

**FIDDLER'S CREEK
COMMUNITY DEVELOPMENT DISTRICT 1
COLLIER COUNTY, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

**FIDDLER’S CREEK COMMUNITY DEVELOPMENT DISTRICT 1
COLLIER COUNTY, FLORIDA**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Fiddler's Creek Community Development District 1
Collier County, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of Fiddler's Creek Community Development District 1, Collier County, Florida (the "District") as of and for the fiscal year ended September 30, 2010, which collectively comprise the District's basic 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 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 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2010, and the respective changes in financial position, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7, 8, 9, 10 and 11 to the financial statements, the District's financial conditions are deteriorating. The Developer did not pay current and prior year assessments of approximately \$4 million. Consequently there were insufficient funds to pay the principal and interest on the Series 2002 Bonds and the Series 2005 Bonds due on or before May 1, 2010. As a result, events of default on the Series 2002 Bonds and Series 2005 Bonds have occurred and are continuing. During the year the bondholders called for redemption \$5.5 million principal on the Series 2005 Bonds. Also, in February 2010, the Developer of the District filed for bankruptcy protection. As a result of this Chapter 11 filing, remedial action against the Developer is stayed. No assurance can be given as to the amount or timing of payments, if any to the bondholders for the Series 2002 and Series 2005 Bonds. The District is economically dependent on the Developer.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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.

Brand Associates

March 21, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Fiddler's Creek Community Development District 1, Collier County, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2010. Please read it in conjunction with the District's Independent Auditor's Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the fiscal year ended September 30, 2010 resulting in a net asset balance of \$5,384,301.
- The change in the District's total net assets in comparison with the prior year was \$1,393,404, an increase. The key components of the District's net assets and change in net assets are reflected in the table in the government-wide financial analysis section.
- At September 30, 2010, the District's governmental funds reported combined ending fund balances of \$2,267,565, a decrease of (\$8,568,968) in comparison with the prior fiscal year. \$1,808,522 of the total fund balance is reserved for debt service, capital projects, and other items and the remainder is unreserved fund balance which is available for spending at the District's discretion.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as the introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 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 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 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 assessments and Developer revenues. The District does not have any business-type activities. The governmental activities of the District include the general government (management) and maintenance functions.

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.

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

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 District'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 seven 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 Series 1999, 2002, 2005 and 2006 funds and capital projects Series 2005 funds. All of the funds 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 the 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

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities at the close of the most recent fiscal year.

Key components of the District's net assets are reflected in the following table:

	NET ASSETS	
	SEPTEMBER 30,	
	2010	2009
Assets, excluding capital assets	\$ 9,237,103	\$ 13,510,767
Capital assets, net of depreciation	37,973,767	38,674,917
Total assets	<u>47,210,870</u>	<u>52,185,684</u>
Due to primary government		
Liabilities, excluding long-term liabilities	2,414,016	1,276,632
Long-term liabilities	39,412,553	46,918,155
Total liabilities	<u>41,826,569</u>	<u>48,194,787</u>
Net Assets		
Invested in capital assets, net of related debt	170,679	196,193
Restricted for debt service	4,749,454	3,242,032
Unrestricted	464,168	552,672
Total net assets	<u>\$ 5,384,301</u>	<u>\$ 3,990,897</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The District's net assets reflects its investment in capital assets (e.g. land, land improvements, and infrastructure); less any related debt used to acquire those assets that is still outstanding. These assets are used to provide services to residents; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the District's other obligations.

The District's net assets increased during the most recent fiscal year. The increase is primarily a result of an increase in assessment revenue in the current year. However the current year assessments include approximately \$2.5 million assessments due from Developer, which have not been collected as of the date of the report.

Key elements of the change in net assets are reflected in the following table:

	CHANGES IN NET ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30,	
	2010	2009
Revenues:		
Program revenues		
Charges for services	\$ 7,299,692	\$ 6,688,507
Operating grants and contributions	112	22,276
Capital grants and contributions	4,638	44,923
General revenues		
Investment income	4,585	4,517
Total revenues	<u>7,309,027</u>	<u>6,760,223</u>
Expenses:		
General government	712,735	363,995
Maintenance and operations	2,771,061	2,617,610
Interest	2,431,827	2,987,453
Total expenses	<u>5,915,623</u>	<u>5,969,058</u>
Change in net assets	1,393,404	791,165
Net assets beginning	3,990,897	3,199,732
Net assets ending	<u>\$ 5,384,301</u>	<u>\$ 3,990,897</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2010 was \$5,915,623. The majority of the costs of the District's activities were paid by program revenues. Program revenues are comprised primarily of assessments in the current year, of which approximately \$2.5 million assessments are due from the Developer; while in the prior year, approximately \$1.5 million assessments were due from the Developer.

