

LELY COMMUNITY DEVELOPMENT DISTRICT

FINANCIAL STATEMENTS

FISCAL YEAR ENDED SEPTEMBER 30, 2016

LELY COMMUNITY DEVELOPMENT DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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March 10, 2017

To the Board of Supervisors
LELY COMMUNITY DEVELOPMENT DISTRICT
Naples, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and its general fund of LELY COMMUNITY DEVELOPMENT DISTRICT as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 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 its general fund of LELY COMMUNITY DEVELOPMENT DISTRICT as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 27 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 March 10, 2017 on our consideration of the LELY COMMUNITY DEVELOPMENT 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 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 LELY COMMUNITY DEVELOPMENT DISTRICT's internal control over financial reporting and compliance.


PHILLIPS HARVEY GROUP, P.A.
Certified Public Accountants
Naples, Florida

LELY COMMUNITY DEVELOPMENT DISTRICT

SEPTEMBER 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview and History

The LELY COMMUNITY DEVELOPMENT DISTRICT (the "District") has prepared the following Management Discussion and Analysis (the "MD&A"), which presents an overview of the District's financial activities for the fiscal year ended September 30, 2016. Please read it in conjunction with the letter of transmittal in the introductory section, and the District's audited financial statements following the MD&A.

The LELY COMMUNITY DEVELOPMENT DISTRICT is a special purpose unit of government created in 1991 under Florida Statute Chapter 190. The purpose of Community Development Districts throughout Florida is to provide a uniform method for financing and maintaining public services and capital assets. Special Districts frequently substitute or "stand-in" for general-purpose governments when their priorities would not otherwise provide for these public facilities in Master Planned Communities.

Financial Highlights

- Net position at September 30, 2016 was \$12,597,800.
- Fund balance on hand at September 30, 2016 totaled \$2,033,373 in the General Fund.
- Although there were no instances of non-compliance or material weaknesses noted within the compliance report, there was an identified significant deficiency in internal control for which a required response was provided.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components:

- 1) government-wide financial statements
- 2) fund financial statements
- 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements, which consist of the following two statements, are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Increases or decreases in net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during fiscal year 2016. All changes in net position are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected but earned, and unused vacation leave).

LELY COMMUNITY DEVELOPMENT DISTRICT

SEPTEMBER 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-Wide Financial Statements (Continued)

Both of these financial statements distinguish functions of the District that are principally supported by non-ad valorem assessments, intergovernmental and miscellaneous revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. Examples of these would include the sale of irrigation meters and community service fees. The governmental activities of the District include general government, and community services. The government-wide financial statements can be found immediately following the MD&A.

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

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

The government-wide financial statements and the fund financial statements provide different pictures of the District. The government-wide financial statements provide an overall picture of the District's financial standing. These statements are comparable to private-sector companies and give a good understanding of the District's overall financial health and how the District paid for the various activities, or functions, provided by the District. All assets of the District, including buildings, land, roads, bridges, and traffic signals are reported in the statement of net position. All liabilities, including principal outstanding on bonds, obligated but not paid by the District, are included. The statement of activities includes depreciation on all long lived assets of the District, but transactions between the different functions of the District have been eliminated in order to avoid "doubling up" the revenues and expenses. The fund financial statements provide a picture of the major funds of the District, which is the General Fund as of September 30, 2016. In the case of governmental activities, outlays for long lived assets are reported as expenditures and long-term liabilities, such as general obligation bonds, are not included in the fund financial statements. To provide a link from the fund financial statements to the government-wide financial statements, a reconciliation is provided from the fund financial statements to the government-wide financial statements.

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

Analysis of Fund Balances FY 2015-2016

The general fund balance of the District at the end of 2015 was \$1,626,478. The general fund balance as of September 30, 2016 was \$2,033,373 or an increase of \$406,895.

FY 2016 Final Budget Amendment

The following year-end adjustments for budgeted revenues and expenditures have been prepared from audited statements.

LELY COMMUNITY DEVELOPMENT DISTRICT

SEPTEMBER 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

FY 2016 Final Budget Analysis

| <u>GENERAL FUND</u> | <u>Original Budget</u> | <u>Final Budget</u> |
|--|-------------------------------|----------------------------|
| <u>Revenue</u> | | |
| Non Ad-Valorem Assessments | \$ 1,954,188 | \$ 1,954,188 |
| Comprehensive Service Agreement Fees | 760,000 | 760,000 |
| Interest Income | 2,000 | 2,000 |
| Miscellaneous Revenues | <u>26,800</u> | <u>26,800</u> |
| Total Revenues | <u>2,742,988</u> | <u>2,742,988</u> |
| <u>Expenditures</u> | | |
| General Government | 390,675 | 390,675 |
| Community Services | <u>2,090,100</u> | <u>2,090,100</u> |
| Total Expenditures | <u>2,480,775</u> | <u>2,480,775</u> |
| <u>Capital Outlay</u> | <u>277,213</u> | <u>277,213</u> |
| Total Expenditures | <u>2,757,988</u> | <u>2,757,988</u> |
| (Deficiency) of revenues over expenditures | (15,000) | (15,000) |
| <u>Other</u> | | |
| Sale of Capital Assets | <u>15,000</u> | <u>15,000</u> |
| Net change in Fund Balance | <u>\$ 0</u> | <u>\$ 0</u> |

LELY COMMUNITY DEVELOPMENT DISTRICT

SEPTEMBER 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset Balances

The following schedule provides a summary of the District's capital asset balances at September 30, 2015 and 2016.

| Description | Governmental Activities | | Percent Change |
|--------------------------------|--------------------------------|----------------------|-----------------------|
| | 2015 | 2016 | |
| Land and Lake Improvements | \$ 407,343 | \$ 407,343 | 0% |
| Automobiles and Equipment | 1,362,224 | 1,400,353 | 3% |
| Artwork | 1,469,100 | 1,469,100 | 0% |
| Building | 689,024 | 689,024 | 0% |
| Infrastructure | 19,391,294 | 19,360,688 | 0% |
| | 23,318,985 | 23,326,508 | 0% |
| Less: Accumulated Depreciation | (12,450,287) | (12,751,300) | 2% |
| Construction in progress | 5,760 | 0 | |
| Total Capital Assets, Net | <u>\$ 10,874,458</u> | <u>\$ 10,575,208</u> | -3% |

Debt Management

The balance outstanding as of September 30, 2016 was \$0 as the District's bonds have been paid off.

