

**HARBOR BAY
COMMUNITY DEVELOPMENT DISTRICT**

FINANCIAL REPORT

Year Ended September 30, 2011

HARBOR BAY COMMUNITY DEVELOPMENT DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Harbor Bay Community Development District
Hillsborough County, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of *Harbor Bay Community Development District* (the District), as of and for the year ended September 30, 2011, which collectively comprise the District's financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the District as of September 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 24, 2012 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, 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* and should be considered in conjunction with the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis starting on page 3, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

McDiernit Davis & Company, LLC

April 24, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of *Harbor Bay Community Development District's* (the District) financial accomplishments provide an overview of the District's financial activities for the year ended September 30, 2011. Please read it in conjunction with the District's Independent Auditor's Report, financial statements and accompanying notes.

This information is being presented to provide additional information regarding the activities of the District and to meet the disclosure requirements of Government Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* issued June 1999.

Financial Highlights

- The assets of the District exceeded its liabilities at September 30, 2011 by \$25,260,759, a decrease in net assets of \$2,058,035 in comparison with the prior year.
- At September 30, 2011, the District's governmental funds reported a combined fund balance of \$2,311,834, a decrease of \$351,606 in comparison with the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements.

Government-Wide Financial Statements

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

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may 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 assets changed during the most recent fiscal year. All changes in net assets 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.

The government-wide financial statements include all governmental activities that are principally supported by special assessment revenues. The District does not have any business-type activities. The governmental activities of the District include general government, physical environment, culture and recreation, public safety, and roads and streets related functions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has one fund category: Governmental Funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, debt service fund and capital projects fund. The general fund and debt service fund are considered to be major funds.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with the budget.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

Statement of Net Assets - The District's net assets were \$25,260,759 at September 30, 2011. The following analysis focuses on the net assets of the District's governmental activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-Wide Financial Analysis (Continued):

Harbor Bay Community Development District
Statement of Net Assets

	September 30, 2011	September 30, 2010
Assets, excluding capital assets	\$ 2,865,791	\$ 3,073,322
Capital assets, net of depreciation	<u>37,941,059</u>	<u>39,994,461</u>
Total assets	<u>40,806,850</u>	<u>43,067,783</u>
Liabilities, excluding long-term liabilities	811,091	728,989
Long-term liabilities	<u>14,735,000</u>	<u>15,020,000</u>
Total liabilities	<u>15,546,091</u>	<u>15,748,989</u>
Net assets:		
Invested in capital assets, net of related debt	23,206,059	24,974,461
Restricted for debt service	1,961,621	1,297,150
Restricted for capital projects	3,274	-
Unrestricted	<u>89,805</u>	<u>1,047,183</u>
Total net assets	<u>\$ 25,260,759</u>	<u>\$ 27,318,794</u>

The following is a summary of the District's governmental activities for the fiscal years ended September 30, 2011 and 2010.

Changes in Net Assets
Year ended September 30,

	2011	2010
Revenues:		
Program revenues	\$ 4,641,595	\$ 11,313,158
General revenues	<u>13,527</u>	<u>7,052</u>
Total revenues	<u>4,655,122</u>	<u>11,320,210</u>
Expenses:		
General government	1,362,896	1,034,736
Physical environment	2,810,054	2,814,225
Culture and recreation	1,186,683	1,112,928
Public safety	206,692	273,226
Roads and streets	132,856	129,038
Interest on long-term debt	<u>1,013,976</u>	<u>1,274,628</u>
Total expenses	<u>6,713,157</u>	<u>6,638,781</u>
Change in net assets	(2,058,035)	4,681,429
Net assets - beginning	<u>27,318,794</u>	<u>22,637,365</u>
Net assets - ending	<u>\$ 25,260,759</u>	<u>\$ 27,318,794</u>

As noted above and in the Statement of Activities, the cost of all governmental activities during the current year was \$6,713,157. The majority of these costs are comprised of physical environment and general government expenses. Program revenues decreased in the current year due to non-recurring off roll debt service assessments of \$6,457,403 that were collected in the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Analysis of the Government's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At September 30, 2011, the District's governmental funds reported combined ending fund balances of \$2,311,834. Of this total, \$61,242 is nonspendable, \$2,323,381 is restricted and the remainder is a negative unassigned fund balance of \$(72,789).

