

**FIDDLER'S CREEK  
COMMUNITY DEVELOPMENT DISTRICT 1  
COLLIER COUNTY, FLORIDA  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011**

**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, 2011, 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.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

As discussed in Note 8 to the financial statements and the Report to Management as Finding 2011-01, the District is unable to provide sufficient competent evidential matter for certain expenditures paid for by the Trustee from the Series 2002 debt service fund and the capital project fund. In addition, as discussed in Note 12, the District is unable to provide sufficient competent evidential matter to support certain transfers made by the Trustee through the capital project fund between the District and Fiddler's Creek Community Development District 2. The financial information of the Series 2002 debt service fund and capital projects fund are part of the governmental activities and are considered major funds of the District.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the effects of the matter, as discussed above, been audited, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the debt service Series 2002 fund and the capital projects fund of the District as of September 30, 2011, and the changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the general, debt service Series 1999, debt service Series 2005, and debt service Series 2006 funds of the District as of September 30, 2011, 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 Notes 7 through 11 to the financial statements, the District's financial conditions are deteriorating. At September 30, 2011, the District's governmental funds reported a deficit in the combined ending fund balances of (\$1,498,862). The Developer did not pay current and prior year assessments of approximately \$6.3 million and, along with certain related entities, filed for Chapter 11 reorganization in the prior year. 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, 2011. As a result, the Trustee declared an event of default on the Series 2002 Bonds and Series 2005 Bonds. During the current fiscal year, the Bankruptcy Court approved the Developer and certain related entities' plans of reorganization. As a result, the Series 2002 and 2005 Bonds claims with respect to off roll property owned by the Developer shall have a new par amount equal to the outstanding amounts plus unpaid and accrued interest. In addition, subsequent to fiscal year end, the Developer and another delinquent land owner paid assessments due to the District with respect to on roll property in the amount of approximately \$786,000. The District is economically dependent on the Developer.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2012, 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.

*Gran & Associates*

June 28, 2012

## 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, 2011. 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, 2011 resulting in a net asset balance of \$5,498,557.
- The change in the District's total net assets in comparison with the prior year was \$79,543, 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, 2011, the District's governmental funds reported combined ending fund balances of (\$1,498,862), a decrease of (\$3,801,140) in comparison with the prior fiscal year.

### 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 six individual governmental funds for external reporting. 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,	
	2011	2010
Assets, excluding capital assets	\$ 10,161,439	\$ 9,271,816
Capital assets, net of depreciation	37,159,638	37,973,767
Total assets	47,321,077	47,245,583
Liabilities, excluding long-term liabilities	4,551,689	2,414,016
Long-term liabilities	37,270,831	39,412,553
Total liabilities	41,822,520	41,826,569
Net assets		
Invested in capital assets, net of related debt	789,493	170,679
Restricted for debt service	-	4,765,984
Unrestricted	4,709,064	482,351
Total net assets	\$ 5,498,557	\$ 5,419,014

## 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 District's net assets increased during the most recent fiscal year. The increase is primarily a result of intergovernmental transfers from Fiddler's Creek Community Development District 2 in the current year.

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,		
	2011	2010
Revenues:		
Program revenues		
Charges for services	\$ 6,421,829	\$ 7,305,062
Operating grants and contributions	237	112
Capital grants and contributions	528	4,638
General revenues		
Investment income	1,510	4,585
Intergovernmental	135,540	-
Total revenues	<u>6,559,644</u>	<u>7,314,397</u>
Expenses:		
General government	1,617,787	683,392
Maintenance and operations	2,433,980	2,771,061
Interest	2,428,334	2,431,827
Total expenses	<u>6,480,101</u>	<u>5,886,280</u>
Change in net assets	79,543	1,428,117
Net assets beginning	5,419,014	3,990,897
Net assets ending	<u>\$ 5,498,557</u>	<u>\$ 5,419,014</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2011 was \$6,480,101. 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.

## 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, 2011 was amended to increase revenues by \$3,748 and increase appropriations by \$979,534. The increase in appropriations is primarily due to unanticipated legal costs. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2011.

## GENERAL BUDGETING HIGHLIGHTS (Continued)

Actual general fund expenditures for the fiscal year ended September 30, 2011 were less than appropriations due primarily to anticipated costs which were not incurred in the current fiscal year. Assessments collected were less than budgeted amounts.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At September 30, 2011, the District had \$48,718,478 invested in land, land improvements, and infrastructure. In the government-wide financial statements depreciation of \$11,558,840 has been taken, which resulted in a net book value of \$37,159,638. More detailed information about the District's capital assets is presented in the notes of the financial statements.

