

**Bannon Lakes
Community Development District**

ANNUAL FINANCIAL REPORT

September 30, 2018

Bannon Lakes Community Development District

ANNUAL FINANCIAL REPORT

September 30, 2018

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REPORT OF INDEPENDENT AUDITORS

To the Board of Supervisors
Bannon Lakes Community Development District
St. Johns County, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Bannon Lakes Community Development District as of and for the year ended September 30, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 Accounting Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Fort Pierce / Stuart

To the Board of Supervisors
Bannon Lakes Community Development District

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis 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 a report dated June 21, 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 and contracts. 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 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 Bannon Lakes Community Development District's internal control over financial reporting and compliance.



Berger, Toombs, Elam, Gaines & Frank
Certified Public Accountants PL
Fort Pierce, Florida

June 21, 2019

**Bannon Lakes Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2018**

Management's discussion and analysis of Bannon Lakes Community Development District (the "District") financial performance provides an objective and easily readable analysis of the District's financial activities. The analysis provides summary financial information for the District and should be read in conjunction with the District's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's basic financial statements comprise three components; 1) *Government-wide financial statements*, 2) *Fund financial statements*, and 3) *Notes to financial statements*. The *Government-wide financial statements* present an overall picture of the District's financial position and results of operations. The *Fund financial statements* present financial information for the District's major funds. The *Notes to financial statements* provide additional information concerning the District's finances.

The *Government-wide financial statements* are the **statement of net position** and the **statement of activities**. These statements use accounting methods similar to those used by private-sector companies. Emphasis is placed on the net position of governmental activities and the change in net position. Governmental activities are primarily supported by special assessments.

The **statement of net position** presents information on all assets and liabilities of the District, with the difference between assets and liabilities reported as net position. Assets, liabilities, and net position are reported for all Governmental activities.

The **statement of activities** presents information on all revenues and expenses of the District and the change in net position. Expenses are reported by major function and program revenues relating to those functions are reported, providing the net cost of all functions provided by the District. To assist in understanding the District's operations, expenses have been reported as governmental activities. Governmental activities financed by the District include general government and debt service.

Fund financial statements present financial information for governmental funds. These statements provide financial information for the major funds of the District. Governmental fund financial statements provide information on the current assets and liabilities of the funds, changes in current financial resources (revenues and expenditures), and current available resources.

**Bannon Lakes Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund financial statements include a **balance sheet** and a **statement of revenues, expenditures and changes in fund balances** for all governmental funds. A **statement of revenues, expenditures, and changes in fund balances – budget and actual** is provided for the District's General Fund. *Fund financial statements* provide more detailed information about the District's activities. Individual funds are established by the District to track revenues that are restricted to certain uses or to comply with legal requirements.

The *government-wide financial statements* and the *fund financial statements* provide different pictures of the District. The *government-wide financial statements* provide an overall picture of the District's financial standing. These statements are comparable to private-sector companies and give a good understanding of the District's overall financial health and how the District paid for the various activities, or functions, provided by the District. All assets of the District, including construction in progress, are reported in the **statement of net position**. All liabilities, including principal outstanding on bonds are included. In the **statement of activities**, transactions between the different functions of the District have been eliminated in order to avoid "doubling up" the revenues and expenses. The *fund financial statements* provide a picture of the major funds of the District. In the case of governmental activities, outlays for long lived assets are reported as expenditures and long-term liabilities, such as general obligation bonds, are not included in the fund financial statements. To provide a link from the *fund financial statements* to the *government-wide financial statements*, reconciliation is provided from the *fund financial statements* to the *government-wide financial statements*.

Notes to financial statements provide additional detail concerning the financial activities and financial balances of the District. Additional information about the accounting practices of the District, investments of the District, capital assets and long-term debt are some of the items included in the *notes to financial statements*.

Financial Highlights

The following are the highlights of financial activity for the year ended September 30, 2018.

- ◆ The District's total liabilities exceeded total assets by \$(2,029,780) (net position).
- ◆ Governmental activities revenues totaled \$1,003,570 while governmental activities expenses totaled \$2,180,842.

**Bannon Lakes Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Financial Analysis of the District

The following schedule provides a summary of the assets, liabilities and net position of the District and is presented by category for comparison purposes.