In the table below we have presented the cost of the functions/programs as a percentage of total governmental funds for the fiscal years ended September 30:

	<u>2011</u>		<u>2010</u>	
General government	\$ 1,386,609	29%	\$ 1,034,736	9%
Physical environment	1,053,028	21%	1,080,912	9%
Culture and recreation	943,217	19%	869,462	8%
Public safety	206,692	4%	273,226	2%
Roads and streets	8,808	-%	4,990	-%
Capital outlay	47,425	1%	-	-%
Principal and interest on long-term debt	1,307,075	26%	8,244,773	72%
	<u>\$ 4,952,854</u>	<u>100%</u>	<u>\$ 11,508,099</u>	<u>100%</u>

As noted above, principal and interest on long-term debt and physical environment expense comprise the majority of expenditures of total governmental funds.

General Fund Budgetary Highlights

An operating budget was adopted and maintained by the governing board for the District pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. There were no amendments to the September 30, 2011 general fund budget. The legal level of budgetary control is at the fund level.

Capital Asset and Debt Administration

Capital Assets - At September 30, 2011, the District had \$37,941,059 invested in land and infrastructure, net of accumulated depreciation. More detailed information about the District's capital assets is presented in the notes to financial statements.

Capital Debt - At September 30, 2011, the District had \$14,735,000 in bonds outstanding. More detailed information about the District's capital debt is presented in the notes to financial statements.

Requests for Information

If you have questions about this report or need additional financial information, contact the *Harbor Bay Community Development District's* Finance Department at 3434 Colwell Avenue, Suite 200, Tampa, Florida 33614.

FINANCIAL STATEMENTS

HARBOR BAY COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF NET ASSETS

September 30, 2011

	Governmental Activities
Assets:	
Cash	\$ 298,848
Investments	30
Assessments receivable	160,851
Other receivables	35,013
Inventories	3,958
Prepaid costs	31,144
Deposits	26,140
Restricted assets:	
Temporarily restricted investments	2,309,807
Capital assets not being depreciated	239,305
Capital assets being depreciated, net	<u>37,701,754</u>
Total assets	<u>40,806,850</u>
Liabilities:	
Accounts payable and accrued expenses	378,537
Accrued interest payable	417,984
Unearned revenue	14,570
Noncurrent liabilities:	
Due within one year	290,000
Due in more than one year	<u>14,445,000</u>
Total liabilities	<u>15,546,091</u>
Net Assets:	
Invested in capital assets, net of related debt	23,206,059
Restricted for debt service	1,961,621
Restricted for capital projects	3,274
Unrestricted	<u>89,805</u>
Total net assets	<u>\$ 25,260,759</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

HARBOR BAY COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF ACTIVITIES

Year Ended September 30, 2011

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 1,362,896	\$ 763,568	\$ -	\$ -	\$ (599,328)
Physical environment	2,810,054	1,473,488	-	23,250	(1,313,316)
Culture and recreation	1,186,683	892,812	-	-	(293,871)
Public safety	206,692	110,224	-	-	(96,468)
Roads and streets	132,856	70,849	-	-	(62,007)
Interest on long-term debt	1,013,976	1,307,369	35	-	293,428
Total governmental activities	\$ 6,713,157	\$ 4,618,310	\$ 35	\$ 23,250	(2,071,562)
General Revenues:					
Investment income					1,635
Miscellaneous					11,892
Total general revenues					13,527
Change in net assets					(2,058,035)
Net assets - beginning					27,318,794
Net assets - ending					\$ 25,260,759

The accompanying Notes to Financial Statements are an integral part of this statement.