### Capital Debt

At September 30, 2011, the District had \$38,040,000 in Bonds 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, 2010 and 2011 assessments that have not been collected due to the Developer not paying its assessments. Consequently, the District did not have sufficient funds to pay the principal and interest on the Series 2002 Bonds and the Series 2005 Bonds due on or before May 1, 2011. As a result, events of default on the Series 2002 Bonds and Series 2005 Bonds have been declared by the trustee. During the current fiscal year, the Bankruptcy Court approved the Developer and certain related entities' plans of reorganization. As a result, the Series 2002 and 2005 Bonds claims in respect of off roll property owned by the Developer shall have a new par amount equal to the outstanding amounts plus unpaid and accrued interest. In addition, subsequent to fiscal year end the Developer and another land owner paid assessments due to the District in respect of on roll property in the amount of approximately \$786,000.

### 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, 2011**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash	\$ 332,085
Investments	47,621
Accounts receivable	906,747
Due from Developer	6,378,625
Deposits	5,125
Due from other government	15,547
Restricted assets:	
Investments	1,575,003
Deferred charges	900,686
Capital assets:	
Nondepreciable	25,829,408
Depreciable, net	11,330,230
Total assets	<u>47,321,077</u>
<b>LIABILITIES</b>	
Accounts payable	221,125
Accrued interest payable	945,745
Contracts payable	39,962
Due to Bondholder:	
Principal	680,000
Interest	2,664,857
Non-current liabilities:	
Due within one year	1,528,462
Due in more than one year	35,742,369
Total liabilities	<u>41,822,520</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	789,493
Unrestricted	4,709,064
Total net assets	<u>\$ 5,498,557</u>

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, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 1,617,787	\$ 1,617,787	\$ -	\$ -	\$ -
Maintenance and operations	2,433,980	576,935	-	528	(1,856,517)
Interest on long-term debt	2,428,334	4,227,107	237	-	1,799,010
Total governmental activities	6,480,101	6,421,829	237	528	(57,507)
General revenues:					
Unrestricted investment earnings					1,510
Intergovernmental					135,540
Total general revenues					137,050
Change in net assets					79,543
Net assets - beginning					5,419,014
Net assets - ending					\$ 5,498,557

See notes to the financial statements

**FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT 1  
COLLIER COUNTY, FLORIDA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2011**

	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	
<b>ASSETS</b>							
Cash	\$ 332,085	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 332,085
Investments	47,621	904,973	39,839	5,262	608,850	16,079	1,622,624
Due from other funds	257,528	3,382	-	-	2,221	-	263,131
Due from Developer	73,405	-	3,188,470	3,116,750	-	-	6,378,625
Accounts receivable	363,372	368,554	-	-	174,821	-	906,747
Deposits	5,125	-	-	-	-	-	5,125
Due from other governments	15,547	-	-	-	-	-	15,547
Total assets	<u>\$ 1,094,683</u>	<u>\$ 1,276,909</u>	<u>\$ 3,228,309</u>	<u>\$ 3,122,012</u>	<u>\$ 785,892</u>	<u>\$ 16,079</u>	<u>\$ 9,523,884</u>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable	\$ 221,125	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 221,125
Contracts payable	-	-	-	-	-	39,962	39,962
Due to other funds	-	-	7,500	246,240	-	9,391	263,131
Debt service - current portion	-	-	2,427,957	916,900	-	-	3,344,857
Deferred revenue	335,157	350,430	3,188,470	3,116,750	162,864	-	7,153,671
Total liabilities	<u>556,282</u>	<u>350,430</u>	<u>5,623,927</u>	<u>4,279,890</u>	<u>162,864</u>	<u>49,353</u>	<u>11,022,746</u>
Fund balances:							
Nonspendable:							
Prepays and deposits	5,125	-	-	-	-	-	5,125
Restricted for:							
Debt service	178,475	926,479	-	-	623,028	-	1,727,982
Unassigned:							
General	354,801	-	-	-	-	-	354,801
Debt service	-	-	(2,395,618)	(1,157,878)	-	-	(3,553,496)
Capital projects	-	-	-	-	-	(33,274)	(33,274)
Total fund balances	<u>538,401</u>	<u>926,479</u>	<u>(2,395,618)</u>	<u>(1,157,878)</u>	<u>623,028</u>	<u>(33,274)</u>	<u>(1,498,862)</u>
Total liabilities and fund balances	<u>\$ 1,094,683</u>	<u>\$ 1,276,909</u>	<u>\$ 3,228,309</u>	<u>\$ 3,122,012</u>	<u>\$ 785,892</u>	<u>\$ 16,079</u>	<u>\$ 9,523,884</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, 2011**

