

**CLEARWATER CAY
COMMUNITY DEVELOPMENT DISTRICT
CLEARWATER, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2018**

**CLEARWATER CAY COMMUNITY DEVELOPMENT DISTRICT
CLEARWATER, FLORIDA**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Clearwater Cay Community Development District
Clearwater, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Clearwater Cay Community Development District, Clearwater, Florida ("District") as of and for the fiscal year ended September 30, 2018, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Except for the matter described in the "Basis for Disclaimer of Opinion on the Governmental Activities" paragraph we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Disclaimer of Opinion on the Governmental Activities

In fiscal year 2015, the District exchanged unimproved land for the cancellation of debt. The District land was reduced by \$2,115,000 in fiscal year 2015 for this exchange; however the current District management is not able to support how that value was determined. In addition, District management is not able to support the overall amounts recorded for capital assets including land at \$27,014,798. Also, due to litigation related to debt assessments and disagreements between the Bondholders, Trustee and the District related to the Bonds outstanding we are unable to determine how the assessments collected will be applied to principal and interest on the Bonds and the accrued interest on the Bonds.

Disclaimer of Opinion

Because of the significance of the matters described in the “Basis for Disclaimer of Opinion on the Governmental Activities” paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the governmental activities of the District as of September 30, 2018. Accordingly, we do not express an opinion on these financial statements.

Unqualified Opinions

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

Emphasis of Matters

As discussed in certain notes to the basic financial statements, the District is in default under the Series 2006A trust indenture. In addition, as disclosed in the notes the financial statements the District is involved in numerous legal disputes related to the assessments on the Bonds outstanding and other matters.

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 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 November 27, 2019, on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District’s 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.



November 27, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Clearwater Cay Community Development District, Clearwater, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year September 30, 2018. Please read it in conjunction with the District's Independent Auditor's Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year resulting in a net position balance of \$17,193,117.
- The change in the District's total net position in comparison with the prior fiscal year was (\$14,955), a decrease. The key components of the District's net position and change in net position are reflected in the table in the government-wide financial analysis section.
- At September 30, 2018, the District's governmental funds reported combined ending fund balances of \$1,828,147, an increase of \$328,332 in comparison with the prior fiscal year. The fund balance is restricted for debt service and capital projects and non-spendable for prepaid items. Except for the deficit in unassigned fund balance in the general fund of (\$73,274)

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as the introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements include all governmental activities that are principally supported by assessment revenues. The District does not have any business-type activities. The governmental activities of the District include the general government (management) and maintenance functions.

Fund Financial Statements

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

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Governmental Funds

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

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

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

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

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities at the close of the most recent fiscal year.

Key components of the District's net position are reflected in the following table:

	NET POSITION SEPTEMBER 30,	
	2018	2017
Assets, excluding capital assets	\$ 1,909,366	\$ 1,608,513
Capital assets, net of depreciation	29,162,980	29,500,627
Total assets	31,072,346	31,109,140
Liabilities, excluding long-term liabilities	81,219	108,698
Long-term liabilities	13,798,010	13,792,370
Total liabilities	13,879,229	13,901,068
Net Position		
Net investment in capital assets	15,436,033	15,778,490
Restricted for debt service	1,825,262	1,296,154
Unrestricted	(68,178)	133,428
Total net position	\$ 17,193,117	\$ 17,208,072

The District's net position reflects its investment in capital assets (e.g. land, land improvements, and infrastructure); less any related debt used to acquire those assets that is still outstanding. These assets are used to provide services to residents; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The restricted portion of the District's net position represents resources that are subject to external restrictions on how they may be used.

The District's net position decreased during the most recent fiscal year. The majority of the decrease represents the extent to which the cost of operations and depreciation expense exceeded ongoing program revenues.

