

**Somerset Community  
Development District**

**FINANCIAL STATEMENTS**

**September 30, 2015**



**CRI** CARR  
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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Supervisors  
Somerset Community Development District  
Walton County, Florida

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities and each major fund of Somerset Community Development District (hereinafter referred to as "District"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2015, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Miramar Beach, Florida  
January 13, 2016



## **Management's Discussion And Analysis**

## Somerset Community Development District Management's Discussion and Analysis

Our discussion and analysis of the Somerset Community Development District's financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2015. Please read it in conjunction with the District's financial statements, which begin on page 8.

### FINANCIAL HIGHLIGHTS

- At September 30, 2015, the liabilities of the District exceed its assets by approximately \$5.4 million (deficit).
- During the fiscal year ended September 30, 2015, the District incurred approximately \$793,000 of interest expenditures and repaid principal of \$365,000.

### USING THE ANNUAL REPORT

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

#### ***Reporting the District as a Whole***

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

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

## Somerset Community Development District Management's Discussion and Analysis

### ***Reporting the District's Most Significant Funds***

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

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

### **THE DISTRICT AS A WHOLE**

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

<i>September 30,</i>	<b>2015</b>	<b>2014</b>	<b>Change</b>
<b>Assets</b>			
Current and other assets	\$ 1,516,204	\$ 1,616,874	\$ (100,670)
Capital assets, net	8,005,429	8,442,030	(436,601)
<b>Total assets</b>	<b>\$ 9,521,633</b>	<b>\$ 10,058,904</b>	<b>\$ (537,271)</b>
<b>Liabilities</b>			
Current liabilities	\$ 740,031	\$ 721,420	\$ 18,611
Other liabilities	14,230,000	14,635,000	(405,000)
<b>Total liabilities</b>	<b>14,970,031</b>	<b>15,356,420</b>	<b>(386,389)</b>
<b>Net position</b>			
Net investment in capital assets	(2,039,927)	(1,871,321)	(168,606)
Restricted for:			
Debt service	124,782	115,404	9,378
Unrestricted	(3,533,253)	(3,541,599)	8,346
<b>Total net position (deficit)</b>	<b>(5,448,398)</b>	<b>(5,297,516)</b>	<b>(150,882)</b>
<b>Total liabilities and net position</b>	<b>\$ 9,521,633</b>	<b>\$ 10,058,904</b>	<b>\$ (537,271)</b>

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

## Somerset Community Development District Management's Discussion and Analysis

During the fiscal year ended September 30, 2015, total assets and liabilities decreased by approximately \$537,000 and \$386,000, respectively. The decrease in assets is primarily a result of depreciation on capital assets. The decrease in liabilities is primarily due to the repayment of outstanding long-term bond principal.

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

<i>Year ended September 30,</i>	<b>2015</b>	<b>2014</b>	<b>Change</b>
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 1,367,319	\$ 1,366,482	\$ 837
General revenues:			
Interest	147	311	(164)
<b>Total revenues</b>	<b>1,367,466</b>	<b>1,366,793</b>	<b>673</b>
<b>Expenses:</b>			
General government	87,925	92,789	(4,864)
Maintenance and operations	645,205	642,396	2,809
Interest	785,218	804,120	(18,902)
<b>Total expenses</b>	<b>1,518,348</b>	<b>1,539,305</b>	<b>(20,957)</b>
Change in net position	(150,882)	(172,512)	21,630
Net position (deficit), beginning of year	(5,297,516)	(5,125,004)	(172,512)
<b>Net position (deficit), end of year</b>	<b>\$ (5,448,398)</b>	<b>\$ (5,297,516)</b>	<b>\$ (150,882)</b>

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

Revenues and expenses did not change significantly from the prior year. The overall result was a \$150,882 decrease in net position for fiscal year 2015.



## Somerset Community Development District Management's Discussion and Analysis

### THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 10) reported a combined fund balance of approximately \$1.5 million, which is a decrease from last year's balance that totaled approximately \$1.6 million. Significant transactions are discussed below.

- During the fiscal year ended September 30, 2015, the District incurred approximately \$793,000 of interest expenditures and repaid principal of \$365,000.