Fund balance - governmental funds \$ (1,498,862)

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	48,718,478	
Accumulated depreciation	<u>(11,558,840)</u>	37,159,638

Assets that are not available to pay for current-period expenditures are deferred in the fund statements.		7,153,671
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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>(941,078)</u>	900,686

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	(945,745)	
Deferred amount on refunding	92,631	
Bonds payable	(37,360,000)	
Leases payable	<u>(3,462)</u>	<u>(38,216,576)</u>

Net assets of governmental activities		<u><u>\$ 5,498,557</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, 2011**

	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	
<b>REVENUES</b>							
Assessments	\$ 2,184,413	\$ 980,713	\$ -	\$ -	\$ 655,182	\$ -	\$ 3,820,308
Interest	1,510	-	224	13	-	528	2,275
Intergovernmental revenue	-	-	-	-	-	148,777	148,777
Miscellaneous income	10,309	-	-	-	-	-	10,309
Total revenues	<u>2,196,232</u>	<u>980,713</u>	<u>224</u>	<u>13</u>	<u>655,182</u>	<u>149,305</u>	<u>3,981,669</u>
<b>EXPENDITURES</b>							
Current:							
General government	1,553,885	29,478	7,500	7,500	19,424	-	1,617,787
Maintenance and operations	1,492,242	-	-	-	-	-	1,492,242
Intergovernmental expenses	-	-	13,237	-	-	-	13,237
Debt service:							
Principal	455,250	740,000	260,000	175,000	530,000	-	2,160,250
Interest	11,190	476,954	953,163	741,900	188,477	-	2,371,684
Capital outlay	-	-	-	-	-	127,609	127,609
Total expenditures	<u>3,512,567</u>	<u>1,246,432</u>	<u>1,233,900</u>	<u>924,400</u>	<u>737,901</u>	<u>127,609</u>	<u>7,782,809</u>
Excess (deficiency) of revenues over (under) expenditures	(1,316,335)	(265,719)	(1,233,676)	(924,387)	(82,719)	21,696	(3,801,140)
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	1,193,910	-	-	-	-	-	1,193,910
Transfers out	-	-	(333,331)	(177,932)	-	(682,647)	(1,193,910)
Total other financing sources (uses)	<u>1,193,910</u>	<u>-</u>	<u>(333,331)</u>	<u>(177,932)</u>	<u>-</u>	<u>(682,647)</u>	<u>-</u>
Net change in fund balances	(122,425)	(265,719)	(1,567,007)	(1,102,319)	(82,719)	(660,951)	(3,801,140)
Fund balances - beginning	660,826	1,192,198	(828,611)	(55,559)	705,747	627,677	2,302,278
Fund balances - ending	<u>\$ 538,401</u>	<u>\$ 926,479</u>	<u>\$ (2,395,618)</u>	<u>\$ (1,157,878)</u>	<u>\$ 623,028</u>	<u>\$ (33,274)</u>	<u>\$ (1,498,862)</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, 2011**

Net change in fund balances - total governmental funds	\$ (3,801,140)
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.	127,609
Depreciation on capital assets is not recognized in the governmental fund statement but is reported as an expense in the statement of activities.	(941,738)
Revenues that do not provide current available resources are deferred in the fund statements but are recognized as revenues in the statement of activities.	2,591,212
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.	2,160,250
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.	<u>42,980</u>
Change in net assets of governmental activities	<u><u>\$ 79,543</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 Developer owns significant portions of the land; therefore, the District is economically dependent on the Developer. In the prior year the Developer and certain related entities filed for bankruptcy protection.

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.

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.

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

#### Capital Projects Funds

This fund accounts for the financial resources to be used for the acquisition or construction of major infrastructure within the District related to the Series 2005 capital project.

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, 2011, the District reported accumulated amortization of \$941,078.