Net Position

	Governmental Activities	
	2018	2017
Current assets	\$ 482,496	\$ 463,829
Restricted assets	678,313	1,263,438
Capital assets	9,046,788	9,649,986
Total Assets	<u>10,207,597</u>	<u>11,377,253</u>
Current liabilities	486,691	482,490
Non-current liabilities	11,750,686	11,747,271
Total Liabilities	<u>12,237,377</u>	<u>12,229,761</u>
Net position - unrestricted	<u>\$ (2,029,780)</u>	<u>\$ (852,508)</u>

The decrease in restricted assets is primarily the result of the interest payments and capital additions in the current year.

The decrease in capital assets is the result of not all construction in progress amounts being capitalized at the completion of the project in the current year.

**Bannon Lakes Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Financial Analysis of the District (Continued)

The following schedule provides a summary of the changes in net position of the District and is presented by category for comparison purposes.

Change In Net Position

	Governmental Activities	
	2018	2017
Program Revenues		
Charges for services	\$ 441,215	\$ 439,208
Grants and contributions	562,355	313,695
	<hr/>	<hr/>
Total Revenues	1,003,570	752,903
	<hr/>	<hr/>
Expenses		
General government	139,815	100,118
Physical environment	1,359,762	95,487
Culture/recreation	92,725	26,476
Interest on long-term debt	588,540	588,540
	<hr/>	<hr/>
Total Expenses	2,180,842	810,621
	<hr/>	<hr/>
Change in Net Position	(1,177,272)	(57,718)
Net Position - Beginning of Year	<hr/> (852,508)	<hr/> (794,790)
Net Position - End of Year	<u><u>\$ (2,029,780)</u></u>	<u><u>\$ (852,508)</u></u>

The increase in general government expenses is primarily related to increased engineering fees in the current year.

The increase in physical environment expenses is the result of certain construction in progress amounts being expensed in the current year at the completion of the project.

**Bannon Lakes Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Capital Assets Activity

The following schedule provides a summary of the District's capital assets as of September 30, 2018 and 2017.

	Governmental Activities	
	2018	2017
Construction in progress	\$ 449,356	\$ 9,649,986
Infrastructure	4,721,061	-
Building and improvements	3,691,744	-
Equipment	184,627	-
Total	\$ 9,046,788	\$ 9,649,986

Current year activity consisted of additions to construction in progress of \$561,155 and the transfer of construction on progress to infrastructure, \$4,721,061, buildings and improvements, \$3,691,744 and equipment, \$184,627. In addition, \$1,164,353 of construction in progress was expensed as physical environment.

General Fund Budgetary Highlights

Budgeted expenditures exceeded actual expenditures primarily due to less landscape maintenance and utilities expenditures than were anticipated.

There were no amendments to the September 30, 2018 budget.

Debt Management

Governmental Activities debt includes the following:

- ◆ In January 2016 the District issued \$11,850,000 Special Assessment Bonds, Series 2016. The Bonds were issued to provide funds to finance the cost of acquisition, construction, installation and equipping the 2016 Project, pay certain costs associated with issuing the bonds, fund the 2016 Reserve account and fund capitalized interest through November 1, 2018. The balance outstanding at September 30, 2018 was \$11,850,000.

**Bannon Lakes Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Economic Factors and Next Year's Budget

The District does not expect any economic factors to have a significant effect on the financial position or results of operations of the District in fiscal year 2019.

Request for Information

The financial report is designed to provide a general overview of Bannon Lakes Community Development District's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Bannon Lakes Community Development District, Governmental Management Services, 475 West Town Place, Suite 114, St. Augustine, FL 32092.

Bannon Lakes Community Development District
STATEMENT OF NET POSITION
September 30, 2018

	Governmental Activities
ASSETS	
Current Assets	
Cash	\$ 269,504
Assessments receivable	12,252
Due from developer	180,667
Deposits	50
Prepaid expenses	20,023
Total Current Assets	482,496
Non-Current Assets	
Restricted Assets	
Cash	678,313
Capital Assets, Not Being Depreciated	
Construction in progress	449,356
Capital Assets, Being Depreciated	
Infrastructure	4,721,061
Buildings and improvements	3,691,744
Equipment	184,627
Total Non-Current Assets	9,725,101
Total Assets	10,207,597
LIABILITIES	
Current Liabilities	
Accounts payable	5,349
Contracts and retainage payable	180,667
Unearned revenues	56,873
Accrued interest	243,802
Total Current Liabilities	486,691
Non-Current Liabilities	
Bonds payable, net	11,750,686
Total Liabilities	12,237,377
NET POSITION	
Unrestricted	\$ (2,029,780)

See accompanying notes to financial statements.