The overall decrease in fund balance for the year ended September 30, 2015 totaled approximately \$87,000.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### ***Capital Assets***

At September 30, 2015, the District had approximately \$8 million invested in capital assets (net of accumulated depreciation). This amount represents a net decrease of approximately \$437,000 from the fiscal year 2014 total.

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

<i>September 30,</i>	<b>2015</b>	<b>2014</b>	<b>Change</b>
Capital assets being depreciated	\$ 10,915,038	\$ 10,915,038	\$ -
Accumulated depreciation	(2,909,609)	(2,473,008)	(436,601)
<b>Net capital assets</b>	<b>\$ 8,005,429</b>	<b>\$ 8,442,030</b>	<b>\$ (436,601)</b>

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

## Somerset Community Development District Management's Discussion and Analysis

### **Debt**

At September 30, 2015, the District had approximately \$14.6 million of bonds outstanding. This amount represents a decrease of \$365,000 from the fiscal year 2014 total.

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

<i>September 30,</i>	<b>2015</b>	<b>2014</b>	<b>Change</b>
Series 2005 bonds	\$ 14,615,000	\$ 14,980,000	\$ (365,000)

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

### **GOVERNMENTAL FUNDS BUDGETARY HIGHLIGHTS**

An Operating budget was established by the governing board for the District pursuant to the requirements of Florida Statutes. The budget to actual comparison for the general fund, including the original budget and final adopted budget, is shown at page 23.

The District experienced a favorable variance in revenues as compared to the budget in the amount of \$1,661 and an unfavorable variance in expenditures of \$63,655. The variance in expenditures occurred primarily due to unanticipated maintenance expenditures that were incurred during the year.

### **FUTURE FINANCIAL FACTORS**

Somerset Community Development District is an independent special district that operates under the provisions of Chapter 190, Florida Statutes. The District operates under an elected Board of Supervisors, which establishes policy and sets assessment rates. Assessment rates for fiscal year 2016 were established to provide for the operations of the District.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. If you have questions about this report or need additional financial information, contact the Somerset Community Development District's finance department at 3434 Colwell Avenue, Suite 200, Tampa, Florida 33614.



## **Basic Financial Statements**

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

<i>September 30,</i>	<b>2015</b>
	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 57,249
Investments	1,446,764
Prepaid expenses	12,191
Capital assets, net	8,005,429
<b>Total assets</b>	<b>9,521,633</b>
<b>Liabilities</b>	
Accounts payable	20,000
Accrued expenses payable	12,283
Accrued interest payable	322,748
Non-current liabilities:	
Due within one year	385,000
Due in more than one year	14,230,000
<b>Total liabilities</b>	<b>14,970,031</b>
<b>Net position</b>	
Net investment in capital assets	(2,039,927)
Restricted for:	
Debt service	124,782
Unrestricted	(3,533,253)
<b>Total net position (deficit)</b>	<b>\$ (5,448,398)</b>

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

**Somerset Community Development District  
Statement of Activities**

*Year ended September 30,*

**2015**

Functions/Programs	Expenses	<u>Program Revenues</u>		Net (Expense) Revenue and Changes in <u>Net Position</u>
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary government:				
Governmental activities:				
General government	\$ (87,925)	\$ 62,086	\$ -	\$ (25,839)
Maintenance and operations	(645,205)	147,302	-	(497,903)
Interest	(785,218)	1,157,931	-	372,713
Total governmental activities	\$ (1,518,348)	\$ 1,367,319	\$ -	(151,029)

**General revenues**

Interest	147
Change in net position	(150,882)
Net position (deficit) - beginning of year	(5,297,516)
Net position (deficit) - end of year	\$ (5,448,398)

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

**Somerset Community Development District  
Balance Sheet – Governmental Funds**

September 30,

2015

	General	Debt Service	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 57,249	\$ -	\$ 57,249
Investments	-	1,446,764	1,446,764
Prepaid expenditures	12,191	-	12,191
Due from other funds	3,231	-	3,231
<b>Total assets</b>	<b>\$ 72,671</b>	<b>\$ 1,446,764</b>	<b>\$ 1,519,435</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 20,000	\$ -	\$ 20,000
Accrued expenditures payable	12,283	-	12,283
Due to other funds	-	3,231	3,231
<b>Total liabilities</b>	<b>32,283</b>	<b>3,231</b>	<b>35,514</b>
<b>Fund balances</b>			
Nonspendable	12,191	-	12,191
Restricted for debt service	-	1,443,533	1,443,533
Assigned for capital reserves	10,024	-	10,024
Unassigned	18,173	-	18,173
<b>Total fund balances</b>	<b>40,388</b>	<b>1,443,533</b>	<b>1,483,921</b>
<b>Total liabilities and fund balances</b>	<b>\$ 72,671</b>	<b>\$ 1,446,764</b>	<b>\$ 1,519,435</b>