#### 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 \$92,631 at September 30, 2011.

#### 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.

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Fund Equity/Net Assets**

In the fund financial statements, governmental funds report non spendable and restricted fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Assignments of fund balance represent tentative management plans that are subject to change. Under GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balances are required to be reported according to the following classifications:

Non-spendable fund balance – Amounts that are (a) not in spendable form or (b) legally or contractually required to be maintained intact. “Not in spendable form” includes items that are not expected to be converted to cash (such as inventories and prepaid amounts) and items such as long-term amount of loans and notes receivable, as well as property acquired for resale. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.

Restricted fund balance – Amounts that can be spent only for specific purposes stipulated by (a) external resource providers such as creditors (by debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – Amounts that can be used only for the specific purposes determined by a formal action (resolution) of the Board of Supervisors. Commitments may be changed or lifted only by the Board of Supervisors taking the same formal action (resolution) that imposed the constraint originally. Resources accumulated pursuant to stabilization arrangements sometimes are reported in this category.

Assigned fund balance – Includes spendable fund balance amounts established by the Board of Supervisors that are intended to be used for specific purposes that are neither considered restricted nor committed.

Unassigned fund balance – Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

The District first uses committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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, 2011:

	Fair Value	Credit Risk	Maturities
Money Market Mutual Funds - First American			Weighted average of the fund portfolio: 50 days
Government Obligations	\$ 1,584,518	S&P AAAm	
Treasury Obligations Fund SS	38,106	S&P AAAm	Weighted average of the fund portfolio: 21 days
Total Investments	<u>\$ 1,622,624</u>		

*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 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2011 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	2,423,731	127,609	(15,856)	2,535,484
Total capital assets, not being depreciated	<u>25,717,655</u>	<u>127,609</u>	<u>(15,856)</u>	<u>25,829,408</u>
Capital assets, being depreciated				
Building and improvements	7,695,968	-	-	7,695,968
Infrastructure	15,109,489	-	-	15,109,489
Equipment	67,757	15,856	-	83,613
Total capital assets, being depreciated	<u>22,873,214</u>	<u>15,856</u>	<u>-</u>	<u>22,889,070</u>
Less accumulated depreciation for:				
Building and improvements	6,014,834	404,866	-	6,419,700
Infrastructure	4,560,237	527,831	-	5,088,068
Equipment	42,031	9,041	-	51,072
Total accumulated depreciation	<u>10,617,102</u>	<u>941,738</u>	<u>-</u>	<u>11,558,840</u>
Total capital assets, being depreciated, net	<u>12,256,112</u>	<u>(925,882)</u>	<u>-</u>	<u>11,330,230</u>
Governmental activities capital assets	<u>\$ 37,973,767</u>	<u>\$ (798,273)</u>	<u>\$ (15,856)</u>	<u>\$ 37,159,638</u>

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. In prior year the District reduced the scope of the project and redeemed a portion of the outstanding Series 2005 Bonds. For the fiscal year ended September 30, 2011, \$127,609 construction cost was incurred for the remaining phases.

Depreciation expense was charged to the maintenance and operation function.

## NOTE 6 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables at September 30, 2011 were as follows:

Fund	Receivable	Payable
General	\$ 257,528	\$ -
Debt service Series 1999	3,382	-
Debt service Series 2002	-	7,500
Debt service Series 2005	-	246,240
Debt service Series 2006	2,221	-
Capital projects Series 2005	-	9,391
Total	<u>\$ 263,131</u>	<u>\$ 263,131</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. The balances between the general fund and the debt service Series 2005 relate to legal fees incurred with regard to the bond default that were paid from the general fund and are allowed to be paid from the Series 2005 remedial trust account with the consent of the Bondholders. As of the report date, the Bondholders have not consented to the payment of the legal fees of the District from the remedial trust account.

## NOTE 6 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

Interfund transfers for the fiscal year ended September 30, 2011 were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer out</u>
General	\$ 1,193,910	\$ -
Debt service Series 2002	-	333,331
Debt service Series 2005	-	177,932
Capital projects Series 2005	-	682,647
Total	<u>\$ 1,193,910</u>	<u>\$ 1,193,910</u>

These transfers from the debt service funds and the capital project fund to the general fund are related to legal fees incurred with regard to the bond default. Of this amount, approximately \$980,000 was utilized by the Trustee for legal fees– see Note 7.

## NOTE 7 – LONG TERM LIABILITIES

At September 30, 2011 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 Master Trust Indenture and associated Supplemental Trust Indentures (“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, 2011, the District collected assessments and prepaid \$75,000 on the Series 1999A Bonds and \$120,000 on the Series 1999B.

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, 2011.