Key elements of the change in net position are reflected in the following table:

	CHANGES IN NET POSITION FOR THE FISCAL YEAR ENDED SEPTEMBER 30,	
	2018	2017
Revenues:		
Program revenues		
Charges for services	\$ 1,081,311	\$ 1,079,535
Operating grants and contributions	18,701	9,944
Capital grants and contributions	830	287
General revenues		
Miscellaneous	5,265	407
Unrestricted investment earnings	3	-
Total revenues	<u>1,106,110</u>	<u>1,090,173</u>
Expenses:		
General government	704,735	677,178
Maintenance and operations	416,330	415,647
Total expenses	<u>1,121,065</u>	<u>1,092,825</u>
Special items	-	19,163,378
Change in net position	<u>(14,955)</u>	<u>19,160,726</u>
Net position - beginning	<u>17,208,072</u>	<u>(1,952,654)</u>
Net position - ending	<u>\$ 17,193,117</u>	<u>\$ 17,208,072</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2018 was \$1,121,065. The costs of the District's activities were partially funded by program revenues. Program revenues, comprised primarily of assessments, increased from the prior year mainly due to increase in investment earnings. In total, expenses, including depreciation, increased from the prior fiscal year. The increase in current fiscal year expenses is primarily the result of legal costs related to litigations.

GENERAL BUDGETING HIGHLIGHTS

An operating budget was adopted and maintained by the governing board for the District pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. The general fund budget for the fiscal year ended September 30, 2018 was amended to increase revenues by \$8,915, increase appropriations by \$119,649, and increase the use of fund balance by \$110,734. Although general fund budget was amended, actual general fund expenditures for the fiscal year ended September 30, 2018 still exceeded appropriations by \$25,738.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2018, the District had \$33,214,744 invested in capital assets for its governmental activities. In the government-wide financial statements depreciation of \$4,051,764 has been taken, which resulted in a net book value of \$29,162,980. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Capital Debt

At September 30, 2018, the District had \$13,900,000 in Bonds outstanding for its governmental activities. More detailed information about the District's capital debt is presented in the notes of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In September 2019 the District approved a revised assessment methodology that lowered the annual debt service special assessments from approximately \$589,800 to approximately \$297,300. The District's board levied the fiscal year 2020 debt service special assessments based on the revised assessment methodology. As noted above, the Bondholders have threatened legal action which seeks to invalidate this debt assessment. It is not clear how the District will fund debt service payments with lower assessments if the Bondholders position is upheld.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide property owners, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages and the stewardship of the facilities it maintains. If you have questions about this report or need additional financial information, contact the Clearwater Cay Community Development District's Finance Department at 3820 Colonial Blvd., Suite 101, Fort Myers, Florida 33966.

**CLEARWATER CAY COMMUNITY DEVELOPMENT DISTRICT
CLEARWATER, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018**

	Governmental Activities
ASSETS	
Cash	\$ 2,680
Interest receivable	2,526
Assessments receivable	5,265
Prepays	5,096
Restricted assets:	
Investments	1,893,799
Capital assets:	
Nondepreciable	27,014,798
Depreciable, net	2,148,182
Total assets	31,072,346
 LIABILITIES	
Accounts payable	81,219
Non-current liabilities:	
Due in more than one year	13,798,010
Total liabilities	13,879,229
 NET POSITION	
Net investment in capital assets	15,436,033
Restricted for debt service	1,825,262
Unrestricted	(68,178)
Total net position	\$ 17,193,117

See notes to the financial statements

**CLEARWATER CAY COMMUNITY DEVELOPMENT DISTRICT
CLEARWATER, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

Functions/Programs Primary government:	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:				
General government	\$ 704,735	\$ -	\$ -	\$ (704,735)
Maintenance and operations	416,330	-	830	96,188
Interest on long-term debt	-	18,701	-	588,324
Total governmental activities	1,121,065	1,081,311	830	(20,223)
			Miscellaneous	5,265
			Unrestricted investment earnings	3
			Total general revenues	5,268
			Change in net position	(14,955)
			Net position - beginning	17,208,072
			Net position - ending	\$ 17,193,117

