

HERONS GLEN RECREATION DISTRICT

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED SEPTEMBER 30, 2020



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**HERONS GLEN RECREATION DISTRICT
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YEAR ENDED SEPTEMBER 30, 2020**

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INDEPENDENT AUDITORS' REPORT

Board of Supervisors
Herons Glen Recreation District
North Fort Myers, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Herons Glen Recreation District (the District), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the entity'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 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 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 District'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 District'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2020, and the respective changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 4 through 10 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison information on page 30 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Board of Supervisors
Herons Glen Recreation District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Fort Myers, Florida
February 15, 2021

**HERONS GLEN RECREATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

Herons Glen Recreation District's (the District) Management Discussion and Analysis (MD&A) is designed to offer readers of the District's financial statements a narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2020, with selected comparative information for the years ending September 30, 2020 and 2019. All references to years in this discussion relate to the fiscal year ending September 30.

The information presented in this MD&A should be considered in conjunction with the accompanying financial statements, notes to the financial statements, and required supplemental information in this report. This information taken collectively is designed to provide readers with an understanding of the District's finances. All information is believed to be current and accurate.

DISTRICT'S ACTIVITIES AND HIGHLIGHTS

The District is an independent special district established in 1998, pursuant to Lee County Ordinance Number 98-08 and provisions of Chapter 418, Florida Statutes. The District owns and operates an 18-hole golf course and related practice facilities, a clubhouse, restaurant, pro shop, fitness center, and other recreation facilities located in North Fort Myers, Florida. The District is governed by an elected, five-member Board of Supervisors which establishes the operation, capital and deferred maintenance budgets each year for the estimated expenses for this period. The budget is adopted annually in September for the following fiscal year. The District assesses each homeowner for their portion of the required expenses based on a calculated homeowner base. For the years ending September 30, 2019 and 2020, the base assessment divisor was 1285 due to our acquisition of the unplatte land previously owned by Taylor Morison. The unplatte land represented 15 of the 1300 lots. The annual budgeted fees are as follows:

	<u>2020</u>	<u>2019</u>
Operating Assessment	\$ 2,032,096	\$ 2,027,646
Capital Reserve	426,620	426,620
Capital Reserve - Fitness Center	-	1,285,000
Deferred Maintenance	339,240	221,020

BASIC FINANCIAL STATEMENTS

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

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

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

**HERONS GLEN RECREATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL HIGHLIGHTS AND SUMMARY

As noted previously, the change in net position over time should serve as a useful indicator of the District's financial position. For the fiscal year ended September 30, 2020, the assets and deferred outflows of the District exceeded its liabilities and deferred inflows by \$35,682,152 as compared to \$24,124,360 at the close of fiscal year ended September 30, 2019. This increase was primarily due to our Non-Ad Valorem Assessment and Refunding Bonds, Series 2020 Bond Issuance in August in the amount of \$29,495,000.

For fiscal year September 30, 2020 net position consists of \$2,285,983 net investment in capital assets; \$30,026,514 restricted for debt service, \$16,441,577 restricted for capital improvements and maintenance, and (\$13,071,921) (net deficit) of unrestricted net position.

The District's total debt increased by \$13,445,382 for the year ended September 30, 2020 and decreased by \$777,584 during the year ended September 30, 2019.

Herons Glen Recreation District's Net Position

The schedule presented below shows the District's comparative condensed summary of the District's net position for the years ended September 30:

	2020	2019
Current Assets	\$ 879,883	\$ 1,415,020
Noncurrent Assets	46,814,585	22,044,017
Capital Assets, Net	<u>20,563,288</u>	<u>20,854,769</u>
Total Assets	<u>68,257,756</u>	<u>44,313,806</u>
Deferred Outflows on Refunding Bond	901,948	421,091
Current Liabilities	2,607,106	3,107,498
Noncurrent Liabilities	<u>30,870,446</u>	<u>17,503,039</u>
Total Liabilities	<u>33,477,552</u>	<u>20,610,537</u>
Net Position:		
Net Investment in Capital Assets	2,285,983	2,865,107
Restricted for Debt Service	30,026,514	18,504,951
Restricted for Capital Improvements and Maint.	16,441,577	2,750,037
Unrestricted	(13,071,921)	4,265
Total Net Position	<u>\$ 35,682,152</u>	<u>\$ 24,124,360</u>

Assets

Current assets decreased \$535,137 or 38% from 2019 to 2020 primarily due to a 43% decrease in cash and cash equivalents primarily due to the impact of the pandemic. The District temporarily restricted outside golf play and access to the restaurant from the public. There was also a 23% decrease in prepaid expenses year-over-year due to one of our annual golf course maintenance equipment leases ending, a restructuring of annual to quarterly software payments and the changeover from Hoover Pumping to Rainbird golf course pump equipment.

**HERONS GLEN RECREATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

Restricted cash and cash equivalents increased \$13,761,269 or 417% for the most part due to the Construction and Acquisition Funds held with the Trustee of the 2020 Series Bonds. We collected \$765,860 throughout the year for capital and deferred assessments, \$890,324 interest from special assessments, \$54,556 interest earned from investments and \$228,750 collected from new home purchases for the new owner capital fee. Fiscal 2019 surplus operating funds in the amount of \$358,185 were transferred into restricted funds for long term capital. We spent \$800,370 on capital and deferred maintenance projects throughout the year. Special assessments receivable increased by \$11,983,137 from 2019 as expected with the issuance of the new Series 2020 Bonds.

Net capital assets decreased \$291,481 or 1% due to the amount of depreciation exceeding the amount invested in new capital assets that were put into service. The District currently has \$379,241 invested in a variety of new projects that are expected to be completed over the next few years.

Total assets increased \$23,943,950 or 54%, attributed to the increase in special assessments receivable and the increase in restricted cash and cash equivalents as a result of the 2020 Series Bond issuance.

Deferred Outflows of Resources

Deferred outflows of resources include the unamortized deferred outflows from the 2006 Series Bonds when refunded by the 2020 Series Bonds and additional unamortized discount and unamortized prepaid bond insurance from the 2006 Series Bond issuance. The amount is recorded as a deferred outflow of resources to be recognized as a component of interest expense systematically over the term of the debt.

Liabilities

Current liabilities increased overall by \$500,392 or 16%. Unearned revenue for annual golf memberships and maintenance assessments decreased by \$230,515 or 18%. Accrued expenses increased by \$32,338 or 12%. Due to concerns of a possible fiscal year-end deficit forecasted based on revenue shortfalls from the pandemic, management made a concerted effort to preserve cash due to unknowns about the effects of the pandemic. The final payment for completion of the fitness center was accrued due to last minute negotiations. Accounts payables outstanding at year-end increased \$49,005 or 45% due to holding payments until the due date as part of an effort to preserve cash.

Noncurrent liabilities increased \$13,367,407 or 76% due to issuance of the new Series 2020 Bonds. The Special Assessment Bonds Payable generally decreases annually as principal payments are made and will resume this trend in future fiscal years.

Total liabilities increased \$12,867,015 or 62% primarily due to the Special Assessment Bonds Payable. Excluding the Special Assessment Bonds Payable, total liabilities decreased \$522,758 or 16%.

Net Position

The District's total assets plus deferred outflow of resources exceeded total liabilities by \$35,682,152 at September 30, 2020. Net investment in capital assets decreased by \$579,124 or 20% primarily due to depreciation exceeding additions resulting in a decrease in net capital assets combined with an increase in capital related debt (net of unspent proceeds) related to the Series 2020 Bonds. Unrestricted net position decreased by \$13,076,186 or 306,593%, while restricted for capital improvements and maintenance increased by \$25,213,102 or 119%. The major component of net position is restricted for debt service for the 2020 Special Assessment Bonds.

