

**MAGNOLIA WEST  
COMMUNITY  
DEVELOPMENT  
DISTRICT**

**FINANCIAL STATEMENTS**

**Year Ended September 30, 2015**

MAGNOLIA WEST COMMUNITY DEVELOPMENT DISTRICT

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors  
*Magnolia West Community Development District*

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

**MCDIRMIT DAVIS & COMPANY, LLC**

934 NORTH MAGNOLIA AVENUE, SUITE 100 ORLANDO, FLORIDA 32803  
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## **Opinions**

### *Basis for Adverse Opinion Due to Land Value*

As discussed in Note 4 to financial statements, management has recorded land held for sale of its blended component unit, Special Revenue Fund - Special Purpose Entity, Magnolia West CDD Holdings, LLC at zero. Accounting principles generally accepted in the United States of America require that land held for sale is recorded at the lower of cost or market. The amount by which this departure would affect the assets, liabilities, fund balances, net position, revenue and expenses, of the governmental activities, and this major fund, are not reasonably determinable.

### *Adverse Opinion on Governmental Activities and Special Revenue Fund*

In our opinion, because of the omission of the land valuation (Magnolia West CDD Holdings, LLC), as discussed above, the financial statements referred to above, do not purport to, and do not, present fairly in conformity with accounting principles generally accepted in the United State of America, the financial position and changes in financial position of the governmental activities and the Special Revenue Fund of the District, as of September 30, 2015, or the changes in financial position thereof for the year then ended.

### *Unmodified Opinion on General, Debt Service and Capital Project Funds*

In addition, in our opinion, the financial statements of the General, Debt Service and Capital Projects Funds present fairly, in all material respects, the respective financial position of each fund, referred to above, as of September 30, 2015, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis starting on page 4, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

As discussed in the Notes to the financial statements, the Developer did not pay assessments owed to the District. As a result, the District was unable to make all of its debt service payments due on the Series 2006 Bonds in the current or prior years. In the prior year, a Special Purpose Entity ("SPE") acquired the Developer's land within the District at a foreclosure sale. The SPE was formed on behalf of the Bondholders, to own, manage and dispose of the Developer's land within the District. The SPE is owned by the District and reported as a blended component unit. The SPE owns a majority of the assessable property within the District.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated March 23, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*McDiernit Davis & Company, LLC*

Orlando, Florida  
March 23, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the *Magnolia West Community Development District's* (the "District") financial accomplishments provide an overview of the District's financial activities for the year ended September 30, 2015. Please read it in conjunction with the District's Independent Auditor's Report, financial statements and accompanying notes.

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

### Financial Highlights

- The liabilities of the District exceeded its assets at September 30, 2015 by \$5,497,827, an increase in net position of \$272,203 in comparison with the prior year.
- At September 30, 2015, the District's governmental funds reported a combined negative fund balance of \$(692,765), an increase in fund balance of \$205,818 in comparison with the prior year.

### Overview of the Financial Statements

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

### Government-Wide Financial Statements

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

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements include all governmental activities that are principally supported by special assessment revenues. The District does not have any business-type activities. The governmental activities of the District include general government, and maintenance and operations related functions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Fund Financial Statements

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

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

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

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

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

### Notes to Financial Statements

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

### Government-Wide Financial Analysis

Statement of Net Position - The District's net position was \$(5,497,827) at September 30, 2015. The following analysis focuses on the net position of the District's governmental activities.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Government-Wide Financial Analysis (Continued):**

Magnolia West Community Development District  
Statement of Net Position

	<b>September 30, 2015</b>	<b>September 30, 2014</b>
Assets, excluding capital assets	\$ 1,592,160	\$ 780,399
Capital Assets, net of depreciation	<u>2,684,609</u>	<u>2,788,224</u>
Total assets	<u>4,276,769</u>	<u>3,568,623</u>
Liabilities, excluding long-term liabilities	2,464,596	1,858,653
Long-term Liabilities	<u>7,310,000</u>	<u>7,480,000</u>
Total liabilities	<u>9,774,596</u>	<u>9,338,653</u>
Net Position:		
Net investment in capital assets	(1,335,495)	(897,836)
Unrestricted	<u>(4,162,332)</u>	<u>(4,872,194)</u>
Total net position	<u>\$ (5,497,827)</u>	<u>\$ (5,770,030)</u>

The following is a summary of the District's governmental activities for the fiscal years ended September 30, 2015 and 2014.

