

**Beach Community Development
District**

FINANCIAL STATEMENTS

September 30, 2016



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Beach Community Development District
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September 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Beach Community Development District
City of Jacksonville, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Beach Community Development District (hereinafter referred to as "District"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
October 31, 2017



Management's Discussion And Analysis

Beach Community Development District Management's Discussion and Analysis

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

FINANCIAL HIGHLIGHTS

- At September 30, 2016, the assets of the District exceed its liabilities by approximately \$7.9 million.
- During the fiscal year ended September 30, 2016, the District paid interest expenditures of approximately \$2.8 million and repaid approximately \$5.4 million of outstanding long-term bond principal.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities on pages 8 – 9 provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements start on page 10. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds.

Reporting the District as a Whole

Our analysis of the District as a whole begins on page 4. One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and related changes during the current year. You can think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors; however, such as changes in the District's assessment base and the condition of the District's infrastructure, to assess the overall health of the District.

Beach Community Development District Management's Discussion and Analysis

Reporting the District's Most Significant Funds

Our analysis of the District's major funds begins on page 6. The fund financial statements begin on page 10 and provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State law and by bond covenants. All of the District's funds are governmental fund-types.

- *Governmental funds* – All of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

THE DISTRICT AS A WHOLE

The following table reflects the condensed Statement of Net Position and is compared to the prior year.

<i>September 30,</i>	2016	2015	Change
Assets			
Current and other assets	\$ 13,774,405	\$ 28,112,052	\$ (14,337,647)
Construction in progress	38,413,347	20,172,740	18,240,607
Total assets	\$ 52,187,752	\$ 48,284,792	\$ 3,902,960
Liabilities			
Current liabilities	\$ 4,248,393	\$ 2,250,433	\$ 1,997,960
Other liabilities	39,987,281	45,864,245	(5,876,964)
Total liabilities	44,235,674	48,114,678	(3,879,004)
Deferred inflows of resources			
Deferred inflows of resources	43,800	-	43,800
Total deferred inflows of resources	43,800	-	43,800
Net position			
Net investment in capital assets	5,874,148	(798,745)	6,672,893
Restricted for:			
Debt service	1,441,802	907,292	534,510
Capital projects	63,768	-	63,768
Unrestricted	528,560	61,567	466,993
Total net position	7,908,278	170,114	7,738,164
Total liabilities, deferred inflows of resources and net position	\$ 52,187,752	\$ 48,284,792	\$ 3,902,960

Beach Community Development District Management's Discussion and Analysis

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

During the fiscal year ended September 30, 2016, total assets increased by approximately \$3.9 million while total liabilities decreased from the prior year by approximately \$3.9 million. The increase in assets is largely the result of an increase in construction in progress, a significant portion of which was temporarily funded by construction payables and retainage. The decrease in liabilities is primarily due to the repayment of outstanding long-term bond principal, offset by the previously mentioned increase in construction amounts payable.

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

<i>Year ended September 30,</i>	2016	2015	Change
Revenues:			
Program revenues:			
Charges for services	\$ 713,370	\$ 2,482,122	\$ (1,768,752)
Grants and contributions	9,973,377	19,311	9,954,066
Total revenues	10,686,747	2,501,433	8,185,314
Expenses:			
General government	131,017	75,425	55,592
Maintenance and operations	115,360	42,318	73,042
Bond issue costs	-	721,311	(721,311)
Interest	2,702,206	1,814,145	888,061
Total expenses	2,948,583	2,653,199	295,384
Change in net position	7,738,164	(151,766)	7,889,930
Net position, beginning	170,114	321,880	(151,766)
Net position, ending	\$ 7,908,278	\$ 170,114	\$ 7,738,164

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

Revenues and expenses increased from the prior year by approximately \$8.2 million and \$296,000, respectively. Revenues increased due to an increase in developer contributions as well as commencing on roll assessments during the current year. The increase in expenses was the result of an increase in interest expense offset by the absence of bond issue costs during the current year. The overall result was a \$7.7 million increase in net position for the fiscal year 2016.