Bannon Lakes Community Development District
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u> <u>Revenues and</u> <u>Changes in</u> <u>Net Position</u>
		<u>Charges for</u> <u>Services</u>	<u>Capital Grants</u> <u>and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Governmental Activities				
General government	\$ (139,815)	\$ 144,149	\$ -	\$ 4,334
Physical environment	(1,359,762)	201,466	562,355	(595,941)
Culture/recreation	(92,725)	95,600	-	2,875
Interest on long-term debt	(588,540)	-	-	(588,540)
Total Governmental Activities	<u>\$ (2,180,842)</u>	<u>\$ 441,215</u>	<u>\$ 562,355</u>	<u>(1,177,272)</u>
				Change in Net Position (1,177,272)
				Net Position - October 1, 2017 <u>(852,508)</u>
				Net Position - September 30, 2018 <u>\$ (2,029,780)</u>

See accompanying notes to financial statements.

Bannon Lakes Community Development District
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2018

	General	Series 2016 Debt Service	Series 2016 Capital Projects	Total Governmental Funds
ASSETS				
Cash	\$ 269,504	\$ -	\$ -	\$ 269,504
Assessments receivable	12,252	-	-	12,252
Due from developer	-	-	180,667	180,667
Prepaid expenses	20,023	-	-	20,023
Deposits	50	-	-	50
Restricted assets				
Cash and investments, at fair value	-	678,313	-	678,313
Total Assets	\$ 301,829	\$ 678,313	\$ 180,667	\$ 1,160,809
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 5,349	\$ -	\$ -	\$ 5,349
Contracts and retainage payable	-	-	180,667	180,667
Unearned revenues	56,873	-	-	56,873
Total Liabilities	62,222	-	180,667	242,889
FUND BALANCES				
Nonspendable:				
Prepaid expenses/deposits	20,073	-	-	20,073
Restricted:				
Debt service	-	678,313	-	678,313
Unassigned	219,534	-	-	219,534
Total Fund Balances	239,607	678,313	-	917,920
Total Liabilities and Fund Balances	\$ 301,829	\$ 678,313	\$ 180,667	\$ 1,160,809

See accompanying notes to financial statements.

**Bannon Lakes Community Development District
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
September 30, 2018**

Total Governmental Fund Balances	\$ 917,920
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets, construction in progress, \$449,356, infrastructure, \$4,721,061, buildings and improvements, \$3,691,744 and equipment, \$184,627, used in governmental activities are not current financial resources and therefore, are not reported at the fund level.	9,046,788
Long-term liabilities, including bonds payable, \$(11,850,000), and bond discount, \$99,314, are not due and payable in the current period and therefore, are not reported at the fund level.	(11,750,686)
Accrued interest expense for long-term debt is not a current financial use and therefore, is not reported at the fund level.	<u>(243,802)</u>
Net Position of Governmental Activities	<u><u>\$ (2,029,780)</u></u>

See accompanying notes to financial statements.

Bannon Lakes Community Development District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended September 30, 2018

	General	Series 2016 Debt Service	Series 2016 Capital Projects	Total Governmental Funds
Revenues				
Special assessments	\$ 441,215	\$ -	\$ -	\$ 441,215
Developer contributions	-	-	562,355	562,355
Total Revenues	<u>441,215</u>	<u>-</u>	<u>562,355</u>	<u>1,003,570</u>
Expenditures				
Current				
General government	139,815	-	-	139,815
Physical environment	195,409	-	-	195,409
Culture/recreation	92,725	-	-	92,725
Capital outlay	-	-	561,155	561,155
Debt service				
Interest	-	585,125	-	585,125
Total Expenditures	<u>427,949</u>	<u>585,125</u>	<u>561,155</u>	<u>1,574,229</u>
Net Change in Fund Balances	13,266	(585,125)	1,200	(570,659)
Fund Balances - October 1, 2017	<u>226,341</u>	<u>1,263,438</u>	<u>(1,200)</u>	<u>1,488,579</u>
Fund Balances - September 30, 2018	<u>\$ 239,607</u>	<u>\$ 678,313</u>	<u>\$ -</u>	<u>\$ 917,920</u>

See accompanying notes to financial statements.