See notes to the financial statements

**CLEARWATER CAY COMMUNITY DEVELOPMENT DISTRICT
CLEARWATER, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
ASSETS				
Cash	\$ 2,680	\$ -	\$ -	\$ 2,680
Investments	-	1,822,831	70,968	1,893,799
Assessments receivable	5,265	-	-	5,265
Interest Receivable	-	2,431	95	2,526
Prepays	5,096	-	-	5,096
Total assets	<u>\$ 13,041</u>	<u>\$ 1,825,262</u>	<u>\$ 71,063</u>	<u>\$ 1,909,366</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 81,219	\$ -	\$ -	\$ 81,219
Total liabilities	<u>81,219</u>	<u>-</u>	<u>-</u>	<u>81,219</u>
Fund balances:				
Nonspendable:				
Prepaid items	5,096	-	-	5,096
Restricted for:				
Debt service	-	1,825,262	-	1,825,262
Capital projects	-	-	71,063	71,063
Unassigned	(73,274)	-	-	(73,274)
Total fund balances	<u>(68,178)</u>	<u>1,825,262</u>	<u>71,063</u>	<u>1,828,147</u>
Total liabilities and fund balances	<u>\$ 13,041</u>	<u>\$ 1,825,262</u>	<u>\$ 71,063</u>	<u>\$ 1,909,366</u>

See notes to the financial statements

**CLEARWATER CAY COMMUNITY DEVELOPMENT DISTRICT
CLEARWATER, FLORIDA
RECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2018**

Total fund balances - governmental funds \$ 1,828,147

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The statement of net position includes those capital assets in the net position of the government as a whole.

Cost of capital assets	33,214,744	
Accumulated depreciation	<u>(4,051,764)</u>	29,162,980

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

Bonds payable	(13,900,000)	
Unamortized bond issuance discount	<u>101,990</u>	<u>(13,798,010)</u>

Net position of governmental activities		<u>\$ 17,193,117</u>
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See notes to the financial statements

**CLEARWATER CAY COMMUNITY DEVELOPMENT DISTRICT
CLEARWATER, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
REVENUES				
Assessment revenue	\$ 511,688	\$ 569,623	\$ -	\$ 1,081,311
Miscellaneous	5,265	-	-	5,265
Interest income	3	18,701	830	19,534
Total revenues	<u>516,956</u>	<u>588,324</u>	<u>830</u>	<u>1,106,110</u>
EXPENDITURES				
Current:				
General government	639,879	59,216	-	699,095
Maintenance and operations	78,683	-	-	78,683
Total expenditures	<u>718,562</u>	<u>59,216</u>	<u>-</u>	<u>777,778</u>
Excess (deficiency) of revenues over (under) expenditures	(201,606)	529,108	830	328,332
Fund balances - beginning	<u>133,428</u>	<u>1,296,154</u>	<u>70,233</u>	<u>1,499,815</u>
Fund balances - ending	<u>\$ (68,178)</u>	<u>\$ 1,825,262</u>	<u>\$ 71,063</u>	<u>\$ 1,828,147</u>

See notes to the financial statements

**CLEARWATER CAY COMMUNITY DEVELOPMENT DISTRICT
CLEARWATER, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

Net change in fund balances - total governmental funds	\$ 328,332
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation of capital assets is not recognized in the governmental fund statements but is reported as an expense in the statement of activities.	(337,647)
Amortization of Bond discounts is not recognized in the governmental fund financial statements, but is reported as an expense in the statement of activities.	<u>(5,640)</u>
Change in net position of governmental activities	<u><u>\$ (14,955)</u></u>

See notes to the financial statements

**CLEARWATER CAY COMMUNITY DEVELOPMENT DISTRICT
CLEARWATER, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY

Clearwater Cay Community Development District ("District") was established by Ordinance No. 7515-05, adopted by Clearwater, Florida on September 15, 2005 and created pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The Act provides among other things, the power to manage basic services for community development, 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 the Board of Supervisors ("Board"), which is composed of five members. The Supervisors are elected by the owners of the property within the District. The Board exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes. At September 30, 2018, the Board Members are comprised of 3 Residents, 1 former Resident and 1 is affiliated with the Commercial Property Owner.

