

**CONNERTON WEST
COMMUNITY DEVELOPMENT DISTRICT**

FINANCIAL REPORT

Year Ended September 30, 2013

CONNERTON WEST COMMUNITY DEVELOPMENT DISTRICT

TABLE OF CONTENTS

	<u>Page</u>
I. Financial Section:	
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet - Governmental Funds	9
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	11
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	12
Notes to Financial Statements	13
II. 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 <i>Government Auditing Standards</i>	27
Management Comments	29
Response to the Management Comments	34

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the District, as of September 30, 2013, 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 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 6, the District was unable to pay debt service payments due on the Series 2006A Bonds and Series 2007B Bonds in fiscal years 2010 through 2013 because of unpaid debt service assessments due from the Developer. These failures to pay debt service are considered events of default. At September 30, 2013, and as of the audit report date, the Developer still owes the District for a significant portion of these delinquent assessments. An allowance for doubtful accounts offsets these receivables at September 30, 2013.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 30, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 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
May 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the *Connerton West Community Development District*, (the "District") financial accomplishments provide an overview of the District's financial activities for the year ended September 30, 2013. 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, 2013 by \$1,389,582, a decrease in the deficit of \$6,647,033 in comparison with the prior year. Net position was also decreased by \$685,742 due to implementation of GASB's.
- At September 30, 2013, the District's governmental funds reported a combined fund balance deficit of \$3,436,871, an increase in the deficit of \$1,126,648 in comparison with the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the *Connerton 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, liabilities, and deferred inflows/outflows of resources, with the difference between the three 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, physical environment, public safety, culture and recreation, and roads and streets related functions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fund Financial Statements

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

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

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

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

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

Notes to Financial Statements

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

Government-Wide Financial Analysis

Statement of Net Position - The District's net position was \$(1,389,582) at September 30, 2013. 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):

Connerton West Community Development District
Statement of Net Position

	September 30, 2013	September 30, 2012
Assets, excluding capital assets	\$ 2,547,178	\$ 4,311,072
Capital assets, net of depreciation	<u>35,096,686</u>	<u>35,122,409</u>
Total assets	<u>37,643,864</u>	<u>39,433,481</u>
Liabilities, excluding long-term liabilities	6,721,976	6,593,140
Long-term liabilities	<u>32,311,470</u>	<u>40,191,214</u>
Total liabilities	<u>39,033,446</u>	<u>46,784,354</u>
Net position:		
Net investment in capital assets	11,402,087	6,854,900
Unrestricted	<u>(12,791,669)</u>	<u>(14,205,773)</u>
Total	<u>\$ (1,389,582)</u>	<u>\$ (7,350,873)</u>

Total liabilities decreased due to the receipt of prepayments and partial redemption of the Series 2007B Bonds.

The following is a summary of the District's governmental activities for the fiscal years ended September 30, 2013 and 2012.

Changes in Net Position
Year ended September 30,

	2013	2012
Revenues:		
Program revenues	\$ 9,562,059	\$ 2,065,925
General revenues	62,166	1,691
Total revenues	<u>9,624,225</u>	<u>2,067,616</u>
Expenses:		
General government	220,454	618,518
Physical environment	723,445	659,582
Public safety	14,537	21,720
Culture and recreation	7,700	17,323
Roads and streets	650	6,000
Interest on long-term debt	2,010,406	2,181,436
Other costs	-	45,498
Total expenses	<u>2,977,192</u>	<u>3,550,077</u>
Change in net position	<u>6,647,033</u>	<u>(1,482,461)</u>
Net position - beginning, as previously stated	(7,350,873)	(5,868,412)
Effect of adoption of GASB 65	<u>(685,742)</u>	-
Net position - beginning, as restated	<u>(8,036,615)</u>	<u>(5,868,412)</u>
Net position - ending	<u>\$ (1,389,582)</u>	<u>\$ (7,350,873)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-Wide Financial Analysis (Continued):

Program revenues increased primarily because of the collection of assessments from the Developer totaling \$9,192,792. As noted above and in the statement of activities, the cost of all governmental activities during the year ended September 30, 2013 was \$2,977,192. The majority of these costs relate to interest on long-term debt. General government expenses decreased due to the finalizing of foreclosure proceedings and debt restructuring.