Changes in Net Position  
Year Ended September 30.

	<b>2015</b>	<b>2014</b>
Revenues:		
Program revenues	\$ 2,627,761	\$ 1,528,661
General revenues	377	300
Total revenues	<u>2,628,138</u>	<u>1,528,961</u>
Expenses:		
General government	243,991	156,130
Maintenance and operations	173,377	1,207,535
Culture and recreation	104,078	-
Bondholder payments	1,403,279	-
Interest on long-term debt	<u>431,210</u>	<u>431,210</u>
Total expenses	<u>2,355,935</u>	<u>1,794,875</u>
Change in net position	<u>272,203</u>	<u>(265,914)</u>
Net Position - beginning	<u>(5,770,030)</u>	<u>(5,504,116)</u>
Net Position - ending	<u>\$ (5,497,827)</u>	<u>\$ (5,770,030)</u>

As noted above and in the statement of activities, the cost of all governmental activities during the year ended September 30, 2015 was \$2,355,935. The increase over the prior year relates primarily to payments made to bondholders.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Financial Analysis of the Government's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At September 30, 2015, the District's governmental funds reported a negative combined ending fund balance of \$(692,765). Of this total, \$5,587 is nonspendable, \$65,159 is restricted, \$25,500 is assigned and the remainder is a negative unassigned fund balance of \$(789,011).

In the current year, the fund balance of the general fund decreased by \$31,043 primarily due to increased expenditures. The debt service fund balance increased by \$213,803 due to an increase in special assessments. The special purpose entity fund balance increased by \$23,058 due to land sales. The capital projects fund balance did not change significantly from the prior year.

### General Fund Budgetary Highlights

An operating budget was adopted and maintained by the governing board for the District pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. There was one amendment to the September 30, 2015 general fund budget. The legal level of budgetary control is at the fund level.

### Capital Asset and Debt Administration

**Capital Assets** - At September 30, 2015, the District had \$2,684,609 invested in land and infrastructure, net of accumulated depreciation. More detailed information about the District's capital assets is presented in the notes to the financial statements.

**Capital Debt** - At September 30, 2015, the District had \$8,060,000 in bonds outstanding, including \$750,000 of matured bonds payable. More detailed information about the District's capital debt is presented in the notes to the financial statements.

### Requests for Information

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

## **FINANCIAL STATEMENTS**

MAGNOLIA WEST COMMUNITY DEVELOPMENT DISTRICT

**STATEMENT OF NET POSITION**

September 30, 2015

	<b>Governmental Activities</b>
<b>Assets:</b>	
Cash	\$ 285,552
Assessments receivable	117,019
Due from developer	3,240
Prepaid costs	2,882
Deposits	2,705
Restricted assets:	
Temporarily restricted investments	1,180,762
Capital assets:	
Capital assets not being depreciated	348,416
Capital assets being depreciated, net	<u>2,336,193</u>
Total assets	<u>4,276,769</u>
<b>Liabilities:</b>	
Accounts payable and accrued expenses	25,556
Matured bonds payable	750,000
Matured interest payable	1,509,369
Accrued interest payable	179,671
Noncurrent liabilities:	
Due within one year	180,000
Due in more than one year	<u>7,130,000</u>
Total liabilities	<u>9,774,596</u>
<b>Net Position:</b>	
Net investment in capital assets	(1,335,495)
Unrestricted	<u>(4,162,332)</u>
Total net position	<u>\$ (5,497,827)</u>

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

MAGNOLIA WEST COMMUNITY DEVELOPMENT DISTRICT

**STATEMENT OF ACTIVITIES**

Year Ended September 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
Governmental activities:					
General government	\$ 243,991	\$ 31,815	\$ -	\$ -	\$ (212,176)
Maintenance and operations	173,377	20,386	-	-	(152,991)
Culture and recreation	104,078	12,238	-	-	(91,840)
Bondholder payments	1,403,279	-	2,184,189	-	780,910
Interest on long-term debt	431,210	379,034	87	12	(52,077)
Total governmental activities	<u>\$ 2,355,935</u>	<u>\$ 443,473</u>	<u>\$ 2,184,276</u>	<u>\$ 12</u>	<u>271,826</u>
		General Revenues:			
		Investment income			<u>377</u>
		Change in net position			272,203
		Net Position - beginning			<u>(5,770,030)</u>
		Net Position - ending			<u>\$ (5,497,827)</u>