HARBOR BAY COMMUNITY DEVELOPMENT DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

Year Ended September 30, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets:				
Cash	\$ 298,848	\$ -	\$ -	\$ 298,848
Investments	30	2,299,070	10,737	2,309,837
Assessments receivable	105,190	59,499	-	164,689
Other receivables	31,175	-	-	31,175
Due from other funds	-	21,036	-	21,036
Inventories	3,958	-	-	3,958
Prepaid costs	31,144	-	-	31,144
Deposits	26,140	-	-	26,140
	<u>496,485</u>	<u>2,379,605</u>	<u>10,737</u>	<u>2,886,827</u>
Total assets	<u>\$ 496,485</u>	<u>\$ 2,379,605</u>	<u>\$ 10,737</u>	<u>\$ 2,886,827</u>
Liabilities and fund balances:				
Liabilities:				
Accounts payable and accrued expenses	\$ 371,074	\$ -	\$ 7,463	\$ 378,537
Due to other funds	21,036	-	-	21,036
Deferred revenue	101,352	59,498	-	160,850
Unearned revenue	14,570	-	-	14,570
	<u>508,032</u>	<u>59,498</u>	<u>7,463</u>	<u>574,993</u>
Total liabilities	<u>508,032</u>	<u>59,498</u>	<u>7,463</u>	<u>574,993</u>
Fund balances:				
Nonspendable	61,242	-	-	61,242
Restricted for:				
Debt service	-	2,320,107	-	2,320,107
Capital projects	-	-	3,274	3,274
Unassigned	(72,789)	-	-	(72,789)
	<u>(11,547)</u>	<u>2,320,107</u>	<u>3,274</u>	<u>2,311,834</u>
Total fund balances	<u>(11,547)</u>	<u>2,320,107</u>	<u>3,274</u>	<u>2,311,834</u>
Total liabilities and fund balances	<u>\$ 496,485</u>	<u>\$ 2,379,605</u>	<u>\$ 10,737</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 37,941,059

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 160,850

Liabilities not due and payable from current available resources are not reported in governmental fund statements. All liabilities, both current and long-term, are reported in the government-wide statements.

Accrued interest payable	(417,984)	
Bonds payable	<u>(14,735,000)</u>	<u>(15,152,984)</u>

Net assets of governmental activities (page 7) \$ 25,260,759

The accompanying Notes to Financial Statements are an integral part of this statement.

HARBOR BAY COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended September 30, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues:				
Special assessments	\$ 3,026,834	\$ 1,277,619	\$ -	\$ 4,304,453
Amenity center revenue	259,983	-	-	259,983
Intergovernmental revenue	23,250	-	-	23,250
Investment income	1,635	35	-	1,670
Miscellaneous	11,892	-	-	11,892
Total revenues	<u>3,323,594</u>	<u>1,277,654</u>	<u>-</u>	<u>4,601,248</u>
Expenditures:				
Current:				
General government	1,386,609	-	-	1,386,609
Physical environment	1,053,028	-	-	1,053,028
Culture and recreation	943,217	-	-	943,217
Public safety	206,692	-	-	206,692
Roads and streets	8,808	-	-	8,808
Debt service:				
Interest	-	1,022,075	-	1,022,075
Principal	-	285,000	-	285,000
Capital outlay	23,713	-	23,712	47,425
Total expenditures	<u>3,622,067</u>	<u>1,307,075</u>	<u>23,712</u>	<u>4,952,854</u>
Net change in fund balances	(298,473)	(29,421)	(23,712)	(351,606)
Fund balances - beginning of year	<u>286,926</u>	<u>2,349,528</u>	<u>26,986</u>	<u>2,663,440</u>
Fund balances - end of year	<u>\$ (11,547)</u>	<u>\$ 2,320,107</u>	<u>\$ 3,274</u>	<u>\$ 2,311,834</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

HARBOR BAY COMMUNITY DEVELOPMENT DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

Year Ended September 30, 2011

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

Net change in fund balances - total governmental funds (page 10) \$ (351,606)

Governmental funds report outlays for capital assets as expenditures in governmental funds, while repayments reduce long-term liabilities in the statement of net assets.

Capital outlay	47,425	
Depreciation	<u>(2,100,827)</u>	(2,053,402)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds. 53,874

Repayment of long-term liabilities are reported as expenditures in governmental funds, while repayment reduces long-term liabilities in the Statement of Net Assets. 285,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest		8,099
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Change in net assets of governmental activities (page 8)		<u><u>\$ (2,058,035)</u></u>
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The accompanying Notes to Financial Statements are an integral part of this statement.