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, 2013, the District's governmental funds reported combined ending deficit fund balances of \$(3,436,871). Of this total, \$26,421 is nonspendable, \$201,130 is assigned for subsequent year expenditures, and the remainder is a negative unassigned fund balance of \$(3,664,422).

The fund balance of the debt service fund decreased by \$1,228,660, primarily due to the Developer's nonpayment of current year debt service assessments. This resulted in insufficient revenue received to fund the debt service payments due. In the current year, the District was unable to pay debt service due of \$663,802. This amount was added to matured bonds payable and matured interest payable. The fund balance of the capital projects fund did not change significantly from the prior year. The fund balance of the general fund increased by \$101,912 due to assessments and penalties on assessments received in excess of expenditures.

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, 2013 general fund budget. The legal level of budgetary control is at the fund level.

Capital Asset and Debt Administration

Capital Assets - At September 30, 2013, the District had \$35,096,686 invested in capital assets, net of accumulated depreciation. More detailed information about the District's capital assets is presented in the notes to financial statements.

Capital Debt - At September 30, 2013, the District had \$32,926,470 in bonds outstanding, including \$615,000 in matured bonds payable and net of bond discount of \$13,530. More detailed information about the District's capital debt is presented in the notes to financial statements.

Requests for Information

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

FINANCIAL STATEMENTS

CONNERTON WEST COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF NET POSITION

September 30, 2013

	Governmental Activities
Assets:	
Cash	\$ 799,648
Due from developer, net of allowance	2,480
Prepaid costs	8,316
Deposits	18,105
Restricted assets:	
Temporarily restricted investments	1,718,629
Capital assets not being depreciated	34,633,673
Capital assets being depreciated, net	463,013
Total assets	<u>37,643,864</u>
Liabilities:	
Accounts payable and accrued expenses	103,066
Accrued interest payable	737,927
Matured bonds payable	615,000
Matured interest payable	5,265,983
Due within one year	345,000
Due in more than one year	31,966,470
Total liabilities	<u>39,033,446</u>
Net Position:	
Net investment in capital assets	11,402,087
Unrestricted	(12,791,669)
Total net position	<u>\$ (1,389,582)</u>

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

CONNERTON WEST COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF ACTIVITIES

Year Ended September 30, 2013

<u>Functions/Programs</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants</u>	
			<u>and Contributions</u>	
Governmental activities:				
General government	\$ 220,454	\$ 206,549	\$ -	\$ (13,905)
Physical environment	723,445	677,814	-	(45,631)
Public safety	14,537	13,620	-	(917)
Culture and recreation	7,700	7,214	-	(486)
Roads and streets	650	609	-	(41)
Interest on long-term debt	2,010,406	8,654,149	2,104	6,645,847
Total governmental activities	<u>\$ 2,977,192</u>	<u>\$ 9,559,955</u>	<u>\$ 2,104</u>	<u>\$ 6,584,867</u>
General Revenues:				
Miscellaneous income				59,826
Investment income				2,340
Total general revenues				<u>62,166</u>
Change in net position				<u>6,647,033</u>
Net position - beginning, as previously stated				(7,350,873)
Restatement of net position due to implementation of GASB 65				<u>(685,742)</u>
Net position - beginning, as restated				<u>(8,036,615)</u>
Net position - ending				<u>\$ (1,389,582)</u>

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

CONNERTON WEST COMMUNITY DEVELOPMENT DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2013