Economic Factors and Next Year's Budget

Lely Community Development District does not expect any economic factors to have a significant effect on the financial position or operations of the District in fiscal year 2016.

Change in General Fund Balances

| | 2015 | 2016 | Percent Change |
|---------------------------------------|---------------------|---------------------|-----------------------|
| <u>Program Revenues</u> | | | |
| Non Ad-Valorem Assessments | \$ 1,949,128 | \$ 1,948,304 | 0% |
| Comprehensive Services Agreement Fees | 781,855 | 922,036 | 18% (A) |
| Miscellaneous Revenue | 69,138 | 48,939 | -29% (B) |
| | 2,447 | 7,439 | 204% (C) |
| | <u>2,802,568</u> | <u>2,926,718</u> | 4% |
| <u>Expenses</u> | | | |
| General Government | 574,563 | 560,984 | -2% |
| Community Services | 1,798,582 | 1,650,482 | -8% |
| Capital Outlay | 260,058 | 333,008 | 28% (D) |
| Total Expenses | 2,633,203 | 2,544,474 | -3% |
| Other Financing Sources (Uses): | | | |
| Sale of Assets | 16,850 | 24,651 | 46% |
| Net Change in Fund Balances | 186,215 | 406,895 | 119% |
| Fund Balances – Beginning of Year | 1,440,263 | 1,626,478 | 13% |
| Fund Balances – Ending of Year | <u>\$ 1,626,478</u> | <u>\$ 2,033,373</u> | 25% |

LELY COMMUNITY DEVELOPMENT DISTRICT

SEPTEMBER 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Change in General Fund Balances (Continued)

- (A) The increase was due to additional units being completed by the developer as well as the completion of an assisted living facility.
- (B) The decrease was due to a one-time refund from a vendor received in the prior year.
- (C) The increase was due to a change of the District's financial institution which was paying higher interest rates.
- (D) The increase was due to a street light replacement project.

Financial Analysis of the District

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

Net Position

| | Governmental Funds | | Percent Change |
|----------------------------|---------------------------|----------------------|---------------------------|
| | 2015 | 2016 | |
| <u>Assets</u> | | | |
| Current Assets | \$ 1,822,313 | \$ 2,270,749 | 25% (A) |
| Restricted Assets | 0 | 0 | 0% |
| Capital Assets | <u>10,874,458</u> | <u>10,575,208</u> | -3% |
| Total Assets | <u>12,696,771</u> | <u>12,845,957</u> | 1% |
| <u>Liabilities</u> | | | |
| Current Liabilities | 195,835 | 237,376 | 21% (B) |
| Non-Current Liabilities | <u>5,966</u> | <u>10,781</u> | 81% |
| Total Liabilities | <u>201,801</u> | <u>248,157</u> | 23% |
| <u>Net Position</u> | | | |
| Invested in Capital | | | |
| Assets, Net of Debt | 10,874,458 | 10,575,208 | -3% |
| Unrestricted | <u>1,620,512</u> | <u>2,022,592</u> | 25% (A) |
| Total Net Position | <u>\$ 12,494,970</u> | <u>\$ 12,597,800</u> | 1% |

(A) The increase was due to a larger cash position at year-end due to an increase in revenue from the Comprehensive Service Agreement Fees.

(B) The increase was due to outstanding legal fees for ongoing litigation with the Lely Master Property POA and Stock Development.

LELY COMMUNITY DEVELOPMENT DISTRICT

SEPTEMBER 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the District (Continued)

| | <u>Governmental Activities</u> | | <u>Percent Change</u> |
|---------------------------------------|--------------------------------|----------------------|---------------------------|
| | <u>2015</u> | <u>2016</u> | |
| Program Revenues | | | |
| Charges for services | \$ 2,730,982 | \$ 2,870,340 | 5% |
| General Revenues | | | |
| Interest Income | 2,447 | 7,439 | 204% |
| Gain (Loss) on sale of capital assets | 10,856 | (79,411) | -831% (A) |
| Miscellaneous | 69,138 | 48,939 | -29% (B) |
| Total Revenues | <u>2,813,423</u> | <u>2,847,307</u> | 1% |
| Expenses | | | |
| General government | 575,814 | 560,984 | -3% |
| Community services | <u>2,316,946</u> | <u>2,183,493</u> | -6% |
| Total Expenses | <u>2,892,760</u> | <u>2,744,477</u> | -5% |
| Change in Net Position | (79,337) | 102,830 | -230% |
| Net Position - Beginning of Year | <u>12,574,307</u> | <u>12,494,970</u> | -1% |
| Net Position - End of Year | <u>\$ 12,494,970</u> | <u>\$ 12,597,800</u> | 1% |

(A) The decrease was due to the disposal of old street lights as part of the street light replacement project.

(B) The decrease was due to a one-time refund from a vendor received in the prior year.

Conclusion

If you upon review of the above have any questions or concerns, please do not hesitate to contact me at (239) 592-9115.

