the year ended September 30, 2016, the District directly assessed the Developer \$292,380 and \$755,687 for the General and Debt Service Funds, respectively. In addition, the Developer was assessed \$143,051 and \$369,730 for the General and Debt Service Funds, respectively, through the local tax collector.

During the year ended September 30, 2016, the District incurred \$141,990 in landscape and other miscellaneous maintenance expenses with ALYS Beach Neighborhood Association, Inc. (the "Association"), the homeowners association located in the District. At September 30, 2016, the District owed the Association approximately \$32,000, which is included in Accounts payable and Accrued expenses/expenditures payable on the accompanying Statement of Net Position and Balance Sheet – Governmental Funds.

A significant portion of the District's activity is dependent upon the continued involvement of the Developer, the loss of which could have a material adverse effect on the District's operations.

Required Supplemental Information (Other Than MD&A)

# Somerset Community Development District Budget to Actual Comparison Schedule – General Fund

Year ended September 30,						2016		
	Original					Actual	Variance with	
	Budget		Final Budget		Amounts		Fin	al Budget
Revenues								
Assessments	\$	444,775	\$	452,968	\$	452,968	\$	-
Interest		-		-		251		251
Total revenues		444,775		452,968		453,219		251
Expenditures								
General government		95,175		84,162		79,177		4,985
Maintenance and operations		349,600		232,739		246,871		(14,132)
Total expenditures		444,775		316,901		326,048		(9,147)
Excess of revenues over expenditures	\$	-	\$	136,067	\$	127,171	\$	(8,896)



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### 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 Somerset Community Development District Walton 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 Somerset Community Development District (hereinafter referred to as the "District"), as of and for the year ended September 30, 2016, 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 18, 2017.

### **Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

Can, Rigge & Ingram, L.L.C.

Miramar Beach, Florida May 18, 2017



#### MANAGEMENT LETTER

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To the Board of Supervisors Somerset Community Development District Walton County, Florida

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

We have audited the financial statements of Somerset Community Development District ("District") as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated May 18, 2017.

### 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 Reports and Schedule**

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on 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*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in these reports, which are dated May 18, 2017, 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 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**

Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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.

### Annual Financial Report

Sections 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require that we determine whether the annual financial report for the District for the fiscal year ended September 30, 2016, 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, 2016. 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, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

Can, Rigge & Ingram, L.L.C.

Miramar Beach, Florida May 18, 2017



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#### INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Supervisors Somerset Community Development District Walton County, Florida

We have examined Somerset Community Development District's compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended September 30, 2016. 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, 2016.

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.

Can, Rigge & Ingram, L.L.C.

Miramar Beach, Florida May 18, 2017