

**CLEARWATER CAY
COMMUNITY DEVELOPMENT DISTRICT
CLEARWATER, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2019**

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

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-6
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet – Governmental Funds	9
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	10
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Notes to the Financial Statements	13-21
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	22
Notes to Required Supplementary Information	23
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	24-25
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	26
MANAGEMENT LETTER REQUIRED BY CHAPTER 10.550 OF THE RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA	27-29



Grau & Associates

CERTIFIED PUBLIC ACCOUNTANTS

951 Yamato Road • Suite 280
Boca Raton, Florida 33431
(561) 994-9299 • (800) 299-4728
Fax (561) 994-5823
www.graucpa.com

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, 2019, 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 and the Debt Service Fund

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. In addition, the District was unable to provide sufficient competent evidential matter for the expenditures recorded in the debt service fund. The financial information of the debt service fund is part of the governmental activities and is considered a major fund.

Disclaimer of Opinion

Because of the significance of the matters described in the “Basis for Disclaimer of Opinion on the Governmental Activities and the Debt Service Fund” 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 and the debt service fund of the District as of September 30, 2019. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the general fund and capital projects fund of the District as of September 30, 2019, 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. In addition, as disclosed in Note 11 to the basic financial statements, on February 21, 2020 the District’s trustee sent a letter to the District claiming extraordinary fees and expenses, including legal, in excess of \$184,532. The District has not recorded this claim in the fiscal year 2019 financial statements.

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 August 28, 2020, 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 solely 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.

GIRAN + ASSOCIATES

August 28, 2020

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 ended September 30, 2019. 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 \$17,448,098.
- The change in the District's total net position in comparison with the prior fiscal year was \$254,981, an increase. 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, 2019, the District's governmental funds reported combined ending fund balances of \$2,426,415, an increase of \$598,268 in comparison with the prior fiscal year. The fund balance is restricted for debt service and capital projects, non-spendable for prepaid items and the remainder is unassigned fund balance which is available for spending at the District's discretion.

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, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual amount being 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,	
	2019	2018
Assets, excluding capital assets	\$ 2,558,666	\$ 1,909,366
Capital assets, net of depreciation	28,825,333	29,162,980
Total assets	31,383,999	31,072,346
Liabilities, excluding long-term liabilities	132,251	81,219
Long-term liabilities	13,803,650	13,798,010
Total liabilities	13,935,901	13,879,229
Net Position		
Net investment in capital assets	15,094,143	15,436,033
Restricted for debt service	2,324,393	1,825,262
Unrestricted	29,562	(68,178)
Total net position	\$ 17,448,098	\$ 17,193,117

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 remaining balance of unrestricted net position may be used to meet the District's other obligations.

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

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,	
	2019	2018
Revenues:		
Program revenues		
Charges for services	\$ 1,084,908	\$ 1,081,311
Operating grants and contributions	39,644	18,701
Capital grants and contributions	1,397	830
General revenues		
Miscellaneous	870	5,265
Unrestricted investment earnings	88	3
Total revenues	<u>1,126,907</u>	<u>1,106,110</u>
Expenses:		
General government	419,985	704,735
Maintenance and operations	451,941	416,330
Total expenses	<u>871,926</u>	<u>1,121,065</u>
Change in net position	<u>254,981</u>	<u>(14,955)</u>
Net position - beginning	<u>17,193,117</u>	<u>17,208,072</u>
Net position - ending	<u>\$ 17,448,098</u>	<u>\$ 17,193,117</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2019 was \$871,926. 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 an increase in investment earnings. In total, expenses, including depreciation, decreased from the prior fiscal year. The decrease in current fiscal year expenses is primarily the result of a decrease in 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. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2019.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2019, the District had \$33,214,744 invested in capital assets for its governmental activities. In the government-wide financial statements depreciation of \$4,389,411 has been taken, which resulted in a net book value of \$28,825,333. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Capital Debt

At September 30, 2019, 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 debt assessment methodology that would lower the annual debt service special assessments from approximately \$589,800 to approximately \$297,300. In November 2019 the District filed a motion with the county to validate and approve this debt assessment levy. The owner of the District's bonds, Invesco, seeks to invalidate these debt assessments. Invesco also threatens to seek contractual damages from the District, and the potential damages are speculative. In March 2020 the judge sent the debt assessment validation to non-binding arbitration. There are three arbitrators and the process is expected to be completed by the fall of 2020. 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, 2019**