**HERONS GLEN RECREATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

Herons Glen Recreation District's Changes in Net Position

The District's 2020 operating loss increased \$30,735 from 2019. The following is a summary of revenues, expenses, and changes in net position at September 30:

	<u>2020</u>	<u>2019</u>
Revenues:		
Operating Revenues, Net:		
Operating Assessments	\$ 2,035,264	\$ 2,030,135
Members Fees	1,419,750	1,334,738
Other User Fees	346,369	410,622
Pro Shop Operations	77,814	97,310
Restaurant Operations	840,676	1,055,575
Rental and Other	254,271	290,170
Total Operating Revenues	<u>4,974,144</u>	<u>5,218,550</u>
Nonoperating Revenues:		
Investment Earnings	54,556	85,799
Special Assessments Interest	890,324	930,380
Capital Reserve Assessments and New Owner Capital Fees	655,370	696,618
Capital Reserve Assessment - Fitness Center	170,499	1,114,501
Deferred Maintenance Assessments	339,240	221,024
Miscellaneous Other Nonoperating Income, Net	102,634	86,274
Total Nonoperating Revenues	<u>2,212,623</u>	<u>3,134,596</u>
Total Revenues	<u>7,186,767</u>	<u>8,353,146</u>
Expenses:		
Operating Expenses:		
Salaries and Wages	2,444,711	2,398,247
Cost of Sales	466,134	511,372
Operating Supplies	650,248	613,045
Depreciation	932,600	911,110
General and Administration	329,867	341,169
Utilities	298,402	297,952
Repair and Maintenance	343,022	603,708
Professional Fees	147,770	124,644
Insurance	164,922	158,681
Other Contractual Services	195,377	193,742
Rental and Leases	69,757	98,049
Office Expense and Other Miscellaneous Expenses	45,580	50,342
Total Operating Expenses	<u>6,088,390</u>	<u>6,302,061</u>
Nonoperating Expenses:		
Interest Expense and Fiscal Costs	843,570	960,678
Bond Issuance Costs	683,463	-
Net Gain (Loss) on Disposal of Capital Assets	(3,311)	160,195
Total Nonoperating Expenses	<u>1,523,722</u>	<u>1,120,873</u>
Total Expenses	<u>7,612,112</u>	<u>7,422,934</u>
Capital Contributions	11,983,137	-
Increase (Decrease) in Position	<u>11,557,792</u>	<u>930,212</u>
Beginning Net Position	<u>24,124,360</u>	<u>23,194,148</u>
Ending Net Position	<u>\$ 35,682,152</u>	<u>\$ 24,124,360</u>

**HERONS GLEN RECREATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

Total revenues decreased from 2019 results by \$1,166,379. The 14% net decrease is attributed primarily to a 29% decrease in nonoperating revenues, specifically the additional capital assessment collected for the construction of the new fitness center in FY19, as well as a 0% increase in operating assessments and a 1% increase in user fees. This was offset by a 20% decrease in restaurant revenues and a 20% decrease in pro shop revenues. The total number of golf memberships increased from 585 at the end of FY19 to 599, an increase of 2%. Net position increased overall by \$10,627,137 or 1142%. The District's operating plan continues to reflect the economic conditions as well as the need to invest in the maintenance of the community. Each investment in capital assets is reviewed in terms of need and priority before an expenditure is approved. Management continues to review opportunities for non-assessment revenues for the District.

Total expenses decreased from 2019 results by \$189,178. The 3% net decrease is attributed primarily to the 2020 Series Bond issuance costs, offset by a decrease in cost of sales due to a 20% reduction in sales as well as a decrease in repairs and maintenance.

CAPITAL ASSETS

The District's net investment in capital assets as of September 30, 2020 amounts to \$20,563,288 (net of depreciation). Capital assets, such as an 18-hole golf course and related practice facilities, a clubhouse, restaurant, pro shop, and other recreation facilities, utilized by the District for the provision and maintenance of recreational facilities to residents.

HERONS GLEN RECREATION DISTRICT'S CAPITAL ASSETS

	<u>2020</u>	<u>2019</u>
Land and Site Improvements	\$ 13,572,264	\$ 13,930,722
Small Equipment Not Capitalized	-	-
Work in Progress	379,241	1,279,927
Equipment on Capital Lease	715,109	1,705,443
Original Purchase	2,549,232	2,559,934
Equipment	2,887,589	2,430,799
Common Lot Irrigation System	2,382,047	1,895,232
Property and Improvements	9,897,987	8,146,209
Computer Software	-	-
Total Property and Equipment	<u>32,383,469</u>	<u>31,948,266</u>
Less: Accumulated Depreciation	<u>(11,820,181)</u>	<u>(11,093,497)</u>
Total, Net Depreciation	<u>\$ 20,563,288</u>	<u>\$ 20,854,769</u>

Additional information on the District's capital assets can be found in Note 4, of the notes to the financial statements

**HERONS GLEN RECREATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

In 2020, the District completed work on several projects in addition to purchasing fixtures and equipment totaling \$178,909 spent during the fiscal year, as follows:

Golf Course Equipment and Golf Carts on Capital Lease	\$ 111,316
Remote Beer System	5,092
Parking Lot Outdoor Post Lights	10,635
CLIS Water Filtration/Injection System	18,589
Groen Tilt Skillet / Braising Pan	14,412
Cleveland Range Steamcraft Gemini10	18,865
Total	<u><u>\$ 178,909</u></u>

Work in process (WIP) – a number of capital projects were continued from 2019 and new ones started during 2020. The total amount spent on the following projects during 2020 was \$465,501:

Sports Area Restroom Project	\$ 611
Northstar Technologies New Website Design Project	40
DR Horton 15 Unplatted Lots Project	47,921
Restaurant Project	20,350
Fitness Center Construction Project	235,381
Storage Building Construction Project	760
Golf Course Renovation Project	156,143
Dumpster Enclosure	3,795
Cart/Pedestrian Bridge	500
Total	<u><u>\$ 465,501</u></u>

**HERONS GLEN RECREATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

SPECIAL ASSESSMENT BONDS

The District levies special assessments to be collected by the Lee County Tax Collector for the payment of the current principal and interest portion of the Series 2020 Bonds. These payments are then remitted by the Tax Collector to the District's trustee who, in turn, pays the bondholder. These payments are made in May and November of each year. As of September 30, 2020, the District had special assessment bonds plus unamortized premium outstanding totaling \$31.6 million. During the year ended September 30, 2020 the District refunded the 2006 Series special assessment bonds with principal balance totaling \$18,255,000 by issuing new 2020 Series special assessment bonds totaling \$29,495,000 at a \$2,091,929 premium. More detailed information on the bonds payable is presented in Note 5 to the financial statements.

ECONOMIC FACTORS AND FUTURE IMPACTS

The economy in Southwest Florida was hit hard by the pandemic contributing to the significant decrease in restaurant and pro shop sales at Herons Glen starting in March. Despite the state of the economy, the housing market continues to remain active in the community, with a total of 83 Herons Glen homes sold during the year. Investment earnings were down significantly with interest rates taking a plunge at the beginning of the pandemic. Interest earned over the fiscal year was down \$29,102 or 37% from 2019. We continue to invest capital and deferred maintenance funds in the Florida Prime SBA Fund to take advantage of higher interest rates. We saw a 20% decrease in food and beverage revenues over 2019. 2020 was the first time the District has seen an increase in the number of golf memberships in many years. We saw an increase in non-resident memberships from 49 in 2019 to 66 in 2020 for a membership total of 599 compared to a total of 585 in 2019, a 2% increase. The increase of \$85,012 year-over-year in membership revenue was due to a combination of the rise in the number of memberships, the mix of membership types and the 1.9% increase in annual membership fees. The value at Herons Glen is evident and continues to be a driving force in the decision-making process for those moving into the area.

With the new owner capital fee in its fifth full year, the District collected \$228,750 from 75 owners new to Herons Glen, a \$41,250 decrease over 2019 with an increase of \$50 each over the previous year. The new owner capital fee goes into our long-term capital reserves for future needs.

