

**MAGNOLIA CREEK
COMMUNITY
DEVELOPMENT
DISTRICT**

FINANCIAL STATEMENTS

Year Ended September 30, 2015

MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Magnolia Creek Community Development District

We have audited the accompanying financial statements of the governmental activities and each major fund of the *Magnolia Creek Community Development 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 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 policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

Basis for Adverse Opinion Due to Land Value

As discussed in Note 5 to financial statements, management has recorded land held for resale of its blended component unit, Special Revenue Fund - Special Purpose Entity, Magnolia Creek CDD Holdings, LLC at zero. Accounting principles generally accepted in the United States of America require that land held for resale be recorded at the lower of cost or market. The amount by which this departure would affect the assets, liabilities, net position, revenues and expenses of the governmental activities and the major fund is not reasonably determinable.

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Adverse Opinion on Governmental Activities and Special Revenue Fund

In our opinion, because of the omission of the land valuation (Magnolia Creek CDD Holdings, LLC, the "SPE"), 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 States of America, the financial position and the 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 Opinions on General, Debt Service and Capital Projects 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 3, 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 Note 8 and 13 to the financial statements, the District was unable to make its current and prior year's debt service payments due to the Developer's nonpayment of assessments owed on certain parcels. The District and Trustee, on behalf of the bondholders, created the SPE, which acquired these parcels of Developer's property through foreclosure. The SPE will own, manage and dispose of this property on behalf of the bondholders.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 1, 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, 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.

McDermitt Davis & Company, LLC

Orlando, Florida
March 1, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the *Magnolia Creek 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 \$10,551,834, an increase in the deficit of \$1,396,765 in comparison with the prior year.
- At September 30, 2015, the District's governmental funds reported a combined deficit fund balance of \$18,715,288, an increase in the deficit of \$1,524,930 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 Creek 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 physical environment 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 and the capital projects 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 \$(10,551,834) 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 Creek Community Development District
Statement of Net Position

	September 30, 2015	September 30, 2014
Assets, excluding capital assets	\$ 2,366,633	\$ 2,530,080
Capital Assets Not Being Depreciated	<u>15,603,472</u>	<u>15,603,472</u>
Total assets	<u>17,970,105</u>	<u>18,133,552</u>
Liabilities, excluding long-term liabilities	21,591,925	20,230,442
Long-term Liabilities	<u>6,930,014</u>	<u>7,058,179</u>
Total liabilities	<u>28,521,939</u>	<u>27,288,621</u>
Net Position:		
Net investment in capital assets	(4,441,853)	(4,367,348)
Restricted for:		
Capital projects	413,805	413,487
Unrestricted	<u>(6,523,786)</u>	<u>(5,201,208)</u>
Total net position	<u>\$ (10,551,834)</u>	<u>\$ (9,155,069)</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,

	2015	2014
Revenues:		
Program revenues	\$ 57,072	\$ 266,312
General revenues	<u>-</u>	<u>95,522</u>
Total revenues	<u>57,072</u>	<u>361,834</u>
Expenses:		
General government	153,148	398,167
Physical environment	2,250	17,859
SPE costs	61,859	-
Interest on long-term debt	<u>1,236,580</u>	<u>1,236,581</u>
Total expenses	<u>1,453,837</u>	<u>1,652,607</u>
Change in net position	(1,396,765)	(1,290,773)
Net position - beginning	<u>(9,155,069)</u>	<u>(7,864,296)</u>
Net position- ending	<u>\$ (10,551,834)</u>	<u>\$ (9,155,069)</u>

As noted above and in the statement of activities, the cost of all governmental activities during the year ended September 30, 2015 was \$1,453,837. The majority of these costs are comprised of interest on long-term debt.

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 combined ending fund balances deficit of \$18,715,288. Of this total, \$1,729,536 is restricted, \$9,650 is nonspendable and the remainder of \$(20,454,474) is unassigned.

The fund balance of the general fund decreased \$12,302, in the current year, due to a reduction in assessment revenue. The debt service fund balance decreased by \$1,507,054 in the current year due to debt service accruals exceeding assessment revenue. The capital projects fund balance increased \$344. The SPE fund balance decreased \$5,918 in the current 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 were no amendments 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 \$15,603,472 invested in infrastructure which is not yet complete. More detailed information about the District's capital assets are presented in the notes to the financial statements.