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

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

<i>September 30,</i>	<b>2015</b>
Total fund balances, governmental funds	\$ 1,483,921
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.	8,005,429
Liabilities not due and payable from current resources, including accrued interest, are not reported in the fund financial statements.	(14,937,748)
Total net position (deficit) - governmental activities	\$ (5,448,398)

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

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

Year ended September 30,

2015

	General	Debt Service	Total Governmental Funds
<b>Revenues</b>			
Assessments	\$ 209,388	\$ 1,157,931	\$ 1,367,319
Interest	147	-	147
Total revenues	209,535	1,157,931	1,367,466
<b>Expenditures</b>			
Current:			
General government	87,925	-	87,925
Maintenance and operations	208,604	-	208,604
Debt service:			
Principal	-	365,000	365,000
Interest	-	793,278	793,278
Total expenditures	296,529	1,158,278	1,454,807
Excess (deficit) of revenues over expenditures	(86,994)	(347)	(87,341)
Fund balances, beginning of year	127,382	1,443,880	1,571,262
Fund balances, end of year	\$ 40,388	\$ 1,443,533	\$ 1,483,921

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



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

<i>Year ended September 30,</i>	<b>2015</b>
Net change in fund balances - governmental funds	\$ (87,341)
Depreciation on capital assets is not recognized in the fund financial statements but is reported as an expense in the Statement of Activities.	(436,601)
Governmental funds report principal payments on bonds when debt is paid, whereas these payments are eliminated in the Statement of Activities and recognized as a decrease in bonds payable in the Statement of Net Position.	365,000
The change in accrued interest between the current and prior year is recorded on the Statement of Activities but not on the fund financial statements.	8,060
Change in net position of governmental activities	\$ (150,882)

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

## Somerset Community Development District Notes to Financial Statements

### NOTE 1 – NATURE OF ORGANIZATION

The Somerset Community Development District (the “District”) was established on April 1, 2005 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes, by Walton County Ordinance No. 05-04. The Act provides, among other things, the power to manage basic services for community development, power to borrow money and issue bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure.

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

The District is governed by a Board of Supervisors (“Board”), which is comprised of five members. The Supervisors are elected on an at large basis by landowners of the District. As of September 30, 2015, certain Supervisors were affiliated with the Developer of the community, EBSCO Gulf Coast Development, Inc. The Board of Supervisors of the District exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes.

The Board has the final responsibility for:

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

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

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### ***Government-wide and Fund Financial Statements***

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

## Somerset Community Development District Notes to Financial Statements

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by assessments, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The business-type activities are reported separately in government-wide financial statements; however, at September 30, 2015, the District did not have any significant business-type activities. Therefore, no business-type activities are reported. Assessments and other items not properly included as program revenues (i.e., charges to customers or applicants who purchase, use, or directly benefit from goods or services) are reported as general revenues.

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

#### ***Measurement Focus, Basis of Accounting and Basis of Presentation***

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

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

Assessments, including debt service assessments along with operation and maintenance assessments, are non-ad valorem special assessments imposed on all lands located within the District and benefited by the District's activities, operation and maintenance. Operation and maintenance assessments are levied and certified for collection and debt assessments are certified for collection by the District prior to the start of the fiscal year which begins October 1<sup>st</sup> and ends on September 30<sup>th</sup>. Operation and maintenance special assessments are imposed upon all benefited lands located in the District. Debt service special assessments are imposed upon certain lots and lands as described in each resolution imposing the special assessment for each series of bonds issued by the District.

## Somerset Community Development District Notes to Financial Statements

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The District reports the following major governmental funds:

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

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

For the year ended September 30, 2015, the District does not report any proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use in the governmental fund financial statements, it is the government's policy to use committed resources first, followed by assigned resources, then unassigned resources as needed.