The District's delinquent account balance continues to decrease each year and was less than \$2,500 ending the fiscal year. The District currently charges the annual maintenance assessment on the tax roll for any owner who is at least two quarters delinquent in their quarterly maintenance assessments at the time the tax roll is prepared. Management and outside counsel believe the District has an adequate allocation for bad debt.

We carefully watch the District's performance compared with budget and make changes to alleviate potential problems before they arise.

CONTACTING THE DISTRICT'S CONTROLLER

The financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or require additional financial information, please contact the District Controller at 2250 Herons Glen Blvd., N. Ft. Myers, Florida 33917.

**HERONS GLEN RECREATION DISTRICT
STATEMENT OF NET POSITION
SEPTEMBER 30, 2020**

2020

ASSETS AND DEFERRED OUTFLOWS OR RESOURCES

CURRENT ASSETS

Cash and Cash Equivalents	\$ 634,829
Accounts Receivable, Net	40,740
Inventories	65,571
Prepaid Expenses	138,743
Total Current Assets	879,883

NONCURRENT ASSETS

Restricted Assets	
Cash and Cash Equivalents	3,668,309
Cash Equivalents with Fiscal Agent	13,393,299
Special Assessments Receivable	29,495,000
Total Restricted Assets	46,556,608
Capital Assets, Net	20,563,288
Unamortized Prepaid Bond Insurance Costs, Net	257,628
Deposits, Net	349
Total Noncurrent Assets	67,377,873
Total Assets	68,257,756

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows on Refunding Bond	901,948
Total Deferred Outflows	901,948

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts Payable	157,426
Accrued Expenses	300,874
Unearned Revenue	1,074,599
Accrued Interest	88,518
Obligations Under Capital Lease, Current Portion	110,689
Special Assessment Bonds Payable, Current Portion	875,000
Total Current Liabilities	2,607,106

NONCURRENT LIABILITIES

Obligations Under Capital Lease, Net of Current Portion	158,517
Special Assessment Bonds Payable, Net of Unamortized Discount	30,711,929
Total Noncurrent Liabilities	30,870,446

Total Liabilities

33,477,552

NET POSITION

Net Investment in Capital Assets	2,285,983
Restricted for Debt Service	30,026,514
Restricted for Capital Improvements and Maintenance	16,441,577
Unrestricted	(13,071,921)
Total Net Position	\$ 35,682,152

See accompanying Notes to Financial Statements.

**HERONS GLEN RECREATION DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2020**

	2020
OPERATING REVENUES	
Operating Assessments	\$ 2,035,264
Members Fees	1,419,750
Other User Fees	346,369
Pro Shop Operations	77,814
Restaurant Operations	840,676
Rental and Other	254,271
Total Operating Revenues	4,974,144
OPERATING EXPENSES	
Salaries and Wages	2,444,711
Cost of Sales	466,134
Operating Supplies	650,248
Depreciation	932,600
General and Administration	329,867
Utilities	298,402
Repair and Maintenance	343,022
Professional Fees	147,770
Insurance	164,922
Other Contractual Services	195,377
Rental and Leases	69,757
Office Expense and Other Miscellaneous Expenses	45,580
Total Operating Expenses	6,088,390
OPERATING LOSS	(1,114,246)
NONOPERATING REVENUES (EXPENSES)	
Investment Earnings	54,556
Interest Expense and Fiscal Costs	(843,570)
Bond Issuance Costs	(683,463)
Special Assessments Interest	890,324
Capital Reserve Assessments and New Owner Capital Fees	655,370
Capital Reserve Assessment - Fitness Center	170,499
Deferred Maintenance Assessments	339,240
Net Gain (Loss) on Disposal of Capital Assets	3,311
Miscellaneous Other Nonoperating Income, Net	102,634
Total Nonoperating Revenues	688,901
CAPITAL CONTRIBUTIONS	11,983,137
CHANGE IN NET POSITION	11,557,792
Total Net Position - Beginning of Year	24,124,360
TOTAL NET POSITION - END OF YEAR	\$ 35,682,152

See accompanying Notes to Financial Statements.

**HERONS GLEN RECREATION DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2020**

	2020
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Operating Assessments	\$ 2,053,481
Cash Received from Members	1,182,523
Cash Received from Other Users	346,369
Cash Received from Pro Shop and Restaurant Operations	918,490
Cash Received from Rents and Contracted Services	254,271
Miscellaneous and Other Cash Receipts	102,634
Cash Payments to Suppliers	(2,974,240)
Cash Payments to Employees for Payroll	(2,413,243)
Net Cash Used by Operating Activities	<u>(529,715)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Collection of Deferred Maintenance Assessments	340,139
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(436,709)
Proceeds from the Sale of Capital Assets	6,602
Collection of Special Assessment Principal and Interest	1,680,324
Collection of Capital Reserve Assessments	427,098
Collection of New Owner Capital Fees	228,752
Proceeds from Issuance of Special Assessment Bonds	30,996,685
Interest Paid on Special Assessment Bonds	(1,072,886)
Principal Paid on Special Assessment Bonds	(18,255,000)
Interest Paid on Obligations Under Capital Lease	(15,583)
Principal Paid on Obligation Under Capital Lease	<u>(140,708)</u>
Net Cash Provided by Capital and Related Financing Activities	13,418,575
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Earnings	54,556
Net Cash Provided by Operating Activities	<u>54,556</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,283,555
Cash and Cash Equivalents - Beginning of Year	<u>4,412,882</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 17,696,437</u>

See accompanying Notes to Financial Statements.

**HERONS GLEN RECREATION DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2020**

2020

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Cash Included in Current Assets:	
Cash and Cash Equivalents	\$ 634,829
Cash Included in Noncurrent Assets:	
Restricted Cash:	
Cash and Cash Equivalents	3,668,309
Cash Equivalents with Fiscal Agent	13,393,299
Total Cash and Cash Equivalents	<u><u>\$ 17,696,437</u></u>

SUPPLEMENTAL SCHEDULE OF NONCASH ACTIVITY

Purchase of Capital Assets Through Capital Leases	<u><u>\$ 111,316</u></u>
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RECONCILIATION OF OPERATING LOSS TO NET CASH

USED BY OPERATING ACTIVITIES:

Operating Loss	\$ (1,114,246)
Adjustments to Reconcile Operating Loss to Net Cash	
Used by Operating Activities:	
Depreciation	932,600
Miscellaneous Other Nonoperating Income, Net	102,634
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	12,884
Decrease in Inventories	4,118
Increase in Prepaid Expense	(218,658)
Increase in Deposits, Net	(2,111)
Decrease in Accounts Payable and Accrued Expenses	(15,042)
Decrease in Unearned Revenue	(231,894)
Total Adjustments	<u><u>584,531</u></u>
Net Cash Used by Operating Activities	<u><u>\$ (529,715)</u></u>

**HERONS GLEN RECREATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Mission Statement: Herons Glen Recreation District (the District) is a Florida Special District, a community that provides quality recreation activities, and programs for all residents. We strive to provide excellent financial value and well-maintained facilities to satisfy residents' varied interests and promote healthy lifestyles.

Vision Statement: Continue to be one of the premier active adult communities in Southwest Florida providing an excellent value for our current and future residents.

The Lee County Board of County Commissioners, pursuant to Lee County Ordinance Number 98-08 and provisions of Chapter 418, Florida Statutes, established the District on April 28, 1998. The District owns and operates an 18-hole golf course and related practice facilities, a clubhouse, restaurant, pro shop, and other recreation facilities located in Lee County, Florida. The District acquired the recreation facilities on June 1, 1999. A five-member Board of Supervisors governs the District. The accounting policies of Herons Glen Recreation District conform with accounting principles generally accepted in the United States of America as applicable to governments.