Beach Community Development District Management's Discussion and Analysis

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 11) reported a combined fund balance of approximately \$10.8 million, which is a decrease from last year's balance of approximately \$27 million. Significant transactions are discussed below.

- The District incurred approximately \$2.8 million of interest expenditures and repaid approximately \$5.4 million of outstanding long-term bond principal.
- The District established additional infrastructure of approximately \$18.2 million.

The overall decrease in fund balance for the year ended September 30, 2016 totaled approximately \$16.2 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2016, the District had approximately \$38.4 million invested in capital assets (net of accumulated depreciation). This amount represents a net increase of approximately \$18.2 million from the fiscal year 2015 total.

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

<i>September 30,</i>	2016	2015	Change
Capital assets not being depreciated	\$ 38,413,347	\$ 20,172,740	\$ 18,240,607
Net capital assets	\$ 38,413,347	\$ 20,172,740	\$ 18,240,607

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

Debt

At September 30, 2016, the District had approximately \$40.3 million of bonds outstanding. This amount represents a decrease of approximately \$5.4 million from the fiscal year 2015 total.

Beach Community Development District Management's Discussion and Analysis

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

<i>September 30,</i>	2016	2015	Change
Series 2013A	\$ 10,705,000	\$ 10,845,000	\$ (140,000)
Series 2013B	1,505,000	3,955,000	(2,450,000)
Series 2015A	9,180,000	9,295,000	(115,000)
Series 2015B	18,955,000	21,625,000	(2,670,000)
	\$ 40,345,000	\$ 45,720,000	\$ (5,375,000)

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

GOVERNMENTAL FUNDS BUDGETARY HIGHLIGHTS

An Operating budget was established by the governing board for the District pursuant to the requirements of Florida Statutes. The budget to actual comparison for the general fund, including the original budget and final adopted budget, is shown at page 25.

The District experienced favorable variances in revenues and expenditures as compared to the budget in the amount of \$845 and \$466,148, respectively. The variance in expenditures occurred primarily due to anticipated budgeted operating expenditures that were not incurred during the year such as road, entry, and site maintenance, security, and electric expenditures.

FUTURE FINANCIAL FACTORS

Beach Community Development District is an independent special district that operates under the provisions of Chapter 190, Florida Statutes. The District operates under an elected Board of Supervisors, which establishes policy and sets assessment rates. Assessment rates for fiscal year 2017 were established to provide for the operations of the District as well as the necessary debt service requirements.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. If you have questions about this report or need additional financial information, contact the Beach Community Development District's management company, Fishkind & Associates, Inc., at 12051 Corporate Blvd., Orlando, Florida 32817.



Basic Financial Statements

**Beach Community Development District
Statement of Net Position**

<i>September 30,</i>	2016
	Governmental Activities
Assets	
Cash and cash equivalents	\$ 582,683
Accounts receivable	1,233,330
Interest receivable	7,312
Investments	11,929,969
Due from developer	5,621
Prepaid expenses	15,490
Capital assets:	
Not being depreciated	38,413,347
Total assets	52,187,752
Liabilities	
Accounts payable	1,520,652
Accrued interest payable	1,064,158
Retainage payable	1,408,583
Non-current liabilities:	
Due within one year	255,000
Due in more than one year	39,987,281
Total liabilities	44,235,674
Deferred inflow of resources	
Deferred revenue	43,800
Total deferred inflow of resources	43,800
Net position	
Net investment in capital assets	5,874,148
Restricted for:	
Debt service	1,441,802
Capital projects	63,768
Unrestricted	528,560
Total net position	\$ 7,908,278

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

Beach Community Development District Statement of Activities

Year ended September 30,

2016

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Net (Expense) Revenue and Changes in Net Position
Primary government:						
Governmental activities:						
General government	\$ (131,017)	379,352	-	-	\$ 248,335	
Maintenance and operations	(115,360)	334,018	-	1,326,974	1,545,632	
Interest	(2,702,206)	-	8,559,854	86,549	5,944,197	
Total governmental activities	\$ (2,948,583)	\$ 713,370	\$ 8,559,854	\$ 1,413,523	7,738,164	
						7,738,164
						170,114
						\$ 7,908,278