#### ***Cash, Deposits and Investments***

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

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

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

## Somerset Community Development District Notes to Financial Statements

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### ***Capital Assets***

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

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

Property, plant and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives: erosion control structures: 25 years; surface water treatment: 25 years.

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

#### ***Estimates***

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

#### ***Long-Term Obligations***

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

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

## Somerset Community Development District Notes to Financial Statements

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### ***Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any of this type of item at September 30, 2015.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any of this type of item at September 30, 2015.

#### ***Fund Equity***

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

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

#### ***Budgets***

The District is required to establish a budgetary system and an approved annual budget. Annual budgets are legally adopted on a basis consistent with GAAP for the General Fund. Certain revisions to the budget must be approved by the District Board. The budgets are compared to actual expenditures. In instances where budget appropriations and estimated revenues have been revised during the year, budget data presented in the financial statements represent final authorization amounts. During fiscal year ended September 30, 2015, actual expenditures exceeded budgeted appropriations.

## Somerset Community Development District Notes to Financial Statements

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

### NOTE 3 – INVESTMENTS

All investments held at September 30, 2015 are reported at fair value based on quoted market prices, which approximates amortized cost. The following is a summary of the District's investments:

<i>September 30,</i>	<b>2015</b>	<b>Credit Risk</b>	<b>Maturities</b>
Short-term Money Market Funds	\$ 1,446,764	S&P AAAM	43 days
<b>Total investments</b>	<b>\$ 1,446,764</b>		

*Custodial credit risk* – For an investment, custodial credit risk is the risk that the District will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The District has no formal policy for custodial risk. At September 30, 2015, the money market funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

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

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

## Somerset Community Development District Notes to Financial Statements

### NOTE 4 – CAPITAL ASSETS

The following is a summary of changes in the capital assets for the year ended September 30, 2015:

	Beginning Balance	Additions	Transfers and Conveyances	Ending Balance
<b>Governmental Activities:</b>				
<i>Capital assets being depreciated</i>				
Erosion control structures	\$ 933,321	\$ -	\$ -	\$ 933,321
Surface water treatment	9,981,717	-	-	9,981,717
<b>Total capital assets, being depreciated</b>	<b>10,915,038</b>	<b>-</b>	<b>-</b>	<b>10,915,038</b>
<i>Less accumulated depreciation</i>				
Erosion control structures	261,331	37,333	-	298,664
Surface water treatment	2,211,677	399,268	-	2,610,945
<b>Total accumulated depreciation</b>	<b>2,473,008</b>	<b>436,601</b>	<b>-</b>	<b>2,909,609</b>
<b>Total capital assets, being depreciated, net</b>	<b>8,442,030</b>	<b>(436,601)</b>	<b>-</b>	<b>8,005,429</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 8,442,030</b>	<b>\$ (436,601)</b>	<b>\$ -</b>	<b>\$ 8,005,429</b>

Depreciation expense of \$436,601 was allocated to maintenance and operations on the accompanying Statement of Activities.

### NOTE 5 – BONDS PAYABLE

On July 12, 2005, the District issued \$21,045,000 of Capital Improvement Revenue Bonds, Series 2005 consisting of \$2,875,000 Series 2005 Term Bonds and \$18,170,000 of Series 2005 Term Bonds with a fixed interest rate of 5% and 5.3%, and maturing May 1, 2015 and May 1, 2037, respectively. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the property within the District. Interest is paid semiannually on each May 1 and November 1. Principal is paid serially commencing on May 1, 2008 through May 1, 2037.

The 2005 Bonds maturing in May 2037 may, at the option of the District, be called for redemption as a whole, at any time, or in part on any interest payment date on or after May 1, 2015 at a redemption price set forth in the Bond Indenture.

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



## Somerset Community Development District Notes to Financial Statements

### NOTE 5 – BONDS PAYABLE (CONTINUED)

The Bond Indentures require that the District maintain adequate funds in reserve accounts to meet the debt service reserve requirements as defined in the Indentures. The requirements have been met for the fiscal year ended September 30, 2015.