Sincerely,

W. Neil Dorrill

W. Neil Dorrill, District Manager
Lely Community Development District

cc: Supervisors

BASIC FINANCIAL STATEMENTS

LELY COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF NET POSITION

SEPTEMBER 30, 2016

ASSETS

| | |
|--|-----------------------|
| Cash | \$ 2,247,113 |
| Investments | 97 |
| Receivables | 21,154 |
| Deposits | 2,385 |
| Capital assets: | |
| Nondepreciable assets: | |
| Artwork – horses (Note 4) | 1,400,000 |
| Depreciable assets, net of accumulated depreciation: | |
| Infrastructure assets | 8,207,037 |
| Building | 426,886 |
| Automobiles and equipment | 457,002 |
| Artwork | 1,688 |
| Land and lake improvements | <u>82,595</u> |
| Total capital assets, net (Note 4) | <u>10,575,208</u> |
| Total assets | <u>12,845,957</u> |

LIABILITIES

| | |
|------------------------------------|--------------------|
| Accounts payable | 219,558 |
| Accrued liabilities (Note 5) | 17,178 |
| Due to pension fund | 640 |
| Compensated absences (Note 6): | |
| Expected to be paid after one year | <u>10,781</u> |
| Total liabilities | <u>248,157</u> |

NET POSITION

| | |
|------------------------------|--------------------------|
| Investment in capital assets | 10,575,208 |
| Unrestricted | <u>2,022,592</u> |
| Total net position | <u>\$ 12,597,800</u> |

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

LELY COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Charges for Services</u> | <u>Net (Expenses) Revenue and Changes in Net Position Governmental Activities</u> |
|--|------------------------|------------------------------------|--|
| Primary Government: | | | |
| Governmental activities: | | | |
| General government | \$ 560,984 | \$ 377,334 | \$ (183,650) |
| Community services | <u>2,183,493</u> | <u>2,493,006</u> | <u>309,513</u> |
| Total governmental activities | <u>2,744,477</u> | <u>2,870,340</u> | <u>125,863</u> |
| General revenues and (expenses): | | | |
| Interest income | | | 7,439 |
| Miscellaneous | | | 48,939 |
| Net loss on disposal of capital assets | | | <u>(79,411)</u> |
| Net general (expenses) | | | <u>(23,033)</u> |
| Change in net position | | | 102,830 |
| Net position, September 30, 2015 | | | <u>12,494,970</u> |
| Net position, September 30, 2016 | | | <u>\$ 12,597,800</u> |

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

LELY COMMUNITY DEVELOPMENT DISTRICT
BALANCE SHEET - GOVERNMENTAL FUND (GENERAL FUND)
SEPTEMBER 30, 2016

| <u>ASSETS</u> | <u>GENERAL FUND</u> |
|--|----------------------------|
| Cash (Note 3) | \$ 2,247,113 |
| Investments (Note 3) | 97 |
| Receivables | 21,154 |
| Deposits | <u>2,385</u> |
| Total Assets | <u>\$ 2,270,749</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | |
| Liabilities: | |
| Accounts payable | \$ 219,558 |
| Accrued liabilities (Note 5) | 17,178 |
| Due to pension fund | <u>640</u> |
| Total Liabilities | <u>237,376</u> |
| Fund Balance (Note 8): | |
| Non-spendable | 2,385 |
| Restricted | 0 |
| Assigned | 216,828 |
| Unassigned | <u>1,814,160</u> |
| Total Fund Balance | <u>2,033,373</u> |
| Total Liabilities and Fund Balance | <u>\$ 2,270,749</u> |
| Amounts reported for governmental activities in the statement of net position are different because (Note 2): | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the general fund. | 10,575,208 |
| Long-term liabilities, including compensated absences, are due and payable in the current period and therefore are not reported in the general fund. | <u>(10,781)</u> |
| Net position of governmental activities | <u>\$ 12,597,800</u> |

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

LELY COMMUNITY DEVELOPMENT DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND (GENERAL FUND)**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | <u>GENERAL FUND</u> |
|---|---------------------|
| Revenues: | |
| Non ad-valorem assessments and fees | \$ 1,948,304 |
| Comprehensive service agreement fees (Note 9) | 922,036 |
| Interest income | 7,439 |
| Miscellaneous revenues | <u>48,939</u> |
| Total Revenues | <u>2,926,718</u> |
| Expenditures: | |
| Current: | |
| General government | 560,984 |
| Community services | 1,650,482 |
| Capital outlay | <u>333,008</u> |
| Total Expenditures | <u>2,544,474</u> |
| Excess of revenues over expenditures | 382,244 |
| Other financing sources: | |
| Sale of assets | <u>24,651</u> |
| Total other financing sources | <u>24,651</u> |
| Net change in fund balance | 406,895 |
| Fund Balance, September 30, 2015 | <u>1,626,478</u> |
| Fund Balance, September 30, 2016 | <u>\$ 2,033,373</u> |

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

LELY COMMUNITY DEVELOPMENT DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND (GENERAL FUND)
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Amounts reported for governmental activities in the statement of activities (page 10) are different because:

| | |
|--|-------------------|
| Net change in fund balance - total governmental funds (page 12) | \$ 406,895 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period. | (195,188) |
| Some expenses reported in the statement of activities including the loss on the disposal of capital assets and sick leave expense do not require the use of current financial resource and therefore, are not reported as expenditures in the governmental fund. | <u>(108,877)</u> |
| Change in net position of governmental activities (page 10) | <u>\$ 102,830</u> |

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

LELY COMMUNITY DEVELOPMENT DISTRICT
AGENCY FUND STATEMENT - PENSION FUND
SEPTEMBER 30, 2016

ASSETS

| | |
|-----------------------|-----------------|
| Investments | \$ 3,383 |
| Due from general fund | <u>640</u> |
| Total assets | <u>\$ 4,023</u> |