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

Beach Community Development District Balance Sheet – Governmental Funds

September 30,

2016

	General	Debt Service	Capital Projects	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 582,683	\$ -	\$ -	\$ 582,683
Accounts receivable	3,486	1,229,844	-	1,233,330
Interest receivable	-	1,029	6,283	7,312
Investments	-	2,789,460	9,140,509	11,929,969
Due from Developer	-	-	5,621	5,621
Prepaid expenditures	15,490	-	-	15,490
Total assets	\$ 601,659	\$ 4,020,333	\$ 9,152,413	\$ 13,774,405
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 29,299	\$ -	\$ 1,491,353	\$ 1,520,652
Retainage payable	-	-	1,408,583	1,408,583
Total liabilities	29,299	-	2,899,936	2,929,235
Deferred inflows of resources				
Deferred revenue	18,300	25,500	-	43,800
Total deferred inflows of resources	18,300	25,500	-	43,800
Fund balances				
Nonspendable	15,490	-	-	15,490
Restricted for debt service	-	3,994,833	-	3,994,833
Assigned for capital projects	-	-	6,252,477	6,252,477
Unassigned	538,570	-	-	538,570
Total fund balances	554,060	3,994,833	6,252,477	10,801,370
Total liabilities, deferred inflows of resources and fund balances	\$ 601,659	\$ 4,020,333	\$ 9,152,413	\$ 13,774,405

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

Beach Community Development District
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of
Net Position

<u>September 30,</u>	<u>2016</u>
Total fund balances, governmental funds	\$ 10,801,370
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.	38,413,347
Liabilities not due and payable from current resources, including accrued interest, are not reported in the fund level statements.	<u>(41,306,439)</u>
<u>Total net position - governmental activities</u>	<u>\$ 7,908,278</u>

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

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

Year ended September 30,

2016

	General	Debt Service	Capital Projects	Total Governmental Funds
Revenues				
Assessment revenue	\$ 713,370	\$8,551,100	\$ -	\$ 9,264,470
Developer contributions	-	-	1,326,974	1,326,974
Interest and other revenues	-	8,754	86,549	95,303
Total revenues	713,370	8,559,854	1,413,523	10,686,747
Expenditures				
Current:				
General government	131,017	-	-	131,017
Maintenance and operations	115,360	-	-	115,360
Debt service:				
Principal	-	5,375,000	-	5,375,000
Interest	-	2,808,668	-	2,808,668
Developer advance repayment	-	-	252,370	252,370
Capital outlay	-	-	18,240,607	18,240,607
Total expenditures	246,377	8,183,668	18,492,977	26,923,022
Excess (deficit) of revenues over expenditures	466,993	376,186	(17,079,454)	(16,236,275)
Other financing sources (uses)				
Transfers in	25,500	-	-	25,500
Transfers out	-	(25,500)	-	(25,500)
Total other financing sources (uses)	25,500	(25,500)	-	-
Net change in fund balances	492,493	350,686	(17,079,454)	(16,236,275)
Fund balances, beginning of year	61,567	3,644,147	23,331,931	27,037,645
Fund balances, end of year	\$ 554,060	\$3,994,833	\$ 6,252,477	\$10,801,370

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

**Beach Community Development District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances of Governmental Funds to the Statement of Activities**

<i>Year ended September 30,</i>	2016
Net change in fund balances - governmental funds	\$ (16,236,275)
Capital outlay, reported as expenditures in the governmental funds, is shown as capital assets on the Statement of Net Assets.	18,240,607
Amortization of original issue discount is not recognized in the governmental fund statements but is reported as an expense in the Statement of Activities	(5,406)
Repayment of long-term liabilities are reported as expenditures in the governmental fund statement but such repayments reduce liabilities in the Statement of Net Position and are eliminated in the Statement of Activities.	5,627,370
The change in accrued interest between the current and prior year is recorded on the Statement of Activities but not on the fund level statements.	111,868
Change in net position of governmental activities	\$ 7,738,164

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

Beach Community Development District Notes to Financial Statements

NOTE 1: NATURE OF ORGANIZATION

The Beach Community Development District (the “District”) was established on March 26, 2007 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes, by the City of Jacksonville, Ordinance 2007-170-E. The Act provides among other things, the power to manage basic services for community development, power to borrow money and issue bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure.