### **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.

## **NOTE 7 – LONG TERM LIABILITIES (Continued)**

### **Series 2002 (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. Because of delinquent special assessments due from the Developer there were insufficient funds to pay the principal and interest on the 2002 Series Bonds due on or before May 1, 2011. As a result, the Trustee declared an event of default.

In a prior year, the Series 2002 Bond Indenture was 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). Remedial fees could be incurred by the District or the Trustee on behalf of the Bondholders. Any remedial fees that are incurred by the District must be approved by a majority of the Bondholders, whereas any remedial fees that are incurred by the Trustee do not require the approval of a majority of the Bondholders. During the fiscal year ended September 30, 2011, approximately \$300,000 was utilized by the Trustee for legal and other fees.

### **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.

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. Because of delinquent special assessments due from the Developer there were insufficient funds to pay the principal and interest on the 2005 Series Bonds due on or before May 1, 2011. As a result, the Trustee declared an event of default.

In a prior year, the Series 2005 Bond Indenture was 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 incurred by the District or the Trustee on behalf of the Bondholders. Pursuant to the provisions of the Bond Indenture, any remedial fees that are incurred by the District must be approved by a majority of the Bondholders, whereas any remedial fees that are incurred by the Trustee do not require the approval of a majority of the Bondholders. During the fiscal year ended September 30, 2011, approximately \$680,000 was utilized by the Trustee for legal and other fees. However, the District is seeking recourse from the Trustee as to replenishing the Series 2005 Bonds Construction account (see Note 15 for details).

**NOTE 7 – LONG TERM LIABILITIES (Continued)**

**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, 2011 as the District collected assessments and prepaid \$45,000 of the Series 2006 Bonds.

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, 2011.

**SunTrust Loan**

On March 23, 2006 the District entered into an agreement with SunTrust Bank and obtained a Promissory Note in the principal amount not to exceed \$3,600,000 for the purpose of financing repairs to certain District assets damaged by Hurricane Wilma. 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 matured in March 2011 and was paid in full.

**Long-term debt transactions**

Changes in long-term liability activity for the fiscal year ended September 30, 2011 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b><u>Governmental activities</u></b>					
Bonds payable:					
Series 1999A	\$ 6,260,000	\$ -	\$ (490,000)	\$ 5,770,000	\$ 435,000
Series 1999B	1,905,000		(250,000)	1,655,000	125,000
Series 2002A	9,365,000		-	9,365,000	510,000
Series 2002B	4,920,000		-	4,920,000	275,000
Series 2005	12,365,000		-	12,365,000	360,000
Series 2006	4,495,000		(530,000)	3,965,000	500,000
SunTrust loan agreement	447,285		(447,285)	-	-
Capital leases	11,426	-	(7,964)	3,462	3,462
Less: deferred amount on refunding	(111,158)		18,527	(92,631)	-
Total	<u>\$ 39,657,553</u>	<u>\$ -</u>	<u>\$ (1,706,722)</u>	<u>\$ 37,950,831</u>	<u>\$ 2,208,462</u>

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

Total ending balances	\$ 37,950,831
Less: Unpaid principal due to Bondholder	(680,000)
Non-current liabilities	<u>\$ 37,270,831</u>

The due within one year amount as reported above of \$2,208,482 includes the unpaid principal of \$680,000, which is reported under due to Bondholders in the statement of net assets.

## NOTE 7 – LONG TERM LIABILITIES (Continued)

At September 30, 2011, the scheduled debt service requirements on the long - term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2012	\$ 2,208,462	\$ 4,933,634	\$ 7,142,096
2013	1,620,000	2,184,247	3,804,247
2014	1,710,000	2,095,163	3,805,163
2015	1,805,000	2,000,709	3,805,709
2016	1,910,000	1,900,951	3,810,951
2017-2021	9,180,000	7,877,839	17,057,839
2022-2026	5,095,000	5,655,356	10,750,356
2027-2031	7,045,000	3,763,481	10,808,481
2032-2036	5,750,000	1,402,225	7,152,225
2037-2038	1,720,000	156,300	1,876,300
Total	<u>\$ 38,043,462</u>	<u>\$ 31,969,905</u>	<u>\$ 70,013,367</u>

## NOTE 8 – EVENT OF DEFAULT

On May 28, 2010, the Trustee declared the occurrence of events of default in accordance with the Series 2002 and Series 2005 Bond Indentures due to the District's failure to make certain debt service payments. 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.

