

**Davenport Road South
Community
Development District**

FINANCIAL STATEMENTS

September 30, 2018



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Davenport Road South Community Development District
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September 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Supervisors
Davenport Road South Community Development District
Polk County, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Davenport Road South 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 June 26, 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
June 26, 2019



Management's Discussion And Analysis

Davenport Road South Community Development District Management's Discussion and Analysis

Our discussion and analysis of the Davenport Road South 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 liabilities of the District exceed its assets by approximately \$409,000 (deficit)
- During the fiscal year ended September 30, 2018, the District issued Special Assessment Revenue Bonds, Series 2018 totaling approximately \$6.8 million, and incurred approximately \$330,000 of bond issuance costs. The District also incurred capital outlay expenditures totaling approximately \$5.6 million.

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.

Davenport Road South 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 9 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. We describe the relationship (or differences) between governmental activities and governmental funds in a reconciliation with the fund financial statements.

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	\$ 1,442,448	\$ 59,683	\$ 1,382,765
Capital assets, net	5,614,611	-	5,614,611
Total assets	\$ 7,057,059	\$ 59,683	\$ 6,997,376
Liabilities			
Current liabilities	\$ 700,069	\$ 58,283	\$ 641,786
Other liabilities	6,765,494	-	6,765,494
Total liabilities	7,465,563	58,283	7,407,280
Net position			
Net investment in capital assets	(328,689)	-	(328,689)
Restricted for:			
Capital projects	116,309	-	116,309
Unrestricted	(196,124)	1,400	(197,524)
Total net position (deficit)	(408,504)	1,400	(409,904)
Total liabilities and net position	\$ 7,057,059	\$ 59,683	\$ 6,997,376

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

Davenport Road South Community Development District Management's Discussion and Analysis

During the fiscal year ended September 30, 2018, total assets and liabilities increased over prior year by approximately \$7.0 million and \$7.4 million, respectively. The increase in assets and liabilities is primarily due to the issuance of the Series 2018 Bonds and the related capital project which was ongoing at fiscal year-end.

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:			
Grants and contributions	\$ 192,077	\$ 113,442	\$ 78,635
Total revenues	192,077	113,442	78,635
Expenses:			
General government	71,644	96,704	(25,060)
Maintenance and operations	-	1,823	(1,823)
Bond issue costs	330,453	13,515	316,938
Interest	199,884	-	199,884
Total expenses	601,981	112,042	489,939
Change in net position	(409,904)	1,400	(411,304)
Net position, beginning	1,400	-	1,400
Net position (deficit), ending	\$ (408,504)	\$ 1,400	\$ (409,904)

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

During the fiscal year ended September 30, 2018, total revenues and expenses increased by approximately \$79,000 and \$490,000, respectively. The increase in revenues is primarily due to interest earned on investments from the Series 2018 Bonds proceeds and additional funding by the Developer during the year. The increase in expenses is primarily due to the cost of issuance and interest on the Series 2018 Bonds. The overall result was a \$409,904 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 \$940,000. Significant transactions are discussed below.

Davenport Road South Community Development District Management's Discussion and Analysis

- During the fiscal year ended September 30, 2018, the District issued Special Assessment Revenues Bonds, Series 2018 totaling \$6.8 million, and incurred approximately \$330,000 of bond issuance costs
- During the fiscal year ended September 30, 2018, the District incurred capital outlay expenditures totaling \$5.6 million.

The overall increase in fund balance for the year ended September 30, 2018 totaled approximately \$964,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2018, the District had approximately \$5.6 million invested in capital assets. This amount represents an increase (including additions and deductions) of approximately \$5.6 million over the fiscal year 2017 total.

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

<i>September 30,</i>	2018	2017	Change
Capital assets not being depreciated	\$ 5,614,611	\$ -	\$ 5,614,611

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

Debt

At September 30, 2018, the District had \$6.8 million of bonds outstanding. This amount represents an increase of \$6.8 million over 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
Series 2018 bonds	\$ 6,830,000	\$ -	\$ 6,830,000

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



Davenport Road South 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 23.

The District experienced an unfavorable variance of \$84,586 in revenues and a favorable variance of \$108,356 in expenditures as compared to the budget. The variance in expenditures occurred primarily due to the District budgeting conservatively. Revenues varied in a similar manner because the Developer currently funds the District to the extent it makes expenditures.

FUTURE FINANCIAL FACTORS

Davenport Road South 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. For fiscal year 2019, the Developer has agreed to fund 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 Davenport Road South Community Development District's management company at 12051 Corporate Blvd, Orlando, Florida 32817.