**Bannon Lakes Community Development District
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018**

Net Change in Fund Balances - Total Governmental Funds \$ (570,659)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation. This is the amount of capital outlay in the current period. 561,155

Certain amounts that had been capitalized as construction in progress in prior years were expensed as physical environment at the project completion. (1,164,353)

Amortization of bond discount does not require the use of financial current resources and therefore, is not reported in the governmental funds. This is the amount of amortization in the current period. (3,415)

Change in Net Position of Governmental Activities \$ (1,177,272)

See accompanying notes to financial statements.

Bannon Lakes Community Development District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND
For the Year Ended September 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues				
Special assessments	\$ 590,430	\$ 590,430	\$ 441,215	\$ (149,215)
Expenditures				
Current				
General government	111,681	111,681	139,815	(28,134)
Physical environment	298,100	298,100	195,409	102,691
Culture/recreation	180,649	180,649	92,725	87,924
Total Expenditures	<u>590,430</u>	<u>590,430</u>	<u>427,949</u>	<u>162,481</u>
Net Change in Fund Balances	-	-	13,266	13,266
Fund Balances - October 1, 2017	<u>-</u>	<u>-</u>	<u>226,341</u>	<u>226,341</u>
Fund Balances - September 30, 2018	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 239,607</u>	<u>\$ 239,607</u>

See accompanying notes to financial statements.

Bannon Lakes Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

The District was established on September 21, 2015, pursuant to the Uniform Community Development District Act of 1980, Chapter 190, Florida Statutes, as amended (the "Act"), by Ordinance #2015-60 of the Board of County Commissioners of St. Johns County, as a Community Development District. The District was established for the purposes of financing and managing the acquisition, construction, maintenance and operation of the infrastructure necessary for community development within its jurisdiction. The District is authorized to issue bonds for the purpose, among others, of financing, funding, planning, establishing, acquiring, constructing district roads, landscaping, and other basic infrastructure projects within or outside the boundaries of the Bannon Lakes Community Development District. The District is governed by a Board of Supervisors who are elected to four year and two year terms. The District operates within the criteria established by Chapter 190.

As required by GAAP, these financial statements present the Bannon Lakes Community Development District (the primary government) as a stand-alone government. The reporting entity for the District includes all functions of government in which the District's Board exercises oversight responsibility including, but not limited to, financial interdependency, selection of governing authority, designation of management, significant ability to influence operations and accountability for fiscal matters.

Based upon the application of the above-mentioned criteria as set forth in Governmental Accounting Standards the District has identified no component units.

2. Measurement Focus and Basis of Accounting

The basic financial statements of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to financial statements

Bannon Lakes Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Measurement Focus and Basis of Accounting (Continued)

a. Government-wide Financial Statements

Government-wide financial statements report all non-fiduciary information about the reporting government as a whole. These statements include all the governmental activities of the primary government. The effect of interfund activity has been removed from these statements.

Governmental activities are supported by developer contributions. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as an other financing source.

Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

b. Fund Financial Statements

The underlying accounting system of the District is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually.

Bannon Lakes Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Measurement Focus and Basis of Accounting (Continued)

b. Fund Financial Statements (Continued)

Governmental Funds

The District reports fund balance according to Governmental Accounting Standards Board Statement 54 – Fund Balance Reporting and Governmental Fund Type Definitions. The Statement requires the fund balance for governmental funds to be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The District has various policies governing the fund balance classifications.

Nonspendable Fund Balance – This classification consists of amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted Fund Balance – This classification includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Assigned Fund Balance – This classification consists of the Board of Supervisors' intent to be used for specific purposes, but are neither restricted nor committed. The assigned fund balances can also be assigned by the District's management company.

Unassigned Fund Balance – This classification is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. Unassigned fund balance is considered to be utilized first when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Fund Balance Spending Hierarchy – For all governmental funds except special revenue funds, when restricted, committed, assigned, and unassigned fund balances are combined in a fund, qualified expenditures are paid first from restricted or committed fund balance, as appropriate, then assigned and finally unassigned fund balances.