The Board has the final responsibility for:

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

The financial statements were prepared in accordance with Governmental Accounting Standards Board ("GASB") Statements. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District is considered to be financially accountable and other organizations for which the nature and significance of their relationship with the District are such that, if excluded, the financial statements of the District would be considered incomplete or misleading. Blended component units, although legally separate entities, are, in substance, part of the government's operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements

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

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment. Operating-type special assessments for maintenance and debt service are treated as charges for services and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not included among program revenues are reported instead as *general revenues*.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments are recognized as revenues in the year for which they are levied. Grants and similar items are 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures are recorded only when payment is due.

Assessments

Assessments are non-ad valorem assessments on all assessable property within the District. Assessments are levied to pay for the operations and maintenance and debt service of the District. The fiscal year for which annual assessments are levied begins on October 1 and, if collected using the Uniform Method of Collection, with discounts available for payments through February 28 and become delinquent on April 1. Alternatively, the District adopts a resolution providing for the collection dates and directly collects the assessments.

Assessments and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. The portion of assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period.

The District reports the following major governmental funds:

General Fund

The general fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

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

This fund accounts for the financial resources to be used for the acquisition or construction of major infrastructure within the District.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first for qualifying expenditures, then unrestricted resources as they are needed.

Restricted Assets

These assets represent cash and investments set aside pursuant to Bond covenants or other contractual restrictions.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity

Deposits and Investments

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

The District has elected to proceed under the Alternative Investment Guidelines as set forth in Section 218.415 (17) Florida Statutes. The District may invest any surplus public funds in the following:

- a) The Local Government Surplus Trust Funds, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act;
- b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
- c) Interest bearing time deposits or savings accounts in qualified public depositories;
- d) Direct obligations of the U.S. Treasury.

Securities listed in paragraph c and d shall be invested to provide sufficient liquidity to pay obligations as they come due.

The District records all interest revenue related to investment activities in the respective funds. Investments are measured at amortized cost or reported at fair value as required by generally accepted accounting principles.

Prepaid Items

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

Capital Assets

Capital assets which include property, plant and equipment, and infrastructure assets (e.g., roads, sidewalks and similar items) are reported in the government activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Stormwater and wastewater	25
Roadways	25
Parking and sidewalks	15

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity

Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned.

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 ratably over the life of the Bonds. Bonds payable are reported net of applicable premiums or discounts. Bond issuance costs are expensed when incurred.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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.

Fund Equity/Net Position

In the fund financial statements, governmental funds report non spendable and restricted fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Assignments of fund balance represent tentative management plans that are subject to change.

The District can establish limitations on the use of fund balance as follows:

Committed fund balance – Amounts that can be used only for the specific purposes determined by a formal action (resolution) of the Board of Supervisors. Commitments may be changed or lifted only by the Board of Supervisors taking the same formal action (resolution) that imposed the constraint originally. Resources accumulated pursuant to stabilization arrangements sometimes are reported in this category.

Assigned fund balance – Includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. The Board may also assign fund balance as it does when appropriating fund balance to cover differences in estimated revenue and appropriations in the subsequent year's appropriated budget. Assignments are generally temporary and normally the same formal action need not be taken to remove the assignment.

The District first uses committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

Fund Equity/Net Position (Continued)

Net position is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position in the government-wide financial statements are categorized as net investment in capital assets, restricted or unrestricted. Net investment in capital assets represents net position related to infrastructure and property, plant and equipment. Restricted net position represents the assets restricted by the District's Bond covenants or other contractual restrictions. Unrestricted net position consists of the net position not meeting the definition of either of the other two components.

Other Disclosures

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3 – BUDGETARY INFORMATION

The District is required to establish a budgetary system and an approved Annual Budget. Annual Budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year-end.

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) Public hearings are conducted to obtain public 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) The budgets are adopted on a basis consistent with generally accepted accounting principles.
- f) Unused appropriation for annually budgeted funds lapse at the end of the year.