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets:				
Cash	\$ 799,648	\$ -	\$ -	\$ 799,648
Investments	-	1,718,311	318	1,718,629
Due from developer, net of allowance	2,480	-	-	2,480
Prepaid costs	8,316	-	-	8,316
Deposits	18,105	-	-	18,105
Total assets	<u>\$ 828,549</u>	<u>\$ 1,718,311</u>	<u>\$ 318</u>	<u>\$ 2,547,178</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenses	\$ 42,306	\$ 60,320	\$ 440	\$ 103,066
Matured bonds payable	-	615,000	-	615,000
Matured interest payable	-	5,265,983	-	5,265,983
Total liabilities	<u>42,306</u>	<u>5,941,303</u>	<u>440</u>	<u>5,984,049</u>
Fund balances:				
Nonspendable	26,421	-	-	26,421
Assigned for subsequent year expenditures	201,130	-	-	201,130
Unassigned	558,692	(4,222,992)	(122)	(3,664,422)
Total fund balances	<u>786,243</u>	<u>(4,222,992)</u>	<u>(122)</u>	<u>(3,436,871)</u>
Total liabilities and fund balances	<u>\$ 828,549</u>	<u>\$ 1,718,311</u>	<u>\$ 318</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.

35,096,686

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	(737,927)	
Bonds payable	<u>(32,311,470)</u>	<u>(33,049,397)</u>

Net position of governmental activities (page 7) \$ (1,389,582)

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

CONNERTON WEST COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2013

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues:				
Special assessments	\$ 926,163	\$ 1,060,133	\$ -	\$ 1,986,296
Assessments - prepayments	-	7,820,186	-	7,820,186
Miscellaneous income	59,826	-	-	59,826
Investment income	2,340	2,104	-	4,444
Total revenues	<u>988,329</u>	<u>8,882,423</u>	<u>-</u>	<u>9,870,752</u>
Expenditures:				
Current:				
General government	165,808	54,646	-	220,454
Physical environment	697,722	-	-	697,722
Public safety	14,537	-	-	14,537
Culture and recreation	7,700	-	-	7,700
Roads and streets	650	-	-	650
Debt service:				
Interest	-	2,171,337	-	2,171,337
Principal	-	7,885,000	-	7,885,000
Total expenditures	<u>886,417</u>	<u>10,110,983</u>	<u>-</u>	<u>10,997,400</u>
Excess (Deficit) of Revenues Over Expenditures	<u>101,912</u>	<u>(1,228,560)</u>	<u>-</u>	<u>(1,126,648)</u>
Other Financing Sources (Uses):				
Transfers in	-	-	100	100
Transfers out	-	(100)	-	(100)
Total other financing sources (uses)	<u>-</u>	<u>(100)</u>	<u>100</u>	<u>-</u>
Net change in fund balances	101,912	(1,228,660)	100	(1,126,648)
Fund Balances - Beginning of Year	<u>684,331</u>	<u>(2,994,332)</u>	<u>(222)</u>	<u>(2,310,223)</u>
Fund Balances - End of Year	<u>\$ 786,243</u>	<u>\$ (4,222,992)</u>	<u>\$ (122)</u>	<u>\$ (3,436,871)</u>

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

CONNERTON 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, 2013

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

Net change in fund balances - total governmental funds (page 10) \$ (1,126,648)

Depreciation on capital assets is not recognized in the governmental fund statement; however it is reported as an expense in the statement of activities. (25,723)

Special assessment revenue reported in the funds must be eliminated from the statement of activities since this revenue was recognized in prior years (246,527)

Repayments of long-term liabilities are reported as expenditures in governmental funds, while repayments reduce long-term liabilities in the statement of net position.

Repayment of bonds payable	7,720,000	
Matured bonds recorded as payable	<u>165,000</u>	7,885,000

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

Change in accrued interest	166,187	
Amortization of bond discount	<u>(5,256)</u>	<u>160,931</u>