GENERAL BUDGETING 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. The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. The general fund budget for the fiscal year ended September 30, 2010 was amended to decrease revenues by (\$245,572), increase appropriations by \$322,457, and increase other financing sources (uses) by \$540,336. The decrease in revenues is primarily the result of less than anticipated assessments being budgeted and the increase in appropriations is primarily due to legal costs exceeding anticipated amounts, which were incurred in association with the default and foreclosure issues. Actual general fund expenditures for the fiscal year ended September 30, 2010 exceeded appropriations by \$4,959, which were not considered material. The over expenditures were funded by available fund balance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2010, the District had \$48,590,869 invested in land, land improvements, and infrastructure. In the government-wide financial statements depreciation of \$10,617,102 has been taken, which resulted in a net book value of \$37,973,767. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Capital Debt

At September 30, 2010, the District had \$39,768,711 in Bonds and loans outstanding for its governmental activities. More detailed information about the District's capital debt is presented in the notes of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND OTHER EVENTS

As discussed in the notes to the basic financial statements, there are significant delinquent fiscal year 2009 and 2010 assessments that have not been collected due to the Developer not paying its assessments. Consequently, the District did not have sufficient funds to make the May 2010 Series 2002 and Series 2005 debt service payments. As a result, events of default on the Series 2002 Bonds and Series 2005 Bonds have occurred and are continuing. During the year, the bondholders called for redemption of \$5.5 million in principal on the Series 2005 Bonds. Also, in February 2010, the Developer of the District filed for bankruptcy protection. As a result of this Chapter 11 filing, remedial action against the Developer is stayed. The District is economically dependent on the Developer. No adjustment has been made to the financial statements as the specific impact on the District cannot be determined at this time.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, land owners, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages and the stewardship of the facilities it maintains. If you have questions about this report or need additional financial information, contact the Fiddler's Creek Community Development District 1's Finance Department at 6131 Lyons Road, Suite 100, Coconut Creek, Florida, 33073.

**FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT 1
COLLIER COUNTY, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010**

	Governmental Activities
ASSETS	
Cash	\$ 384,793
Investments	70,101
Accounts receivable	472,663
Due from Developer	4,154,101
Deposits	5,125
Due from other government	3,366
Restricted assets:	
Temporarily restricted	
Cash	178,475
Investments	2,986,691
Deferred charges	981,788
Capital assets:	
Nondepreciable	25,717,655
Depreciable, net	12,256,112
Total assets	47,210,870
LIABILITIES	
Accounts payable	163,019
Accrued interest payable	988,725
Contracts payable	47,478
Due to Bondholder:	
Principal	245,000
Interest	969,794
Non-current liabilities:	
Due within one year	1,920,249
Due in more than one year	37,492,304
Total liabilities	41,826,569
NET ASSETS	
Invested in capital assets, net of related debt	170,679
Restricted for debt service	4,749,454
Unrestricted	464,168
Total net assets	\$ 5,384,301

See notes to the financial statements

**FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT 1
COLLIER COUNTY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

<u>Functions/Programs</u>	Program Revenues			Net (Expense)	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 712,735	\$ 712,735	\$ -	\$ -	\$ -
Maintenance and operations	2,771,061	1,762,113	-	4,638	(1,004,310)
Interest on long-term debt	2,431,827	4,824,844	112	-	2,393,129
Total governmental activities	5,915,623	7,299,692	112	4,638	1,388,819
General revenues:					
Unrestricted investment earnings					4,585
Total general revenues					4,585
Change in net assets					1,393,404
Net assets - beginning					3,990,897
Net assets - ending					\$ 5,384,301

See notes to the financial statements

**FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT 1
COLLIER COUNTY, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010**

	Major Funds						Total Governmental Funds
	General	Debt Service Series 1999	Debt Service Series 2002	Debt Service Series 2005	Debt Service Series 2006	Capital Projects Series 2005	
ASSETS							
Cash	\$ 563,268	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 563,268
Investments	70,101	1,182,144	386,183	43,953	699,256	675,155	3,056,792
Due from other funds	99,512	15	-	-	-	-	99,527
Due from Developer	128,609	-	1,958,676	2,066,816	-	-	4,154,101
Accounts receivable	247,581	88,388	-	-	136,694	-	472,663
Deposits	5,125	-	-	-	-	-	5,125
Due from other governments	3,366	-	-	-	-	-	3,366
Total assets	<u>\$ 1,117,562</u>	<u>\$ 1,270,547</u>	<u>\$ 2,344,859</u>	<u>\$ 2,110,769</u>	<u>\$ 835,950</u>	<u>\$ 675,155</u>	<u>\$ 8,354,842</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 163,019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 163,019
Contracts payable	-	-	-	-	-	47,478	47,478
Due to other funds	15	-	-	82,184	17,328	-	99,527
Debt service - current portion	-	-	1,214,794	-	-	-	1,214,794
Deferred revenue	311,885	88,388	1,958,676	2,066,816	136,694	-	4,562,459
Total liabilities	<u>474,919</u>	<u>88,388</u>	<u>3,173,470</u>	<u>2,149,000</u>	<u>154,022</u>	<u>47,478</u>	<u>6,087,277</u>
Fund balances:							
Reserved for:							
Debt service	178,475	1,182,159	(828,611)	(38,231)	681,928	-	1,175,720
Capital projects	-	-	-	-	-	627,677	627,677
Other	5,125	-	-	-	-	-	5,125
Unreserved, designated for:							
Subsequent year's budget	318,525	-	-	-	-	-	318,525
Unreserved, reported in:							
General fund	140,518	-	-	-	-	-	140,518
Total fund balances	<u>642,643</u>	<u>1,182,159</u>	<u>(828,611)</u>	<u>(38,231)</u>	<u>681,928</u>	<u>627,677</u>	<u>2,267,565</u>
Total liabilities and fund balances	<u>\$ 1,117,562</u>	<u>\$ 1,270,547</u>	<u>\$ 2,344,859</u>	<u>\$ 2,110,769</u>	<u>\$ 835,950</u>	<u>\$ 675,155</u>	<u>\$ 8,354,842</u>

See notes to the financial statements

**FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT 1
COLLIER COUNTY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010**

Fund balance - governmental funds \$ 2,267,565

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 as assets in the governmental funds. The statement of net assets includes those capital assets, net of any accumulated depreciation, in the net assets of the government as a whole.