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

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

Investments

The District's investments were held as follows at September 30, 2018:

	<u>Amortized Cost</u>	<u>Credit Risk</u>	<u>Maturities</u>
Fidelity Government Portfolio Class III	\$ 1,893,799	N/A	N/A
Total Investments	<u>\$ 1,893,799</u>		

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Credit risk – For investments, credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investment ratings by investment type are included in the preceding summary of investments.

Concentration risk – The District places no limit on the amount the District may invest in any one issuer.

Interest rate risk – The District does not have a formal policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

However, the Bond Indenture limits the type of investments held using unspent proceeds.

Fair Value Measurement – When applicable, the District measures and records its investments using fair value measurement guidelines established in accordance with GASB Statements. The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques.

These guidelines recognize a three-tiered fair value hierarchy, in order of highest priority, as follows:

- *Level 1:* Investments whose values are based on unadjusted quoted prices for identical investments in active markets that the District has the ability to access;
- *Level 2:* Investments whose inputs - other than quoted market prices - are observable either directly or indirectly; and,
- *Level 3:* Investments whose inputs are unobservable.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the entire fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

Money market investments that have a maturity at the time of purchase of one year or less and are held by governments other than external investment pools should be measured at amortized cost. Accordingly, the District's investments have been reported at amortized cost above.

NOTE 5 – CAPITAL ASSETS

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

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land	\$ 27,014,798	\$ -	\$ -	\$ 27,014,798
Total capital assets, not being depreciated	27,014,798	-	-	27,014,798
Capital assets, being depreciated				
Stormwater and wastewater	1,227,695	-	-	1,227,695
Roadways	1,610,428	-	-	1,610,428
Parking and sidewalks	3,361,823	-	-	3,361,823
Total capital assets, being depreciated	6,199,946	-	-	6,199,946
Less accumulated depreciation for:				
Stormwater and water systems	540,188	49,108	-	589,296
Roadways	708,587	64,417	-	773,004
Parking and sidewalks	2,465,342	224,122	-	2,689,464
Total accumulated depreciation	3,714,117	337,647	-	4,051,764
Total capital assets, being depreciated, net	2,485,829	(337,647)	-	2,148,182
Governmental activities capital assets	\$ 29,500,627	\$ (337,647)	\$ -	\$ 29,162,980

NOTE 5 – CAPITAL ASSETS (Continued)

Originally, the District estimated that total infrastructure improvements will cost approximately \$57,950,000 and will be funded from Developer contributions and bond issues. On March 20, 2008, only a portion of the 2006 Project had been completed and the remaining portion could not be completed in a sound and economical manner within a reasonable period of time. In fiscal year 2015, the District exchanged unimproved land for the cancellation of debt. The value of District land was reduced by \$2,115,000 in fiscal year 2015 for this exchange

Depreciation expense was charged to the maintenance and operations function.

NOTE 6 – LONG-TERM LIABILITIES

On November 1, 2006 the District issued \$33,840,000 of Capital Improvement Revenue Bonds, Series 2006A due on May 1, 2037 with a fixed interest rate of 5.50%. The Bonds were issued to refund the District's outstanding Bond Anticipation Notes, Series 2005 (the "Refunded Bonds"); and pay certain costs associated with the issuance of the Bonds. Interest is to be paid semiannually on each May 1 and November 1. Principal on the Bonds is to be paid serially commencing May 1, 2008 through May 1, 2037.

The Series 2006A Bonds are subject to optional redemption at the option of the District prior to maturity, in whole or in part, on any Interest Payment Date on or after May 1, 2016 at the respective Redemption Price. The Series 2006A Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture.

The Bond Indenture established a debt service reserve requirement as well as other 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 agrees to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The District was not in compliance with the requirements at September 30, 2018.

As a result of a continued lack of funding, the District initiated foreclosure proceedings which were settled in a prior year. In June 2012, a Special Purpose Entity (SPE) was formed for the purpose of taking ownership of all foreclosed property for the benefit of the bondholders. On December 8, 2016 the SPE sold foreclosed property for \$6,450,000. On February 24, 2017, the District made a partial payment of delinquent interest of \$7,020,750. Also during fiscal year 2017, \$11,630,000 of Series 2006A bonds were cancelled.