Bannon Lakes Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Measurement Focus and Basis of Accounting (Continued)

b. Fund Financial Statements (Continued)

Governmental Funds (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collected within the current period or soon thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Interest associated with the current fiscal period is considered to be an accrual item and so has been recognized as revenue of the current fiscal period.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of “available spendable resources”.

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources are expended, rather than as fund assets. The proceeds of long-term debt are recorded as an other financing source rather than as a fund liability.

Debt service expenditures are recorded only when payment is due.

3. Basis of Presentation

a. Governmental Major Funds

General Fund – The General Fund is the District’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Bannon Lakes Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Basis of Presentation (Continued)

a. Governmental Major Funds (Continued)

Series 2016 Debt Service Fund – The Series 2016 Debt Service Fund accounts for debt service requirements to retire the Series 2016 Special Assessment Bonds, which were used to finance the construction of certain improvements within the District.

Series 2016 Capital Projects Fund – The Series 2016 Capital Projects Fund accounts for acquisition and construction of infrastructure improvements located within the boundaries of the District.

b. Non-current Governmental Assets/Liabilities

GASB Statement 34 requires that non-current governmental assets, such as construction in progress, and non-current governmental liabilities, such as general obligation bonds be reported in the governmental activities column in the government-wide Statement of Net Position.

4. Assets, Liabilities, and Net Position or Equity

a. Cash and Investments

Florida Statutes require state and local governmental units to deposit monies with financial institutions classified as "Qualified Public Depositories," a multiple financial institution pool whereby groups of securities pledged by the various financial institutions provide common collateral from their deposits of public funds. This pool is provided as additional insurance to the federal depository insurance and allows for additional assessments against the member institutions, providing full insurance for public deposits.

The District is authorized to invest in those financial instruments as established by Section 218.415, Florida Statutes. The authorized investments consist of:

1. Direct obligations of the United States Treasury;
2. The Local Government Surplus Funds Trust or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperative Act of 1969;
3. Interest-bearing time deposits or savings accounts in authorized qualified public depositories;

Bannon Lakes Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Assets, Liabilities, and Net Position or Equity (Continued)

a. Cash and Investments (Continued)

4. Securities and Exchange Commission, registered money market funds with the highest credit quality rating from a nationally recognized rating agency.

Cash and investments include time deposits, certificates of deposit, money market funds, and all highly liquid debt instruments with original maturities of three months or less.

b. Restricted Assets

Certain net position of the District are classified as restricted assets on the Statement of Net Position because their use is limited either by law through constitutional provisions or enabling legislation; or by restrictions imposed externally by creditors. In a fund with both restricted and unrestricted net position, qualified expenses are considered to be paid first from restricted net position and then from unrestricted net position.

c. Capital Assets

Capital assets, which include construction in progress, are reported in the governmental activities column.

The District defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. The valuation basis for all assets is historical cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

d. Unamortized Bond Discounts

Bond discounts associated with the issuance of revenue bonds are amortized according to the straight line method of accounting. For financial reporting, unamortized bond discounts are netted against the applicable long-term debt.

Bannon Lakes Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Assets, Liabilities, and Net Position or Equity (Continued)

e. Budgets

Budgets are prepared and adopted after public hearings for the governmental funds, pursuant to Chapter 190, Florida Statutes. The District utilizes the same basis of accounting for budgets as it does for revenues and expenditures in its various funds. The legal level of budgetary control is at the fund level. All budgeted appropriations lapse at year end. Formal budgets are adopted for the general and debt service funds. As a result, deficits in the budget columns of the accompanying financial statements may occur.

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. Explanation of Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

“Total fund balances” of the District’s governmental funds (\$917,920) differs from “net position” of governmental activities (\$(2,029,780)) reported in the Statement of Net Position. This difference primarily results from the long-term economic focus of the Statement of Net Position versus the current financial resources focus of the governmental fund balance sheet. The effect of the differences is illustrated below:

Capital related items

When capital assets (land, buildings and improvements, infrastructure and equipment that are to be used in governmental activities) are purchased or constructed, the cost of those assets is reported as expenditures in governmental funds. However, the Statement of Net Position included those capital assets among the assets of the District as a whole.