Change in net position of governmental activities (page 8) \$ 6,647,033

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

CONNERTON WEST COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Special assessments	\$ 919,001	\$ 919,001	\$ 926,163	\$ 7,162
Miscellaneous income	-	-	59,826	59,826
Investment income	-	-	2,340	2,340
Total revenues	<u>919,001</u>	<u>919,001</u>	<u>988,329</u>	<u>69,328</u>
Expenditures:				
Current:				
General government	202,116	202,116	165,808	36,308
Physical environment	727,285	727,285	697,722	29,563
Public safety	25,000	25,000	14,537	10,463
Culture and recreation	8,000	8,000	7,700	300
Roads and streets	10,000	10,000	650	9,350
Total expenditures	<u>972,401</u>	<u>972,401</u>	<u>886,417</u>	<u>85,984</u>
Net change in fund balance	(53,400)	(53,400)	101,912	155,312
Fund balance - beginning of year	<u>684,331</u>	<u>684,331</u>	<u>684,331</u>	<u>-</u>
Fund balance - end of year	<u>\$ 630,931</u>	<u>\$ 630,931</u>	<u>\$ 786,243</u>	<u>\$ 155,312</u>

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

NOTES TO FINANCIAL STATEMENTS

CONNERTON WEST COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2013

Note 1 - Summary of Significant Accounting Policies:

Reporting Entity

The *Connerton West Community Development District*, (the "District") was established on June 14, 2004 by Rule 42-PP-1 of the Florida Land and Water Adjudicatory Commission 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 landowners of the District. Four are elected on an at large basis by qualified electors that reside within the District. The Board of Supervisors of the District exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes. As of September 30, 2013, the District developer is Hayman Woods, LLC (the "Developer"). Subsequent to year end, Glick Family Investments became owners of the entire Series 2006 and Series 2007 debt issuance for the District. Hayman Woods, LLC and Glick Family Investments formed a joint venture as equal partners in all of the undeveloped land in the District as well as the commercial land.

The Board has the final responsibility for:

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 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. Management has determined that there are no entities considered to be component units of the District.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

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 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 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, 2013

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 and debt service 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 general obligation debt.

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

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

Assets, Liabilities, 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, 2013

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

Assets, Liabilities and Net Position or Equity, 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 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>
Surface water management system	25

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 discount 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, 2013.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

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

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

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, 2013.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

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

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

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.

New GASB Statements Implemented

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements - This statement classifies all sources of generally accepted accounting principles for state and local governments so that the authoritative accounting and financial reporting literature will be together in a single source, with that guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial statement users.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position - This statement provides guidance for deferred outflows of resources and deferred inflows of resources. It further identifies net position as the residual of all elements presented in a statement of financial position. This Statement redefines certain assets and liabilities as "deferred outflows of resources" or "deferred inflows of resources." It further requires the "Capital asset, net of debt" now be titled "Net investment in capital assets" and that the last line of the statements, previously called "Net assets" now be titled "Net position."

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities- This statement provides additional guidance for the items listed in GASB 63 and includes additional changes in accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This Statement requires that debt issuance costs be expensed in the period the debt was issued. This Statement also requires that taxes and lease revenues received prior to the period to which they relate to be classified as Unavailable Revenue (a deferred inflow). The implementation of GASB 65 resulted in the write off of bond issuance costs and the effect of adoption of GASB 65 is the reduction of beginning net position by \$685,742 of the governmental activities. The effect on fiscal year 2012 had the implementation of GASB occurred earlier would have resulted in a decrease in reported expenses of the governmental activities by \$76,335.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

Note 1 - Summary of Significant Accounting Policies (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 Balances

The debt service fund and capital projects fund have deficit fund balances at September 30, 2013.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

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;
5. Short-term bond funds investing in U.S. Government securities or U.S. Government Agency Securities;
6. Securities of registered investment companies (mutual funds) that are limited to obligations of the U.S. Government or any agency or instrumentality thereof.

CONNERTON WEST COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

Note 3 - Deposits and Investments (Continued):

Investments (Continued):

Investments made by the District at September 30, 2013 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 Managed Money Market	\$ 1,718,629	AAA	NA

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, 2013, 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, 2013, 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.

CONNERTON WEST COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

Note 3 - Deposits and Investments (Continued):

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 - Interfund Transfers:

During the year, \$100 was transferred from the debt service fund to the capital projects fund as directed by the trust indenture.