Basic Financial Statements

**Davenport Road South Community Development District
Statement of Net Position**

<i>September 30,</i>	2018
	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,589
Investments	1,432,465
Due from developer	5,804
Interest receivable	2,590
Capital assets:	
Not being depreciated	5,614,611
Total assets	7,057,059
Liabilities	
Accounts payable	262,973
Retainage payable	238,645
Accrued interest payable	198,451
Non-current liabilities:	
Due in more than one year	6,765,494
Total liabilities	7,465,563
Net position	
Net investment in capital assets	(328,689)
Restricted for:	
Capital projects	116,309
Unrestricted	(196,124)
Total net position (deficit)	\$ (408,504)

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

Davenport Road South Community Development District Statement of Activities

Year ended September 30,

2018

Functions/Programs	Expenses	<u>Program Revenues</u>		Net (Expense) Revenue and Changes in <u>Net Position</u>
		Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary government:				
Governmental activities:				
General government	\$ (71,644)	27,684	\$ -	\$ (43,960)
Bond issue costs	(330,453)	127,690	-	(202,763)
Interest	(199,884)	3,690	33,013	(163,181)
Total governmental activities	\$ (601,981)	\$ 159,064	\$ 33,013	(409,904)
Change in net position				(409,904)
Net position - beginning of year				1,400
Net position (deficit) - end of year				\$ (408,504)

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

**Davenport Road South Community Development District
Balance Sheet – Governmental Funds**

<i>September 30,</i>	2018			
	General	Debt Service	Capital Projects	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,589	\$ -	\$ -	\$ 1,589
Investments	-	453,636	978,829	1,432,465
Due from Developer	5,804	-	-	5,804
Interest receivable	-	594	1,996	2,590
Total assets	\$ 7,393	\$ 454,230	\$ 980,825	\$ 1,442,448
Liabilities, Deferred inflows of resources and Fund Balances				
Liabilities				
Accounts payable	\$ 5,660	\$ -	\$ 257,313	\$ 262,973
Retainage payable	-	-	238,645	238,645
Total liabilities	5,660		495,958	501,618
Deferred inflows of resources				
Deferred revenue	1,081	-	-	1,081
Total deferred inflows of resources	1,081	-	-	1,081
Fund balances				
Restricted for debt service	-	454,230	-	454,230
Restricted for capital projects	-	-	484,867	484,867
Unassigned	652	-	-	652
Total fund balances	652	454,230	484,867	939,749
Total liabilities, deferred inflows of resources and fund balances	\$ 7,393	\$ 454,230	\$ 980,825	\$ 1,442,448

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

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

<i>September 30,</i>	2018
Total fund balances, governmental funds	\$ 939,749
Revenues in the Statement of Activities that do not provide current financial resources are reported as deferred inflow in the fund level statements.	1,081
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund level statements.	5,614,611
Liabilities not due and payable from current resources, including accrued interest, are not reported in the fund level statements.	(6,963,945)
Total net position (deficit) - governmental activities	\$ (408,504)

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

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

Year ended September 30,

2018

	General	Debt Service	Capital Projects	Total Governmental Funds
Revenues				
Developer Contributions	\$ 95,414	\$ -	\$ 84,086	\$ 179,500
Interest and other revenues	-	3,690	33,013	36,703
Total revenues	95,414	3,690	117,099	216,203
Expenditures				
Current:				
General government	71,644	-	-	71,644
Debt service:				
Bond issue costs	-	-	330,453	330,453
Capital outlay	-	-	5,614,611	5,614,611
Total expenditures	71,644	-	5,945,064	6,016,708
Excess (deficit) of revenues over expenditures	23,770	3,690	(5,827,965)	(5,800,505)
Other Financing Sources (Uses)				
Bond proceeds	-	516,378	6,313,622	6,830,000
Original issue discount	-	(65,939)	-	(65,939)
Transfers in	-	101	-	101
Transfers out	-	-	(101)	(101)
Total other financing sources (uses)	-	450,540	6,313,521	6,764,061
Net change in fund balances	23,770	454,230	485,556	963,556
Fund balances (deficit), beginning of year	(23,118)	-	(689)	(23,807)
Fund balances, end of year	\$ 652	\$ 454,230	\$ 484,867	\$ 939,749