HARBOR BAY COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

Year Ended September 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Special assessments	\$ 3,017,285	\$ 3,017,285	\$ 3,026,834	\$ 9,549
Amenity center revenue	202,300	202,300	259,983	57,683
Intergovernmental revenue	-	-	23,250	23,250
Investment income	-	-	1,635	1,635
Miscellaneous	-	-	11,892	11,892
Total revenues	<u>3,219,585</u>	<u>3,219,585</u>	<u>3,323,594</u>	<u>104,009</u>
Expenditures:				
Current:				
General government	928,675	928,675	1,386,609	(457,934)
Physical environment	1,185,440	1,185,440	1,053,028	132,412
Culture and recreation	890,770	890,770	943,217	(52,447)
Public safety	207,000	207,000	206,692	308
Roads and streets	7,700	7,700	8,808	(1,108)
Capital outlay	-	-	23,713	(23,713)
Total expenditures	<u>3,219,585</u>	<u>3,219,585</u>	<u>3,622,067</u>	<u>(402,482)</u>
Net change in fund balance	-	-	(298,473)	(298,473)
Fund balance - beginning	<u>286,926</u>	<u>286,926</u>	<u>286,926</u>	-
Fund balance - ending	<u>\$ 286,926</u>	<u>\$ 286,926</u>	<u>\$ (11,547)</u>	<u>\$ (298,473)</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

HARBOR BAY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2011

Note 1 - Summary of Significant Accounting Policies:

Reporting Entity

The *Harbor Bay Community Development District* (the District) was established by Hillsborough County Ordinance 99-11 enacted on August 5, 1999 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The Act provides, among other things, the power to manage basic services for community development, the power to borrow money and issue bonds, and the power to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure. The District was established for the purpose 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 the Board of Supervisors (the Board), which is composed of five members, elected by qualified electors. The Board exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes. The District is economically dependent on Terrabrook Apollo Beach, LP, the Developer.

The Board has the final responsibility for, among other things:

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.

The financial statements were prepared in accordance with Governmental Accounting Standards Board (GASB) Statement 14, and Statement 39, an amendment of GASB Statement 14. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the Board 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2011

Note 1 - Summary of Significant Accounting Policies (Continued):

Government-Wide and Fund Financial Statements

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

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund 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 is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants, contributions and investment income that are restricted to meeting the operational or capital requirements of a particular function or segment and 3) operating-type special assessments that are treated as charges for services (including assessments for maintenance and debt service). Other items not included among program revenues are reported instead as *general revenues*.

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. Assessments are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues 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 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 and operation and maintenance assessments, are non-ad valorem assessments imposed on all lands located within the District and benefited by the District's activities. Operations and maintenance assessments are levied by the District prior to the start of the fiscal year which begins October 1st and ends on September 30th. Operation and maintenance special assessments are imposed upon all benefited lands located in the District. Debt service special assessments are imposed upon certain lots and lands as described in each resolution imposing the special assessments for each series of bonds issued by the District.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2011

Note 1 - Summary of Significant Accounting Policies (Continued):

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued):

Assessments and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current 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 governmental funds.

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

Debt Service Fund - accounts for the accumulation of resources for the annual payment of principal and interest on long-term general obligation debt.

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

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.

Assets, Liabilities and Net Assets or Equity

Restricted Assets - These assets represent cash and investments set aside pursuant to bond covenants.

Deposits and Investments - The District's cash and cash equivalents are considered to be cash on hand and demand deposits.

Investments of the District are reported at fair value. The District's investments consist of investments authorized per their investment policy adopted in accordance with Section 218.415, Florida Statutes.

Inventories and Prepaid Items - Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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

HARBOR BAY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2011

Note 1 - Summary of Significant Accounting Policies (Continued):

Assets, Liabilities and Net Assets or Equity (Continued):

Capital Assets - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable 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 or estimated historical cost if purchased or constructed. Donated capital 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 District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Parks and recreation facilities	5 to 30
Landscaping and security walls	15
Master surface water management and subdivision infrastructure	25
Master roads and streets	30

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 Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of premiums or discounts.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of 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 expenditures.