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

MAGNOLIA WEST COMMUNITY DEVELOPMENT DISTRICT

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

September 30, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Special Purpose Entity</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Cash	\$ 281,304	\$ -	\$ -	\$ 4,248	\$ 285,552
Investments	-	1,115,603	65,159	-	1,180,762
Assessments receivable	1,772	115,247	-	-	117,019
Due from developer	-	3,240	-	-	3,240
Prepaid costs	2,882	-	-	-	2,882
Deposits	2,705	-	-	-	2,705
Total assets	<u>\$ 288,663</u>	<u>\$ 1,234,090</u>	<u>\$ 65,159</u>	<u>\$ 4,248</u>	<u>\$ 1,592,160</u>
<b>Liabilities and Fund Balances:</b>					
Liabilities:					
Accounts payable and accrued expenses	\$ 7,444	\$ 7,564	\$ -	\$ 10,548	\$ 25,556
Matured bonds payable	-	750,000	-	-	750,000
Matured interest payable	-	1,509,369	-	-	1,509,369
Total liabilities	<u>7,444</u>	<u>2,266,933</u>	<u>-</u>	<u>10,548</u>	<u>2,284,925</u>
Reserved:					
Nonspendable-prepaid costs and deposits	5,587	-	-	-	5,587
Restricted for capital projects	-	-	65,159	-	65,159
Assigned:					
Subsequent years' expenditures	25,500	-	-	-	25,500
Unassigned	<u>250,132</u>	<u>(1,032,843)</u>	<u>-</u>	<u>(6,300)</u>	<u>(789,011)</u>
Total fund balances (deficit)	<u>281,219</u>	<u>(1,032,843)</u>	<u>65,159</u>	<u>(6,300)</u>	<u>(692,765)</u>
Total liabilities and fund balances	<u>\$ 288,663</u>	<u>\$ 1,234,090</u>	<u>\$ 65,159</u>	<u>\$ 4,248</u>	

**Amounts reported for governmental activities in the statement of net position are different because:**

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 2,684,609

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

Accrued interest payable	(179,671)	
Bonds payable	<u>(7,310,000)</u>	<u>(7,489,671)</u>

Net Position of Governmental Activities (page 8) \$ (5,497,827)

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

MAGNOLIA WEST COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Special Purpose Entity</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
Special assessments	\$ 64,439	\$ 66,966	\$ -	\$ -	\$ 131,405
Special assessments - prepayments	-	135,862	-	-	135,862
Bondholder contributions	-	176,206	-	-	176,206
Investment income	377	87	12	-	476
Total revenues	<u>64,816</u>	<u>379,121</u>	<u>12</u>	<u>-</u>	<u>443,949</u>
<b>Expenditures:</b>					
Current:					
General government	72,710	25,731	-	145,550	243,991
Maintenance and operations	69,762	-	-	-	69,762
Culture and recreation	104,078	-	-	-	104,078
Debt service:					
Interest	-	431,210	-	-	431,210
Principal	-	170,000	-	-	170,000
Total expenditures	<u>246,550</u>	<u>626,941</u>	<u>-</u>	<u>145,550</u>	<u>1,019,041</u>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<u>(181,734)</u>	<u>(247,820)</u>	<u>12</u>	<u>(145,550)</u>	<u>(575,092)</u>
<b>Other Financing Sources (Uses):</b>					
Bondholder payments	-	(1,403,279)	-	-	(1,403,279)
Sale of land held for resale	-	-	-	2,184,189	2,184,189
Transfers in	150,691	2,158,502	-	293,600	2,602,793
Transfers out	-	(293,600)	(12)	(2,309,181)	(2,602,793)
Total other financing sources (uses)	<u>150,691</u>	<u>461,623</u>	<u>(12)</u>	<u>168,608</u>	<u>780,910</u>
Net change in fund balances	(31,043)	213,803	-	23,058	205,818
<b>Fund Balances (Deficit) - beginning of year</b>	<u>312,262</u>	<u>(1,246,646)</u>	<u>65,159</u>	<u>(29,358)</u>	<u>(898,583)</u>
<b>Fund Balances (Deficit) - end of year</b>	<u>\$ 281,219</u>	<u>\$ (1,032,843)</u>	<u>\$ 65,159</u>	<u>\$ (6,300)</u>	<u>\$ (692,765)</u>