The financial statements were prepared in accordance with Governmental Accounting Standards Board (GASB) Statements. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District is considered to be financially accountable and other organizations for which the nature and significance of their relationship with the District are such that, if excluded, the financial statements of the District would be considered incomplete or misleading. There are no entities considered to be component units of the District, therefore, the financial statements include only the operations of the District.

Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies used in the preparation of these financial statements.

Basis of Accounting

Basis of accounting determines when transactions are reported in the financial statements. The basic 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 at the time liabilities are incurred, regardless of when the related cash flows take place.

**HERONS GLEN RECREATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

**NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Summary of Significant Accounting Policies (Continued)

Measurement Focus

The District is accounted for on the flow of economic resources measurement focus. This means that all assets, all deferred outflows of resources, all liabilities and all deferred inflows of resources (whether current or noncurrent) associated with its activity are included on the statement of net position. The District's operating statement presents increases (revenues) and decreases (expenses) in net total position.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with an enterprise fund's ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available, restricted resources will be used first for eligible incurred expenses, and then use unrestricted resources, as needed.

Budgetary Process

On September 4, 2019, the Board of Supervisors adopted the annual operating budget for fiscal year 2020 for the District. The budget covers the periods October 1, 2019 through September 30, 2020 and include the estimated operating expenses for the period and the means of financing them. The budget is prepared on a basis, which is consistent with modified accrual basis, not necessarily in accordance with generally accepted accounting principles. The budget amounts presented in the supplementary information are as originally adopted, unless subsequently amended, by the District's Board of Supervisors.

These amounts are reconciled from the modified accrual budget basis to a basis in accordance with generally accepted accounting principles. Budgetary control is established by the District through the appropriated budget.

Cash and Investments

For purposes of the statements of cash flows, the District considers all highly liquid investments (including restricted cash assets) with a maturity of three months or less when purchased to be cash equivalents. In addition, the District's investment in the Local Government Surplus Funds Trust Fund (labeled as Florida PRIME) Investment Pool is considered a cash equivalent and is reported as such on the statement of net position. The investment in the Florida PRIME fund is recorded at a stable net asset value (NAV) per share, which approximates the fair value of the investment.

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair values of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

**HERONS GLEN RECREATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

**NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Summary of Significant Accounting Policies (Continued)

Cash and Investments (Continued)

Investments held by the District at September 30, 2020 in First American Government Obligations Fund is considered a cash equivalent and is reported as such on the statement of net position. Investments in Money market funds and short-term investments in the First American Government Obligation Fund are recorded at the amortized cost.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of amounts set aside by the District for debt service, capital improvements, deferred maintenance, emergencies and other projects.

Accounts Receivable

Accounts receivable is carried at the original charge amount less an estimate made for doubtful receivables. An account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days.

Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience, adjusted for the current economic climate. Accounts receivable are written off when deemed uncollectible.

Inventories

Inventories consist of restaurant food, beverage and pro shop merchandise and are valued at the lower of cost (using the last cost paid or average weighted cost method) or net realizable value.

**HERONS GLEN RECREATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

**NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Summary of Significant Accounting Policies (Continued)

Capital Assets

Property, plant, and equipment are recorded at costs or estimated historical cost. The threshold for capitalization is \$5,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. The ranges of the useful lives are as follows

Assets	Years
Clubhouse	30
Pool and Related Amenities	30
Golf Course	30
Common lot Irrigation System	15 to 30
Tennis and Shuffleboard Courts	30
Fixtures and Equipment	15 to 30

The costs of normal maintenance and repairs which do not add to the value of the asset or materially extend assets lives are not capitalized. The District capitalized major expenditures for additions and improvements. Expenditures for maintenance and repairs are charged to expense as incurred.

Deferred Outflows of Resources Related to Refunding Bonds

The difference between the reacquisition price (new debt) and the net carrying value of the old debt on refunded debt transactions is recorded as a deferred outflow of resources and recognized as a component of expense using the effective interest method over the shorter of the remaining life of the old debt or the new debt.

Bond Premium, Discount and Prepaid Bond Insurance Costs

Bond premium, discount and prepaid bond insurance costs are amortized over the life of the bonds using the effective interest method. Special assessment bonds payable are shown net of unamortized premium or discount whereas prepaid bond insurance costs are recorded as other assets.

Unearned Revenue

Unearned revenue represents payments received by the District prior to September 30, 2020, for amounts to be recognized as revenues during future periods. The unearned revenue consists primarily of prepaid assessments and golf club dues and fees.

**HERONS GLEN RECREATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

**NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Summary of Significant Accounting Policies (Continued)

Net Position

Net position is categorized as net investment in capital assets, restricted and unrestricted. Net investment in capital assets represents the difference between the cost of capital assets, less accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Restriction of net position indicates amounts that are limited for a specific purpose. Restricted for debt service indicates that portion which has been set aside for future debt service payments. Restricted for capital improvements and maintenance indicates that portion of net position which has been set aside for future capital improvements. Unrestricted net position indicates that portion which is available for budgeting in future periods.

Revenue and Expenses

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing and delivering goods and/or services. It also includes all revenue and expenses not related to financing or investing activities.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses represent revenue and expense items that are not incurred from the normal user activity of the District. This classification primarily includes revenue received from investments, interest, capital reserve assignments, capital assessments and deferred maintenance assessments.

Risk Management

The District is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; and natural disasters. Insurance coverage for such losses is purchased from third-party carriers. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There was no such type of occurrence during fiscal 2020. There have been no significant reductions in insurance coverage from the prior year and the amount of settlements, if any, have not exceeded insurance coverage in any of the past three fiscal years.

Use of Estimates

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

**HERONS GLEN RECREATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

**NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Implementation of GASB Statements

As of October 1, 2019, the District adopted GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements. The implementation of this standard is to improve the information that is disclosed on the notes to the financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. As of September 30, 2020 the District did not have any direct borrowings and direct placement debt.

GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, is effective for reporting periods beginning after December 15, 2020. The District has decided to implement this statement early on October 1, 2019 and provisions will be applied going forward. The statement establishes accounting requirements for interest costs incurred before the end of a construction period. This statement requires that such interest costs will be recognized as an expense in the period in which the cost is incurred. As a result, the interest cost incurred before the end of the construction period will not be included in the historical cost of capital assets reported. The changes in this statement will improve financial reporting. The resulting information will enhance the comparability of information about capital assets and the cost of borrowing for reporting periods.

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS

As of September 30, the District's cash and investments were as follows:

	<u>2020</u>
Deposits with Financial Institutions	\$ 648,161
Investments Considered as Cash Equivalents	17,048,076
Cash on Hand	200
Total	\$ 17,696,437
Cash and Cash Equivalents	\$ 634,829
Restricted Cash and Cash Equivalents	3,668,309
Restricted Cash Equivalents with Fiscal Agent	13,393,299
Total	\$ 17,696,437

**HERONS GLEN RECREATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

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. In accordance with its policy, all District depositories are banks designated by the Florida State Treasurer as qualified public depositories. Chapter 280 of the Florida Statutes, "Florida Security for Public Deposits Act," provides procedures for public depositories to ensure public monies in banks and saving and loans are collateralized with the Treasurer as agent for the public entities. Chapter 280 defines deposits as demand accounts, time deposit accounts, and nonnegotiable certificates of deposit.

Financial institutions qualifying as public depositories shall deposit with the Florida State Treasurer eligible collateral pursuant to the specific requirements provided in Chapter 280. The Public Deposit Security Trust Fund has a procedure to allocate and recover losses in the event of a default or insolvency. When public deposits are made in accordance with Chapter 280, no public depositor shall be liable for any loss thereof, and therefore the District is not exposed to custodial credit risk.

The amounts covered under Chapter 280 for the fiscal year ended September 30, 2020 was \$624,301 and amount not covered was \$31,850.