LIABILITIES

| | |
|---------------------------------------|-----------------|
| Funds held in trust for beneficiaries | <u>\$ 4,023</u> |
| Total liabilities | <u>\$ 4,023</u> |

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

LELY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Lely Community Development District ("the District") was created on January 10, 1991 pursuant to the Uniform Community Development District Act of 1980, Chapter 190, Florida Statutes, as amended (the "Act"), as a Community Development District and operates within the criteria established. The District was established for the purposes of financing and managing the acquisition, construction, maintenance and operation of the infrastructure necessary for community development within its jurisdiction. The District is authorized to issue bonds for the purpose, among others, of financing, funding, planning, establishing, acquiring, constructing or re-constructing, enlarging or extending, equipping, operating and maintaining water management, water supply, sewer and waste water management, bridges or culverts, district roads, landscaping, street lights and other basic infrastructure projects within or without the boundaries of the Lely Community Development District. The District is governed by a five-member Board of Supervisors, who are elected on a rotating basis for terms from two to four years.

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.

The District's financial statements include both government wide and a fund financial statements:

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes are reported separately from *business-type activities* of which the District had no such activities during the year. For the most part, the effect of inter-fund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for the District's governmental fund and its fiduciary fund, even though the latter is excluded from the government-wide financial statements. The District's general fund is classified as a governmental fund and is reported as a major individual fund.

LELY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items if any, are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government 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. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payments is due. The primary revenue sources that are susceptible to accrual are non ad-valorem taxes and interest. Other receipts and fees become measurable and available when cash is received by the District and are recognized as revenue at that time.

The District has one major governmental fund:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Additionally, the government reports the following fund type:

Pension Trust Fund - The Pension Trust Fund accounts for assets held in a trustee capacity and accumulates resources for pension benefit payments to qualified employees.

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.

Assessments

Non ad-valorem assessments are assessments on all property benefited within the District. Such assessments are levied each November 1. The fiscal year for which the non ad-valorem assessments are levied begins on October 1 with a maximum discount available for payments through November 30 and becomes delinquent on April 1. The Collier County, Florida Tax Collector's Office bills and collects these assessments, as part of the property's annual tax levy, on behalf of the District.

No allowance for losses has been recorded since the District considers all amounts to be fully collectible.

LELY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Process

The General Fund budget and amendments, if any, are approved by the Board of Supervisors. The General Fund budget is prepared on the cash basis, which is considered not to be materially different from the modified accrual basis in accordance with U.S. generally accepted accounting principles. The General Fund budget amounts presented in the accompanying basic financial statements are as originally adopted, unless subsequently amended, by the District's Board of Supervisors. Budgetary control is established by the District through the appropriated budget for the General Fund.

The annual budget serves as the legal authorization for expenditures. Expenditures cannot legally exceed the total amount budgeted. All budget amendments, which change the legally adopted total appropriation, are approved by the Board of Supervisors. Appropriations lapse at the year-end.

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

- a) Each year the District Manager submits to the District Board a proposed operating General Fund budget for the fiscal year commencing the following October 1.
- b) A public hearing is conducted to obtain taxpayer comments.
- c) Prior to September 1, the General Fund budget is legally adopted by the District Board.
- d) All budget changes must be approved by the District's Board.
- e) The General Fund budget is adopted on a basis consistent with U.S. generally accepted accounting principles.
- f) Unused appropriation for annually budgeted funds lapse at the end of the fiscal year.

Due to and From Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by funds affected in the period in which transactions are executed. There were outstanding amounts due to and from other funds at September 30, 2016.

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Governmental Fund Type

The budget column of this statement is prepared from the District's adopted annual budget, as amended during the year, which reflects budgeted revenues and expenditures in total for all governmental fund types on a cash basis which is comparable to the modified accrual basis of accounting for the year ended September 30, 2016. Appropriations lapse at year-end.

LELY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are reported and are equal or equivalent to fair market value. Florida Statutes allows the District to invest surplus funds in:

- a) The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in s.163.01.
- b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- c) Interest-bearing time deposits or savings accounts in qualified public depositories, as defined in s. 280.02.
- d) Direct obligations of the U.S. Treasury.

Certain funds are invested with the State Board of Administration of Florida in the Local Government Surplus Funds Trust Fund Investment Pool (2a-7 Pool). These funds (2a-7 Pool) are reported at its fair value of its position in the pool which is the same as its value of pool shares.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items, when applicable, in both the government-wide and fund financial statements.

Payables and Accruals

Such payable and accrual amounts are recorded as expenses and liabilities when incurred in the government wide financial statements and as expenditures and liabilities in the fund financial statements when expected to be liquidated with available expendable financial resources.

Capital Assets

Capital assets, which include infrastructure assets, building, automobiles and equipment, artwork, and land and lake improvements, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

In the case of initial capitalization of non-infrastructure District capital assets, the District was able to use historical cost and original purchase date for all such assets. As the District constructs or acquires additional capital assets each period, such assets are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life. In the case of donations, the District values these capital assets at the estimated fair value of the item at the date of donation. There were no donated assets during the year, see Note 4.

LELY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

In the case of the initial capitalization of general infrastructure assets, (i.e., those reported by governmental activities), the District chose to include all such items regardless of their acquisition date or amount, with the exception of certain infrastructure conveyed to Collier County for future maintenance purposes. The District was able to quantify the initial GASB 34 reporting of such infrastructure assets through original engineering reports utilized when constructing the infrastructure of the District. As the District constructs or acquires additional infrastructure assets, such assets are capitalized and reported at historical cost.