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

MAGNOLIA WEST COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2015

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

Net Change in Fund Balances - total governmental funds (page 11)	\$ 205,818
Depreciation on capital assets is not recognized in the governmental fund statement, however it is reported as an expense in the statement of activities.	(120,974)
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources; however, in the statement of net position the cost is recorded as capital assets.	17,359
Repayments of long-term liabilities are reported as expenditures in governmental funds, while repayments reduce long-term liabilities in the statement of net position.	
Matured bonds recorded as payable	<u>170,000</u>
Change in Net Position of Governmental Activities (page 9)	<u><u>\$ 272,203</u></u>

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

MAGNOLIA WEST COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2015

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Special Assessments	\$ 214,925	\$ 214,925	\$ 64,439	\$ (150,486)
Investment Income	-	-	377	377
Total revenues	<u>214,925</u>	<u>214,925</u>	<u>64,816</u>	<u>(150,109)</u>
<b>Expenditures:</b>				
Current:				
General government	75,125	75,125	72,710	2,415
Maintenance and operations	79,200	79,200	69,762	9,438
Culture and recreation	<u>60,600</u>	<u>119,100</u>	<u>104,078</u>	<u>15,022</u>
Total expenditures	<u>214,925</u>	<u>273,425</u>	<u>246,550</u>	<u>26,875</u>
Excess (Deficit) of Revenues Over Expenditures	<u>-</u>	<u>(58,500)</u>	<u>(181,734)</u>	<u>(123,234)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	150,691	150,691
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>150,691</u>	<u>150,691</u>
Net change in fund balance	-	(58,500)	(31,043)	27,457
Fund Balance - beginning of year	<u>312,262</u>	<u>312,262</u>	<u>312,262</u>	<u>-</u>
Fund Balance - end of year	<u>\$ 312,262</u>	<u>\$ 253,762</u>	<u>\$ 281,219</u>	<u>\$ 27,457</u>

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

**NOTES TO FINANCIAL STATEMENTS**

MAGNOLIA WEST COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS**

Year Ended September 30, 2015

**Note 1 - Summary of Significant Accounting Policies:**

**Reporting Entity**

The *Magnolia West Community Development District*, (the "District") was established by the City Council of the City of Green Cove Springs, Florida Ordinance O-05-2005, enacted on April 12, 2005 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The Act provides, among other things, the power to manage basic services for community development, the power to borrow money and issue bonds, and the power to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure. The District was established for the purpose of financing and managing the acquisition, construction, maintenance and operation of a portion of the infrastructure necessary for community development within the District.

The District is governed by the Board of Supervisors (the "Board"), which is composed of five members. The Supervisors are elected on an at large basis by the landowners of the District. The Board of Supervisors of the District exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes. The District filed for foreclosure on its special assessment lien on Magnolia West LLC land within the District. Magnolia West CDD Holdings, LLC, a Special Purpose Entity ("SPE") acquired this land at a foreclosure sale. The SPE was formed on behalf of the Bondholders, to own, manage and dispose of the Developer's land within the District. The SPE is owned by the District and reported as a blended component unit.

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

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

The financial statements were prepared in accordance with Governmental Accounting Standards Board ("GASB") Statements 14, 39 and 61. 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 is one entity considered to be a component unit of the District, as follows:

**Special Purpose Entity Fund**

As a result of bond default caused by the Developer's failure to pay special assessments, Magnolia West CDD Holdings, LLC, a Special Purpose Entity ("SPE") was formed. The SPE took title to the Developer's land within the District at foreclosure sale. Pursuant to the Tri-Party Agreement between the District, the Trustee and the SPE, the SPE will hold, manage and dispose of the property on behalf of the bondholders. This SPE Fund is reported as a blended component unit because it is owned 100% by the District. The SPE owns a majority of the assessable property within the District.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

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

**Government-Wide and Fund Financial Statements**

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

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants, contributions and investment income that are restricted to meeting the operational or capital requirements of a particular function or segment and 3) operating-type special assessments that are treated as charges for services (including assessments for maintenance and debt service). Other items not included among program revenues are reported instead as *general revenues*.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

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

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

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

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

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

The District reports the following governmental funds. The general fund, debt service fund, capital projects fund and special revenue fund are considered to be major funds.

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

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

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

**Special Purpose Entity - Special Revenue Fund** - accounts for activity of the blended component unit which was discussed previously.

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

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

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

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

Investments of the District are reported at fair value. The District has elected to proceed under the Alternative Investment Guidelines as set forth in Section 218.415, Florida Statutes.