Cost of capital assets	48,590,869	
Accumulated depreciation	<u>(10,617,102)</u>	37,973,767

Assets that are not available to pay for current-period expenditures are deferred in the fund statements.		4,562,459
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Bond issue costs are not financial resources and, therefore are not reported as assets in the governmental funds. The statements of net assets includes these costs, net of amortization.

Bond issue costs	1,841,764	
Accumulated amortization	<u>(859,976)</u>	981,788

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

Accrued interest payable	(988,725)	
Deferred amount on refunding	111,158	
Bonds payable	(39,512,285)	
Leases payable	<u>(11,426)</u>	<u>(40,401,278)</u>

Net assets of governmental activities		<u><u>\$ 5,384,301</u></u>
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See notes to the financial statements

**FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT 1
COLLIER COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

	Major Funds						Total Governmental Funds
	General	Debt Service Series 1999	Debt Service Series 2002	Debt Service Series 2005	Debt Service Series 2006	Capital Projects Series 2005	
REVENUES							
Assessments	\$ 2,468,306	\$ 1,098,380	\$ -	\$ -	\$ 662,803	\$ -	\$ 4,229,489
Interest	4,585	-	98	14	-	4,638	9,335
Miscellaneous income	6,542	-	-	-	-	-	6,542
Total revenues	<u>2,479,433</u>	<u>1,098,380</u>	<u>98</u>	<u>14</u>	<u>662,803</u>	<u>4,638</u>	<u>4,245,366</u>
EXPENDITURES							
Current:							
General government	655,694	33,749	-	-	23,292	-	712,735
Maintenance and operations	1,746,163	-	-	-	-	-	1,746,163
Debt Service:							
Principal	594,985	700,000	245,000	5,500,000	500,000	-	7,539,985
Interest	42,528	514,122	969,794	771,950	209,165	-	2,507,559
Capital outlay	15,856	-	-	-	-	307,892	323,748
Total expenditures	<u>3,055,226</u>	<u>1,247,871</u>	<u>1,214,794</u>	<u>6,271,950</u>	<u>732,457</u>	<u>307,892</u>	<u>12,830,190</u>
Excess (deficiency) of revenues over (under) expenditures	(575,793)	(149,491)	(1,214,696)	(6,271,936)	(69,654)	(303,254)	(8,584,824)
OTHER FINANCING SOURCES (USES)							
Transfers in	342,240	-	-	6,233,623	-	-	6,575,863
Transfers out	-	-	(112,926)	-	(17,328)	(6,445,609)	(6,575,863)
Capital leases	15,856	-	-	-	-	-	15,856
Total other financing sources (uses)	<u>358,096</u>	<u>-</u>	<u>(112,926)</u>	<u>6,233,623</u>	<u>(17,328)</u>	<u>(6,445,609)</u>	<u>15,856</u>
Net change in fund balances	(217,697)	(149,491)	(1,327,622)	(38,313)	(86,982)	(6,748,863)	(8,568,968)
Fund balances - beginning	860,340	1,331,650	499,011	82	768,910	7,376,540	10,836,533
Fund balances - ending	<u>\$ 642,643</u>	<u>\$ 1,182,159</u>	<u>\$ (828,611)</u>	<u>\$ (38,231)</u>	<u>\$ 681,928</u>	<u>\$ 627,677</u>	<u>\$ 2,267,565</u>

See notes to the financial statements

**FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT 1
COLLIER COUNTY, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

Net change in fund balances - total governmental funds	\$ (8,568,968)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures, however, the cost of capital assets is eliminated in the statement of activities and capitalized in the statement of net assets.	323,748
Depreciation on capital assets is not recognized in the governmental fund statement but is reported as an expense in the statement of activities.	(1,024,898)
Governmental funds report bond and capital lease proceeds when debt is first issued, whereas these proceeds are eliminated in the statement of activities and recognized as long-term liabilities in the statement of net assets.	(15,856)
Revenues that do not provide current available resources are deferred in the fund statements but are recognized as revenues in the statement of activities.	3,063,661
Repayment of long-term liabilities are reported as expenditures in the governmental fund statement but such repayments reduce liabilities in the statement of net assets and are eliminated in the statement of activities.	7,539,985
Governmental funds report the effect of issuance of costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
Amortization of bond issuance costs	(81,103)
Amortization of deferred amount on refunding	(18,527)
The change in accrued interest on long-term liabilities between the current and prior fiscal year is recorded in the statement of activities but not in the fund financial statements.	175,362
Change in net assets of governmental activities	<u><u>\$ 1,393,404</u></u>

See notes to the financial statements

**FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT 1
COLLIER COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY

Reporting Entity

Fiddler's Creek Community Development District 1, ("District") was created on August 13, 1996 under the Uniform Community Development District Act of 1980, Chapter 190, Florida Statutes, as amended (the "Act") and Rule 42X 1.001-1.003 adopted by Florida Land and Water Adjudicatory Commission and amended on September 16, 2003, designated as Fiddler's Creek Community Development District 1. The Act provides among other things, the power to manage basic services for community development, power to borrow money and issue bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure.