Infrastructure assets, building, automobiles and equipment, artwork, and land and lake improvements of the District are depreciated using the straight line method over the following estimated useful lives.

| | <u>YEARS</u> |
|----------------------------|---------------------|
| Infrastructure assets | 10 - 50 |
| Building | 20 - 39 |
| Automobiles and equipment | 3 - 15 |
| Artwork | 7 |
| Land and lake improvements | 20 - 30 |

Long-Term Obligations

In the government-wide financial statements, long-term debt, if any, and other long-term obligations are reported as liabilities in the Statement of Net Position. Related interest is expensed in the accompanying Statement of Activities. In the fund financial statements, the face amount of debt issued if any, is reported as other financing sources in the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund. There was no debt nor was there any new debt issued during the year. Also, in the fund financial statements, when applicable, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. Issuance costs are reported as debt service expenditures. 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. Related principal and interest payments are reported as expenditures in such Statement.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section of deferred outflow 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 has no items that qualify for reporting in this category for the year ended September 30, 2016.

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 has no items that qualify for reporting in this category for the year ended September 30, 2016.

LELY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

The District's employees earn vacation which must be taken by the end of each fiscal year with the exception of employees with five years of service. Such employees can carry over a maximum of 40 hours of unused vacation time to the following fiscal year. Unused vacation time is not paid upon termination or retirement. Unused sick leave accumulates and is paid to employees with ten years of continuous service upon termination or retirement at 50% of amount accumulated up to 1,400 hours.

Fund Equity

The District implemented GASB 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. Fund balance classifications, under GASB 54, are: Non-spendable, Restricted, Committed, Assigned and Unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restrictions placed upon fund balance. Fund balance can have different levels of restraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance. For further details of various fund balance classifications refer to Note 8. Net Position in the government-wide statements are categorized as investment in capital assets, restricted or unrestricted. Investment in capital assets represents net position related to capital assets and any related deferred inflows or outflows. Restricted net position, if any, represents in the assets restricted by the District's bond covenants net accrued interest payable.

Risk Management

The District is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Insurance coverage for such losses is purchased from third-party carriers. The financial impact of the District's risk management activities are reported in the general fund. For the fiscal year ended September 30, 2016 the District paid \$88,612 to third-party carriers to insure for these purposes. There has been no reduction in coverage from the prior year. 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 the year. No accrual has been provided for claims and incidents not reported to the insurer. Claims made have not exceeded the insurance coverage for the current year.

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 expenditures during the reporting period. Actual results could differ from those estimates.

LELY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the government-wide statement of net position and the governmental fund balance sheet

Capital Assets, Net:

The government fund balance sheet includes a reconciliation between *fund balance - total governmental fund* and *net position - governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the General Fund." The details of this \$10,575,208 difference are as follows:

| | |
|---|----------------------|
| Total historical cost of capital assets at September 30, 2016 (see Note 4) | \$ 23,326,508 |
| Accumulated depreciation at September 30, 2016 (see Note 4) | <u>(12,751,300)</u> |
| Net adjustment to increase <i>fund balance - total governmental fund</i> to arrive at <i>net position - governmental activities</i> | <u>\$ 10,575,208</u> |

Explanation of certain differences between the government-wide statement of net position and the governmental fund balance sheet (Continued)

Long-Term Debt and other liabilities:

Another element of that reconciliation explains that "long term liabilities are not due and payable in the current period and therefore are not reported in the general fund." The details of this (\$10,781) difference are as follows:

| | |
|---|--------------------|
| Compensated absences | \$ <u>(10,781)</u> |
| Net adjustment to decrease <i>fund balance - total governmental fund</i> to arrive at <i>net position - governmental activities</i> | <u>\$ (10,781)</u> |

Explanation of certain differences between the government-wide statement of activities and the governmental fund statement of revenues, expenditures, and changes in fund balance

Depreciation and Capital Outlay:

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between *net changes in fund balance - total governmental fund* and *change in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that, the "Governmental fund reports capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this (\$195,188) difference are as follows:

| | |
|--|---------------------|
| Depreciation expense (see Note 4) | \$ (528,196) |
| Capital outlay (see Note 4) | <u>333,008</u> |
| Net adjustment to decrease <i>net changes in fund balance - total governmental fund</i> to arrive at <i>changes in net position of governmental activities</i> | <u>\$ (195,188)</u> |

LELY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

(Continued)

Accrued Related Items:

Another element of that reconciliation states that, "some expenses and other items reported in the statement of activities including the loss on the disposal of capital assets and sick leave expense do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund." The details of this (\$108,877) difference are as follows:

| | |
|--|---------------------|
| Loss on disposal of capital assets, net | (104,062) |
| Net increase in accrued sick leave | <u>(4,815)</u> |
| Net adjustment to decrease <i>net changes in fund balance – total governmental fund</i> to arrive at <i>changes in net position of governmental activities</i> | <u>\$ (108,877)</u> |

NOTE 3 - CASH AND INVESTMENTS

Cash

Cash held in the general fund at September 30, 2016 consisted of the following:

| | |
|-----------------|---------------------|
| Demand Deposits | <u>\$ 2,247,113</u> |
| Total | <u>\$ 2,247,113</u> |

All deposits with banks are entirely insured by Federal Depository Insurance. 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 savings and loans are collateralized with the Treasurer as agent for the public entities.

Financial institutions qualifying as public depositories shall deposit with the Treasurer eligible collateral having a market value equal to or in excess of the average daily balance of public deposits times the depository collateral pledging level required pursuant to Chapter 280 as computed and reported monthly or 25 percent of the average monthly balance, whichever is greater. 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. Chapter 280 defines deposits as demand deposit accounts, time deposit accounts, and certificates of deposit.

At September 30, 2016, the District's bank balance and carrying amounts were \$2,259,203 and \$2,247,113, respectively. The District does not have a formal deposit policy that dictates deposits as a means of managing its exposure to losses and follows the guidance stipulated by Chapter 280 of Florida Statutes.