Investments

In accordance with its policy, the District is authorized to make investments in: direct obligations of the U.S. Treasury; interest-bearing time deposits or savings accounts in qualified public depositories; Certificate of Deposit Account Registry Service (CDARS); Securities and Exchange Commission registered money market funds with the Local Government Surplus Funds Trust Fund administered by the Florida State Board of Administration; and obligations of U.S government agencies such as Federal Home Loan Banks, GNMA securities and Federal Land Banks. The District's bond resolutions provide similar limitations on authorized investment securities.

The Florida State Board of Administration Local Government Surplus Funds Trust Fund (Florida Prime) is not a registrant with the Securities and Exchange Commission (SEC); however, it meets all of the necessary criteria to elect to measure all of the investments at amortized cost. In accordance with these requirements, the method used to determine the participants' shares sold and redeemed is the amortized cost method. Amortized cost includes accrued income and is a method of calculating an investment's value by adjusting its acquisition cost for the amortization of discount or premium over the period from purchase to maturity. Florida Prime is governed by Chapter 19-7 of the Florida Administrative Code. These rules provide guidance and establish the general operating procedures for the administration of Florida Prime. Additionally, the Office of the Auditor General of the State of Florida performs the operational audit of the activities and investment of Florida Prime.

**HERONS GLEN RECREATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District's investment policy limits investment maturities to 18 months as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations of its debt type investments using the segmented time distribution model is as follows:

As of September 30, 2020:

Investment Type	Amortized Cost	Investment Maturities	
		Less Than One Year	More Than One Year
First American Government Obligation			
Fund CI D	\$ 13,393,299	\$ 13,393,299	\$ -
Florida Prime	3,654,777	3,654,777	-
Total	<u>\$ 17,048,076</u>	<u>\$ 17,048,076</u>	<u>\$ -</u>

Credit Risk

Generally, credit risk is the risk that an insurer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law limits investments in commercial paper to the top two ratings used by nationally recognized statistical rating organizations (NRSROs). The District's policy would not further limit its investment choices.

As of September 30, 2020 investments were rated as follows:

Investment Type	Moody's Investor's Services	Standard & Poor's
First American Government Obligation		
Fund CI Y	Aaa-mf	AAAm
Florida Prime	N/A	AAAm

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's investment policy does not limit investments in any one issuer.

**HERONS GLEN RECREATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The District's investment policy does not limit investment with any one counterparty.

In accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, Florida PRIME currently meets all of the necessary criteria to elect to measure all of the investments in Florida PRIME at amortized cost. Therefore, the District's participant account balance should also be considered the fair value of its investment and exempt from the GASB Statement No. 72, *Fair Value Measurement and Application*.

With regard to redemption gates, Chapter 218.409(8)(a), Florida Statutes, states that "The principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the Executive Director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the Trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The Trustees shall convene an emergency meeting as soon as practicable from the time the Executive Director has instituted such measures and review the necessity of those measures. If the Trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the moratorium may be extended by the Executive Director until the Trustees are able to meet to review the necessity for the moratorium. If the Trustees agree with such measures, the Trustees shall vote to continue the measures for up to an additional 15 days. The Trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the Trustees exceed 15 days."

With regard to liquidity fees, Florida Statute 218.409(4) provides authority for the SBA to impose penalties for early withdrawal, subject to disclosure in the enrollment materials of the amount and purpose of such fees. At present, no such disclosure has been made. As of September 30, 2019, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100% of their account value.

**HERONS GLEN RECREATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 3 RESTRICTED ASSETS

Assets were restricted for the following purposes at September 30:

	2020
Debt Service - Special Assessments Receivable	\$ 29,495,000
Restricted for Interest and Principal	620,031
Capital Improvements	14,465,993
Intermediate Capital Fund	753,662
Golf Course Special Improvement	424,577
Deferred Maintenance	365,136
Emergency Fund	431,452
Projects and Other	757
Total Restricted Assets	46,556,608
Less: Accrued Interest	(88,518)
Total Restricted Net Position	\$ 46,468,090

NOTE 4 CAPITAL ASSETS, NET

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

	Balance September 30, 2019	Additions	Deletions and Transfers	Balance September 30, 2020
Capital Assets, Not Being Depreciated:				
Land and Site Improvements	\$ 13,930,722	\$ -	\$ (358,458)	\$ 13,572,264
Work in Progress	1,279,927	465,501	(1,366,187)	379,241
Total Capital Assets, Not Being Depreciated	15,210,649	465,501	(1,724,645)	13,951,505
 Capital Assets, Being Depreciated:				
Equipment on Capital Lease	1,705,443	111,316	(1,101,650)	715,109
Original Purchase	2,559,934	-	(10,702)	2,549,232
Equipment	2,430,799	38,369	418,421	2,887,589
Common Lot Irrigation System	1,895,232	18,589	468,226	2,382,047
Property and Improvements	8,146,209	10,635	1,741,143	9,897,987
Total Capital Assets Being Depreciated	16,737,617	178,909	1,515,438	18,431,964
 Less Accumulated Depreciation for:				
Equipment on Capital Lease	1,338,062	130,034	(1,094,877)	373,219
Original Purchase	1,803,448	78,614	(9,959)	1,872,103
Equipment	1,467,930	117,565	689,108	2,274,603
Common Lot Irrigation System	1,144,260	110,514	202,981	1,457,755
Property and Improvements	5,339,797	495,873	6,831	5,842,501
Total Accumulated Depreciation	11,093,497	932,600	(205,916)	11,820,181
 Total Capital Assets, Being Depreciated, Net	5,644,120	(753,691)	1,721,354	6,611,783
 Total Capital Assets, Net	\$ 20,854,769	\$ (288,190)	\$ (3,291)	\$ 20,563,288

Work in progress totaling \$379,241 as of September 30, 2020 primarily included spending for the District's golf course renovation, 15 unplatte land development project and restaurant project.

**HERONS GLEN RECREATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 5 SPECIAL ASSESSMENT BONDS

Bonds payable consisted of the following at September 30, 2020:

Description

Special Assessment Bonds

\$29,495,000 Series 2020 bonds, maturing serially through 2050, interest at 2.50% to 3.00%, collateralized by the pledged revenues of special assessments levied against benefited property owners, payable November 1 and May 1, respectively.

\$ 29,495,000

The following is a summary of changes in bond payable for the fiscal year ended September 30, 2020:

Bonds Payable at October 1, 2019	\$ 18,255,000
Principal Retired	(18,255,000)
Debt Issues	<u>29,495,000</u>
Bonds Payable at September 30, 2020	<u>29,495,000</u>
Add: Unamortized Premium	2,091,929
Bonds Payable at September 30, 2020, Net	<u>31,586,929</u>
Less: Amount Recorded as Current Liability	(875,000)
Total	<u>\$ 30,711,929</u>

At September 30, 2020, the scheduled future debt service requirements on the District's outstanding Bonds are as follows:

<u>Year Ending September 30.</u>	<u>Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 875,000	\$ 619,629	\$ 1,494,629
2022	895,000	888,600	1,783,600
2023	920,000	866,225	1,786,225
2024	940,000	843,225	1,783,225
2025	965,000	819,725	1,784,725
2026-2030	5,210,000	3,724,125	8,934,125
2031-2035	5,960,000	3,002,150	8,962,150
2036-2040	4,235,000	2,197,125	6,432,125
2041-2045	4,280,000	1,570,200	5,850,200
2046-2050	5,215,000	642,800	5,857,800
Total	<u>29,495,000</u>	<u>\$ 15,173,804</u>	<u>\$ 44,668,804</u>
Less: Unamortized Premium	2,091,929		
Total	<u>\$ 31,586,929</u>		

**HERONS GLEN RECREATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 5 SPECIAL ASSESSMENT BONDS (CONTINUED)

Significant Bond Provisions

The District is to levy special assessments, pursuant to Section 197.3632 of the Florida Statutes, to the assessment rolls approved by resolutions of the District. The collections of such assessments are to be accounted for and applied to the debt service of the bond series for which they were levied. The District covenants permit it to levy special assessments in annual amounts adequate to provide for payment of principal and interest on the bonds. However, payment of principal and interest on the bonds is dependent on the money available in the Debt Service Accounts and the District's ability to collect special assessments levied.