Capital Debt - At September 30, 2015, the District had \$21,640,000 in bonds outstanding, including \$14,670,000 in 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 Creek Community Development District's* Finance Department at 3434 Colwell Avenue, Suite 200, Tampa, Florida 33614.

FINANCIAL STATEMENTS

MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF NET POSITION

September 30, 2015

	Governmental Activities
	<hr/>
Assets:	
Cash	\$ 134,618
Prepaid costs	9,650
Restricted assets:	
Temporarily restricted investments	2,222,365
Capital assets:	
Capital assets not being depreciated	<hr/> 15,603,472
Total assets	<hr/> <hr/> 17,970,105
 Liabilities:	
Accounts payable and accrued expenses	12,959
Accrued interest payable	510,004
Matured interest payable	6,398,962
Matured bonds payable	14,670,000
Noncurrent liabilities:	
Due within one year	135,000
Due in more than one year	<hr/> 6,795,014
Total liabilities	<hr/> <hr/> 28,521,939
 Net Position:	
Net investment in capital assets	(4,441,853)
Restricted for:	
Capital projects	413,805
Unrestricted	<hr/> (6,523,786)
Total net position	<hr/> <hr/> \$ (10,551,834)

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

MAGNOLIA CREEK 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	\$ 153,148	\$ 8,202	\$ -	\$ -	\$ (144,946)
Physical environment	2,250	121	-	-	(2,129)
SPE costs	61,859	-	-	-	(61,859)
Interest on long-term debt	1,236,580	48,323	108	318	(1,187,831)
Total governmental activities	<u>\$ 1,453,837</u>	<u>\$ 56,646</u>	<u>\$ 108</u>	<u>\$ 318</u>	<u>(1,396,765)</u>
General Revenues:					-
Change in net position					(1,396,765)
Net Position - beginning					(9,155,069)
Net Position - ending					<u>\$ (10,551,834)</u>

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

MAGNOLIA CREEK 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>
Assets:					
Cash	\$ 134,242	\$ -	\$ -	\$ 376	\$ 134,618
Investments	-	492,829	1,729,536	-	2,222,365
Prepaid costs	4,725	4,925	-	-	9,650
Total assets	<u>\$ 138,967</u>	<u>\$ 497,754</u>	<u>\$ 1,729,536</u>	<u>\$ 376</u>	<u>\$ 2,366,633</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable and accrued expenses	\$ 6,665	\$ -	\$ -	\$ 6,294	\$ 12,959
Matured bonds payable	-	14,670,000	-	-	14,670,000
Matured interest payable	-	6,398,962	-	-	6,398,962
Total liabilities	<u>6,665</u>	<u>21,068,962</u>	<u>-</u>	<u>6,294</u>	<u>21,081,921</u>
Fund Balances:					
Nonspendable:					
Prepaid costs	4,725	4,925	-	-	9,650
Restricted:					
Capital projects	-	-	1,729,536	-	1,729,536
Unassigned	127,577	(20,576,133)	-	(5,918)	(20,454,474)
Total fund balances (deficits)	<u>132,302</u>	<u>(20,571,208)</u>	<u>1,729,536</u>	<u>(5,918)</u>	<u>(18,715,288)</u>
Total liabilities and fund balances (deficits)	<u>\$ 138,967</u>	<u>\$ 497,754</u>	<u>\$ 1,729,536</u>	<u>\$ 376</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. 15,603,472

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	(510,004)	
Bonds payable	<u>(6,930,014)</u>	<u>(7,440,018)</u>

Net Position of Governmental Activities \$ (10,551,834)

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

MAGNOLIA CREEK 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>
Revenues:					
Special assessments	\$ 8,323	\$ 48,323	\$ -	\$ -	\$ 56,646
Investment income	-	108	318	-	426
Total revenues	<u>8,323</u>	<u>48,431</u>	<u>318</u>	<u>-</u>	<u>57,072</u>
Expenditures:					
Current:					
General government	89,858	38,142	-	25,148	153,148
Physical environment	2,250	-	-	-	2,250
SPE costs	-	61,859	-	-	61,859
Debt service:					
Interest	-	1,234,745	-	-	1,234,745
Principal	-	130,000	-	-	130,000
Total expenditures	<u>92,108</u>	<u>1,464,746</u>	<u>-</u>	<u>25,148</u>	<u>1,582,002</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(83,785)</u>	<u>(1,416,315)</u>	<u>318</u>	<u>(25,148)</u>	<u>(1,524,930)</u>
Other Financing Sources (Uses):					
Transfers in	71,483	-	26	90,713	162,222
Transfers out	-	(90,739)	-	(71,483)	(162,222)
Total other financing sources (uses)	<u>71,483</u>	<u>(90,739)</u>	<u>26</u>	<u>19,230</u>	<u>-</u>
Net change in fund balances	(12,302)	(1,507,054)	344	(5,918)	(1,524,930)
Fund Balance (Deficit) - beginning of year	<u>144,604</u>	<u>(19,064,154)</u>	<u>1,729,192</u>	<u>-</u>	<u>(17,190,358)</u>
Fund Balance (Deficit) - end of year	<u>\$ 132,302</u>	<u>\$ (20,571,208)</u>	<u>\$ 1,729,536</u>	<u>\$ (5,918)</u>	<u>\$ (18,715,288)</u>