	Governmental Activities
ASSETS	
Cash	\$ 131,139
Prepays	8,579
Restricted assets:	
Investments	2,416,517
Interest receivable	2,431
Capital assets:	
Nondepreciable	27,014,798
Depreciable, net	1,810,535
Total assets	31,383,999
 LIABILITIES	
Accounts payable and accrued expenses	132,251
Non-current liabilities:	
Due in more than one year	13,803,650
Total liabilities	13,935,901
 NET POSITION	
Net investment in capital assets	15,094,143
Restricted for debt service	2,324,393
Unrestricted	29,562
Total net position	\$ 17,448,098

See notes to the financial statements

**CLEARWATER CAY COMMUNITY DEVELOPMENT DISTRICT
CLEARWATER, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019**

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 419,985	\$ 419,985	\$ -	\$ -	\$ -
Maintenance and operations	451,941	86,994	-	1,397	(363,550)
Interest on long-term debt	-	577,929	39,644	-	617,573
Total governmental activities	871,926	1,084,908	39,644	1,397	254,023
			Miscellaneous	870	
			Unrestricted investment earnings	88	
			Total general revenues	958	
			Change in net position	254,981	
			Net position - beginning	17,193,117	
			Net position - ending	\$ 17,448,098	

See notes to the financial statements

**CLEARWATER CAY COMMUNITY DEVELOPMENT DISTRICT
CLEARWATER, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
ASSETS				
Cash	\$ 131,139	\$ -	\$ -	\$ 131,139
Investments	-	2,344,057	72,460	2,416,517
Interest Receivable	-	2,431	-	2,431
Due from other funds	22,095	-	-	22,095
Prepays	8,579	-	-	8,579
Total assets	<u>\$ 161,813</u>	<u>\$ 2,346,488</u>	<u>\$ 72,460</u>	<u>\$ 2,580,761</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenses	\$ 132,251	\$ -	\$ -	\$ 132,251
Due to other funds	-	22,095	-	22,095
Total liabilities	<u>132,251</u>	<u>22,095</u>	<u>-</u>	<u>154,346</u>
Fund balances:				
Nonspendable:				
Prepaid items	8,579	-	-	8,579
Restricted for:				
Debt service	-	2,324,393	-	2,324,393
Capital projects	-	-	72,460	72,460
Unassigned	20,983	-	-	20,983
Total fund balances	<u>29,562</u>	<u>2,324,393</u>	<u>72,460</u>	<u>2,426,415</u>
Total liabilities and fund balances	<u>\$ 161,813</u>	<u>\$ 2,346,488</u>	<u>\$ 72,460</u>	<u>\$ 2,580,761</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, 2019**

Total fund balances - governmental funds \$ 2,426,415

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	(4,389,411)	28,825,333

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	96,350	(13,803,650)

Net position of governmental activities		<u>\$ 17,448,098</u>
---	--	----------------------

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, 2019**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
REVENUES				
Assessment revenue	\$ 506,979	\$ 577,929	\$ -	\$ 1,084,908
Miscellaneous	870	-	-	870
Interest income	88	39,644	1,397	41,129
Total revenues	<u>507,937</u>	<u>617,573</u>	<u>1,397</u>	<u>1,126,907</u>
EXPENDITURES				
Current:				
General government	295,903	118,442	-	414,345
Maintenance and operations	114,294	-	-	114,294
Total expenditures	<u>410,197</u>	<u>118,442</u>	<u>-</u>	<u>528,639</u>
Excess (deficiency) of revenues over (under) expenditures	97,740	499,131	1,397	598,268
Fund balances - beginning	<u>(68,178)</u>	<u>1,825,262</u>	<u>71,063</u>	<u>1,828,147</u>
Fund balances - ending	<u>\$ 29,562</u>	<u>\$ 2,324,393</u>	<u>\$ 72,460</u>	<u>\$ 2,426,415</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, 2019**

Net change in fund balances - total governmental funds	\$ 598,268
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>\$ 254,981</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.

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. There are no entities considered to be component units of the District; therefore, the financial statements include only the operations of the District.

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.

Assets, Liabilities and Net Position or Equity

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 (Continued)

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 (Continued)

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, 2019:

	<u>Amortized Cost</u>	<u>Credit Risk</u>	<u>Maturities</u>
US Bank Money Market Account	\$ 2,416,517	N/A	N/A
Total Investments	<u>\$ 2,416,517</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 – INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at September 30, 2019 were as follows:

	Receivable	Payable
General fund	\$ 22,095	\$ -
Debt service fund	-	22,095
	<u>\$ 22,095</u>	<u>\$ 22,095</u>

In the case of the District, the balances between the general fund and the debt service fund relate to an excess of funds transferred to the debt service fund from the general fund that have not been repaid at year end.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2019 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	589,296	49,108	-	638,404
Roadways	773,004	64,417	-	837,421
Parking and sidewalks	2,689,464	224,122	-	2,913,586
Total accumulated depreciation	4,051,764	337,647	-	4,389,411
Total capital assets, being depreciated, net	2,148,182	(337,647)	-	1,810,535
Governmental activities capital assets	\$ 29,162,980	\$ (337,647)	\$ -	\$ 28,825,333

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 7 – 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.