The Bonds are subject to mandatory redemption at par on a schedule of annual redemptions. The District may redeem the Bonds at par prior to scheduled maturity from the proceeds of any assessments prepaid in full or monies received as a result of condemnation or destruction of the project. The Indenture provides for a Bond Revenue Fund, which shall be held by the Trustee, separate and apart from all other funds for the purpose of depositing special assessment collections.

NOTE 6 CURRENT-YEAR REFUNDING OF DEBT

In August 2020, the District issued \$29,495,000 in Series 2020 Special Assessment Bonds with fixed interest rates of 2.50% - 3.00%. The proceeds were used to provide additional funding for several new projects and refund the outstanding principal amount of the Series 2006 Special Assessment Bonds that were issued to refund the Series 1999 Special Assessment Bonds and complete several projects. The maturity date of the issued debt was extended from 2036 to 2050. The refunding portion provided a net present value savings of \$2.2 million to the District's taxpayers over the lifetime of the debt issue. Issuance costs of \$683,463 were paid from accumulated debt service funds and proceeds.

NOTE 7 SPECIAL ASSESSMENTS

The District levied an operating special assessment for the fiscal year ended September 30, 2020. The assessment levied upon the taxable property for the fiscal year ended September 30, 2020 was \$1,294 per unit.

In August 2006, the District levied debt service special assessments in the amount of \$26,040,000, relating to the Series 2006 Bonds. The Series 2006 Bond special assessments became part of the Series 2020 Bonds when the Series 2006 Bonds were refunded in August 2020.

In August 2020, the District levied debt service special assessments in the amount of \$29,495,000, relating to the Series 2020 Bonds. The Series 2020 Bond special assessments outstanding as of September 30, 2020 totaled \$29,495,000.

The annual installment of special assessment for debt service are levied on October 1 of each year, after formal adoption of the District's budget, and are due and payable upon receipt of the notice of levy. The Lee County, Florida Tax Collector's office bills and collects debt service special assessments on behalf of the District.

**HERONS GLEN RECREATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 8 LEASES

The District has entered into lease agreements as lessee for the financing the acquisition of various equipment. The lease agreements qualify as capital leases for accounting purposes and have been recorded at the present values of the future minimum lease payments as of the date of their inception. Equipment capitalized under such leases had an original cost of \$715,109 and accumulated depreciation of \$373,219 at September 30, 2020. The minimum annual lease payments for these capital leases are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2021	\$ 122,524
2022	93,539
2023	51,229
2024	23,749
Total Minimum Lease Payments	<u>291,041</u>
Less: Amount Representing Interest	<u>(21,835)</u>
Present Value of Future Lease Payments	<u>\$ 269,206</u>

The District leases equipment under noncancelable operating leases, which expire through December 2024. Total expenses for these operating leases were approximately \$67,000 for the year ended September 30, 2020. The minimum rental commitment for these leases is as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2021	\$ 75,153
2022	51,242
2023	37,224
2024	19,367
2025	1,286
Total	<u>\$ 184,272</u>

**HERONS GLEN RECREATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 9 EMPLOYEE BENEFIT PLAN

Effective October 1, 2004 the District implemented a 401(k) retirement plan, the Herons Glen Recreation District Retirement Savings Plan, a defined contribution pension plan, for the benefit of its employees. The plan is for all employees who meet certain eligibility provisions and is administered through the Professional Employment Organization. District contributions to the plan are discretionary. The employer contributions to the Plan for the fiscal year ended September 30, 2020 were \$28,409. Employee contributions were \$64,159 for the fiscal year ended September 30, 2020. The District has reserved the right to establish and amend all plan provisions. The contribution requirements of plan members and the District are established and may be amended by the District.

NOTE 10 CONSTRUCTION COMMITMENTS

The District's outstanding construction commitments as of September 30, 2020, are as follows:

Project	Total Contract	Spent to Date	Remaining
15 Unplatted DR Horton Lots Project #4	\$ 110,000	\$ 96,719	\$ 13,281
Storage Building Bond Project #2	44,285	21,735	22,550
CLIS Bond Project #3	46,339	42,074	4,265
Clubhouse Improvements Bond Project #9	7,500	3,795	3,705
Golf Course Renovation Bond Project #5	592,428	199,667	392,761
	<u>\$ 800,552</u>	<u>\$ 363,990</u>	<u>\$ 436,562</u>

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS

In accordance with Section 112.0801, Florida Statues, if the District provides insurance plans to employees of the District and their eligible dependents, the District is also required to provide retirees the opportunity to participate in the group employee health plan. For purposes of Section 112.0801, "retiree" means any officer or employee who retires under a state retirement system or a state optional annuity or retirement program or is placed on disability retirement and who begins receiving retirement benefits immediately after retirement from employment. The District does not offer a retirement plan under a state retirement system or a state optional annuity or retirement program. Therefore, the District is not required to allow retired employees to continue to participate in the District's insurance plans upon retirement. Consequently, there is no OPEB liability for the District at September 30, 2020.

**HERONS GLEN RECREATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 12 SUBSEQUENT EVENT

In January 2021 the District sold the 15 unplatte lots within the District to a developer for \$10. As of September 30, 2020 the 15 unplatte lots were included as capital assets under the classification of land with a value of \$106,773. In addition, there was \$99,719 included as work in progress for land development associated with the 15 unplatte lots. The work in progress amounts were related to cost to obtain the required approvals needed prior to the sale.

NOTE 13 CONTINGENCY

During the fiscal year, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the District, COVID-19 may impact various parts of its 2021 operations and financial results. Management believes the District is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as events associated with the pandemic continue to develop.

HERONS GLEN RECREATION DISTRICT
SCHEDULE OF REVENUES AND EXPENSES
NON-GAAP BUDGETARY BASIS ANC ACTUAL
YEAR ENDED SEPTEMBER 30, 2020

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Operating Revenues:				
Operating Assessments	\$ 2,032,096	\$ 2,032,096	\$ 2,035,264	\$ 3,168
Members Fees	1,338,502	1,338,502	1,419,750	81,248
Other users Fees	403,660	403,660	346,369	(57,291)
Other	1,502,764	1,502,764	1,172,761	(330,003)
Net Operating Revenues	5,277,022	5,277,022	4,974,144	(302,878)
Nonoperating Revenues:				
Investment Earnings	43,400	43,400	54,556	11,156
Capital Reserve Assessment and New Owner Capital Fees	426,620	426,620	655,370	228,750
Special Capital Reserve Assessment - Fitness Center	-	-	170,499	170,499
Deferred Maintenance Assessment	339,240	339,240	339,240	-
Capital Contributions	-	13,897,095	11,983,137	(1,913,958)
Total Nonoperating Revenues	809,260	14,706,355	13,202,802	(1,503,553)
Total Revenues	6,086,282	19,983,377	18,176,946	(1,806,431)
EXPENSES				
Operating Expenses:				
Salaries and Wages	2,643,255	2,643,255	2,444,711	(198,544)
Operating Supplies	641,489	641,489	650,248	8,759
Cost of Sales	543,948	543,948	466,134	(77,814)
General and Administrative	308,807	308,807	265,309	(43,498)
Utilities	321,038	321,038	298,402	(22,636)
Repair and Maintenance	483,150	483,150	343,022	(140,128)
Professional Fees	122,689	122,689	147,770	25,081
Insurance	170,566	170,566	164,922	(5,644)
Other Contractual Services	195,648	195,648	195,377	(271)
Rentals and Leases	209,528	209,528	69,757	(139,771)
Office Expense and Other Miscellaneous	51,037	51,037	45,580	(5,457)
Total Operating Expenses	5,691,155	5,691,155	5,091,232	(599,923)
Capital Outlay	178,395	581,430	644,410	62,980
Bond Issuance Costs	-	942,251	683,463	(258,788)
Total Expenses	5,869,550	7,214,836	6,419,105	(795,731)
CHANGE IN NET POSITION	\$ 216,732	\$ 12,768,541	\$ 11,757,841	\$ (1,010,700)
RECONCILIATION OF BUDGETARY BASIS TO GAAP				
Change in Net Position - Budgetary Basis	\$ 11,757,841			
Add: Capital Expenditures	644,410			
Special Assessment Interest	890,324			
Miscellaneous Other Nonoperating Income	102,634			
Less: Depreciation	(932,600)			
Interest Expense and Bond Related Amortization	(843,570)			
Loss on Disposal of Capital Assets	3,311			
Tax Collector Commissions and Discounts	(64,558)			
CHANGE IN NET POSITION – GAAP	\$ 11,557,792			