During the current fiscal year, approximately \$1.2 million of expenditures were disbursed by the Trustee from the Series 2002 debt service fund, Series 2005 debt service fund and Series 2005 capital project fund for services asserted by the Trustee to have been performed related to the events of default, legal services, and related matters. Invoices were not provided by the Trustee for approximately \$416,000 of these expenditures incurred in the debt service Series 2002 and capital projects funds.

## NOTE 9 – DEVELOPER BANKRUPTCY

On February 23, 2010, the Developer and certain related entities filed for Chapter 11 bankruptcy protection. During the current fiscal year, the Bankruptcy Court approved the Developer's plans of reorganization. As a result, the Series 2002AB Bond claims with respect to off roll property owned by the Developer shall have a new par amount equal to the outstanding amounts plus unpaid and accrued interest thereon for 2009, 2010 and for the period from March 1, 2011, through November 1, 2012 with the same pre-petition coupon rate commencing on May 1, 2013 as the first payment date with the maturity date on May 1, 2033. Regarding the Series 2005 Bond claims with respect to off roll property owned by the Developer, it shall have a new par amount equal to the outstanding amounts plus unpaid and accrued interest thereon for 2009, 2010 and for the period from March 1, 2011 through November 1, 2012 with a coupon rate of 6%, commencing on April 15, 2013 as the first payment date with the maturity date on May 1, 2038.

Subsequent to fiscal year end, the Developer, another delinquent land owner and the District entered into an escrow agreement, approved by the Bankruptcy Court, in which the Developer and another delinquent land owner agreed to pay assessments due to the District in the amount of approximately \$786,000 and will deposit it into an escrow account. On February 14, 2012, the said monies were released from escrow and remitted to the District.

#### **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, 2011, the Developer paid \$673,936 assessment revenue recorded in the general fund.

As of September 30, 2011, the Developer had approximately \$670,000 delinquent assessments which should be settled in the escrow agreement (see Note 9 for details). With respect to off roll property that the Developer owned, the delinquent off roll assessments due from the Developer were approximately \$3.2 million for the Series 2002 Bonds and \$3.1 million for the Series 2005 Bonds. Those delinquent assessments have been recognized as revenue in the governmental-wide financial statements and will be collected through part of the Bonds claims (see Note 9 for details).

#### **NOTE 11 – DEFICIT FUND EQUITY**

At September 30, 2011, the District has deficit fund balances of (\$2,395,618) in the Series 2002 debt service fund, (\$1,157,878) in the Series 2005 debt service fund and (\$33,274) in the capital project fund.

#### **NOTE 12 – RELATED ENTITY TRANSACTIONS**

The District shares the same Developer as Fiddler's Creek Community Development District 2. The District has a receivable in the amount of \$15,547 from Fiddler's Creek Community Development District 2 for shared costs as of September 30, 2011.

In association with approximately \$1.2 million of expenditures disbursed by the Trustee from the Series 2002 debt service fund, Series 2005 debt service fund and Series 2005 capital project fund for services asserted by the Trustee to have been performed related to the events of default, legal services, and related matters as discussed in Note 8 above, approximately \$13,000 was transferred out of the District's Series 2002 debt service fund to Fiddler's Creek Community Development District 2, and approximately \$149,000 transferred into the District's Series 2005 capital project fund from Fiddler's Creek Community Development District 2 by the Trustee. The District was unable to obtain documentation substantiating these transfers made by the Trustee for the asserted remedial expenditures between the two Districts.

#### **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, the District considered foreclosure litigation against the Developer and another land owner who have not paid assessments on property owned within the District. However, due to the fact that the Developer and another land owner filed for Chapter 11 reorganization, the anticipated foreclosure filings were automatically stayed pursuant to 11 USC § 362. On August 29, 2011, the bankruptcy court confirmed plans of reorganization. As such, no further litigation may take place with respect to collection of amounts owed by the Developer as of the February 23, 2010 bankruptcy filing date. The District filed timely and subsequently amended proofs of claim in the Fiddler's Bankruptcy Case. However, U.S Bank ("Trustee") appealed the confirmation order and another order addressing district issues. Said appeals have now been dismissed voluntarily as to some Bond Series by court determination as to others. Further appeals are now time barred. The bankruptcy court's confirmation order stands.

On April 14, 2011, the Trustee filed suit against the District. The complaint sought a declaratory judgment that the District had improperly attempted to amend the assessment mechanisms and improperly intended to make non-specific business decisions relating to Series 1999, Series 2002, Series 2005 and Series 2006 Bonds. On November 1, 2011, the Trustee filed a Notice of Voluntary Dismissal and the case has been dismissed.