Fund Balance Categories and Classification - The District implemented GASB 54 in 2011, which established the following fund balance classifications: nonspendable, restricted, committed, assigned, and unassigned. The District's general spending prioritization policy is to consider restricted resources to have been used first, followed by assigned and unassigned amounts when expenditures have been incurred for which resources in more than one classification could be used.

Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements.

HARBOR BAY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2011

Note 1 - Summary of Significant Accounting Policies (Continued):

Fund Balance Categories and Classification (Continued):

Spendable Fund Balance

- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by debt covenants 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 government through formal action of the highest level of decision making authority, which is the Board of Supervisors.
- Assigned - includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The Board of Supervisors has authorized the District Accountant to assign amounts for specific purposes.
- Unassigned - includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

Net assets in the government-wide statements are categorized as invested in capital assets, net of related debt, restricted or unrestricted. Invested in capital assets, net of related debt represents net assets related to infrastructure and property, plant and equipment, net of any related debt. Restricted net assets represent the assets restricted by the District's bond covenants.

Other Disclosures

Use of Estimates - The preparation of financial statements in conformity with 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.

Note 2 - Stewardship, Compliance and Accountability:

A. Budgetary Information

The District is required to establish a budgetary system and an approved annual budget for the General Fund. Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at the fiscal year end. The legal level of budgetary control is at the fund level. Any budget amendments that increase the aggregate budgeted appropriations, at the fund level, must be approved by the Board.

HARBOR BAY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2011

Note 2 - Stewardship, Compliance and Accountability (Continued):

A. Budgetary Information (continued):

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

1. Each year the District Manager submits to the Board a proposed operating budget for the fiscal year commencing the following October 1.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally adopted by the Board.
4. Subject to certain exceptions set forth in the District's annual appropriations resolution, all budget changes must be approved by the Board.
5. The budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

B. Deficit Fund Balance

At September 30, 2011 the general fund had a deficit fund balance of \$(11,547).

C. Expenditures in Excess of Appropriations

As noted on page 12, actual expenditures exceeded budgeted expenditures by \$402,482. The excess expenditures were partially funded by \$104,009 of revenues in excess of budgeted revenues.

Note 3 - Deposits and Investments:

Deposits

At year-end, the carrying amount of the District's deposits was \$298,848 and the bank balance was \$350,137. The District's cash balances were entirely covered by federal depository insurance or by a collateral pool pledged to the State Treasurer. Florida Statutes Chapter 280, "Florida Security for Public Deposits Act", requires all qualified depositories to deposit with the Treasurer or another banking institution eligible collateral equal to various percentages of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. Governmental and agency securities, state or local government debt, or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

HARBOR BAY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2011

Note 3 - Deposits and Investments (continued):

Investments

Investments are stated at fair value, which is the amount for which an investment could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Fair value is based on quoted market prices. Changes in the fair value of investments are recognized as revenue and included in investment revenue. Investment revenue is recognized as earned and is recorded in the respective fund related to the investment activity. The District's investment policy is governed by State Statutes and the District Trust Indentures. The District investment policy allows investments in any financial institution that is a qualified public depository of the State of Florida as identified by the State Treasurer, in accordance with Chapter 280 of the Florida Statutes. Authorized District investments include, but are not limited to:

1. The Local Government Surplus Funds Trust Fund (SBA);
2. Securities and Exchange Commission Registered Money Market Funds with the highest credit quality rating from a nationally recognized rating agency;
3. Interest-bearing time deposits or savings accounts in qualified public depositories;
4. Direct obligations of the U.S. Treasury;
5. Short-term bond funds investing in U.S. Government securities or U.S. Government Agency Securities;
6. Securities of registered investment companies (mutual funds) that are limited to obligations of the U.S. Government or any agency or instrumentality thereof.

The SBA is not a registrant with the SEC; however, the Board has adopted operating procedures consistent with the requirements for a 2a-7 fund for the Florida Prime Fund. Therefore, the pool account balance can be used as fair value for financial reporting. Fund B is accounted for as a fluctuating NAVPOOL, not a 2a-7-like money market fund.