The District was established for the purposes of financing and managing the acquisition, construction, maintenance and operation of a portion of the infrastructure necessary for community development within the District.

The District is governed by a Board of Supervisors (“Board”), which is comprised of five members. The Supervisors are elected on an at large basis by the owners of the property within the District. The Board of Supervisors of the District exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes. At September 30, 2016 all Board members were affiliated with ICI Homes (“the Developer”).

The Board has the final responsibility for:

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

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth by Generally Accepted Accounting Principles (GAAP) as defined by the Governmental Accounting Standards Board (GASB) in statements No. 14 and No. 61. Based on the foregoing criteria, no potential component units were found.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to GAAP as applicable to governments in accordance with those promulgated by GASB. The following is a summary of the more significant policies:

Government-wide and Fund Financial Statements

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

Beach Community Development District Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by assessments, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The business-type activities are reported separately in government-wide financial statements; however, at September 30, 2016, the District did not have any significant business-type activities. Therefore, no business-type activities are reported. Assessments and other items not properly included as program revenues (i.e., charges to customers or applicants who purchase, use, or directly benefit from goods or services) are reported as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Assessments are recognized as revenues in the year for which they are levied. Grants and other similar items are to be recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Assessments, including debt service assessments along with operation and maintenance assessments, are non-ad valorem special assessments imposed on lands located within the District that benefit from the District's activities. Assessments are levied and certified for collection by the District prior to the start of the fiscal year which begins October 1st and ends on September 30th. Operation and maintenance special assessments are imposed upon all benefited lands located in the District. Debt service special assessments are imposed upon certain lots and lands as described in each resolution imposing the special assessment for each series of bonds issued by the District. Certain debt service assessments are collected upon the closing of those lots subject to short term debt and are used to prepay a portion of the bonds outstanding.

Beach Community Development District Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assessments and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the District. It is used to account for all financial resources except those required to be accounted for in other funds.

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

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

For the year ended September 30, 2016, the District does not report any proprietary funds.

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use in the governmental fund financial statements, it is the government's policy to use committed resources first, followed by assigned resources, then unassigned resources as needed.

Cash, Deposits and Investments

The District maintains deposits with "Qualified Public Depositories" as defined in Chapter 280, Florida Statutes. All Qualified Public Depositories must place with the Treasurer of the State of Florida securities in accordance with collateral requirements determined by the State's Chief Financial Officer. In the event of default by a Qualified Public Depository, the State Treasurer will pay public depositors all losses. Losses in excess of insurance and collateral will be paid through assessments between all Qualified Public Depositories.

Under this method, all the District's deposits are fully insured or collateralized at the highest level of security as defined by GASB, Statement Number 40, *Deposits and Investment Disclosures (An Amendment of GASB, Statement Number 3)*.

Beach Community Development District Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District is authorized to invest in financial instruments as established by Section 218.415, Florida Statutes. The authorized investments include among others direct obligations of the United States Treasury; the Local Government Surplus Trust Funds as created by Section 218.405, Florida Statutes; SEC registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and interest-bearing time deposits or savings accounts in authorized financial institutions.

Capital Assets

Capital assets, which include primarily infrastructure assets (e.g., roads, sidewalks, water management systems and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial/individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost and estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value at the date of donation.

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

Property, plant and equipment of the primary government will be depreciated using the straight-line method over the estimated useful lives. Estimated lives for financial reporting purposes will be determined once items are placed into service.