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

The District is located in the metropolitan Naples area of Collier County, Florida, within the Fiddler's Creek Development of Regional Impact ("DRI"), a master planned community that is comprised of the District and Fiddler's Creek Community Development District 2. The District consists of approximately 1,390 acres within the Fiddler's Creek DRI. In 2003, the boundaries of the District were modified but the acreage, 1,390 acres, remained the same. The District is being developed by 951 Land Holdings, Ltd., a Florida limited partnership and previously known as 951 Land Holding Joint Venture ("Developer"). The Developer owns significant portions of the land; therefore, the District is economically dependent on the Developer. During the current year the Developer filed for bankruptcy protection (see Note 8 for details).

The District is governed by the Board of Supervisors ("Board"), which is composed of five members. The Supervisors are elected by qualified electors living within the District. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes.

The Board has the responsibility for:

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

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 District Board of Supervisors 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements

The basic 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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 (Operating-type special assessments for maintenance and debt service are treated as charges for services.) and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. 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 to be recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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

Assessments are non-ad valorem assessments on all real property within the District. Assessments are levied each November 1 on property as of the previous January. The fiscal year for which annual assessments are levied begins on October 1 with discounts available for payments through February 28 and become delinquent on April 1. For debt service assessments, amounts collected as advance payments are used to prepay a portion of the Bonds outstanding. The District invoices the prime Developer for some of the debt service assessments. Otherwise, assessments are collected annually to provide funds for the debt service on the portion of the Bonds which are not paid with prepaid assessments.

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 government.

The District reports the following major governmental funds:

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.

Debt Service Funds

The debt service funds are used to account for the accumulation of resources for the annual payment of principal and interest on long-term debt for the Series 1999, 2002, 2005 and 2006.

Capital Projects Funds

These funds account for the financial resources to be used for the acquisition or construction of major infrastructure within the District related to the Series 2005 and 2006 capital project. The Series 2006 fund was closed in the prior year.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 government'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 and debt covenants.

Deposits and Investments

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

The District has elected to proceed under the Alternative Investment Guidelines as set forth in Section 218.415 (17) Florida Statutes. The District may invest any surplus public funds in the following:

- a) The Local Government Surplus Trust Funds, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act;
- 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;
- d) Direct obligations of the U.S. Treasury.

Securities listed in paragraph c and d shall be invested to provide sufficient liquidity to pay obligations as they come due. In addition, surplus funds may be deposited into certificates of deposit which are insured and any unspent Bond proceeds are required to be held in investments as specified in the Bond Indenture.

The District records all interest revenue related to investment activities in the respective funds and reports investments at fair value.

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.

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, sidewalks and similar items) are reported in the government activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. 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 assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Capital Assets (Continued)

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>
Equipment	5 - 10
Infrastructure	20 - 40
Buildings and improvements	7 - 39

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

Deferred Charges

In prior years, in connection with the issuance of certain debt, the District incurred costs totaling \$1,841,764. In the government-wide financial statements that amount has been capitalized and amortized over the estimated life of the Bonds. At September 30, 2010, the District reported accumulated amortization of \$859,976.

Deferred Amount on Refunding

For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized using the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount is offset against the new liability.

In connection with the refunding, the deferred amount on the refunding was \$185,266 and is being amortized over the life of the Bonds. Accumulated amortization of the deferred amount is \$74,108 at September 30, 2010.

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

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, which does not result in a material difference from the effective interest method. Bonds payable are reported net of applicable premiums or discounts.

In the fund financial statements, governmental fund types recognize premiums and discounts, as well as 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 debt service expenditures.

Fund Equity/Net Assets

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity/Net Assets (Continued)

Net assets in the government-wide financial 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 3 – BUDGETARY INFORMATION

The District is required to establish a budgetary system and an approved Annual Budget. Annual Budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

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

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

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

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.

Investments

The District's investments were held as follows at September 30, 2010:

	<u>Fair Value</u>	<u>Credit Risk</u>	<u>Maturities</u>
Money Market Mutual Funds - First American			Weighted average of the fund portfolio: 42 days
Government Obligations	\$ 2,986,691	S&P AAAM	Weighted average of the fund portfolio: 21 days
Treasury Obligations Fund SS	70,101	S&P AAAM	
Total Investments	<u>\$ 3,056,792</u>		

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Custodial risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The District has no formal policy for custodial risk. The money market mutual funds are not evidenced by securities that exist in physical or book entry form.

Credit risk – For investments, credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investment ratings by investment type are included in the preceding summary of investments.

Concentration risk – The District places no limit on the amount the District may invest in any one issuer.

Interest rate risk – The District does not have a formal policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

However, the Bond Indenture limits the type of investments held using unspent proceeds.

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables at September 30, 2010 were as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 99,497	\$ -
Debt service Series 1999	15	-
Debt service Series 2005	-	82,184
Debt service Series 2006	-	17,328
Total	<u>\$ 99,512</u>	<u>\$ 99,512</u>

The outstanding balances between funds result primarily from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made. In the case of the District, the balances between the general fund and the debt service fund relate to legal fees incurred with regard to the delinquent assessments, Bond call, and Developer bankruptcy paid from the general fund that should be paid from the remedial account.