LELY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments

The District's investments at September 30, 2016 is in the Local Government Surplus Funds Trust Fund (labeled the Fund B Surplus Trust Fund ("Fund B")).

The Local Government Surplus Funds Trust Fund is governed by Ch. 19-7.001- through 19.7.017 of the Florida Administrative Code, which identifies the Rules of the State Board of Administration. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Funds Trust Fund. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the State Board of Administration. As of September 30, 2016, the District's investment in the SBA totaled \$97.

The District has no written and/or adopted formal investment policy and consequently adheres to the Investment Guidelines as set forth in Section 218.415 (17) of the Florida Statutes.

NOTE 4 - CAPITAL ASSETS, NET

Capital asset activity for the year ended September 30, 2016 was as follows:

| | <u>BALANCE SEPT. 30, 2015</u> | <u>ADDITIONS</u> | <u>DISPOSALS</u> | <u>BALANCE SEPT. 30, 2016</u> |
|--|---------------------------------------|---------------------|---------------------|---------------------------------------|
| <u>Governmental activities</u> | | | | |
| Capital assets, not being depreciated: | | | | |
| Artwork - horses | \$ 1,400,000 | \$ 0 | \$ 0 | \$ 1,400,000 |
| Construction in progress | 5,760 | 0 | (5,760) | 0 |
| Total capital assets, not being depreciated | <u>1,405,760</u> | <u>0</u> | <u>(5,760)</u> | <u>1,400,000</u> |
| Capital assets, being depreciated: | | | | |
| Infrastructure assets | 19,391,294 | 200,254 | (230,860) | 19,360,688 |
| Building | 689,024 | 0 | 0 | 689,024 |
| Automobiles and equipment | 1,362,224 | 138,514 | (100,385) | 1,400,353 |
| Artwork - horses | 69,100 | 0 | 0 | 69,100 |
| Land and lake improvements | 407,343 | 0 | 0 | 407,343 |
| Total capital assets, being depreciated | <u>21,918,985</u> | <u>338,768</u> | <u>(331,245)</u> | <u>21,926,508</u> |
| Less accumulated depreciation for: | | | | |
| Infrastructure assets | (10,949,636) | (342,050) | 138,035 | (11,153,651) |
| Building | (245,564) | (16,574) | 0 | (262,138) |
| Automobiles and equipment | (891,417) | (141,082) | 89,148 | (943,351) |
| Artwork | (57,541) | (9,871) | 0 | (67,412) |
| Land and lake improvements | (306,129) | (18,619) | 0 | (324,748) |
| Total accumulated depreciation | <u>(12,450,287)</u> | <u>(528,196)</u> | <u>227,183</u> | <u>(12,751,300)</u> |
| Total capital assets, being depreciated, net | <u>9,468,698</u> | <u>(189,428)</u> | <u>(104,062)</u> | <u>9,175,208</u> |
| Governmental activities capital assets, net | <u>\$ 10,874,458</u> | <u>\$ (189,428)</u> | <u>\$ (109,822)</u> | <u>\$ 10,575,208</u> |

LELY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 4 - CAPITAL ASSETS, NET (Continued)

Depreciation expense of \$528,196 was charged to Community Services program during the year in the accompanying Statement of Activities on page 10.

During 2010, sculpted bronze horses ("Artwork – horses") totaling \$1,400,000 were donated to the District by the artist. The Artwork – horses meet the criteria for classification as inexhaustible assets and are thus, not depreciated. An inexhaustible asset is a capital asset whose economic benefit or service potential is used up so slowly that its estimated useful life is extraordinary long.

NOTE 5 - ACCRUED LIABILITIES

Accrued liabilities at September 30, 2016, were comprised of the following:

Accrued wages and payroll taxes payable \$ 17,178

NOTE 6 - OTHER LONG-TERM LIABILITIES

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

| | <u>BALANCE SEPTEMBER 30, 2015</u> | <u>ADDITIONS</u> | <u>(REDUCTIONS)</u> | <u>BALANCE SEPTEMBER 30, 2016</u> | <u>DUE WITHIN ONE YEAR</u> |
|------------------------------|---|------------------|---------------------|---|------------------------------------|
| Accrued long-term sick leave | \$ 5,966 | \$ 4,815 | \$ | \$ 10,781 | \$ 0 |
| Total | <u>\$ 5,966</u> | <u>\$ 4,815</u> | <u>\$</u> | <u>\$ 10,781</u> | <u>\$ 0</u> |

NOTE 7 - EMPLOYEE BENEFIT PLAN

The District established a single employer defined contribution pension plan (the "Plan") under the authority of the Florida Statute 190-011(3). In fiscal 2004, the District froze the 401K Plan and elected not to fund future contributions to the Plan. Plan assets at September 30, 2016 at Legg Mason totaled \$3,383 and were held in a money market fund. As of September 30, 2016, \$640 was due from the General Fund relating to 2003 and 2004 matching contributions. The District expects all funds in the Plan to be fully liquidated during next year.

LELY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 8 - FUND BALANCE DISCLOSURE

In accordance with GASB No. 54, the District classifies governmental fund balances as follows:

- Non-spendable - includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual requirements.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through a formal action of the highest level of decision making authority.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned through the following:
 - (1) The District's Property Manager is authorized by the Supervisors to assign amounts for specific purpose.
 - (2) The Supervisors have authorized the District's Property Manager, in coordination with the District's auditors, to recapture excess fund balance that isn't restricted or committed and transfer the excess to the General Fund.
- Unassigned - includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned classifications. Unassigned fund balance may include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

The District uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents and /or contracts that prohibit doing this, such as grant agreements requiring certain dollars spent. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made, with the exception of the emergency reserve established by the Supervisors. Under normal circumstances, the District would first elect to utilize the Operating Reserve (Unassigned fund balance in the General Fund) before considering use of its Emergency Reserve.