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

Long-Term Obligations

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

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

Beach Community Development District Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net 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. The District does not have any of this type of item at September 30, 2016.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item, Deferred revenue, that qualifies for this treatment at September 30, 2016. These amounts represent assessments received that pertain to future periods.

Fund Equity

Net position in the government-wide financial statements represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is categorized as net investment in capital assets, restricted or unrestricted. Net investment in capital assets represents assets related to infrastructure and property, plant and equipment, net of any related debt. Restricted net position represents the assets restricted by the District's bond covenants.

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the District board through approval of resolutions. Assigned fund balance is a limitation imposed by a designee of the District board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes.

Budgets

The District is required to establish a budgetary system and an approved annual budget. Annual budgets are legally adopted on a basis consistent with GAAP for the General Fund. Any revision to the budget must be approved by the District Board. The budgets are compared to actual expenditures. In instances where budget appropriations and estimated revenues have been revised during the year, budget data presented in the financial statements represent final authorization amounts.

Beach Community Development District Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
- B. A public hearing is conducted to obtain comments.
- C. Prior to October 1, the budget is legally adopted by the District Board.
- D. All budget changes must be approved by the District Board.
- E. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3: INVESTMENTS

The District's investments consist of money market funds and similar instruments in which shares are owned in a fund rather than the underlying investments. In accordance with GASB 79, *Certain External Investment Pools and Pool Participants*, these amounts are reported at amortized costs. There are no limitations or restrictions on withdrawals from Florida PRIME; although on the occurrence of an event that has a material impact on liquidity or operations of the fund, the fund's executive director may limit contributions or withdrawals from the trust fund for a period of 48 hours.

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

<i>September 30,</i>	2016	Credit Risk	Maturities
State Board of Administration Florida PRIME	\$ 10,541,307	S&P AAAM	70 days
Short-term Money Market Funds	1,388,661	S&P AAAM	39 days
	<u>\$ 11,929,969</u>		

Custodial credit risk – For an investment, custodial credit risk is the risk that the District will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The District has no formal policy for custodial risk. At September 30, 2016, none of the District's investments are exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Beach Community Development District Notes to Financial Statements

NOTE 3: INVESTMENTS (Continued)

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

Interest rate risk – The District does not have a formal policy for addressing interest rate risk; however, investments are made with discretion, to seek reasonable returns, preserve capital, and in general, avoid speculative investments. The District manages its exposure to declines in fair values from interest rate changes by reviewing the portfolio on an ongoing basis for changes in effective yield amounts.

NOTE 4: CAPITAL ASSETS

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

	Beginning Balance	Additions	Transfers and Conveyances	Ending Balance
Governmental Activities:				
<i>Capital assets not being depreciated</i>				
Infrastructure under construction	\$ 20,172,740	\$ 18,240,607	\$ -	\$ 38,413,347
Governmental activities capital assets, net	\$ 20,172,740	\$ 18,240,607	\$ -	\$ 38,413,347

The infrastructure intended to serve the District is estimated at a total cost of approximately \$161,000,000. The infrastructure will include roadways, a fire station, potable water and wastewater systems, storm water management improvements, recreation improvements and land improvements including wetland mitigation areas. A portion of the project costs is expected to be financed with the proceeds from the issuance of Bonds. Upon completion, certain assets are to be conveyed to other entities.

In connection with the 2013 and 2015 projects, if the amount by which the cost of the 2013 and 2015 projects or portion thereof to be conveyed by the Developer to the District pursuant to acquisition agreements exceeds the amount actually paid by the District for the 2013 and 2015 projects or portions thereof from proceeds of the Series 2013 and Series 2015 Bonds, it may be determined that deferred obligations exist. Upon completion of the project, certain funds available from the 2013 and 2015 Bonds may be used to pay deferred obligations, as outlined in the Bond Indentures. At September 30, 2016, the 2013 and 2015 projects have not been completed and the District has not yet determined if liabilities exist for deferred obligations.