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

MAGNOLIA CREEK 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 10) \$ (1,524,930)

Bond principal amounts due but not paid in the current period are an expenditure in the governmental funds, but are recorded as current liabilities on the Statement of Net Position. 130,000

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Amortization of bond discount (1,835)

Change in Net Position of Governmental Activities (page 8) \$ (1,396,765)

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

MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Assessments	\$ 126,575	\$ 126,575	\$ 8,323	\$ (118,252)
Total revenues	126,575	126,575	8,323	(118,252)
Expenditures:				
Current:				
General government	123,575	123,575	89,858	33,717
Physical environment	34,000	34,000	2,250	31,750
Total expenditures	157,575	157,575	92,108	65,467
Excess (Deficit) of Revenues Over Expenditures	(31,000)	(31,000)	(83,785)	(52,785)
Other Financing Sources (Uses):				
Transfers in	31,000	31,000	71,483	40,483
Net change in fund balance	-	-	(12,302)	(12,302)
Fund Balance (Deficit) - beginning	144,604	144,604	144,604	-
Fund Balance (Deficit) - ending	\$ 144,604	\$ 144,604	\$ 132,302	\$ (12,302)

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

NOTES TO FINANCIAL STATEMENTS

MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2015

Note 1 - Summary of Significant Accounting Policies:

Reporting Entity

The *Magnolia Creek Community Development District*, (the "District") was established by City of Freeport Ordinance 2006-26 enacted on September 12, 2006 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 allocate 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 landowners of the District. The Board of Supervisors of the District exercises all powers granted to the District pursuant to Chapter of 190, Florida Statutes. In the prior year, Magnolia Creek CDD Holdings, LLC, a Special Purpose Entity ("SPE"), acquired the property owned by Owls head Development, LLC ("Developer") through foreclosure.

The Board of Supervisors 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 on certain parcels, the SPE was formed. The SPE took title to those parcels of Developer's land that were in default, through foreclosure. 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 Special Revenue Fund ("SPF") is reported as a blended component unit because it is owned 100% by 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 1st and ends on September 30th. Operation and maintenance special assessments are imposed upon all benefited lands located in the District. Debt service special assessments are imposed upon certain lots and lands as described in each resolution imposing the special assessment for each series of bonds issued by the District. Certain debt service assessments are collected upon the closing of those lots subject to short term debt and are used to prepay a portion of the bonds outstanding.

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 major governmental funds:

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

Debt Service Fund - accounts for the accumulation of resources for the annual payment of principal and interest on long-term 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 that 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's investments consist of investments authorized per their investment policy adopted in accordance with Section 218.415, Florida Statutes.

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.

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):

Capital Assets - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks, water management systems 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 will be depreciated using the straight-line method once the assets are placed in service.

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. Bond issuance costs are reported as expenses. Bonds payable are reported net of premiums or discounts.

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

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.

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):

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).

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 an additional action is essential to either remove or revise a commitment.

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):

Other Disclosures

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance and Accountability:

A. Budgetary Information

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

B. Deficit Fund Balance

The debt service fund has a deficit fund balance of \$(20,571,208) at September 30, 2015. In addition, the SPE fund has a deficit fund balance at September 30, 2015 of \$(5,918).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

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.

Investments

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

The District's investment policies are governed by State Statutes and the District Trust Indentures. The District investment policy allows investments in any financial institution that is a qualified public depository of the State of Florida as identified by the State Treasurer, in accordance with Chapter 280 of the Florida Statutes. Authorized District investments include, but are not limited to:

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

MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

Note 3 - Deposits and Investments (Continued):

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity</u>
US Bank Money Market Account	\$ 2,222,365	N/A	N/A

Credit Risk:

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

Custodial Credit Risk:

In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires that bank deposits be secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida, and creates the Public Deposits Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2015, all of the District's bank deposits were in qualified public depositories.