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 Bond Indenture. The requirement has not been met for the fiscal year ended September 30, 2018. In addition, no interest or principal has been paid by Trustee from assessments collected since 2009 as the Bonds are in default. As noted in Note 11, because the District, the Bondholders and the Trustee have been unable to agree on the proper amount due on the Bonds the application of amounts collected from assessments cannot be determined and accrued interest on the Bonds cannot be determined.

Long-term Debt Activity

Changes in long-term liability activity for the fiscal year ended September 30, 2018 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Series 2006A Bonds	\$ 13,900,000	\$ -	\$ -	\$ 13,900,000
Less: issuance discount	107,630	-	5,640	101,990
Total	<u>\$ 13,792,370</u>	<u>\$ -</u>	<u>\$ 5,640</u>	<u>\$ 13,798,010</u>

Series 2006A amortization schedule has not been included as the Bonds have not been resized. See Note 11 for additional information.

NOTE 7– EVENT OF DEFAULT

During the current fiscal year, the District declared the occurrence of an event of default in accordance with the Bond Indenture. The occurrence of an event of default creates certain remedial rights and remedies in favor of the Trustee. Pursuant to the Indenture, the owners of a majority in aggregate principal amount of the Bonds then outstanding may direct the Trustee with regard to such rights and remedies following an event of default and upon provision of indemnity satisfactory to the Trustee and in accordance with provisions of the Indenture. During the current fiscal year, approximately \$59,000 of expenditures was incurred in the Debt Service Fund for services performed related to the events of default, legal services, and related matters. See Note 12, for additional events of default and expenditures incurred in the Debt Service Fund after fiscal year end.

NOTE 8 – DEFICIT FUND EQUITY

The general fund had a deficit fund balance of (\$68,178) at September 30, 2018.

NOTE 9 – 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 10 – 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 has obtained commercial insurance from independent third parties to mitigate the costs of these risks; coverage may not extend to all situations. There may be fees related to matters discussed in Note 11 that may exceed this coverage.

NOTE 11 – LITIGATION

As of November 27, 2019, the outcome of all of the following matters cannot be determined and, therefore, no amounts related to these matters have been reflected in the financial statements.

Grand Venezia COA, Inc. vs Clearwater Cay Community Development District et. al.

The District and other parties are involved in a legal dispute with a condominium association located within the District. The association has filed a Third Amended Complaint seeking among other things that the District be deemed dissolved and that the District and the Bondholders be required to disgorge the past assessments paid by owners within the association. The District filed a voluntary petition in bankruptcy (see “Chapter 9 Bankruptcy” below), staying this and all other proceedings; however, on November 20, 2019 the District filed a motion to dismiss the bankruptcy action.

Chapter 9 Bankruptcy

On June 4, 2019, the District filed for Chapter 9 Bankruptcy. The case was filed for the main purpose of addressing issues with the District’s Series 2006A Bonds. The District, the Bondholders and the Trustee have been unable to agree on the proper amount due on the Bonds or on an appropriate assessment methodology.

The Bondholders and Trustee filed a motion to dismiss the bankruptcy on the ground that the District is not eligible for Chapter 9 Bankruptcy relief. The court scheduled a trial on that issue for December 13, 2019; however, on November 20, 2019 the District filed a motion to dismiss the bankruptcy action.

NOTE 11 – LITIGATION (Continued)

Invesco

There is a threatened legal action by the owner of the District's bonds, Invesco, which seeks to invalidate the 2019 debt assessment passed by the District. Invesco also threatens to seek contractual damages from the District, and the potential damages are speculative. The District intends to defend these actions.

Flournoy Companies

There is a threatened legal action by the Flournoy Companies, The purchaser and current owner of the property that the SPE sold on December 8, 2016, regarding the amount of their operation and maintenance assessment. While the claim only relates to future assessments, which would not involve a monetary judgment, the claim could evolve into a refund request which might involve an amount over \$500,000. The District is attempting to resolve this matter prior to a suit being filed.