Beach Community Development District Notes to Financial Statements

NOTE 5: BONDS PAYABLE

On November 4, 2013, the District issued \$18,075,000 of Capital Improvement Revenue Bonds, Series 2013, consisting of \$3,170,000 Term Bonds Series 2013A due on May 1, 2030 with a fixed interest rate of 6.7%, \$7,790,000 Term Bonds Series 2013A due on May 1, 2044 with a fixed interest rate of 7.2%, and \$7,115,000 Term Bonds Series 2013B due on May 1, 2018 with a fixed interest rate of 6.5%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is to be paid semiannually on each May 1 and November 1. Principal on the A Bonds is to be paid serially commencing May 1, 2015 through May 1, 2044.

The Series 2013A Bonds are subject to optional redemption prior to their maturity. The Series 2013B Bonds are not subject to optional redemption. The Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occur as outlined in the Bond Indenture.

On April 10, 2015, the District issued \$30,920,000 of Capital Improvement Revenue Bonds, Series 2015, consisting of \$9,295,000 Term Bonds Series 2015A due on May 1, 2045 with a fixed interest rate of 5.9%, and \$21,625,000 Term Bonds Series 2015B due on May 1, 2021 with a fixed interest rate of 5.9%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is to be paid semiannually on each May 1 and November 1. Principal on the A Bonds is to be paid serially commencing May 1, 2016 through May 1, 2045.

The Series 2015A Bonds are subject to optional redemption prior to their maturity. The Series 2015B Bonds are not subject to optional redemption. The Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occur as outlined in the Bond Indenture.

The balance of the Bonds at September 30, 2016 is summarized as follows:

<i>September 30,</i>	2016
Bond principal balance	\$ 40,345,000
Less unamortized bond discount	(102,719)
	<u>\$ 40,242,281</u>

Beach Community Development District Notes to Financial Statements

NOTE 5: BONDS PAYABLE (Continued)

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities</i>					
Bonds Payable:					
Series 2013A	\$ 10,845,000	\$ -	\$ (140,000)	\$ 10,705,000	\$ 130,000
Series 2013B	3,955,000	-	(2,450,000)	1,505,000	-
Series 2015A	9,295,000	-	(115,000)	9,180,000	125,000
Series 2015B	21,625,000	-	(2,670,000)	18,955,000	-
	<u>\$ 45,720,000</u>	<u>\$ -</u>	<u>\$ (5,375,000)</u>	<u>\$ 40,345,000</u>	<u>\$ 255,000</u>

At September 30, 2016, the scheduled debt service requirements on long-term debt were as follows:

<i>Year Ending September 30,</i>	Principal	Interest	Total Debt Service
2017	\$ 255,000	\$ 2,549,706	\$ 2,804,706
2018	1,775,000	2,533,538	4,308,538
2019	290,000	2,418,663	2,708,663
2020	305,000	2,400,353	2,705,353
2021	19,280,000	2,381,078	21,661,078
2022-2026	1,980,000	5,802,033	7,782,033
2027-2031	2,715,000	5,624,080	8,339,080
2032-2036	3,770,000	3,925,195	7,695,195
2037-2041	5,255,000	2,425,765	7,680,765
2042-2045	4,720,000	549,845	5,269,845
	<u>\$ 40,345,000</u>	<u>\$ 30,610,254</u>	<u>\$ 70,955,254</u>

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

The Bond Indenture requires that the District maintain adequate funds in reserve accounts to meet the debt service reserve requirements as defined in the Indenture. The requirements have been met for the fiscal year ended September 30, 2016



Beach Community Development District Notes to Financial Statements

NOTE 6: INTERFUND TRANSFERS

The transfers between the General Fund and Debt Service Fund were in accordance with the Bond Indenture and resulted from continued pay down of debt balances.

NOTE 7: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District maintains commercial insurance coverage to mitigate the risk of loss. Coverage may not extend to all situations. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. There have been no settled claims in the previous three years.

NOTE 8: 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 9: COMMITMENTS

At September 30, 2016, the District has open contract commitments of approximately \$5,403,498 for various ongoing construction projects.