On May 9, 2011, the Trustee filed suit against the District to seek a preliminary and permanent injunction as to the District's voting rights in the Fiddler's Bankruptcy Case. The District filed a motion to consolidate the cases. On July 12, 2011, the Trustee filed a Notice of Voluntary Dismissal and the case has been dismissed.

Currently, the District remains in payment default under operative documents. The Trustee has reminded the District of this situation through ancillary correspondence although no complaint has been filed regarding the defaults. However since the District is in default, the District is bound by the orders of the bankruptcy proceedings and would rely on same as a defense.

In addition, subsequent to the fiscal year, the District has notified the Trustee under the District's 2005 Series Bonds that it seeks recourse as to replenishing the Series 2005 Bonds construction account and protection from overdraft charges. As of the report date, the outcome cannot be determined and, therefore, no amounts related to this matter have been reflected in the financial statements.

**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, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Assessments	\$ 2,259,927	\$ 2,259,927	\$ 2,184,413	\$ (75,514)
Interest	3,000	1,439	1,510	71
Miscellaneous income	5,000	10,309	10,309	-
Total revenues	<u>2,267,927</u>	<u>2,271,675</u>	<u>2,196,232</u>	<u>(75,443)</u>
<b>EXPENDITURES</b>				
Current:				
General government	306,976	1,607,411	1,553,885	53,526
Maintenance and operations	1,821,577	1,500,676	1,492,242	8,434
Debt service:				
Principal and interest	457,899	457,899	466,440	(8,541)
Total expenditures	<u>2,586,452</u>	<u>3,565,986</u>	<u>3,512,567</u>	<u>53,419</u>
Excess (deficiency) of revenues over (under) expenditures	(318,525)	(1,294,311)	(1,316,335)	(22,024)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	1,193,911	1,193,910	(1)
	<u>-</u>	<u>1,193,911</u>	<u>1,193,910</u>	<u>(1)</u>
Net change in fund balance	<u>\$ (318,525)</u>	<u>\$ (100,400)</u>	(122,425)	<u>\$ (22,025)</u>
Fund balance - beginning			<u>660,826</u>	
Fund balance - ending			<u>\$ 538,401</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, 2011 was amended to increase revenues by \$3,748 and increase appropriations by \$979,534. The increase in appropriations is primarily due to unanticipated legal costs. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2011.

Actual general fund expenditures for the fiscal year ended September 30, 2011 were less than appropriations due primarily to anticipated costs which were not incurred in the current fiscal year. Accordingly, assessments collected were less than budgeted amounts.



**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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 28, 2012, which includes an explanatory paragraph as to the qualified opinion for lack of sufficient competent evidential matter for certain expenditures paid and related party transactions and an emphasis of matter paragraph. Except as discussed in the explanatory 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.

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. However, as discussed in the accompanying report to management dated June 28, 2012, we consider deficiency 2011-01 to be a significant deficiency in internal control over financial reporting as it relates to transactions completed by the Trustee.

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 June 28, 2012.

The District's responses to the findings identified in our audit are described in the accompanying Management Letter. We did not audit the District's responses and, accordingly, we express no opinion on them.

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.

*Grant Associates*

June 28, 2012



**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, 2011, and have issued our report thereon dated June 28, 2012, which includes an explanatory paragraph as to the qualified opinion for lack of sufficient competent evidential matter for certain expenditures paid and related party transactions and an emphasis of matter paragraph.

Except as discussed in the explanatory 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 June 28, 2012. 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.**

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. This letter 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.

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*

June 28, 2012

## REPORT TO MANAGEMENT

### I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

#### Significant Deficiency:

##### **2011-01 No Supporting Documentation Provided for Certain Expenditures and Transfers**

Observation: Invoices could not be provided for certain expenditures and related interfund activity paid for out of the Trust Accounts. In addition, no documentation could be provided to support transfers between the District and Fiddler's Creek Community Development District 2. Accordingly, auditor was unable to determine whether these expenditures and transfers had been recorded correctly. Upon inquiry of management, numerous attempts have and continue to be made by District Management to obtain the necessary documentation for these transactions.

Recommendation: We recommend that the District continue its efforts to obtain the supporting documentation for these transactions that have been recorded in the general ledger.