Interfund transfers for the fiscal year ended September 30, 2010 were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer out</u>
General	\$ 342,240	\$ -
Debt service Series 2002	-	112,926
Debt service Series 2005	6,233,623	-
Debt service Series 2006	-	17,328
Capital projects Series 2005	-	6,445,609
Total	<u>\$ 6,575,863</u>	<u>\$ 6,575,863</u>

The transfer from the Series 2005 capital projects fund to the debt service fund was for the \$5.5 million Bond redemption called by the bondholder and interest payments due. The other transfers are associated with legal fees paid out of the remedial account.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2010 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land and improvements	\$ 23,293,924	\$ -	\$ -	\$ 23,293,924
Construction in progress	2,099,983	323,748	-	2,423,731
Total capital assets, not being depreciated	25,393,907	323,748	-	25,717,655
Capital assets, being depreciated				
Building and improvements	7,695,968	-	-	7,695,968
Infrastructure	15,109,489	-	-	15,109,489
Equipment	67,757	-	-	67,757
Total capital assets, being depreciated	22,873,214	-	-	22,873,214
Less accumulated depreciation for:				
Building and improvements	5,537,973	476,861	-	6,014,834
Infrastructure	4,020,297	539,940	-	4,560,237
Equipment	33,934	8,097	-	42,031
Total accumulated depreciation	9,592,204	1,024,898	-	10,617,102
Total capital assets, being depreciated, net	13,281,010	(1,024,898)	-	12,256,112
Governmental activities capital assets	\$ 38,674,917	\$ (701,150)	\$ -	\$ 37,973,767

The total projected cost of infrastructure to the District was estimated at approximately \$55,000,000. Four phases of major infrastructure construction were anticipated. Construction of Phases 1, 2, and 3 were substantially completed. For the fiscal year ended September 30, 2010, approximately \$307,892 construction cost was incurred for the remaining phases. The District reduced the scope of the project in the prior year and allowed the use of the excess monies in the 2005 Acquisition and Construction Account to redeem a portion of the outstanding 2005 Bonds. See note 6 for related Bonds redemption.

NOTE 7 – LONG TERM LIABILITIES

At September 30, 2010 the District has the following Bond issues outstanding.

Series 1999

In May 1999, the District issued \$17,245,000 of Special Assessment Revenue Bonds, Series 1999 consisting of \$9,305,000 Term Bonds Series 1999A due on May 1, 2021 with a fixed interest rate of 5.875% and \$7,940,000 Term Bonds Series 1999B due on May 1, 2021 with a fixed interest rate of 5.80%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is to be paid semiannually on each May 1 and November 1. Principal is to be paid on May 1, commencing May 1, 2002.

The Series 1999 Bonds are subject to redemption at the option of the District, in whole or in part at any time on or after May 1, 2009 at a redemption price as set forth in the Bond Indenture.

The Series 1999 Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture. During the fiscal year ended September 30, 2010, the District collected assessments and prepaid \$85,000 on the Series 1999A Bonds and \$90,000 on the Series 1999B. See Note 15 – Subsequent events for additional call amount subsequent to the fiscal year end.

NOTE 7 – LONG TERM LIABILITIES (Continued)

Series 1999 (Continued)

The Bond Indenture established a debt service reserve requirement as well as other 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 agrees to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The District is in compliance with those requirements of the Bond Indenture at September 30, 2010.

Series 2002

In March 2002, the District issued \$15,450,000 of Special Assessment Revenue Bonds, Series 2002 consisting of \$10,120,000 Term Bonds Series 2002A due on May 1, 2033 with a fixed interest rate of 6.875% and \$5,330,000 Term Bonds Series 2002B due on May 1, 2033 with a fixed interest rate of 6.625%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is to be paid semiannually on each May 1 and November 1. Principal is to be paid on May 1, commencing May 1, 2004.

The Series 2002 Bonds are subject to redemption at the option of the District, in whole or in part at any time on or after May 1, 2012 at a redemption price as set forth in the Bond Indenture.

The Series 2002 Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture.

The Bond Indenture established a debt service reserve requirement as well as other 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 agrees to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The requirement wasn't met as of September 30, 2010 because of delinquent special assessments due from the Developer. Consequently there were insufficient funds to pay the principal and interest on the 2002 Series Bonds due on or before May 1, 2010. As a result, an event of default has occurred. See note 7 for details.

The Series 2002 Bond Indenture has been amended which directed the Trustee to withdraw \$29,129 from the Series 2002A reserve subaccount and \$15,303 from the Series 2002B reserve subaccount and deposit into the Remedial Expenditures Account to be used to pay remedial fees (legal fees and expenses, and consultant charges related to the preparation for and enforcement of a foreclosure action to enforce the collection of delinquent special assessments). Pursuant to the provisions of the Bond Indenture, at least a majority of the Bond owners' consent was obtained.

Series 2005

In December 2005, the District issued \$18,095,000 of Special Assessment Revenue Bonds, Series 2005 due May 1, 2038 with a fixed interest rate of 6.00%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is to be paid semiannually on each May 1 and November 1. Principal is to be paid on May 1, commencing May 1, 2009.

The Series 2005 Bonds are subject to redemption at the option of the District, in whole or in part at any time on or after May 1, 2016 at a redemption price as set forth in the Bond Indenture.

The Series 2005 Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture.

NOTE 7 – LONG TERM LIABILITIES (Continued)

Series 2005 (Continued)

The Bond Indenture established a debt service reserve requirement as well as other 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 agrees to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The requirement wasn't met as of September 30, 2010 because of delinquent special assessments due from the Developer. Consequently there were insufficient funds to pay the principal and interest on the 2005 Series Bonds due on or before May 1, 2010. As a result, the Bondholders directed the Trustee to redeem \$4,000,000 aggregate principal amount of outstanding Bonds on June 18, 2010, and redeemed additional \$1,500,000 aggregate principal amount on September 29, 2010 by using existing moneys in the 2005 Acquisition and Construction Account. As such, an event of default has occurred. See note 7 for details.