Construction in progress		\$ 449,356
Infrastructure		4,721,061
Buildings and improvements		3,691,744
Equipment		<u>184,627</u>
	Total	<u>\$ 9,046,788</u>

Bannon Lakes Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

1. Explanation of Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position (Continued)

Long-term debt transactions

Long-term liabilities applicable to the District’s governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Position. Balances at September 30, 2018 were:

Bonds payable	\$ (11,850,000)
Bond discount, net	<u>99,314</u>
Bonds payable, net	<u><u>\$ (11,750,686)</u></u>

Accrued interest

Accrued liabilities in the Statement of Net Position differ from the amount reported in governmental funds due to the accrued interest on bonds.

Accrued interest	<u><u>\$ (243,802)</u></u>
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2. Explanation of Differences Between the Governmental Fund Operating Statements and the Statement of Activities

The “net change in fund balances” for government funds (\$570,659) differs from the “change in net position” for governmental activities (\$1,177,272) reported in the Statement of Activities. The differences arise primarily from the long-term economic focus of the Statement of Activities versus the current financial resources focus of the governmental funds. The effect of the differences is illustrated below:

Capital related items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation. As a result, fund balances decrease by the amount of financial resources expended, whereas net position decrease by the amount of depreciation charged for the year.

Capital outlay	\$ 561,155
Physical environment/noncapitalized	<u>(1,164,353)</u>
Total	<u><u>\$ (603,198)</u></u>

Bannon Lakes Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

2. Explanation of Differences Between the Governmental Fund Operating Statements and the Statement of Activities (Continued)

Long-term debt transactions

Amortization of the bond discount does not require the use of current financial resources and therefore, is not reported in governmental funds.

Amortization of bond discount	\$ <u>(3,415)</u>
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NOTE C – CASH AND INVESTMENTS

All deposits are held in qualified public depositories and are included on the accompanying balance sheet as cash and investments.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk, however, they follow the provisions of Chapter 280, Florida Statutes regarding deposits and investments. As of September 30, 2018, the District's bank balance was \$952,828 and the carrying value was \$947,817. Exposure to custodial credit risk was as follows. The District maintains all unrestricted deposits in a qualified public depository in accordance with the provisions of Chapter 280, Florida Statutes, which means that all deposits are fully insured by Federal Depositors Insurance or collateralized under Chapter 280, Florida Statutes. Restricted cash is insured to \$250,000 by the Securities Investor Protection Corporation.

Investments

The District held no investments during the year ended September 30, 2018.

Interest Rate Risk

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

Credit Risk

The District has no investment policy that would further limit its investment choices.

Bannon Lakes Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE C – CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The District places no limit on the amount it may invest in any one fund.

The types of deposits and their level of risk exposure as of September 30, 2018 were typical of these items during the fiscal year then ended.

NOTE D – CAPITAL ASSETS

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

	Balance October 1, 2017	Additions	Deletions	Balance September 30, 2018
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 9,649,986	\$ 561,155	\$ (9,761,785)	\$ 449,356
Capital assets, being depreciated:				
Infrastructure	-	4,721,061	-	4,721,061
Buildings and improvements	-	3,691,744	-	3,691,744
Equipment	-	184,627	-	184,627
Total, capital assets being depreciated	-	8,597,432	-	8,597,432
Governmental Activities Capital Assets	<u>\$ 9,649,986</u>	<u>\$ 9,158,587</u>	<u>\$ (9,761,785)</u>	<u>\$ 9,046,788</u>

Depreciation will begin in the year ending September 30, 2019.

Bannon Lakes Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

NOTE E – LONG-TERM DEBT

Long-term debt is comprised of the following:

Special Assessment Bonds

\$11,850,000 Series 2016 Bonds are due in annual principal installments beginning November 2019, maturing November 2048. Interest is due semi-annually on May 1 and November 1, beginning May 1, 2016, at variable rates of 4.5% and 5%.	\$ 11,850,000
Less: bond discount, net	<u>(99,314)</u>
Bonds Payable, Net	<u>\$ 11,750,686</u>

The annual requirements to amortize the principal and interest of bonded debt outstanding as of September 30, 2018 are as follows:

Year Ending September 30,	Principal	Interest	Total
2019	\$ -	\$ 585,125	\$ 585,125
2020	185,000	580,963	765,963
2021	190,000	572,525	762,525
2022	200,000	563,750	763,750
2023	210,000	554,525	764,525
2024-2028	1,205,000	2,615,850	3,820,850
2029-2033	1,525,000	2,281,875	3,806,875
2034-2038	1,950,000	1,850,000	3,800,000
2039-2043	2,480,000	1,298,250	3,778,250
2044-2048	3,175,000	595,125	3,770,125
2049	<u>730,000</u>	<u>18,250</u>	<u>748,250</u>
Totals	<u>\$ 11,850,000</u>	<u>\$ 11,516,238</u>	<u>\$ 23,366,238</u>

**Bannon Lakes Community Development District
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2018**

NOTE E – LONG-TERM DEBT (CONTINUED)

Significant Bond Provisions

The Series 2016 Bonds are subject to redemption at the option of the District prior to their maturity, in whole or in part, at any time after November 1, 2028 at a redemption price equal to the principal amount of the Series 2016 Bonds together with accrued interest to the date of redemption.

The Trust Indenture established certain amounts be maintained in a reserve account. In addition, the Trust Indenture has certain restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agrees to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements.

Depository Funds

The bond resolution establishes certain funds and determines the order in which revenues are to be deposited into these funds. A description of the significant funds, including their purposes, is as follows:

1. Reserve Fund – The 2016 Reserve Account was funded from the proceeds of the Series 2016 Bonds in an amount equal to the maximum annual debt service requirement. Monies held in the reserve account will be used only for the purposes established in the Trust Indenture.

<u>Special Assessment Bonds</u>	
<u>Reserve Balance</u>	<u>Reserve Requirement</u>
<u>\$ 385,750</u>	<u>\$ 385,750</u>

NOTE F – ECONOMIC DEPENDENCY

The Developers own a significant portion of land within the District. The District's activity is dependent upon the continued involvement of the Developers, the loss of which could have a material adverse effect on the District's operations. At September 30, 2018, all board members are affiliated with the Developers.

NOTE G – 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 for which the government carries commercial insurance. There were no claims or settled claims from these risks have not exceeded commercial insurance coverage.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Supervisors
Bannon Lakes Community Development District
St. Johns County, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Bannon Lakes Community Development District, as of and for the year ended September 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated June 21, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bannon Lakes Community Development District's internal control over financial reporting 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 Bannon Lakes Community Development District's internal control. Accordingly, we do not express an opinion on the effectiveness of Bannon Lakes Community Development District's internal control over financial reporting.

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 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 over financial reporting 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.

To the Board of Supervisors
Bannon Lakes Community Development District

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Berger, Toombs, Elam, Gaines & Frank
Certified Public Accountants
Fort Pierce, Florida

June 21, 2019



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MANAGEMENT LETTER

To the Board of Supervisors
Bannon Lakes Community Development District
St. Johns County, Florida

Report on the Financial Statements

We have audited the financial statements of the Bannon Lakes Community Development District as of and for the year ended September 30, 2018, and have issued our report thereon dated June 21, 2019.

Auditor's Responsibility

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

Other Reporting Requirements

We have issued our Independent 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* and our Independent Auditor's Report on an examination conducted in accordance with *AICPA Professionals 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 June 21, 2019, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding financial audit report. The findings or recommendations in the preceding audit were corrected in the preceding audit.

Financial Condition and Management

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether or not Bannon Lakes Community Development District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific conditions met. In connection with our audit, we determined that Bannon Lakes Community Development District did not meet any of the conditions described in Section 218.503(1) Florida Statutes.

To the Board of Supervisors
Bannon Lakes Community Development District

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for Bannon Lakes Community Development District. It is management's responsibility to monitor the Bannon Lakes Community Development District's financial condition; our financial condition assessment was based in part on the representations made by management and the review of the financial information provided by the same as of September 30, 2018.

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

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but warrants the attention of those charged with governance. In connection with our audit, we did not note any such findings.

Purpose of this Letter

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

*Berger Toombs Elam
Gaines & Frank*

Berger, Toombs, Elam, Gaines & Frank
Certified Public Accountants PL
Fort Pierce, Florida

June 21, 2019