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

**Davenport Road South 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	\$ 963,556
Capital outlay, reported as expenditures in the governmental funds, is shown as capital assets on the Statement of Net Position.	5,614,611
Bond proceeds, net of original issue discount, which are reported as other financing sources in the governmental funds are recognized as long-term liabilities in the Statements of Net Position	(6,764,061)
Revenues that do not provide current financial resources are deferred on the fund level financial statements but are recognized as revenue in the government-wide Statement of Activities.	(24,126)
Amortization of original issue discount is not recognized in the governmental fund statement but is reported as an expense in the Statement of Activities.	(1,433)
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.	(198,451)
Change in net position of governmental activities	\$ (409,904)

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

Davenport Road South Community Development District Notes to Financial Statements

NOTE 1: NATURE OF ORGANIZATION

The Davenport Road South Community Development District (the “District”) was established on December 12, 2016 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes, by the City Commission of the City of Davenport’s approval of Ordinance No. 802. 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. At September 30, 2018 certain Board members were affiliated with Orchid Grove, LLC. (“the Developer”).

The Board has the final responsibility for:

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

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:

Government-wide and Fund Financial Statements

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

Davenport Road South Community Development District Notes to 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, 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.

Developer contributions 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.

Davenport Road South Community Development District Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital Projects Fund – The Capital Projects fund is used to account for the financial resources to be used for the acquisition or construction of major infrastructure within the District.

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.

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.

Davenport Road South 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 2 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, once placed into service, will be depreciated using the straight-line method over the estimated useful lives.

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

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line or effective interest method. Bonds payable are reported net of these premiums or discounts. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current period expenses.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes include 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.

Davenport Road South Community Development District Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition to liabilities, the statement of net position and/or 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 has one of this type of item at September 30, 2018. Certain receivable balances were not collected within 60 days of year-end and are considered deferred revenue on the fund-level statements.

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.

Davenport Road South 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

All investments held at September 30, 2018 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.

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

<u>September 30,</u>	<u>2018</u>	<u>Credit Risk</u>	<u>Maturities</u>
<u>Short-term Money Market Funds</u>	<u>1,432,465</u>	S&P AAAM	17 days

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

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.

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.

Davenport Road South Community Development District Notes to Financial Statements

NOTE 4: CAPITAL ASSETS

The District issued the Series 2018 Bonds during the current fiscal year to fund a portion of the 2018 Project. The 2018 Project is estimated to cost approximately \$7.5 million, of which approximately \$6.8 million will be funded by the Series 2018 Bonds. The Developer will fund the remaining portion of the 2018 Project.

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

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
<i>Capital assets not being depreciated</i>				
Infrastructure under construction	\$ -	\$ 5,614,611	\$ -	\$ 5,614,611

NOTE 5: BONDS PAYABLE

On February 27, 2018, the District issued \$6,830,000 of Special Assessment Revenue Bonds, Series 2018 consisting of \$600,000 2018 Term Bonds due November 1, 2023 with a fixed interest rate of 3.75%, \$730,000 2018 Term Bonds due November 1, 2028 with a fixed interest rate of 4.5%, \$2,080,000 Term Bonds due November 1, 2038 with an interest rate of 5%, and \$3,420,000 Term Bonds due November 1, 2048 with a fixed interest rate of 5.125%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is to be paid semiannually on each May 1 and November 1. Principal on the Series 2018 Bonds is to be paid serially commencing November 1, 2019 through November 1, 2048. The Series 2018 Bonds are subject to optional redemption beginning November 1, 2032 and to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occur as outlined in the Bond Indenture.

The Bond Indenture has certain restrictions and requirements relating principally to the use of proceeds to pay for infrastructure improvement and the procedure to be followed by the District on assessments to property owners. The District agreed to levy special assessments in the annual amounts adequate to provide payment of debt service and to meet the debt service reserve requirement. The District is in compliance with the requirements of the Bond Indenture.

The Bond Indenture requires that the District maintain adequate funds in the reserve account to meet the debt service reserve requirement as defined in the Indenture. The requirement has been met for the fiscal year ended September 30, 2018.

Davenport Road South Community Development District Notes to Financial Statements

NOTE 5: BONDS PAYABLE (Continued)

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities</i>					
Bonds Payable:					
Series 2018	\$ -	\$ 6,830,000	\$ -	\$ 6,830,000	\$ -

The balance of the long-term bonds at September 30, 2018 is summarized as follows:

<i>September 30,</i>	2018
Bond principal balance	\$ 6,830,000
Less unamortized bond discount	(64,506)
Net balance	\$ 6,765,494

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	\$ -	\$ 394,114	\$ 394,114
2020	110,000	332,563	442,563
2021	115,000	328,344	443,344
2022	120,000	323,938	443,938
2023	125,000	319,344	444,344
2024-2028	700,000	1,510,450	2,210,450
2029-2033	875,000	1,327,000	2,202,000
2034-2038	1,110,000	1,084,625	2,194,625
2039-2043	1,425,000	760,294	2,185,294
2044-2048	1,825,000	351,959	2,176,959
2049	425,000	10,891	435,891
	\$ 6,830,000	\$ 6,743,522	\$ 13,573,522

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 settled any claims in the time since inception.