The Series 2005 Bond Indenture has been amended which directed the Trustee to withdraw \$55,568 from the Series 2005 acquisition and construction account and deposit into the Remedial Expenditures Account to be used to pay remedial fees (legal fees and expenses, and consultant charges related to the preparation for and enforcement of a foreclosure action to enforce the collection of delinquent Special Assessments). Pursuant to the provisions of the Bond Indenture, at least a majority of the Bond owners' consent was obtained.

Series 2006

In November 2006, the District issued \$6,570,000 of Special Assessment Revenue Refunding Bonds, Series 2006 due May 1, 2018 with a fixed interest rate of 4.20%. Bonds were issued to refund \$6,790,000 of the Capital Improvement Revenue Bonds, Series 1996. Interest is to be paid semiannually on each May 1 and November 1, commencing May 1, 2007. Principal is to be paid on May 1, commencing May 1, 2008.

The Series 2006 Bonds are subject to redemption at the option of the District, in whole or in part at any time at a redemption price as set forth in the Bond Indenture.

The Series 2006 Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture. This occurred during the fiscal year ended September 30, 2010 as the District collected assessments and prepaid \$35,000 of the Series 2006 Bonds. See Note 15 – Subsequent events for additional call amount subsequent to the fiscal year end.

The Bond Indenture established a debt service reserve requirement as well as other 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 agrees to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The District is in compliance with those requirements of the Bond Indenture at September 30, 2010.

SunTrust Loan

On March 23, 2006 the District entered into an agreement with SunTrust Bank and obtained a Promissory Note on the principal amount not to exceed \$3,600,000 for the purpose of financing the repairs to District assets damaged by hurricanes. The interest rate of 5.22% was fixed at the day following the day the last advance was made. The interest and principal are payable in quarterly installments on each April 30, July 30, October 30, and January 30. Interest payments commenced January 30, 2007 and principal payments commenced April 30, 2007. The Note matures on March 23, 2011.

The Note is subject to optional prepayment in whole or in part at any time in the manner determined by the Loan Agreement. The Loan Agreement establishes requirements for an assessment account (110% of the principal and interest due on each April 1, beginning April 1, 2007) maintained by the District in order to secure repayment of the Note. The District is in compliance with those requirements at September 30, 2010.

NOTE 7 – LONG TERM LIABILITIES (Continued)

Long-term debt transactions

Changes in long-term liability activity for the fiscal year ended September 30, 2010 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 1999A	\$ 6,745,000	\$ -	\$ (485,000)	\$ 6,260,000	\$ 415,000
Series 1999B	2,120,000		(215,000)	1,905,000	130,000
Series 2002A	9,365,000		-	9,365,000	170,000
Series 2002B	4,920,000		-	4,920,000	90,000
Series 2005	17,865,000		(5,500,000)	12,365,000	175,000
Series 2006	4,995,000		(500,000)	4,495,000	485,000
SunTrust loan agreement	1,037,840		(590,555)	447,285	447,285
Capital leases	-	15,856	(4,430)	11,426	7,964
Less: deferred amount on refunding	(129,685)		18,527	(111,158)	-
Total	<u>\$ 46,918,155</u>	<u>\$ 15,856</u>	<u>\$ (7,276,458)</u>	<u>\$ 39,657,553</u>	<u>\$ 1,920,249</u>

The ending balance as reported above includes the following amounts reported in the statement of net assets as follows:

Total ending balances	\$ 39,657,553
Less: Unpaid principal due to Bondholder	(245,000)
Non-current liabilities	<u>\$ 39,412,553</u>

The due within one year amount as reported above of \$1,920,249 does not include the unpaid principal due to Bondholders of \$245,000 that is included in the principal for the year ending September 30, 2011 as reported below.

At September 30, 2010, the scheduled debt service requirements on the long - term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2011	\$ 2,165,250	\$ 3,332,260	\$ 5,497,510
2012	1,548,461	2,292,653	3,841,114
2013	1,640,000	2,196,416	3,836,416
2014	1,730,000	2,106,251	3,836,251
2015	1,830,000	2,010,714	3,840,714
2016-2020	9,435,000	8,442,677	17,877,677
2021-2025	5,750,000	6,022,431	11,772,431
2026-2030	6,605,000	4,192,694	10,797,694
2031-2035	6,560,000	1,821,663	8,381,663
2036-2038	2,505,000	306,600	2,811,600
Total	<u>\$ 39,768,711</u>	<u>\$ 32,724,359</u>	<u>\$ 72,493,070</u>

NOTE 8 – EVENT OF DEFAULT

On May 28, 2010, the District declared the occurrence of two events of default in accordance with the Series 2002 and Series 2005 Bond Indenture. The occurrence of an event of default creates certain remedial rights and remedies in favor of the Bondholders. Pursuant to the Indenture, the owners of a majority in aggregate principal amount of the Bonds then outstanding may direct the Trustee with regard to such rights and remedies following an event of default and upon provision of indemnity satisfactory to the Trustee and in accordance with provisions of the Indenture. However, as a result of Developer bankruptcy filing (see Note 8 for details), remedial action against the Developer is stayed. No assurance can be given as to the amount or timing of payments, if any to the bondholders for Series 2002 and Series 2005 Bonds.