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

Board of Supervisors
Herons Glen Recreation District
North Fort Myers, 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 Herons Glen Recreation District (the District), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 15, 2021.

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 opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding 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 have not been identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2020-001 and 2020-005 to be material weaknesses.

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. We consider the deficiency described schedule of findings and responses as item 2020-002 to be a significant deficiency.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2020-003 and 2020-004.

The District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying letter of management responses. 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.

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Fort Myers, Florida
February 15, 2021

**HERONS GLEN RECREATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2020**

2020-001 Annual Financial Reporting Under Generally Accepted Accounting Principles

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria

Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements including the related disclosures, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Condition

The District does not have an internal control policy in place over annual financial reporting that would enable management to ensure its annual financial statements and related note disclosures are complete and presented in accordance with U.S. GAAP.

Cause

The District has contracted with the audit firm to prepare the annual financial statements and related note disclosures. However, they have reviewed and approved the annual financial statements and the related note disclosures.

Effect

The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the entity's internal controls.

Repeat Finding

No.

Recommendation

Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

Views of Responsible Officials and Planned Corrective Actions

Internal controls remain a challenge due to our current staffing. However, our intention is to fill our currently open Assistant Controller position with someone, preferable with government experience, who will prepare the general ledger reconciliations and payroll accrual and have the Controller review and sign off as more of a top-level position. Currently, the Controller prepares the bank reconciliations and creates and posts month end manual journal entries and the Board Treasurer reviews and signs off. We have plans to update our Internal Controls Policy during the summer months, possibly enlisting an outside firm to assist with this process.

The Controller will be researching the Government Finance Officers Association (GFOA) and plans to take advantage of the continuing education available from both the GFOA and the CLA Website.

Target date: September 30, 2021

**HERONS GLEN RECREATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2020**

2020-002 – Accounting for Leases

Type of Finding: Significant Deficiency in Internal Control over Financial Reporting

Criteria

When a lease is a capital lease, GASBS No. 62, paragraph 216, requires the transaction to be treated as if the government purchased the asset and is financing it over the term of the lease. Capital lease treatment is required if the lease has at least one of the following characteristics described in GASBS No. 62, paragraph 213:

1. It passes title to the lessee by the end of the lease term.
2. It contains a bargain purchase option.
3. The lease term is at least 75% of the asset's estimated economic life.
4. The present value of the minimum lease payments at the beginning of the lease term is at least 90% of the asset's fair value.

Condition

During our review of the operating lease schedule provided we noticed ice machine leases that met the requirement for treatment as a capital lease due to the present value of minimum lease payments exceeding 90% of the assets fair value.

Cause

The District has not been assessing all new leases for proper treatment as capital vs. operating.

Effect

Balances of capital assets are understated; liabilities are understated, and expenses are overstated.

Repeat Finding

No.

Recommendation

We recommend the District assign an employee to review all new leases to determine if the lease meets the criteria to be recorded as a capital lease.

Views of Responsible Officials and Planned Corrective Actions

The Finance Advisory Committee Charter was amended last year to include the review of new leases prior to Board approval. As part of this process, the Controller compiles information regarding the requested lease to provide to the Finance Advisory Committee to review. In the future, the Controller will include with this information an analysis based on GASB No. 62, paragraph 213 to determine whether the lease meets the criteria of a capital lease or if it can be considered an operating lease.

The Clubhouse Maintenance Manager is in the process of analyzing the benefits of the current ice machine leases verses purchasing the equipment. He is working with the vendor to determine the cost of the actual lease portion of the equipment separate from the repairs and maintenance portion.

Target date: May 31, 2021

**HERONS GLEN RECREATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2020**

2020-003 Florida Statute Chapter 280

Type of Finding: Compliance and Other Matters

Criteria

Florida Statute Chapter 280.17(2)(b): Execute a form prescribed by the Chief Financial Officer for identification of each public deposit account and obtain acknowledgment of receipt on the form from the qualified public depository at the time of opening the account. Such public deposit identification and acknowledgment form shall be replaced with a current form as required in Subsection (3). A public deposit account existing before July 1, 1998, must have a form completed before September 30, 1998.

Florida Statute Chapter 280.17(2)(c): Maintain the current public deposit identification and acknowledgment form as a valuable record. Such form is mandatory for filing a claim with the Chief Financial Officer upon default or insolvency of a qualified public depository.

Condition

The FineMark Capital Checking and the FineMark Deferred Checking accounts did not have DFS-J1-1295 forms obtained when the accounts were opened and as of September 30, 2020 no DFS-J1-1295 had been obtained for these accounts.

Cause

Management was not aware that each account must have a separate DFS-J1-1295 form.

Effect

The deposit accounts are not covered under Florida Statute 280 in the event the bank fails.

Repeat Finding

No.

Recommendation

The District should obtain the required DFS-J1-1295 forms.

Views of Responsible Officials and Planned Corrective Actions

The District has obtained the required DFS-J2 1295 forms for all accounts currently held at qualified public depositories. This process will be included in the updated Internal Controls Policy for any future new accounts.

Target Date: September 30, 2021

**HERONS GLEN RECREATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2020**

2020-004 Florida Statute Chapter 218.415

Type of Finding: Compliance and Other Matters

Criteria

When the District elects to adopt a written investment policy, the policy is required to follow Florida Statute Chapter 218.415(1)-(16)

Condition

The adopted investment policy of the District does not address Sections 218.415(2)-(4) and 218.415(7)-(15).

Cause

The investment policy has not been updated since May 28, 2008 and has not been compared to the requirement of Florida Statue Chapter 218.415.

Effect

The District is not in compliance with Florida Statue Chapter 218.415.

Repeat Finding

No.

Recommendation

We recommend the District update the investment policy to include the necessary section required by Florida Statute Chapter 218.415.

In the event the District finds adopting an investment policy this detailed is not appropriate, Florida Statute Chapter 218.415 Section (17) does allow for the District to elect not to adopt a written investment policy. For a unit of local government who elects not to adopt a written investment policy Florida Statute Chapter 218.415 Section (17) lists those investments that are allowable.

Views of Responsible Officials and Planned Corrective Actions

Management will request the Finance Advisory Committee to review the Investment Policy and make recommendations to the Board to update the policy accordingly. Any recommended change will be included in the District's policy published on our Website.

Target Date: March 31, 2021

**HERONS GLEN RECREATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2020**

2020-005 Capital Asset Depreciation Schedule

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria

The depreciation schedules should be reconciled to the trial balance amounts at least annually. In addition, the depreciation schedule and trial balance should agree to the financial statement note disclosures.

Condition

During our procedures over capital assets we could not agree the financial statement note disclosure category balances to the trial balance accounts or the depreciation schedule asset classifications. Material adjustments were necessary to reconcile the subledger to the financial statements.