For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At September 30, 2015, none of the investments listed are exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk:

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

MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

Note 3 - Deposits and Investments (Continued):

Interest Rate Risk:

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

Note 4 - Receivables:

Receivables as of year-end, including the applicable allowances for uncollectible accounts are as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>
Assessments Receivable	\$ 118,152	\$ 266,011
Less: allowance for uncollectible accounts	(118,152)	(266,011)
Net Receivable	<u>\$ -</u>	<u>\$ -</u>

Note 5 - Land Held for Sale:

As discussed in Note 13, the SPE was formed on behalf of bondholders, to own, manage, and dispose of certain 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.

Note 6 - Interfund Transfers:

During the year, \$90,713 was recorded as transferred from the debt service fund to the SPE fund in accordance with the Foreclosure Sale/Funding Agreement. In addition, the SPE fund transferred \$71,483 to the general fund in accordance with the Funding Agreement. The debt service fund also transferred \$26 to the capital projects fund as per the bond indenture.

MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

Note 7 - 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>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Infrastructure not yet complete	\$ 15,603,472	\$ -	\$ -	\$ 15,603,472
Total capital assets not being depreciated	15,603,472	-	-	15,603,472
Governmental activities capital assets, net	<u>\$ 15,603,472</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,603,472</u>

The total projected cost of the infrastructure development has been estimated at \$79.7 million, of which approximately \$17.7 million will be funded with proceeds from Series 2007 bonds. The remainder of the project is to be funded by the Developer in accordance with the completion agreement or with future bonds. However, due to the financial condition of the original Developer, the project is currently on hold.

Note 8 - Long-Term Liabilities:

On July 18, 2007, the District issued \$21,640,000 of Capital Improvement Revenue Bonds Series 2007, consisting of \$7,635,000 Series 2007A Bonds and \$14,005,000 of Series 2007B Bonds with fixed interest rates of 5.90% and 5.60%, respectively. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the property within the District. Interest is paid semiannually on each May 1 and November 1. Principal on the Series 2007A Bonds is payable serially commencing May 1, 2010 through May 1, 2039. Principal on the 2007B Bonds is due in one lump sum on May 1, 2014.

The Series 2007A Bonds are subject to optional redemption, extraordinary mandatory redemption, and mandatory redemption at any time on or after May 1, 2017 at a redemption price as set forth in the Bond Indenture.

The Series 2007B 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 Series 2007B Bonds became due during the prior year and are included in matured bonds payable at September 30, 2015.

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 District is not in compliance with this requirement at September 30, 2015, or as of the audit report date. Debt service reserve funds were used to finance a portion of the November 2009 and May 2010 interest payments. In addition, the District was unable to make the full principal and interest payment for the fiscal years 2010 through 2015 debt service principal and interest payments.

MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

Note 8 - Long-Term Liabilities (Continued):

The Bond Indenture has certain restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agreed to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The District is not in compliance with certain requirements of the Bond Indenture.

Total principal and interest remaining on the Series 2007 Bonds as of September 30, 2015 is \$35,247,877. Of this amount, \$21,068,962 is recorded as matured bonds payable and matured interest payable, see scheduled debt service requirements below for breakout of principal and interest. Interest of \$1,234,745 and principal of \$130,000 was due in the current year but was not paid. Total special assessment revenue pledged was \$48,323.

In October 2010, the Districted remitted \$392,140 to the trustee for an interest only payment representing the accrued and unpaid interest on the Series 2007B Bonds from November 1, 2009 through May 1, 2010. The May 2010 through May 2014 principal payments have not been made in full and are included as matured bonds payable. The District filed a complaint for foreclosure of its liens for unpaid special assessments on lands owned by the Developer. This was successful on a portion of the land and the District received payment of assessments on this land.

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable:					
Series 2007A	\$ 7,100,000	\$ -	\$ (130,000)	\$ 6,970,000	\$ 135,000
Less: issue discount	(41,821)	-	1,835	(39,986)	-
Governmental activity long-term liabilities	<u>\$ 7,058,179</u>	<u>\$ -</u>	<u>\$ (128,165)</u>	<u>\$ 6,930,014</u>	<u>\$ 135,000</u>

The schedule above includes a principal reduction of \$130,000 that was due but was not paid. The beginning balance includes a reduction of \$14,540,000 which was due in fiscal years 2010 through 2014 but was not paid. These amounts, totaling \$14,670,000, were reclassified into matured bonds payable.

MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

Note 8 - Long-Term Liabilities (Continued):

At September 30, 2015, the scheduled debt service requirements on the bonds payable were as follows, excluding amounts owed for principal and interest that are shown as currently due in matured bonds payable and matured interest payable:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 135,000	\$ 450,465
2017	145,000	442,500
2018	155,000	433,945
2019	160,000	424,800
2020	170,000	415,360
2021 - 2025	1,030,000	1,912,485
2026 - 2030	1,380,000	1,569,400
2031 - 2035	1,860,000	1,108,905
2036 - 2039	1,935,000	451,055
	<u>\$ 6,970,000</u>	<u>\$ 7,208,915</u>

Note 9 - Related Party Transactions and Deteriorating Financial Condition:

The Developer originally agreed to fund the general fund operations of the District and assessments were levied for this purpose on an annual basis. On January 3, 2014, the Trustee agreed to fund outstanding accounts payable of the District totaling \$309,696 which were paid from existing funds in trust accounts. On January 24, 2014, the Developer did pay partial assessments totaling \$196,744 for Operating and Maintenance Assessments on property it still owns within the District. In addition, the Developer paid \$95,522 for foreclosure expenses and penalties. The Developer still owns a large bulk acreage parcel within the District on which it is obligated to pay Operating and Maintenance Assessments.

Tri-Party Agreement:

In the previous fiscal year, the District reached an agreement with the SPE and the Trustee, wherein the District agreed to forgive all outstanding Operating and Maintenance Assessments, on the foreclosed property, in exchange for certain payments made by the Trustee.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

Note 10 - Deficit Net Position:

The District has a government-wide net deficit of \$(10,551,834) at September 30, 2015. This deficit is primarily caused by uncollected assessments from the Developer.

Note 11 - Management Company:

The District has contracted with a management company to perform management advisory services, which include financial advisory and accounting services. Certain employees of the management company also serve as officers (Board appointed non-voting positions) of the District. Under the agreement, the District compensates the management company for management, accounting, financial reporting and other administrative costs.

Note 12 - 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 13 - Special Purpose Entity:

In the prior fiscal year, the District and the Trustee, on behalf of the bondholders, created the SPE, to own, manage and dispose of certain land taken through foreclosure from the Developer, a significant landowner of the District. The District, Trustee and the SPE entered into a tri-party agreement whereby the SPE assumed responsibility for and agreed to pay future operating and maintenance assessments. If funds are no longer available in the Trust Estate and another funding source has not been secured, the SPE may convey the property to the District (with the District's consent), the Trustee or another SPE.

In October 2014, the District reached an agreement with the SPE, wherein the SPE agreed to fund any operating and maintenance budget deficit for the fiscal year ending September 30, 2015. The SPE's payment of funds pursuant to this agreement in no way affects the SPE's obligation to pay assessments on land it owns within the District. For the Fiscal Year September 30, 2015, the District shall levy Operating and Maintenance Assessments in accordance with an agreed upon funding schedule. During the current fiscal year, the SPE transferred \$71,483 to the General Fund.

This SPE is a blended component unit of the District.

Note 14 - Subsequent Events:

Debt service payments:

The District did not pay the debt service payments due at November 2015.

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 Creek 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 Creek Community Development District* (the "District") as of and for the year ended September 30, 2015, and the related notes to the financial statement, which collectively comprise the District's financial statements and have issued our report thereon dated March 1, 2016, which includes an adverse opinion due to the omission of land valuation.

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 a material weakness 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, 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 matter 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 1, 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McDiernit Davis & Company, LLC

Orlando, Florida
March 1, 2016

MANAGEMENT COMMENTS

Board of Supervisors
Magnolia Creek Community Development District

Report on the Financial Statements

We have audited the financial statements of the *Magnolia Creek Community Development District*, (the “District”) as of and for the fiscal year ended September 30, 2015, and have issued our report thereon dated March 1, 2016, which includes an adverse opinion due to the omission of land valuation.

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 1, 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.