**Receivables** - All receivables are shown net of an allowance for uncollectible accounts.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

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

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued):**

**Prepaid Items** - 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, equipment and infrastructure assets (e.g., stormwater facilities, sidewalks and similar items), are reported in the applicable governmental activities column 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 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Stormwater Control System	30
Recreational Facilities	20
Entrance Features	30
Infrastructure	15
Buildings	50
Furniture and Equipment	5

**Long Term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of premiums or discounts. Issuance costs are reported as an expense.

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

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

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued):**

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any item that qualifies for reporting in this category for the year ended September 30, 2015.

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

**Net Position Flow Assumption** - Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**Fund Balance Flow Assumptions** - Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**Fund Balance Policies** - Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either commitment (committed fund balance) or an assignment (assigned fund balance).

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

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

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued):**

**Fund Balance Policies (Continued)** - The committed fund balance classification includes fund balance amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Board of Supervisors is the highest level of decision-making authority for the government that can, by adoption of an ordinance or resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance or resolution remains in place until a similar action is taken to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Board of Supervisors has authorized the District Manager to assign amounts for specific purposes. The Board of Supervisors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above and additional action is essential to either remove or revise a commitment.

**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.

MAGNOLIA WEST COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 2 - Stewardship, Compliance and Accountability:**

**A. Budgetary Information**

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

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

1. Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
2. A public hearing is conducted to obtain comments.
3. Prior to October 1, the budget is legally adopted by the District Board.
4. All budget changes must be approved by the District Board.
5. The budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
6. The appropriation resolution authorizes District staff to initiate budget reclassifications.

**B. Deficit Fund Balance**

The debt service fund and special purpose entity fund have deficit fund balances at September 30, 2015, causing a total net fund balance deficit.

**Note 3 - 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.

MAGNOLIA WEST COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 3 - Deposits and Investments (Continued):**

**Investments**

Investments are stated at fair value, which is the amount for which an investment could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Fair value is based on quoted market prices. Changes in the fair value of investments are recognized as revenue and included in investment revenue. Investment revenue is recognized as earned and is recorded in the respective funds related to the investment activity.

Instead of establishing a written investment policy, the District elected to limit investments to those approved by Florida Statutes and the District Trust Indenture. Authorized District investments include:

1. The Local Government Surplus Funds Trust Fund (SBA);
2. Securities and Exchange Commission Registered Money Market Funds with the highest credit quality rating from a nationally recognized rating agency;
3. Interest-bearing time deposits or savings accounts in qualified public depositories;
4. Direct obligations of the U.S. Treasury;

Investments made by the District at September 30, 2015 are summarized below. In accordance with GASB 31, investments are reported at fair value.

<b>Investment Type</b>	<b>Fair Value</b>	<b>Credit Rating</b>	<b>Weighted Average Maturity</b>
US Bank Money Market	\$ 1,180,762	NA	NA

**Note 4 - Land Held for Sale:**

As discussed in Note 9, the Special Purpose Entity, Magnolia West CDD Holdings, LLC was formed on behalf of bondholders, to own, manage, and dispose of Developer property in the District taken through foreclosure. The SPE is owned 100% by the District and is considered a blended component unit. No appraisal was performed on the land owned by the SPE. As a result, the market value of the land could not be determined at September 30, 2015 and no amount was recorded in the financial statements for this asset.

MAGNOLIA WEST COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 5 - Capital Assets:**

Capital asset activity for the year ended September 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 348,416	\$ -	\$ -	\$ 348,416
Capital Assets Being Depreciated:				
Stormwater control system	1,329,154	-	-	1,329,154
Buildings	915,905	-	-	915,905
Recreational facilities	822,409	-	-	822,409
Infrastructure	219,599	-	-	219,599
Entrance features	41,764	-	-	41,764
Furniture and equipment	-	17,359	-	17,359
Total capital assets being depreciated	<u>3,328,831</u>	<u>17,359</u>	<u>-</u>	<u>3,346,190</u>
Less Accumulated Depreciation for:				
Stormwater control system	(354,443)	(44,306)	-	(398,749)
Buildings	(129,753)	(18,318)	-	(148,071)
Recreational facilities	(291,267)	(41,120)	-	(332,387)
Infrastructure	(103,700)	(14,640)	-	(118,340)
Entrance features	(9,860)	(1,392)	-	(11,252)
Furniture and equipment	-	(1,198)	-	(1,198)
Total accumulated depreciation	<u>(889,023)</u>	<u>(120,974)</u>	<u>-</u>	<u>(1,009,997)</u>
Total capital assets being depreciated, net	<u>2,439,808</u>	<u>(103,615)</u>	<u>-</u>	<u>2,336,193</u>
Governmental activities capital assets, net	<u>\$ 2,788,224</u>	<u>\$ (103,615)</u>	<u>\$ -</u>	<u>\$ 2,684,609</u>

Depreciation expense for 2015 was charged to maintenance and operations. The District is not complete. The District does not have current estimated cost to complete.