Cause

Through the years new trial balance accounts have been added that relate to certain projects and include more than one asset class. There has not been a schedule maintained to break out the trial balance amounts by class in order to agree them to the depreciation schedule. The depreciation schedule has also not been reviewed and reconciled to the financial statement disclosures.

Effect

Without accurate capital asset information by asset class, the balances, additions and disposals in the notes to the financial statements could be misstated.

Repeat Finding

No.

Recommendation

After the difficulty reconciling capital asset amounts, the District worked with the auditors at year-end to develop a reconciliation based on the depreciation schedule and discussed what changes need to be made in fiscal 2021 in the depreciation software to include assets in the correct class. We recommend the District update the depreciation software as discussed. In addition, the District should review the trial balance accounts and make the necessary adjustments to the accounts and account balances so they can be reconciled to the depreciation schedule assets. Going forward the district should reconcile the trial balance amounts with the depreciation schedule to verify additions and disposal are properly recorded to the correct class of asset.

**HERONS GLEN RECREATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2020**

2020-005 Capital Asset Depreciation Schedule (Continued)

Views of Responsible Officials and Planned Corrective Actions

The District is in the process of obtaining the service of an outside consultant to aid in the conversion of our fixed assets software from the Jonas Management System to Thompson Reuter CS Professional Suite fixed assets program. The District has already purchased the new software.

The Controller intends to bring before the Board a plan to combine the fixed asset accounts in the general ledger to match the depreciation schedule and the audited financial statements using the reconciliation auditors provided.

A detailed listing of fixed assets categories will be included in the Internal Controls Policy to insure the addition of future fixed assets are recorded properly.

Target Date: August 31, 2021



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MANAGEMENT LETTER

Board of Supervisors
Herons Glen Recreation District
North Fort Myers, Florida

Report on the Financial Statements

We have audited the financial statements of the Herons Glen Recreation District (the District) as of and for the fiscal year ended September 30, 2020, and have issued our report thereon dated February 15, 2021.

Auditors' Responsibility

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

Other Reporting Requirements

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Accountants' Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated February 15, 2021, 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. There were no recommendations made in the preceding financial 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 District discloses this information in the notes to the financial statements.

Financial Condition and Management

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and communicate the results of our determination as to whether or not the District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify 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.b. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the District. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we noted several indicators that were unfavorable. Most of these indicators relate to the net operating loss of the District and the negative unrestricted net position balance. While this is not necessarily an indicator of deteriorating financial condition, it is of concern. We recommend the District monitor this situation and take corrective action if it is anticipated that unrestricted cash balances and operating revenues will not cover operating expenditures.

Special District Component Units

Section 10.554(1)(i)5.c., Rules of the Auditor General, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district, to provide the financial information necessary for proper reporting of the component unit within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. The District does not have any special district component units.

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 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.



CliftonLarsonAllen LLP

Fort Myers, Florida
February 15, 2021



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INDEPENDENT ACCOUNTANTS' REPORT

Board of Supervisors
Herons Glen Recreation District
North Fort Myers, Florida

We have examined the Herons Glen Recreation District's (the District) compliance with Section 218.415, Florida Statutes, regarding the investment of public funds during the year ended September 30, 2020. Management 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.

Our examination disclosed instances of material noncompliance with Section 218.415, Florida Statutes, regarding the investment of public funds during the year ended September 30, 2020. The instances of material noncompliance are detailed in the attached Schedule of Findings.

In our opinion, except for the material noncompliance described in the preceding paragraph, the District complied, in all material respects, with Section 218.415, Florida Statutes, regarding the investment of public funds during the year ended September 30, 2020.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Fort Myers, Florida
February 15, 2021

**HERONS GLEN RECREATION DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED SEPTEMBER 30, 2020**

Finding 2020-004 Florida Statute Chapter 218.415

We reviewed the District's investment policy during the fiscal year ended September 30, 2020, to determine it contained all the required elements under Florida Statute Chapter 218.415. We noted the District's investment policy did not contain the required sections as noted below.

- 218.415(2) – The investment policy shall describe the investment objectives of the unit of local government. Investment objectives shall include safety of capital, liquidity of funds, and investment income, in that order.
- 218.415(3) – The investment policy shall specify performance measures as are appropriate for the nature and size of the public funds within the custody of the unit of local government.
- 218.415(4) – The investment policy shall describe the level of prudence and ethical standards to be followed by the unit of local government in carrying out its investment activities with respect to funds described in this section. The unit of local government shall adopt the Prudent Person Rule, which states that: “Investments should be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment.”
- 218.415(7) – The investment policy shall establish guidelines for investments and limits on security issues, issuers, and maturities. Such guidelines shall be commensurate with the nature and size of the public funds within the custody of the unit of local government.
- 218.415(8) – The investment policy shall provide for appropriate diversification of the investment portfolio. Investments held should be diversified to the extent practicable to control the risk of loss resulting from overconcentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which financial instruments are bought and sold. Diversification strategies within the established guidelines shall be reviewed and revised periodically, as deemed necessary by the appropriate management staff.
- 218.415(9) – The investment policy should specify the authorized securities dealers, issuers, and banks from whom the unit of local government may purchase securities.
- 218.415(10) – The investment policy shall provide appropriate arrangements for the holding of assets of the unit of local government. Securities should be held with a third party; and all securities purchased by, and all collateral obtained by, the unit of local government should be properly designated as an asset of the unit of local government. No withdrawal of securities, in whole or in part, shall be made from safekeeping, except by an authorized staff member of the unit of local government. Securities transactions between a broker-dealer and the custodian involving purchase or sale of securities by transfer of money or securities must be made on a “delivery vs. payment” basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction.

**HERONS GLEN RECREATION DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED SEPTEMBER 30, 2020**

- 218.415(11) – The investment policy shall require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions shall adhere to the requirements of the Master Repurchase Agreement.
- 218.415(12) – The investment policy shall require that the unit of local government's staff determine the approximate maturity date based on cash-flow needs and market conditions, analyze and select one or more optimal types of investment, and competitively bid the security in question when feasible and appropriate. Except as otherwise required by law, the bid deemed to best meet the investment objectives specified in Subsection (2) must be selected.
- 218.415(13) – The investment policy shall provide for a system of internal controls and operational procedures. The unit of local government's officials responsible for making investment decisions or chief financial officer shall establish a system of internal controls which shall be in writing and made a part of the governmental entity's operational procedures. The investment policy shall provide for review of such controls by independent auditors as part of any financial audit periodically required of the unit of local government. The internal controls should be designed to prevent losses of funds which might arise from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the unit of local government.
- 218.415(14) – The investment policy shall provide for the continuing education of the unit of local government's officials responsible for making investment decisions or chief financial officer. Such officials must annually complete 8 hours of continuing education in subjects or courses of study related to investment practices and products.
- 218.415(15) – The investment policy shall provide for appropriate annual or more frequent reporting of investment activities. To that end, the governmental entity's officials responsible for making investment decisions or chief financial officer shall prepare periodic reports for submission to the legislative and governing body of the unit of local government, which shall include securities in the portfolio by class or type, book value, income earned, and market value as of the report date. Such reports shall be available to the public.

Recommendation

We recommend the District update the investment policy to include the necessary section required by Florida Statute Chapter 218.415.

In the event the District finds adopting an investment policy this detailed is not appropriate, Florida Statute Chapter 218.415 Section (17) does allow for the District to elect not to adopt a written investment policy. For a unit of local government who elects not to adopt a written investment policy Florida Statute Chapter 218.415 Section (17) lists those investments that are allowable.

Views of Responsible Officials:

Management will request the Finance Advisory Committee to review the Investment Policy and make recommendations to the Board to update the policy accordingly. Any recommended change will be included in the District's policy published on our Website.

Target Date: March 31, 2021