Investments made by the District at September 30, 2011 are summarized below. In accordance with GASB 31, investments are reported at fair value.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity</u>
First American Treasury Obligation Fund Z	\$ 2,309,807	AAAm	44 days
Local Government Investment Pool:			
Florida Prime	13	AAAm	38 days
Fund B	17	Not rated	4.8 years
	<u>\$ 2,309,837</u>		

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2011

Note 3 - Deposits and Investments (Continued):

Credit Risk:

The District's investment policy limits credit risk by restricting authorized investments to those described. Investments in U.S. Government securities and agencies must be backed by the full faith and credit of the United States Government. Short term bond funds shall be rated by a nationally recognized ratings agency and shall maintain the highest credit quality rating.

Custodial Credit Risk:

In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires that bank deposits be secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida, and creates the Public Deposits Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2011, all of the District's bank deposits were in qualified public depositories.

For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At September 30, 2011, none of the investments listed are exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk:

The District's investment policy does not specify limits on the amount the District may invest in any one issue.

Interest Rate Risk:

The District's investment policy does not specifically address interest rate risk; however, the general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and in general, avoid speculative investments. The District manages its exposure to declines in fair values by investing primarily in pooled investments that have a weighted average maturity of less than three months.

HARBOR BAY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2011

Note 4 - Capital Assets:

Capital asset activity for the year ended September 30, 2011 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 191,880	\$ -	\$ -	\$ 191,880
Infrastructure under construction	-	47,425	-	47,425
Total capital assets not being depreciated	<u>191,880</u>	<u>47,425</u>	<u>-</u>	<u>239,305</u>
Capital assets being depreciated:				
Parks and recreation facilities	7,246,016	-	-	7,246,016
Landscaping and security walls	10,609,896	-	-	10,609,896
Master surface water management	9,727,383	-	-	9,727,383
Subdivision infrastructure	15,922,273	-	-	15,922,273
Master roads and streets	3,721,445	-	-	3,721,445
Total capital assets being depreciated	<u>47,227,013</u>	<u>-</u>	<u>-</u>	<u>47,227,013</u>
Less accumulated depreciation for:				
Parks and recreation facilities	(1,374,907)	(243,467)	-	(1,618,374)
Landscaping and security walls	(1,676,121)	(707,326)	-	(2,383,447)
Master surface water management	(1,965,202)	(389,095)	-	(2,354,297)
Subdivision infrastructure	(2,160,106)	(636,891)	-	(2,796,997)
Master roads and streets	(248,096)	(124,048)	-	(372,144)
Total accumulated depreciation	<u>(7,424,432)</u>	<u>(2,100,827)</u>	<u>-</u>	<u>(9,525,259)</u>
Total capital assets being depreciated, net	<u>39,802,581</u>	<u>(2,100,827)</u>	<u>-</u>	<u>37,701,754</u>
Governmental activities capital assets, net	<u>\$ 39,994,461</u>	<u>\$ (2,053,402)</u>	<u>\$ -</u>	<u>\$ 37,941,059</u>

Depreciation expense for 2011 was comprised of \$1,733,312 charged to physical environment expense, \$243,467 charged to culture and recreation expense, and \$124,048 charged to roads and streets expense.

Any additional infrastructure costs in excess of the amounts available from the Bonds issued as well as future bond proceeds will be funded by the Developer. The District may convey certain infrastructure improvements to other governmental entities upon completion of those improvements.

HARBOR BAY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2011

Note 5 - Long-Term Liabilities:

Series 2001 Bonds

On August 6, 2001, the District issued \$26,650,000 of Capital Improvement Revenue Bonds, consisting of \$3,870,000 Term Bonds Series 2001A due on May 1, 2033 with a fixed interest rate of 7.00% and \$22,780,000 Term Bonds Series 2001B due on May 1, 2010 with a fixed interest rate of 6.35%. 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 on the 2001A Bonds is paid serially commencing May 1, 2004 through May 1, 2033. Principal on the 2001B Bonds was due and paid in one lump sum on May 1, 2010.

The Series 2001A Bonds are subject to redemption at the option of the District in whole or in part on or after May 1, 2011 at a redemption price set forth in the Bond Indenture. They are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Indenture.

The Bond Indenture requires that the District maintain adequate funds in a reserve account to meet the debt service reserve requirement as defined in the Indenture. The requirement has been met at September 30, 2011.