**Note 6 - Interfund Transfers:**

As directed by the Trustee, \$293,600 was transferred from the debt service fund to the special revenue fund to pay SPE expenses. The special purpose entity transferred \$2,158,502 to the debt service fund, primarily to reimburse bondholders and \$150,691 to the general fund to pay operational expenditures.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 7 - Long-Term Liabilities:**

**Special Assessment Revenue Bonds Series 2006**

On October 13, 2006, the District issued \$8,440,000 of Special Assessment Revenue Bonds Series 2006, with a fixed interest rate of 5.35%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of certain property within the District. Interest is due semiannually on each May 1 and November 1. Principal on the Series 2006 Bonds is due annually commencing May 1, 2008 through May 1, 2037.

The Series 2006 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 2006 Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occur as outlined in the Bond Indenture.

The Bond Indenture requires that the District maintain adequate funds in a reserve account to meet the debt service reserve requirement as defined in the Indenture. The requirement has not been met at September 30, 2015.

The Bond Indenture has certain restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agreed 1) to collect special assessments in annual installments adequate to provide payment of debt service and 2) to meet the reserve requirements. Payment of the principal and interest on the Series 2006 Bonds is secured by a pledge of and first lien upon the pledged special assessment revenue. The District is not in compliance with certain requirements of the Bond Indenture.

Total principal and interest remaining on the Series 2006 Bonds as of September 30, 2015 is \$15,436,447, including \$2,259,369 of matured bonds and interest payable. For the year ended September 30, 2015, no interest or principal was paid. Interest due of \$431,210 and principal due of \$170,000 was accrued to matured interest payable and matured bonds payable. Total special assessment revenue pledged was \$229,423 in the current year.

**SPE Mortgage**

There is a \$1 million mortgage between the SPE and the Trustee. This mortgage covers the SPE property and protects this property from any intervening encumbrances that may take place between the time the SPE took over the property and the time the SPE sells the property. There is no note payable related to this mortgage. This mortgage secures payment of the advances given by the Trustee to the SPE.

MAGNOLIA WEST COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 7 - Long-Term Liabilities (Continued):**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Bonds Payable:					
Series 2006	\$ 7,480,000	\$ -	\$ (170,000)	\$ 7,310,000	\$ 180,000
Governmental activity long-term liabilities	<u>\$ 7,480,000</u>	<u>\$ -</u>	<u>\$ (170,000)</u>	<u>\$ 7,310,000</u>	<u>\$ 180,000</u>

The \$170,000 reduction above was not paid, but was accrued to matured bonds payable. The beginning balance is reduced by \$580,000 which was also not paid, but accrued to matured bonds payable in prior years. At year end, total matured bonds payable is \$750,000.

At September 30, 2015, the scheduled debt service requirements on the bonds payable, excluding matured amounts, were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 180,000	\$ 431,210
2017	190,000	421,580
2018	200,000	411,415
2019	210,000	400,715
2020	220,000	389,480
2021 - 2025	1,305,000	1,756,405
2026 - 2030	1,705,000	1,367,193
2031 - 2035	2,230,000	857,605
2036 - 2037	1,070,000	166,920
	<u>\$ 7,310,000</u>	<u>\$ 6,202,523</u>

**Note 8 - Deficit Net Position:**

The District has a government-wide net deficit of (\$5,497,827) resulting from prior year conveyances of assets and nonpayment of assessments owed to the District.

MAGNOLIA WEST COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 9 - Special Purpose Entity:**

Magnolia West CDD Holdings, LLC, a Special Purpose Entity ("SPE") acquired the Developer's land within the District at foreclosure sale. This land represents the majority of the assessable property within the District. The SPE was formed on behalf of the Bondholders, to own, manage and dispose of the Developer's land within the District. The SPE is owned by the District and reported as a blended component unit. All SPE costs are paid from the Trust Estate at the direction of the Trustee acting on behalf of the bondholder or from bondholder contributions. If funds are no longer available in the Trust Estate and another funding source has not been secured, the SPE may convey its property to the District or another mutually agreed upon party and the SPE will dissolve.