Long-term liability activity for the year ended September 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities</i>					
Bonds Payable:					
Series 2005	\$ 14,980,000	\$ -	\$ (365,000)	\$ 14,615,000	\$ 385,000

The remaining scheduled debt service requirements on long-term debt are as follows:

<i>Year Ending September 30,</i>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>
2016	\$ 385,000	\$ 773,933	\$ 1,158,933
2017	380,000	754,190	1,134,190
2018	400,000	734,050	1,134,050
2019	425,000	712,850	1,137,850
2020	445,000	690,325	1,135,325
2021 - 2025	2,615,000	3,071,085	5,686,085
2026 - 2030	3,410,000	2,298,610	5,708,610
2031 - 2035	4,445,000	1,290,550	5,735,550
2036 - 2037	2,110,000	168,540	2,278,540
	\$ 14,615,000	\$ 10,494,133	\$ 25,109,133

### NOTE 6 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District maintains commercial insurance coverage to mitigate the risk of loss. Coverage may not extend to all situations. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. The District has not filed any claims under this commercial coverage during the last three years.



## Somerset Community Development District Notes to Financial Statements

### NOTE 7 – MANAGEMENT COMPANY

The District has contracted with a management company to perform management advisory services, which include financial and accounting advisory services. Certain employees of the management company also serve as officers (Board appointed non-voting positions) of the District. Under the agreement, the District compensates the management company for management, accounting, financial reporting, and other administrative costs.

### NOTE 8 – RELATED PARTY TRANSACTIONS

During the year ended September 30, 2015, the District directly assessed the Developer \$142,927 and \$790,396 for the General and Debt Service Funds, respectively. In addition, the Developer was assessed \$38,146 and \$210,950 for the General and Debt Service Funds, respectively, through the local tax collector.

During the year ended September 30, 2015, the District incurred \$198,473 in landscape and other miscellaneous maintenance expenses with Alys Beach Neighborhood Association, Inc. (the "Association"), the homeowners association located in the District. At September 30, 2015, the District owed the Association approximately \$25,000, which is included in Accounts payable and Accrued expenditures payable on the accompanying Statement of Net Position and Balance Sheet – Governmental Funds.

A significant portion of the District's activity is dependent upon the continued involvement of the Developer, the loss of which could have a material adverse effect on the District's operations.



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

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

<i>Year ended September 30,</i>	<b>2015</b>		
	<b>Original and Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
<b>Revenues</b>			
Assessments	\$ 207,874	\$ 209,388	\$ 1,514
Interest	-	147	147
<b>Total revenues</b>	<b>207,874</b>	<b>209,535</b>	<b>1,661</b>
<b>Expenditures</b>			
General government	96,550	87,925	8,625
Maintenance and operations	136,324	208,604	(72,280)
<b>Total expenditures</b>	<b>232,874</b>	<b>296,529</b>	<b>(63,655)</b>
Excess (deficit) of revenues over expenditures	(25,000)	(86,994)	(61,994)
Fund balance, beginning of year	25,000	127,382	102,382
Fund balance, end of year	\$ -	\$ 40,388	\$ 40,388



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

To the Board of Supervisors  
Somerset Community Development District  
Walton County, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Somerset Community Development District (hereinafter referred to as the “District”), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated January 13, 2016.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Cary Riggs & Ingram, L.L.C.*

Miramar Beach, Florida  
January 13, 2016

## MANAGEMENT LETTER

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To the Board of Supervisors  
Somerset Community Development District  
Walton County, Florida

### Report on the Financial Statements

We have audited the financial statements of Somerset Community Development District (“District”) as of and for the fiscal year ended September 30, 2015, and have issued our report thereon dated January 13, 2016.

### 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 Florida Auditor General.

### Other Reports and Schedule

We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountant’s Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in these reports, which are dated January 13, 2016, should be considered in conjunction with this management letter.

### Prior Audit Findings

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

### Official Title and Legal Authority

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

## **Financial Condition**

Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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

## **Annual Financial Report**

Sections 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, requires that we determine whether the annual financial report for the District for the fiscal year ended September 30, 2015, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2015. In connection with our audit, we determined that these two reports were in agreement.

## **Other Matters**

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

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

## **Purpose of this Letter**

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

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

Miramar Beach, Florida  
January 13, 2016





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## INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Supervisors  
Somerset Community Development District  
Walton County, Florida

We have examined Somerset Community Development District's compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended September 30, 2015. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2015.

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

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

Miramar Beach, Florida  
January 13, 2016