The Bond Indenture has certain restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agreed to levy and collect special assessments in annual amounts adequate to provide payment of debt services and to meet the reserve requirements. The principal of and interest on the Series 2001A and 2001B Bonds issued under the Indenture are secured by all revenues received by the District from Series 2001 Assessments levied and collected on the District lands benefited by the project. The District is in compliance with the requirements of the Bond Indenture.

As of September 30, 2011, total principal and interest remaining on the 2001A Bonds amounts to \$6,792,250. For the year ended September 30, 2011, principal and interest paid was \$324,475 and total special assessment revenue pledged was \$318,886.

Series 2002 Bonds

On November 19, 2002, the District issued \$12,500,000 of Capital Improvement Revenue Bonds, Series 2002 due on May 1, 2034 with a fixed interest rate of 6.75%. 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 May 1, 2005 through May 1, 2034.

HARBOR BAY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2011

Note 5 - Long-Term Liabilities (Continued):

Series 2002 Bonds (Continued)

The Series 2002 Bonds are subject to redemption at the option of the District in whole or in part on or after May 1, 2013 at a redemption price set forth in the Bond Indenture. They are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Indenture.

The Bond Indenture requires that the District maintain adequate funds in a reserve account to meet the debt service reserve requirement as defined in the indenture. The requirement has been met as of September 30, 2011.

The Bond Indenture has certain restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agreed to levy and collect special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The principal of and interest on the Bonds issued under the Indenture are secured by all revenues received by the District from Series 2002 Assessments levied and collected on the District lands benefited by the project. The District is in compliance with the requirements of the Bond Indenture.

As of September 30, 2011, total principal and interest remaining on the 2002 Bonds amounts to \$22,588,178. For the year ended September 30, 2011, principal and interest paid was \$982,600 and total special assessment revenue pledged was \$958,733.

Long-term debt activity for the year ended September 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
Special assessment debt with District commitment					
Series 2001	\$ 3,500,000	\$ -	\$ (80,000)	\$ 3,420,000	\$ 70,000
Series 2002	11,520,000	-	(205,000)	11,315,000	220,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental activity long-term liabilities	<u>\$ 15,020,000</u>	<u>\$ -</u>	<u>\$ (285,000)</u>	<u>\$ 14,735,000</u>	<u>\$ 290,000</u>

HARBOR BAY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2011

Note 5 - Long-Term Liabilities (Continued):

At September 30, 2011, the scheduled debt service requirements on the bonds payable were as follows:

<u>Year ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 290,000	\$ 1,003,163
2013	310,000	983,413
2014	330,000	962,300
2015	350,000	939,825
2016	375,000	915,988
2017 - 2021	2,310,000	4,157,988
2022 - 2026	3,200,000	3,257,800
2027 - 2031	4,440,000	2,010,813
2032 - 2034	3,130,000	414,138
	<u>\$ 14,735,000</u>	<u>\$ 14,645,428</u>

Note 6 - Related Party Transactions:

Developer special assessment revenue in the current year was \$1,860,453, 43% of total special assessment revenue.

At September 30, 2011, deferred revenue of \$160,850 was due from a significant landowner for assessments owed. All amounts were received in January, 2012.

Note 7 - Management Company:

The District has contracted with a management company to perform management advisory services, which include financial advisory and accounting services. This company also manages the operation of certain amenities and the recreational facility. 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.

HARBOR BAY COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2011

Note 8 - 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. These risks are covered by commercial insurance from independent third parties. The District has not filed any claims under this commercial coverage during the last three years.

Note 9 - Litigation:

The District has filed suit against the parties responsible for the design, construction and materials used to build the District seawall, as seawall failures are seen at several locations. Multiple mediations have not been successful. Trial is expected in fiscal year 2012.

Note 10 - Subsequent Events:

Management has evaluated subsequent events through April 24, 2012, the date on which the financial statements were available to be issued.

COMPLIANCE SECTION

**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
Harbor Bay Community Development District
Hillsborough County, Florida

We have audited the financial statements of the governmental activities and each major fund of the *Harbor Bay Community Development District* (the "District") as of and for the year ended September 30, 2011, which collectively comprise the District's financial statements and have issued our report thereon dated April 24, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, 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*.