The District does not have a formal minimum fund balance policy. However, the District addresses various targeted reserve positions via the annual budget process and calculates targets and actuals to report the results to the Supervisor annually.

LELY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 8 - FUND BALANCE DISCLOSURE (Continued)

A schedule of the District's general fund balance at September 30, 2016 is as follows:

| | |
|---------------------|---------------------|
| Non-spendable | \$ 2,385 |
| Restricted | 0 |
| Assigned: | |
| Contingency reserve | 100,000 |
| Capital reserve | <u>116,828</u> |
| | 216,828 |
| Unassigned | <u>1,814,160</u> |
| Total | <u>\$ 2,033,373</u> |

NOTE 9 - COMPREHENSIVE SERVICE AGREEMENT (CSA)

In 2005, the District entered into a comprehensive service agreement with Lely Resort Master Property Owners Association, Inc. ("Master Association") to provide an array of public services to Classics East and West residents and property owners located outside the current boundaries of the District. The District agreed to provide or make available the same public services to the Classics through the Master Association on the same terms and conditions that are provided to existing owners within the District. The term of this agreement is for thirty years from the date of the agreement with an option to renew for additional twenty years at the end of the original term. Pursuant to this Agreement, the Master Association agreed to pay the District a per unit annual operation and maintenance fee based on a defined formula. Total CSA fees received under this arrangement were \$922,036 during the year ended September 30, 2016. (See Note 10 regarding lawsuit).

NOTE 10 - LITIGATION AND DISPUTES

The District had been in litigation over a contractual relationship with Lely Resort Master Property Owners Association, Inc., the alter-ego of Stock Development, LLC (collectively, "the Plaintiffs"). The conflict was over the amount of prior billings for services the District has provided to residents residing outside the District under the Comprehensive Service Agreement(s) ("CSA") with Lely Resort Master Property Owners Association, Inc. Specifically, the disputes related to the actual number of residential units outside the District which receive the benefit of the CSA and the amounts previously paid. This litigation was settled through mediation in January 2017 resulting in a "global" settlement totaling \$962,500 to be paid by the District to settle "ALL" claims by the Plaintiffs. The settlement payment to Lely Resort Master Property Owners Association, Inc. was made by the District in February 2017 at which time both parties "dismissed all claims".

NOTE 11 - SUBSEQUENT EVENTS

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through March 10, 2017, the date that the financial statements were available to be issued. The following matter was identified:

As noted above in Note 10, effective January 2017, the District reached a settlement through mediation related to the ongoing lawsuit over a contractual relationship with Lely Resort Master Property Owners Association, Inc. which is the alter-ego of Stock Development, LLC and paid a settlement in February 2017 totaling \$962,500 to the Lely Resort Master Property Owners Association, Inc.

PART II. REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

LELY COMMUNITY DEVELOPMENT DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - GOVERNMENTAL FUND (GENERAL FUND)**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | <u>GENERAL FUND</u> | | | |
|--|-------------------------|------------------|--------------------------|---|
| | <u>BUDGETED AMOUNTS</u> | | | <u>VARIANCE WITH FINAL BUDGET</u> |
| | <u>ORIGINAL</u> | <u>FINAL</u> | <u>ACTUAL AMOUNT</u> | |
| Revenues: | | | | |
| Non ad-valorem assessments | \$ 1,954,188 | \$ 1,954,188 | \$ 1,948,304 | \$ (5,884) |
| Comprehensive service agreement | 760,000 | 760,000 | 922,036 | 162,036 |
| Interest income | 2,000 | 2,000 | 7,439 | 5,439 |
| Miscellaneous revenues | <u>26,800</u> | <u>26,800</u> | <u>48,939</u> | <u>22,139</u> |
| Total Revenues | <u>2,742,988</u> | <u>2,742,988</u> | <u>2,926,718</u> | <u>183,730</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | 390,675 | 561,000 | 560,984 | (16) |
| Community services | 2,090,100 | 1,862,988 | 1,650,482 | (212,506) |
| Capital outlay | <u>277,213</u> | <u>334,000</u> | <u>333,008</u> | <u>(992)</u> |
| Total Expenditures | <u>2,757,988</u> | <u>2,757,988</u> | <u>2,544,474</u> | <u>(213,514)</u> |
| (Deficiency) Excess of revenues over expenditures | (15,000) | (15,000) | 382,244 | 397,244 |
| Other financing sources (uses): | | | | |
| Sale of capital assets | <u>15,000</u> | <u>15,000</u> | <u>24,651</u> | <u>9,651</u> |
| Total other financing sources | <u>15,000</u> | <u>15,000</u> | <u>24,651</u> | <u>9,651</u> |
| Net change in fund balance | <u>\$ 0</u> | <u>\$</u> | 406,895 | <u>\$ 406,895</u> |
| Fund Balance, September 30, 2015 | | | <u>1,626,478</u> | |
| Fund Balance, September 30, 2016 | | | <u>\$ 2,033,373</u> | |

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

PART III. OTHER REPORTS



**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**

Nathan A. Phillips, CPA
Deborah L. Harvey, CPA

Stephanie J. Feldman, CPA
Michelle L. Vastola, CPA
Shannon Huber, CPA
Trey M. Bruce, CPA

March 10, 2017

To the Board of Supervisors
LELY COMMUNITY DEVELOPMENT DISTRICT
Naples, 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 LELY COMMUNITY DEVELOPMENT DISTRICT, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the LELY COMMUNITY DEVELOPMENT DISTRICT'S basic financial statements, and have issued our report thereon dated March 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered LELY COMMUNITY DEVELOPMENT DISTRICT'S internal control over financial reporting (internal control) to determine the auditing 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 LELY COMMUNITY DEVELOPMENT DISTRICT'S internal control. Accordingly, we do not express an opinion on the effectiveness of LELY COMMUNITY DEVELOPMENT 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 District'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. We did identify certain deficiencies in internal control that we consider to be significant deficiencies, as follows.