NOTE 12 – SUBSEQUENT EVENTS

Proof of Claim

Grey Robinson filed a claim on September 23, 2019 with the US Bankruptcy Court Middle District of FL for approximately \$110,000. Of the total amount, \$63,033 of the claim relates to fiscal year 2018 and has been accrued by the District as of September 30, 2018. On November 20, 2019 the District filed a motion to dismiss the bankruptcy action. As of November 27, 2019, the District has not paid or settled the \$110,000.

Events of Default

Subsequent to fiscal year end, certain scheduled debt service payments were due on the 2006A Bonds. No debt service payments were made subsequent to fiscal year end. Also, during the period October 1, 2018 to October 31, 2019 approximately \$248,236 of expenditures were paid from Debt Service Fund for services performed related to the events of default, legal services and related matters.

Fiscal year 2020 debt assessments

In September 2019 the District approved a revised assessment methodology that lowered the annual debt service special assessments from approximately \$589,800 to approximately \$297,300. The District's board levied the fiscal year 2020 debt service special assessments based on the revised assessment methodology. As noted above, the Bondholders have threatened legal action which seeks to invalidate this debt assessment. It is not clear how the District will fund debt service payments with lower assessments if the Bondholders position is upheld.

**CLEARWATER CAY COMMUNITY DEVELOPMENT DISTRICT
CLEARWATER, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Assessment revenue	\$ 498,175	\$ 507,090	\$ 511,688	\$ 4,598
Miscellaneous	-	-	5,265	5,265
Interest income	-	-	3	3
Total revenues	498,175	507,090	516,956	9,866
EXPENDITURES				
Current:				
General government	495,175	614,824	639,879	(25,055)
Maintenance and operations	78,000	78,000	78,683	(683)
Total expenditures	573,175	692,824	718,562	(25,738)
Excess (deficiency) of revenues over (under) expenditures	(75,000)	(185,734)	(201,606)	(15,872)
OTHER FINANCING SOURCES				
Use of fund balance	75,000	185,734	-	(185,734)
Total other financing sources	75,000	185,734	-	(185,734)
Net change in fund balances	\$ -	\$ -	(201,606)	\$ (201,606)
Fund balance - beginning			133,428	
Fund balance - ending			\$ (68,178)	

See notes to required supplementary information

**CLEARWATER CAY COMMUNITY DEVELOPMENT DISTRICT
CLEARWATER, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

The District is required to establish a budgetary system and an approved Annual Budget for the General Fund. The District's budgeting process is based on estimates of cash receipts and cash expenditures which are approved by the Board. The budget approximates a basis consistent with accounting principles generally accepted in the United States of America (generally accepted accounting principles).

The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. The general fund budget for the fiscal year ended September 30, 2018 was amended to increase revenues by \$8,915, increase appropriations by \$119,649, and increase the use of fund balance by \$110,734. Although general fund budget was amended, actual general fund expenditures for the fiscal year ended September 30, 2018 still exceeded appropriations by \$25,738.



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
Clearwater Cay Community Development District
Clearwater, 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 Clearwater Cay Community Development District, Clearwater, Florida ("District") as of and for the fiscal 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 opinion thereon dated November 27, 2019, which includes an explanatory paragraph regarding the disclaimer of opinion on the governmental activities and an emphasis of matter paragraph.

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 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*.

We noted certain matters involving the internal control over financial reporting and compliance that we have reported to management of the District in a separate letter dated November 27, 2019.

The District's responses to the findings identified in our audit are described in the accompanying Management Letter. We did not audit the District's responses and, accordingly, we express no opinion on them.