In the current year, the SPE sold land held for sale reporting net proceeds of \$2,184,189. The SPE transferred funds to the debt service fund primarily to reimburse the bondholders for previous year's funding. In addition, the SPE transferred to the general fund \$150,691 for operating and maintenance expenditures and debt service assessments totaling \$26,595.

**Note 10 - Risk Management:**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance from independent third parties. The District has not filed any claims under this commercial coverage during the last three years.

**Note 11 - Subsequent Events:**

The District was unable to make the November 2015 debt service payments on the Series 2006 Bonds.

## **COMPLIANCE SECTION**

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

To the Board of Supervisors  
*Magnolia West Community Development District*

We have audited, 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, the financial statements of the governmental activities, and each major fund of the *Magnolia West Community Development District* (the "District") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 23, 2016, which includes an explanatory paragraph regarding the adverse opinion for the omission of the land valuation in the special revenue fund (SPE).

Internal Control Over Financial Reporting

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

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

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit, we identified a deficiency that we consider to be material weaknesses as described in Appendix A.

**MCDIRMIT DAVIS & COMPANY, LLC**

934 NORTH MAGNOLIA AVENUE, SUITE 100 ORLANDO, FLORIDA 32803  
TELEPHONE: 407-843-5406 FAX: 407-649-9339 EMAIL: INFO@MCDIRMITDAVIS.COM

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. See Appendix B.

We noted certain other matters that we reported to management of the District, in a separate letter dated March 23, 2016. The District's response to our findings identified in our audit is included in this report. We did not audit the District's response, and accordingly, we express no opinion on it.

## Purpose of this Report

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

*McDiernit Davis & Company, LLC*

Orlando, Florida  
March 23, 2016

**MANAGEMENT COMMENTS**

Board of Supervisors  
 Magnolia West Community Development District

**Report on the Financial Statements**

We have audited the financial statements of the *Magnolia West Community Development District*, (the “District”) as of and for the fiscal year ended September 30, 2015, and have issued our report thereon dated March 23, 2016., which includes an explanatory paragraph regarding the adverse opinion for the omission of the land valuation in the special revenue fund (SPE).

**Auditor’s Responsibility**

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

**Other Reports**

We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Independent Auditor’s Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated March 23, 2016, should be considered in conjunction with this management letter.

**Prior Audit Findings**

Section 10.554(1)(i).1., Rules of the Auditor General, require that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report except as noted below.

<b>Tabulation of Uncorrected Audit Findings</b>		
<b>Current Year Finding #</b>	<b>2013-14 FY Finding #</b>	<b>2012-2013 FY Finding #</b>
12-01	12-01	12-01
12-02	12-02	12-02
12-03	12-03	12-03
12-04	12-04	12-04

## **Official Title and Legal Authority**

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

## **Financial Condition**

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, requires that we report the results of our determination as to whether or not the District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District met two of the conditions described in Section 218.503(1), Florida Statutes, as listed in Appendix C.

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

## **Annual Financial Report**

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

## **Other Matters**

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

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

## **Purpose of this Letter**

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

*McDiernit Davis & Company, LLC*

Orlando, Florida  
March 23, 2016

**APPENDIX A - MATERIAL WEAKNESS**

Year Ended September 30, 2015

**12-03 - Land Held for Resale Not Recorded**

**Criteria**

Generally accepted accounting principles require that land held for resale be recorded at the lower of cost or market.

**Condition**

No appraisal was performed on the land held for resale, owned by the SPE Magnolia West CDD Holdings, LLC. As a result, the market value of the land could not be determined at September 30, 2015 and no amount was recorded in the financial statements for this asset.

**Cause**

Due to lack of funding, the District was unable to perform an appraisal on the land held for resale, owned by the SPE Magnolia West CDD Holdings, LLC.

**Effect**

At September 30, 2015, the amount by which this departure from generally accepted accounting principles affects the assets, liabilities, fund balances and net position of the Special Purpose Entity Fund and the governmental activities cannot be determined.

**Recommendation**

An appraisal should be performed on the land held for resale to determine its value and the land should be recorded in the financial statements.