Management Response: As noted above by the Auditor, District Management has made numerous attempts to obtain support from the Trustee for transactions for certain amounts that were expended by the Trustee from the District's trust accounts as well as support for other amounts that were transferred to and from Fiddler's Creek Community Development District 2 by the Trustee. Unfortunately, many of the related invoices and the support for the transfers has been withheld by the Trustee to date; however, District Management will continue to request these items.

#### Compliance Findings:

##### **2011-02 Reserve Requirement**

Observation: The Series 2002A and B and the Series 2005 debt service reserve requirements were not met as of September 30, 2011.

Recommendation: We recommend that the District should continue its efforts to make the necessary arrangements to ensure funds are available to make debt service payments.

Management Response: In regards to the debt service reserve requirements, the District has and continues to pursue all appropriate remedies as required by the related trust indentures. Unfortunately, the Trustee (US Bank) has exacerbated this problem by removing an amount in excess of \$377,000 from the Series 2002A and B reserve accounts to fund certain lawsuits against the District, two of which were ultimately voluntarily dismissed by the same Trustee as explained by the Auditor in Note 15 of the audit.

##### **2011-03 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 since the fiscal year 2009. 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, 2011. Consequently, events of default on both the Series 2002 and 2005 Bonds were declared by the Trustee. In addition, the District has deficit fund balances of (\$2,395,618) in the Series 2002 debt service fund, (\$1,157,878) in the Series 2005 debt service fund and (\$33,274) in the Series 2005 capital project fund. In the prior 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.

## REPORT TO MANAGEMENT (Continued)

### **2011-03 Financial Condition Assessment (Continued)**

Management Response: The District has and continues to pursue all appropriate remedies as required by the related trust indentures. In addition, as the Auditor is aware and is noted in both the audit opinion and Note 9 of the audited financial statements, the court approved the Developer's plan of reorganization, which should help to alleviate the items noted above. Unfortunately, as explained by the Auditor in the audit opinion, Note 12, and Note 15 of the audited financial statements, US Bank (the Trustee) has removed approximately \$1,200,000 from the District accounts to fund multiple lawsuits, some of which have since been voluntarily dismissed by the same Trustee. Furthermore, as explained by the Auditor in Note 15 of the audited financial statements, the District is seeking recourse as to replenishing the \$682,000 that was taken by the Trustee (US Bank) from the District's Series 2005 construction account.

### **2011-04 Bondholder Consent**

Observation: The District entered into a First Amendment to the Master Trust Indenture and Fourth and Fifth Supplemental Indentures with the Trustee with the consent and/or approval of the majority owners of the Series 2002 and 2005 Bonds. The amendment and the supplemental indentures provided for the transfer of certain amounts from the Series 2002 and 2005 Bond trust accounts to set up remedial accounts for the payment of remedial expenditures related to the foreclosure against the primary landowner. The amendment provided to the District was not signed by the respective Bondholders. In addition, there were reimbursements made from the remedial accounts for remedial expenditures incurred by the District as provided for in the Fourth and Fifth Supplemental Indentures that require Bondholder consent. Per inquiry, District management has requested the Bondholders consent from the Trustee but has not been provided this information through the report date.

Recommendation: The Trustee should ensure written consent is received from the Bondholders for all transfer of funds related to the trust accounts and expenditures paid for by the trust accounts that are not outlined in the Bond Indenture and for agreements that require Bondholder approval or consent.

Management Response: As noted above by the Auditor, the District has requested Bondholder consent from the Trustee. Unfortunately, the Trustee has not provided this information to the District to date.

## **II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

2010-01 Financial Condition Assessment – matter is repeated in the current year as finding 2011-03.

2009-01 Debt Service Reserve – matter continued in 2010 and is repeated in the current year as finding 2011-02.

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

Unless otherwise required to be reported in the auditor's report on compliance and internal controls, the management letter shall include, but not be limited to the following:

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, 2010, except as noted above.

## REPORT TO MANAGEMENT (Continued)

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, 2011, 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, 2011, except as noted above.

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, 2011, 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, 2011 financial audit report.
8. In connection with our audit, we determined that the District has met one or more of the financial conditions described in Section 218.503 (1), Florida Statutes. At September 30, 2011, the District had deficit fund balances of (\$2,395,618) in the Series 2002 debt service fund, (\$1,157,878) in the Series 2005 debt service fund and (\$33,274) in the Series 2005 capital project fund. In addition, the District failed to make debt service payments as a result of lack of funds. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and determined that a deteriorating financial condition was noted. See Finding Number 2011-03 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.