NOTE 9 – DEVELOPER BANKRUPTCY

On February 23, 2010, the Developer filed for Chapter 11 bankruptcy protection. The Developer owns a significant portion of the land within the District and the District is economically dependent on the Developer. There are delinquent assessments due from the Developer for the fiscal year ended September 30, 2010. See Note 9 for details.

The Bankruptcy Court approved a “debtor in possession” loan facility, on an interim basis, that provides for monthly payment of “off roll” O&M Assessments as budgeted by the Developer and other assessment payments to the District only if certain sales targets are met in the future. The District has filed a proof of claim with the bankruptcy court. However, the likelihood of complete recovery cannot yet be determined. It is anticipated, however, that the District’s liens will remain preserved throughout the reorganization.

NOTE 10 – DEVELOPER TRANSACTIONS

The Developer owns significant portions of land within the District; therefore, assessment revenues in the general and debt service funds include the assessments levied on those lots owned by the Developer.

For the fiscal year ended September 30, 2010, the Developer assessment revenue in the general fund was \$707,350. The Developer also paid \$16,659 to the Series 1999 debt service fund.

In the prior year, there were \$1,498,798 of off roll delinquent debt service assessments due from the Developer, which \$743,882 was for the Series 2002 Bond and \$754,916 was for the Series 2005 Bond. In addition to the prior year, there were \$2,526,694 of off roll delinquent debt service assessments due from the Developer for the fiscal year ended September 30, 2010, of which \$1,214,794 was for the Series 2002 Bond and \$1,311,900 was for the Series 2005 Bond. The District Board tried to proceed with foreclosure action on the delinquent assessments. However, just prior to the foreclosure filings, the Developer filed for Chapter 11 bankruptcy protection. As a result, the foreclosure filings were automatically stayed pursuant to 11 USC § 362. Those delinquent assessments have been recognized as revenue in the governmental-wide financial statements as the District Board believes the District’s claims shall remain as the liens are attached to the land.

NOTE 11 – DEFICIT FUND EQUITY

At September 30, 2010, the District has deficit fund balances in the both Series 2002 and Series 2005 debt service fund in amount of (\$828,611) and (\$38,231), respectively. The deficits remain as of the date of the report. As a result, management has determined that a financial emergency condition has been met.

NOTE 12 – RELATED ENTITY TRANSACTIONS

The District is related to Fiddler’s Creek Community Development District II and shares the same Developer. The District has a receivable in the amount of \$3,366 from Fiddler’s Creek Community Development District II for shared costs as of September 30, 2010.

NOTE 13 – MANAGEMENT COMPANY

The District has contracted with Wrathell, Hunt and Associates to perform management advisory services, which include financial and accounting advisory services. Certain employees of the management company also serve as officers of the District. Under the agreement, the District compensates the management company for management, accounting, financial reporting, computer and other administrative costs.

NOTE 14 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has obtained commercial insurance from independent third parties to mitigate the costs of these risks; coverage may not extend to all situations. Settled claims from these risks have not exceeded commercial insurance coverage over the past three years.

NOTE 15 – LITIGATION AND CLAIMS

In the prior year, a claim was filed against the District by a landscape company for breach of contract. The District agreed to settle the case during fiscal year 2010 for \$25,000.

On September 13, 2010 the District received a demand letter from the Trustee alleged that the District was acting as an alter ego of the bankruptcy Debtor/Developer by routinely promoting/protecting the interests of the developer over those of the bondholders. The District believes it had acted in an appropriate, independent manner based on the circumstances as they unfolded in the bankruptcy case. No additional action was taken by neither the District nor the Trustee with respect to same.

NOTE 16 – SUBSEQUENT EVENTS

Bond Payments

Series 1999

In November 2010 the District prepaid \$15,000 of the Series 1999A Bonds and \$30,000 of the Series 1999B Bonds. The prepayments were considered extraordinary mandatory redemptions as outlined in the Bond Indentures.

Series 2006

In November 2010 the District prepaid \$15,000 of the Series 2006 Bonds. The prepayments were considered extraordinary mandatory redemptions as outlined in the Bond Indentures.

Series 2002 and Series 2005

Subsequent to September 30, 2010, the District did not pay any principal and interest payments on the Series 2002 and Series 2005 Bonds when due. The events of default are continuing and no assurance can be given as to the amount or timing of payments, if any, to the bondholders for the Series 2002 and Series 2005 Bonds as of the date of the report.

**FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT 1
COLLIER COUNTY, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Assessments	\$ 2,744,503	2,499,440	\$ 2,468,306	\$ (31,134)
Interest	6,000	3,949	4,585	636
Miscellaneous income	5,000	6,542	6,542	-
Total revenues	<u>2,755,503</u>	<u>2,509,931</u>	<u>2,479,433</u>	<u>(30,498)</u>
EXPENDITURES				
Current:				
General government	305,444	686,816	655,694	31,122
Maintenance and operations	1,788,573	1,729,658	1,746,163	(16,505)
Debt Service:				
Principal and interest	633,793	633,793	637,513	(3,720)
Capital outlay	-	-	15,856	(15,856)
Total expenditures	<u>2,727,810</u>	<u>3,050,267</u>	<u>3,055,226</u>	<u>(4,959)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 27,693</u>	(540,336)	(575,793)	(35,457)
OTHER FINANCING SOURCES (USES)				
Transfers In		324,913	342,240	17,327
Use of sources		199,567		(199,567)
Capital leases		15,856	15,856	-
		<u>540,336</u>	<u>358,096</u>	<u>(182,240)</u>
Net change in fund balances		<u>\$ -</u>	(217,697)	<u>\$ (217,697)</u>
Fund balance - beginning			<u>860,340</u>	
Fund balance - ending			<u>\$ 642,643</u>	

See notes to required supplementary information

**FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT 1
COLLIER COUNTY, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

The District is required to establish a budgetary system and an approved Annual Budget for the general fund. The District's budgeting process is based on estimates of cash receipts and cash expenditures which are approved by the Board. The budget approximates a basis consistent with accounting principles generally accepted in the United States of America (generally accepted accounting principles).