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.

NOTE 7 – LONG-TERM LIABILITIES (Continued)

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, 2019. The reserve requirement has not been met for the fiscal year ended September 30, 2019. In addition, no interest or principal has been paid by the 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, 2019 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	101,990	-	5,640	96,350
Total	<u>\$ 13,798,010</u>	<u>\$ -</u>	<u>\$ 5,640</u>	<u>\$ 13,803,650</u>

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

NOTE 8– 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 \$106,800 of expenditures were 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 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 – CONTINGENT LIABILITIES, LITIGATION AND CLAIMS

As of the report date, 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, except for unpaid legal fees.

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 15, 2019, the District filed a motion in the bankruptcy court to dismiss the bankruptcy case and the court entered an order on November 22, 2019 granting that motion.

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 15, 2019, the District filed a motion in the bankruptcy court to dismiss the bankruptcy case and the court entered an order on November 22, 2019 granting that motion.

Trustee Contingent Liability

On February 21, 2020, the District received a letter from the Trustee claiming extraordinary fees and expenses, including legal, in excess of \$184,532 with respect to the Bankruptcy filing by the District. As the Trustee has not provided invoices that relate to the \$184,532 and the District bankruptcy filing lasted from June 4, 2019 to November 22, 2019 the District cannot determine the amount that may be related to fiscal year 2019. In addition, as discussed in Note 12, during the period October 1, 2019 to August 19, 2020 approximately \$273,336 of expenditures were paid from Debt Service Fund by the Trustee; however, without invoices the District cannot determine if these expenditures relate to the \$184,532 claim or not.

Unpaid Legal Fees

Grey Robinson filed a claim on September 23, 2019 with the US Bankruptcy Court Middle District of FL for approximately \$110,000. The total amount has been accrued by the District as of September 30, 2019. On November 15, 2019, the District filed a motion in the bankruptcy court to dismiss the bankruptcy case and the court entered an order on November 22, 2019 granting that motion. As of August 28, 2020, the District has not paid or settled the \$110,000.

NOTE 12 – SUBSEQUENT EVENTS

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, 2019 to August 19, 2020 approximately \$273,336 of expenditures were paid from Debt Service Fund for services performed related to the events of default, legal services and related matters.

Revised Debt Assessment Validation

In September 2019 the District approved a revised debt assessment methodology that would lower the annual debt service special assessments from approximately \$589,800 to approximately \$297,300. In November 2019 the District filed a motion with the county to validate and approve this debt assessment levy. The owner of the District’s bonds, Invesco, seeks to invalidate these debt assessments. Invesco also threatens to seek contractual damages from the District, and the potential damages are speculative. In March 2020 the judge sent the debt assessment validation to non-binding arbitration. There are three arbitrators and the process is expected to be completed by the fall of 2020. 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, 2019**

	Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original & Final	Amounts	(Negative)
REVENUES			
Assessment revenue	\$ 498,175	\$ 506,979	\$ 8,804
Miscellaneous	-	870	870
Interest income	-	88	88
Total revenues	498,175	507,937	9,762
EXPENDITURES			
Current:			
General government	478,675	295,903	182,772
Maintenance and operations	94,500	114,294	(19,794)
Total expenditures	573,175	410,197	162,978
Excess (deficiency) of revenues over (under) expenditures	(75,000)	97,740	172,740
OTHER FINANCING SOURCES			
Use of fund balance	75,000	-	(75,000)
Total other financing sources	75,000	-	(75,000)
Net change in fund balances	\$ -	97,740	\$ 97,740
Fund balance - beginning		(68,178)	
Fund balance - ending		\$ 29,562	

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. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2019.



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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our opinion thereon dated August 28, 2020, which includes an explanatory paragraph regarding the disclaimer of opinion on the governmental activities and debt service fund 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 August 28, 2020.

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.

GRAV + ASSOCIATES

August 28, 2020



**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, 2019. 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, 2019.

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

August 28, 2020



**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, 2019, and have issued our report thereon dated August 28, 2020, which includes an explanatory paragraph regarding the disclaimer of opinion on the governmental activities and debt service fund 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 August 28, 2020, 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

August 28, 2020

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2019-01 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.

Reference Numbers for Prior Year Findings: 2018-02 and 2017-02

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

2018-01 Budget

Current Status: Recommendation has been implemented.

2018-02 Debt Administration

Current Status: See Finding 2019-01.

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, 2018, 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, 2019, 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, 2019, 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, 2019. 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.