Tabulation of Uncorrected Audit Findings		
Current Year Finding #	2013-14 FY Finding #	2012-2013 FY Finding #
12-01	12-01	12-01
12-02	12-02	12-02
14-01	14-01	N/A

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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., 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 did meet one condition as described in Section 218.503(1), Florida Statutes. See 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 financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Annual Financial Report

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, 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 1, 2016

APPENDIX A - MATERIAL WEAKNESS

Year Ended September 30, 2015

14-01 - Land held for Sale Not Recorded

Criteria

Generally accepted accounting principles require that land held for resale should 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 Creek 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 the lack of funding, the District was unable to perform an appraisal on the land held for resale, owned by the SPE Magnolia Creek 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.

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

Year Ended September 30, 2015

12-01 - Failure to Meet Debt Service Reserve Requirements

Criteria

The Trust Indentures require the District to keep minimum amounts in the Debt Service Reserve Accounts.

Condition

At September 30, 2015, the Series 2007 Debt Service Reserve Accounts were deficient.

Cause

In prior years, Debt Service Reserves were used to pay default expenditures and debt service on the Bonds due to nonpayment by Developer and affiliates.

Effect

The District is not in compliance with the Trust Indentures.

Recommendation

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

12-02 - Failure to Make Bond Debt Service Payments When Due

Criteria

The Capital Improvement Revenue Bonds Series 2007 require semiannual interest payments and annual principal payments.

Condition

In the prior years and in the current year, principal and interest were not paid when due on the 2007 Bonds.

Cause

Debt service assessments are not being paid to the District due to nonpayment by Developer.

Effect

During the year ended September 30, 2015, principal and interest on the 2007 Bonds were not paid when due, as a result of lack of funds. Therefore, the District has met a financial emergency condition as described in Florida Statute Section 218.503(1).

Recommendation

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

MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT

APPENDIX C - CONDITIONS OF FINANCIAL EMERGENCY

Year Ended September 30, 2015

12-02 - Failure to Make Bond Debt Service Payments When Due

During the year ended September 30, 2015, principal and interest were not paid when due on the 2007 Bonds, due to lack of funds; therefore they meet Section 218.503(1)(a) as a financial emergency condition.

MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT

DISTRICT OFFICE · 120 RICHARD JACKSON BLVD · SUITE 220 · PANAMA CITY BEACH, FLORIDA 32407

March 1, 2015

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

Management Letter finding 12-01:

The auditor noted that the District's Series 2007 Debt Service Reserve Accounts were deficient at September 30, 2015, as a result of funds from the Reserve Accounts being used to pay default expenditures and make debt service payments due to non-payment from the Developer.

District response to the finding:

The District has taken all necessary and available actions in order to comply with the Trust Indenture. The District has obtained final judgment on its claims on past due assessments in a 2010 foreclosure case. As discussed in the notes to financial statements the District and the Trustee, on behalf of the bondholders, created a special purpose entity ("SPE"), Magnolia Creek CDD Holdings, LLC, to own, manage and dispose of the land taken through foreclosure from the Developer, a significant landowner of the District. The District, Trustee and the SPE entered into a tri-party agreement whereby the SPE assumed responsibility for delinquent operating and maintenance assessments owed to the District and agreed to pay future operating and maintenance assessments. It is uncertain as to if the reserve accounts will be replenished upon disposition of the land owned by the SPE.

Management Letter finding 12-02:

The auditor noted that the District did not make the required debt service interest and principal payments on the Series 2007 bonds.

District response to the finding:

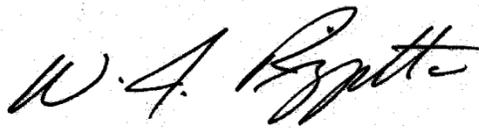
As noted above, the District has taken all necessary and available actions in order to comply with the Trust Indenture. Two of the foreclosure suits have been resolved and the District obtained final judgment on the third but has delayed the sale at the request of the Trustee and Bondholders. As noted above a SPE was formed to own, manage and dispose of the land taken through foreclosure of the special assessment lien. Due to the foreclosure the debt assessment lien has been extinguished and there are no assessments attached to the SPE land. The ultimate outcome and affect on the Series 2007 Bonds is uncertain at this time.

Management Letter finding 14-01:

The auditor noted that land owned by Magnolia Creek CDD Holdings, LLC a Florida limited liability company, ("Holdings") was not recorded on the District's books as land held for sale.

District response to the finding:

Holdings is a Florida limited liability company established by the District for the sole purpose of holding lands acquired by the District through the foreclosure of special assessment liens. No appraisal was performed on the land owned by Holdings. 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 Creek Community Development District

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

To the Board of Supervisors
Magnolia Creek Community Development District

We have examined *Magnolia Creek 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 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 1, 2016