To the Board of Supervisors
LELY COMMUNITY DEVELOPMENT DISTRICT
March 10, 2017

SIGNIFICANT DEFICIENCY RECOMMENDATION:

2016-001 Check Signing: Two Signatures Required

The District's internal policy requires two authorized check signers for non-recurring disbursements over \$500. When strictly followed, this policy allows for strong control over the cash disbursement policy. However, upon review of this policy during our audit, we identified several instances of noncompliance and some inconsistencies in following this policy due to some misunderstanding of the application of the policy. The risk is that unauthorized disbursements may be undetected. We recommend that the District better define the internal policy for check signing and that the District's management company implement procedures to ensure regular and consistent compliance with this policy.

In 2017, the Board of Supervisors approved the revision and clarification of the District's check signing policies and procedures which will be followed in the future.

Compliance and Other Matters

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

LELY COMMUNITY DEVELOPMENT DISTRICT'S Response to Findings


LELY COMMUNITY DEVELOPMENT DISTRICT'S response to the findings identified above is as follows:

In response to the identified significant deficiency (2016-001), we acknowledge the importance of developing a more direct policy to eliminate any confusion regarding the issue of check signing requirements. As such, the Board has clarified its policy to require two signatures on all check payments over the amount of \$2,500. This policy procedure was approved by the Board and went into effect in February 2017.

LELY COMMUNITY DEVELOPMENT 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 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.


PHILLIPS HARVEY GROUP, P.A.
Certified Public Accountants
Naples, Florida



**INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE
WITH SECTION 218.415, FLORIDA STATUTES**

Nathan A. Phillips, CPA
Deborah L. Harvey, CPA

Stephanie J. Feldman, CPA
Michelle L. Vastola, CPA
Shannon Huber, CPA
Trey M. Bruce, CPA

March 10, 2017


To the Board of Supervisors
LELY COMMUNITY DEVELOPMENT DISTRICT
Naples, Florida

We have examined LELY COMMUNITY DEVELOPMENT DISTRICT's compliance with Section 218.415, Florida Statutes, regarding the investment of public funds during the year ended September 30, 2016. LELY COMMUNITY DEVELOPMENT DISTRICT's management is responsible for compliance with those requirements. Our responsibility is to express an opinion on LELY COMMUNITY DEVELOPMENT 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 supporting LELY COMMUNITY DEVELOPMENT 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 LELY COMMUNITY DEVELOPMENT DISTRICT's compliance with specified requirements.

In our opinion, LELY COMMUNITY DEVELOPMENT DISTRICT complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2016.

This report is intended solely for the information and use of the LELY COMMUNITY DEVELOPMENT 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.


PHILLIPS HARVEY GROUP, P.A.
Certified Public Accountants
Naples, Florida



MANAGEMENT LETTER - LOCAL GOVERNMENT ENTITIES

Nathan A. Phillips, CPA
Deborah L. Harvey, CPA

March 10, 2017

Stephanie J. Feldman, CPA
Michelle L. Vastola, CPA
Shannon Huber, CPA
Trey M. Bruce, CPA

To the Board of Supervisors
LELY COMMUNITY DEVELOPMENT DISTRICT
Naples, Florida

Board of Supervisors:

Report on the Financial Statements

We have audited the financial statements of LELY COMMUNITY DEVELOPMENT DISTRICT, Florida, as of and for the fiscal year ended September 30, 2016 and have issued our report thereon dated March 10, 2017.

Auditor's Responsibility

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

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Florida Auditor General. Disclosures in those reports, which are dated March 10, 2017, should be considered in conjunction with this management letter.

Prior Audit Findings

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

Financial Condition

Sections 10.554(1)(i)5.a and 10.556(7), Rules of the Auditor General, requires that we apply appropriate procedures and report the results of our determination as to whether or not LELY COMMUNITY DEVELOPMENT DISTRICT has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that LELY COMMUNITY DEVELOPMENT DISTRICT did not meet any of the conditions described in the 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 LELY COMMUNITY DEVELOPMENT DISTRICT's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Annual Financial Report

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

Other Matters

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we made the following recommendation:

SIGNIFICANT DEFICIENCY RECOMMENDATION:

2016-001 Check Signing: Two Signatures Required

The District's internal policy requires two authorized check signers for non-recurring disbursements over \$500. When strictly followed, this policy allows for strong control over the cash disbursement policy. However, upon review of this policy during our audit, we identified several instances of noncompliance and some inconsistencies in following this policy due to some misunderstanding of the application of the policy. The risk is that unauthorized disbursements may be undetected. We recommend that the District better define the internal policy for check signing and that the District's management company implement procedures to ensure regular and consistent compliance with this policy.

In 2017, the Board of Supervisors approved the revision and clarification of the District's check signing policies and procedures which will be followed in the future.

To the Board of Supervisors
LELY COMMUNITY DEVELOPMENT DISTRICT
March 10, 2017

Other Matters (Continued)

LELY COMMUNITY DEVELOPMENT DISTRICT'S response to the finding identified above is as follows:

In response to the identified significant deficiency (2016-001), we acknowledge the importance of developing a more direct policy to eliminate any confusion regarding the issue of check signing requirements. As such, the Board has clarified its policy to require two signatures on all check payments over the amount of \$2,500. This policy procedure was approved by the Board and went into effect in February 2017.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with provision 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.


PHILLIPS HARVEY GROUP, P.A.
Certified Public Accountants
Naples, Florida