NOTE 10: DEVELOPER TRANSACTIONS

A significant portion of the District's activity is dependent upon the continued involvement of the Developer, the loss of which would have materially adverse effect on the District's operations. At September 30, 2016. During the year, the Developer was directly assessed approximately \$713,000 for operations and maintenance expenditures and approximately \$1,800,000 for debt service expenditures.



Beach Community Development District Notes to Financial Statements

NOTE 11: CONTINGENCIES

The District is involved in litigation pending against a contractor relating to certain work for which there is a discrete contract. The contractor claims additional construction work was required, which resulted in an increase in contract price of approximately \$4.4 million. The District has countersued the contractor for liquidated damages and deficient work. The parties unsuccessfully engaged in pre-suit mediation. Given the early stage of discovery, management cannot predict the likelihood of the outcome. However, the District intends to vigorously contend the case and believes the contractor presented minimal facts and evidence at mediation to support its claim.



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

**Beach Community Development District
Budget to Actual Comparison Schedule – General Fund**

<i>Year ended September 30,</i>	2016		
	Original and Final Budget	Actual Amounts	Variance with Final Budget
Revenues			
Assessment revenue	\$ 712,525	\$ 713,370	\$ 845
Total revenues	712,525	713,370	845
Expenditures			
General government	120,510	131,017	(10,507)
Maintenance and operations	592,015	115,360	476,655
Total expenditures	712,525	246,377	466,148
Excess (deficit) of revenues over expenditures	\$ -	\$ 466,993	\$ 466,993

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
Beach Community Development District
City of Jacksonville, 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 Beach Community Development District (hereinafter referred to as the “District”), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control described below as IC2016-001 that we consider to be a material weakness.

IC2016-001: Capital Expenses

- Condition: As part of our audit procedures, we identified approximately \$934,000 of construction expenses and the related payable that were not accrued on the District’s financial

statements as of September 30, 2016 even though the work was performed prior to year-end.

- Criteria: Internal controls should be in place to provide reasonable assurance that payables and the related expenditures are appropriate and properly accrued.
- Cause: The capital expenditure and payable were from one specific payment application and appears to have been overlooked when District staff was preparing its annual financial report.
- Effect: Accounts payable and capital expenditures on the financial statements were understated by approximately \$934,000.
- Recommendation: We recommend the District review construction vendor activity within a reasonable timeframe from year-end to ensure that all applicable contract liabilities are identified and recorded. This is particularly important when an active infrastructure construction project is in process.

The District's response to the finding identified in our audit is described below. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

- Management Response: The District has already taken further steps to insure that this oversight is avoided in the future.

Compliance and Other Matters

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

Purpose of this Report

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

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

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
October 31, 2017

MANAGEMENT LETTER

(850) 837-3141
(850) 654-4619 (fax)
CRlcpa.com

To the Board of Supervisors
Beach Community Development District
City of Jacksonville, Florida

Report on the Financial Statements

We have audited the financial statements of the Beach Community Development District (“District”) as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated October 31, 2017.

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 Florida Auditor General.

Other Reports and Schedule

We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Accountant’s Report on an examination conducted in accordance with AICPA Professional Standards, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in this report, which is dated October 31, 2017, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations made in the preceding annual audit report.

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The information required is disclosed in the notes to the financial statements.

Financial Condition

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

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

Annual Financial Report

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, requires that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 2016, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2016. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

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

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

Purpose of this Letter

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

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

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
October 31, 2017



Carr, Riggs & Ingram, LLC
Certified Public Accountants
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INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Supervisors
Beach Community Development District
City of Jacksonville, Florida

We have examined Beach Community Development District's compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended September 30, 2016. Management of the District is responsible for the District's compliance with the specified requirements. Our responsibility is to express an opinion on the District's compliance with the specified requirements 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 above. An examination involves performing procedures to obtain evidence about whether the District complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our 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 year ended September 30, 2016.

This report is intended solely for the information and use of management, and the State of Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

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

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
October 31, 2017