Davenport Road South Community Development District Notes to Financial Statements

NOTE 7: 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 8: DEVELOPER TRANSACTIONS

The Developer has agreed to fund the general operations of the District. For the year ended September 30, 2018, the Developer contributed \$95,414 to the general fund, of which \$5,804 is recorded as Due from developer on the accompanying Statement of Net Position and Balance Sheet – Governmental Funds. In addition, the Developer has agreed to fund the construction project prior to the issuance of bonds. For the year ended September 30, 2018, the Developer contributed \$84,086 to the Capital Projects Fund. In February 2018, the District reimbursed the Developer for development expenses paid prior to the issuance of the Series 2018 Bonds in the amount of \$186,440.

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

NOTE 9: RELATED PARTY TRANSACTIONS

During the year ended September 30, 2018, the District entered into an agreement for construction management services with Heath Construction and Management, LLC. The CEO of the construction management firm is also the District's Board Chairman. The District incurred a total of \$73,500 of expenditures related to this contract during fiscal year 2018.

NOTE 10: COMMITMENTS

The District has approximately \$356,000 remaining on outstanding contracts for the construction of phase one of the District, to be funded by the Series 2018 Bonds. At September 30, 2018, the total amount of the contracts was approximately \$4.1 million, net of change orders.



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

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

<i>Year ended September 30,</i>	2018		
	Original and Final Budget	Actual Amounts	Variance with Final Budget
Revenues			
Developer Contributions	\$ 180,000	\$ 95,414	\$ (84,586)
Total revenues	180,000	95,414	(84,586)
Expenditures			
General government	115,000	71,644	43,356
Maintenance and operations	65,000	-	65,000
Total expenditures	180,000	71,644	108,356
Excess (deficit) of revenues over expenditures	\$ -	\$ 23,770	\$ 23,770



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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
Davenport Road South Community Development District
Polk 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 Davenport Road South 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 June 26, 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 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify two deficiencies in internal control described on the following page as IC2018-001 and IC2018-002 that we consider to be material weaknesses.

IC2018-001: Financial Statement Closing Procedures

- Condition: As part of our audit procedures, we identified approximately \$203,000 of bond issue discount and underwriter's discount that were not recorded on the District's fund level financial statements as of September 30, 2018.
- Criteria: Internal controls relating to the accounting process related to bond issuances should be in place to provide reasonable assurance that bond issuance related costs are properly recorded.
- Cause: The District only recorded the cash activity of the bond issuance.
- Effect: Bond issuance costs and long-term debt on the financial statements were understated by approximately \$203,000.
- Recommendation: We recommend the District record the face amount of bond proceeds and related issuance costs.
- Management Response: The District has already taken further steps to ensure that this oversight is avoided in the future.

IC2018-002: Unrecorded Capital Projects Fund Expenditures

- Condition: As part of our audit procedures, we identified approximately \$220,000 of capital expenditures that were not accrued on the District's financial statements as of September 30, 2018.
- Criteria: Generally Accepted Accounting Principles requires that expenditures be recognized when incurred and not when paid.
- Cause: The capital expenditures appear to have been overlooked when District staff was preparing its annual financial report.
- Effect: Capital project expenditures and related liabilities on the fund-level financial statements were understated by approximately \$220,000. Capital assets were understated by a similar amount on the government-wide statements.
- Recommendation: We recommend the District review capital expenditure activity to ensure all expenditures and liabilities are identified and recorded.
- Management Response: The District has already taken further steps in its year-end financial close process to ensure that this oversight is avoided in the future.

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

June 26, 2019

MANAGEMENT LETTER

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To the Board of Supervisors
Davenport Road South Community Development District
Polk County, Florida

Report on the Financial Statements

We have audited the financial statements of the Davenport Road South Community Development District ("District") as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated June 26, 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 Auditor General.

Other Reports

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 these reports, which are dated June 26, 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

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we 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 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.

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.

Other 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 have any such findings.

Purpose of this Letter

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

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

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida

June 26, 2019



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INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Supervisors
Davenport Road South Community Development District
Polk County, Florida

We have examined Davenport Road South 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 judgement, 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
June 26, 2019