Purpose of this Report

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



November 27, 2019



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE
REQUIREMENTS OF SECTION 218.415, FLORIDA STATUTES, REQUIRED BY
RULE 10.556(10) OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

To the Board of Supervisors
Clearwater Cay Community Development District
Clearwater, Florida

We have examined Clearwater Cay Community Development District, Clearwater, Florida's ("District") compliance with the requirements of Section 218.415, Florida Statutes, in accordance with Rule 10.556(10) of the Auditor General of the State of Florida during the fiscal year ended September 30, 2018. Management is responsible for District's compliance with those requirements. Our responsibility is to express an opinion on 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 perform the examination to obtain reasonable assurance about whether the District complied, in all material respects, with the specified requirements referenced in Section 218.415, Florida Statutes. An examination involves performing procedures to obtain evidence about whether the District complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

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

This report 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, management, and the Board of Supervisors of Clearwater Cay Community Development District, Clearwater, Florida and is not intended to be and should not be used by anyone other than these specified parties.

Grau & Associates

November 27, 2019



**MANAGEMENT LETTER PURSUANT TO THE RULES OF
THE AUDITOR GENERAL FOR THE STATE OF FLORIDA**

To the Board of Supervisors
Clearwater Cay Community Development District
Clearwater, Florida

Report on the Financial Statements

We have audited the accompanying basic financial statements of Clearwater Cay Community Development District, Clearwater, Florida ("District") as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated November 27, 2019, which includes an explanatory paragraph regarding the disclaimer of opinion on the governmental activities and an emphasis of matter paragraph.

Auditor's Responsibility

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

Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Auditor's Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated November 27, 2019, should be considered in conjunction with this management letter.

Purpose of this Letter

The purpose of this letter is to comment on those matters required by Chapter 10.550 of the Rules of the Auditor General for the State of Florida. Accordingly, in connection with our audit of the financial statements of the District, as described in the first paragraph, we report the following:

- I. Current year findings and recommendations.**
- II. Status of prior year findings and recommendations.**
- III. Compliance with the Provisions of the Auditor General of the State of Florida.**

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, as applicable, management, and the Board of Supervisors of Clearwater Cay Community Development District, Clearwater, Florida and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank Clearwater Cay Community Development District, Clearwater, Florida and the personnel associated with it, for the opportunity to be of service to them in this endeavor as well as future engagements, and the courtesies extended to us.

Grau & Associates

November 27, 2019

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2018-01 Budget:

Observation: Actual expenditures exceeded appropriations in the general fund for the fiscal year ended September 30, 2018.

Recommendation: The District should amend the budget during the fiscal year or within statutory

Management Response: While we are no longer the management company after 12/1/2018 and cannot speak for the district after that date, we are sure the district is in agreement.

2018-02 Debt Administration:

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

Recommendation: The District should take the necessary steps to be in compliance with the bond indenture.

Management Response: Several year ago, the District initiated a foreclosure suit to obtain title to the property where the owners were delinquent in paying District bond debt service assessments. The District's bond trustee was successful in obtaining title to all property where the owner(s) were delinquent in paying assessments and is now holding the property/security for the benefit of the bondholders. Thus, the District has successfully followed the remedies outlined in the applicable bond trust indenture(s) related to the collection and enforcement of District bond debt service assessments.

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2017-01 No Supporting Documentation Provided for Certain Expenditures

Current Status: Recommendation has been implemented.

2017-02 Debt Administration

Current Status: See Finding 2018-02.

III. COMPLIANCE WITH THE PROVISIONS OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

Unless otherwise required to be reported in the auditor's report on compliance and internal controls, the management letter shall include, but not be limited to the following:

1. A statement as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

There were no significant findings and recommendations made in the preceding annual financial audit report for the fiscal year ended September 30, 2017, except as noted above.

REPORT TO MANAGEMENT (Continued)

2. Any recommendations to improve the local governmental entity's financial management.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported for the fiscal year ended September 30, 2018, except as noted above.

3. 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.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported, for the fiscal year ended September 30, 2018, except as noted above.

4. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.

5. In connection with our audit, we determined that the District has met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes. The District failed to make certain scheduled debt service payments due on the Series 2006 Bonds. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and determined that no deteriorating financial condition was noted as of September 30, 2018. It is management's responsibility to monitor 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. Management does not consider the District to be in a state of financial emergency as of the report date.