MAGNOLIA WEST COMMUNITY DEVELOPMENT DISTRICT

**APPENDIX B - COMPLIANCE VIOLATIONS OF LAWS,  
REGULATIONS AND CONTRACTUAL PROVISIONS**

Year Ended September 30, 2015

**12-01 - Failure to Make Debt Service Payments When Due**

**Criteria**

The Special Assessment Revenue Bonds Series 2006 require semiannual interest payments and annual principal payments as per the Bond Indenture.

**Condition**

In the current and prior years, the District did not pay all of the principal and interest due on the Series 2006 Bonds.

**Cause**

The Developer did not pay debt service assessments owed to the District.

**Effect**

At September 30, 2015, the District was not in compliance with the requirements of the Bond Indenture and has met a financial emergency condition as described in Florida Statute Section 218.503(1).

**Recommendation**

We recommend the District utilize all remedies available to bring debt service payments current.

**12-02 - Failure to Meet Debt Service Reserve Account Requirement**

**Criteria**

The Trust Indenture requires the District to maintain a minimum balance in the Debt Service Reserve Account.

**Condition**

At September 30, 2015, the Debt Service Reserve Account was deficient.

**Cause**

The balance in the Debt Service Reserve Account was used to pay debt service expenditures.

**Effect**

The District is not in compliance with the Trust Indenture.

**Recommendation**

We recommend the District utilize all remedies available to replenish the Debt Service Reserve Account.

MAGNOLIA WEST COMMUNITY DEVELOPMENT DISTRICT

**APPENDIX C - CONDITIONS OF FINANCIAL EMERGENCY**

Year Ended September 30, 2015

**12-01 - Failure to Make Debt Service Payments When Due**

In the current and prior years, the District did not pay all of the principal and interest due on the Series 2006 Bonds due to lack of funds; therefore the District meets Section 218.503(1)(a) as a financial emergency condition.

**12-04 - Failure to Pay Claims from Creditors within 90 Days**

At September 30, 2015, the District had payables due to creditors that were greater than 90 days old, due to lack of funds.

# MAGNOLIA WEST COMMUNITY DEVELOPMENT DISTRICT

DISTRICT OFFICE · 2806 N. FIFTH STREET · UNIT 403 · ST. AUGUSTINE, FLORIDA 32084

March 23, 2016

## **Response to the Management Letter for the fiscal year ended September 30, 2015**

### **Management Letter finding 12-01:**

*The auditor noted that the District did not make the required debt service interest and principal payments on the Series 2006 bonds.*

### **District response to the finding:**

*During a prior year the District created a SPE to own, manage, maintain and sell the Developer's land within the District that was purchased at a foreclosure sale. Funds will be used to pay bond debt when and if the SPE is successful in selling the land.*

### **Management Letter finding 12-02:**

*The auditor noted that the District's Series 2006 Debt Service Reserve Accounts were deficient at September 30, 2014, as a result of funds from the Reserve Accounts being used to make debt service payments and fund District operations due to non payment from the Developer.*

### **District response to the finding:**

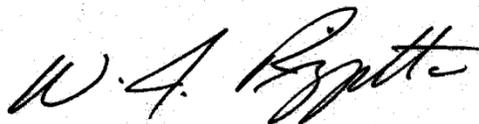
*As mentioned above, the Developer had assessments owed to the District. As a result, the District was unable to make all of its debt service payments on the Series 2006 Bonds. The Trustee used funds from the debt service reserve account to make partial debt service payments which resulted in a deficiency debt service reserve funds. We are uncertain at this time if proceeds from a sale of the land, when and if sold, will be used to replenish the debt service reserve fund.*

### **Management Letter finding 12-03:**

*The auditor noted that the land held for resale was not recorded in the Districts financial statements.*

### **District response to the finding:**

*Due to a lack of funds available no appraisal was performed on the land owned by the SPE. Due to this the market value of the land could not be determined at September 30, 2015 and no amount was recorded in the financial statements for the asset.*



---

William J. Rizzetta  
Treasurer  
Magnolia West Community Development District

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
THE REQUIREMENTS OF SECTION 218.415, FLORIDA STATUTES**

Board of Supervisors  
*Magnolia West Community Development District*

We have examined Magnolia West Community Development District's (the "District") compliance with the requirements of Section 218.415, Florida Statutes, during the year ended September 30, 2015. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

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

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

*MCDIRMIT DAVIS & COMPANY, LLC*

Orlando, Florida  
March 23, 2016