We noted certain matters that we reported to management of the District, in a separate letter dated April 24, 2012.

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

McDiernit Davis & Company, LLC

April 24, 2012

MANAGEMENT COMMENTS

Board of Supervisors
Harbor Bay Community Development District
Hillsborough County, Florida

We have audited the financial statements of Harbor Bay Community Development District (the District), as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated April 24, 2012.

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. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, which is dated April 24, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter is required to include the following information, which is not included in the aforementioned auditor's report:

- 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 significant findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations made in the preceding annual financial report.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the District complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., 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 have a recommendation which is reported in Appendix A.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and 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 more than inconsequential. In connection with our audit, we did not have any such findings.

- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse; and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)6., 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. This information has been disclosed in the notes to the financial statements.
- Section 10.554(1)(i)7.a., 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 met the following condition described in Section 218.503(1), Florida Statutes.

Unassigned Deficit Fund Balance

At September 30, 2011, the District has a total unassigned deficit fund balance of \$(72,789) and there are no resources available to cover the deficit. This fund balance is a result of legal expense associated with litigation the District is pursuing against those responsible for the seawall construction. See Appendix A.

- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the District for the fiscal year ended September 30, 2011, 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, 2011. We determined that these two reports are in agreement.
- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity'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.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing Standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

McDiernit Davis & Company, LLC

April 24, 2012

HARBOR BAY COMMUNITY DEVELOPMENT DISTRICT

APPENDIX A - RECOMMENDATION TO IMPROVE FINANCIAL MANAGEMENT

For the Year Ended September 30, 2011

11-01 - Budget Amendment

Criteria

Florida Statutes Section 166.241 states that actual expenditures may not exceed budgeted expenditures and the budget should be amended within 60 days following the end of the fiscal year.

Condition

The District did not amend the General Fund budget for expenditures that exceeded the original budget.

Cause

The District is pursuing litigation against those responsible for the seawall construction. The current year legal expenses were more than budgeted.

Effect

The District's General Fund expenditures were \$402,482 over budget and the ending fund balance was \$298,473 under budget.

Recommendation

We recommend the District amend their budget before November 30 of each year.

11-02 - Deficit Fund Balance

Criteria

Section 218.503, Florida Statutes, requires a District to notify the Governor and the Legislative Auditing Committee when it meets any condition of a financial emergency. One of the conditions is having an unassigned fund balance deficit.

Condition

At September 30, 2011, District has a total unassigned deficit fund balance of \$(72,789) and there are no resources available to cover the deficit.

Cause

This fund balance is a result of legal expense associated with litigation the District is pursuing against those responsible for the seawall construction.

Effect

The Governor and Legislative Auditing Committee will determine what actions must be taken.

Recommendation

We recommend the District take corrective action to resolve this deficit.

HARBOR BAY COMMUNITY DEVELOPMENT DISTRICT

DISTRICT OFFICE · 5844 OLD PASCO ROAD · SUITE 100 · WESLEY CHAPEL, FLORIDA 33544

April 24, 2012

Response to the Management Letter for the fiscal year ended September 30, 2011

Management Letter finding 11-01:

The auditor noted that general fund expenditures exceeded the budgeted amount and the budget was not amended within the required timeframe.

District response to the finding:

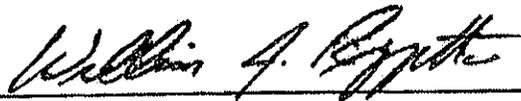
District Management will work with the Board of Supervisors to review activity and amend budgets as necessary going forward.

Management Letter finding 11-02:

The auditor noted that the District has a total unassigned deficit fund balance of (\$72,789) at September 31, 2011.

District response to the finding:

A portion of the unassigned fund balance is attributable to the presentation of \$61,242 of the fund balance as nonspendable; the remaining deficit of (\$11,547) is attributable to unforeseen legal expenses relating to seawall litigation as disclosed in the notes to financial statements. Successful resolution of the litigation will enable the District to potentially recoup legal costs and use these funds to offset the deficit fund balance. The District anticipates the trial to occur in 2012, however, the outcome is uncertain.



William J. Rizzetta

Treasurer

Harbor Bay Community Development District