The legal level of budgetary control, the level at which expenditures may not exceed budget is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. The general fund budget for the fiscal year ended September 30, 2010 was amended to decrease revenues by (\$245,572), increase appropriations by \$322,457, and increase other financing sources (uses) by \$540,336. The decrease in revenues is primarily the result of less than anticipated assessments being budgeted and the increase in appropriations is primarily due to legal costs exceeded anticipated amounts, which were incurred in association with the default and foreclosure issues. Actual general fund expenditures for the fiscal year ended September 30, 2010 exceeded appropriations by \$4.959, which were not considered material. The over expenditures were funded by available fund balance.

**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
Fiddler's Creek Community Development District 1
Collier County, Florida

We have audited the financial statements of the governmental activities and each major fund of Fiddler's Creek Community Development District 1, Collier County, Florida ("District") as of and for the fiscal year ended September 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 21, 2011, which includes an emphasis of matter paragraph. 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, and 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*.

We noted certain matters that we reported to management of the District in a separate letter dated March 21, 2011.

This report is intended for the information and use of the management, Board of Supervisors of Fiddler's Creek Community Development District 1, Collier County, Florida and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

Grand Associates

March 21, 2011

**MANAGEMENT LETTER PURSUANT TO THE RULES OF
THE AUDITOR GENERAL FOR THE STATE OF FLORIDA**

To the Board of Supervisors
Fiddler's Creek Community Development District 1
Collier County, Florida

We have audited the accompanying basic financial statements of Fiddler's Creek Community Development District 1 ("District") as of and for the fiscal year ended September 30, 2010, and have issued our report thereon dated March 21, 2011, which includes an emphasis of matter paragraph.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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.

In addition, we have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters dated March 21, 2011. Disclosures in that report should be considered in conjunction with this management letter.

The purpose of this letter is to comment on those matters required by Chapter 10.550 of the Rules of the Auditor General for the State of Florida. Accordingly, in connection with our audit of the financial statements of the District, as described in the first paragraph, we report the following:

- I. Current year findings and recommendations.**
- II. Status of prior year findings and recommendations.**
- III. Compliance with the Provisions of the Auditor General of the State of Florida.**

This report is intended for the information of the management, Board of Supervisors of Fiddler's Creek Community Development District 1, Collier County, Florida and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank Fiddler's Creek Community Development District 1, Collier County, Florida and the personnel associated with it, for the opportunity to be of service to them in this endeavor as well as future engagements, and the courtesies extended to us.

Grau & Associates

March 21, 2011

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2010-01 Financial Condition Assessment:

Observation: The District's financial conditions are deteriorating. The Developer did not pay assessments levied for the Series 2002 and Series 2005 Bonds for both the 2010 and 2009 fiscal year. As a result, there were insufficient funds to pay the principal and interest on the Series 2002 and 2005 Bonds due on or before May 1, 2010, and related reserve requirements were not met. Consequently, events of default on both the Series 2002 and 2005 Bonds have occurred and are continuing. In addition, the District has deficit fund balances in the both the Series 2002 and 2005 debt service funds in the amount of (\$828,611) and (\$38,231), respectively. During the current year, the Developer filed Chapter 11 for bankruptcy protection and the District is economically dependent on the Developer.

Recommendation: The District should take steps to alleviate the deteriorating financial condition.

Management Response: The District, Developer, Bondholders and Trustee are all working to resolve the items noted above.

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2009-01: Debt Service Reserve Requirement

Current Status: Due to finding no. 2010-01 above, the deficits on the reserve account continue and reserve requirement on the Series 2002 and Series 2005 Bonds were not met at September 30, 2010.

III. COMPLIANCE WITH THE PROVISIONS OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

1. A statement as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

There were no significant findings and recommendations made in the preceding annual financial audit report for the fiscal year ended September 30, 2009, except as noted above.

2. A statement as to whether or not the local governmental entity complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

The District complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

3. Any recommendations to improve the local governmental entity's financial management.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported for the fiscal year ended September 30, 2010, except as noted above.

4. Violations of provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported, for the fiscal year ended September 30, 2010, except as noted above.

REPORT TO MANAGEMENT (Continued)

5. For matters that have an inconsequential effect on the financial statements, considering both quantitative and qualitative factors, the following may be reported based on professional judgment:
 - a. Violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse.
 - b. Deficiencies in internal control that are not significant deficiencies.

There were no such matters discovered by, or that came to the attention of, the auditor, that, in our judgment, are required to be reported, for the fiscal year ended September 30, 2010, except as noted above.

6. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.
7. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2010 financial audit report.
8. In connection with our audit, we determined that the District has met one or more of the financial emergency conditions described in Section 218.503 (1), Florida Statutes. At September 30, 2010, the District reported deficit fund balances in both the Series 2002 and 2005 debt service fund in the amount of (\$828,611) and (\$38,231), respectively. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and determined that a deteriorating financial condition was noted. See Findings section above for additional information. It is management's responsibility to monitor 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.