Note 5 - Capital Assets:

Capital asset activity for the year ended September 30, 2013 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 under construction	\$ 34,633,673	\$ -	\$ -	\$ 34,633,673
Capital assets being depreciated:				
Surface water management system	643,074	-	-	643,074
Less accumulated depreciation for:				
Surface water management system	(154,338)	(25,723)	-	(180,061)
Total capital assets being depreciated, net	488,736	(25,723)	-	463,013
Governmental activities capital assets, net	<u>\$ 35,122,409</u>	<u>\$ (25,723)</u>	<u>\$ -</u>	<u>\$ 35,096,686</u>

Depreciation expense for 2013 was charged to physical environment expense.

There has been no significant construction activity in the District for the past four years. Remaining costs to complete the improvements for the District are estimated at \$75,089,000. Any additional infrastructure costs in excess of the amounts available from the Bonds issued as well as future bond proceeds is the responsibility of the Developer. The District has conveyed certain infrastructure improvements to other governmental entities in prior years and may convey additional infrastructure improvements to other governmental entities upon completion of the project.

CONNERTON WEST COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

Note 6 - Long-Term Liabilities:

Series 2004 Capital Improvement Revenue Bonds

On November 1, 2004, the District issued \$8,895,000 of Capital Improvement Revenue Bonds, Series 2004 consisting of \$3,015,000 Series 2004A-1 due on May 1, 2035 with a fixed interest rate of 5.95%; \$2,290,000 Series 2004A-2 due on May 1, 2024 with a fixed interest rate of 5.85%; and \$3,590,000 Series 2004A-2b due on May 1, 2036 with a fixed interest rate of 5.95%. Principal on these bonds is payable annually commencing May 1, 2006, May 1, 2007 and May 1, 2025 respectively. Interest is paid semiannually on each May 1 and November 1, commencing May 1, 2005. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the property within the District. On May 1, 2010 the Series 2004A-2 Bonds and Series 2004A-2b Bonds were restructured and combined. The terms of the bonds are unchanged.

The Series 2004 Bonds are subject to redemption at the option of the District, in whole or in part at anytime on or after May 1, 2012 at a redemption price set forth in the Bond Indenture. The Series 2004 Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Indenture.

The Bond Indenture requires that the District maintain adequate funds in a reserve account to meet the debt service reserve requirement as defined in the Indenture. The requirement was met at September 30, 2013.

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. Payment of principal and interest on the 2004 Bonds is secured by a pledge and a first lien upon the pledged special assessment revenue. The District is in compliance with the requirements of the Bond Indenture as of September 30, 2013.

Total principal and interest remaining on the Series 2004 Bonds at September 30, 2013 is \$14,224,635. For the year ended September 30, 2013, principal and interest paid was \$622,135 and total special assessment revenue pledged was \$648,703.

Series 2006A Capital Improvement Revenue Bonds

On September 1, 2006, the District issued \$10,635,000 of Capital Improvement Revenue Bonds Series 2006A consisting of \$6,265,000 Series 2006A-1 due on May 1, 2037 with a fixed interest rate of 5.375% and \$4,370,000 Series 2006A-2 due on May 1, 2038 with a fixed interest rate of 5.4%. Principal is payable annually commencing on May 1, 2008 and May 1, 2009, respectively. Interest is paid semiannually on each May 1 and November 1, commencing November 1, 2006. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the property within the District.

CONNERTON WEST COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

Note 6 - Long-Term Liabilities (Continued):

The Series 2006A Bonds are subject to redemption at the option of the District, in whole or in part at any time on or after May 1, 2015 at a redemption price set forth in the Bond Indenture. The Series 2006A Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Indenture.

The Bond Indenture requires that the District maintain adequate funds in a reserve account to meet the debt service reserve requirement as defined in the Indenture. The requirement was not met at September 30, 2013.

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. Payment of principal and interest on the 2006A Bonds is secured by a pledge and a 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 2006A Bonds at September 30, 2013 is \$19,169,215. Of this amount, \$2,610,208 is past due and recorded as matured bonds payable and matured interest payable. In the current year, principal and interest of \$663,802 was due but was not paid. Total special assessment revenue pledged in the current year was \$273,309.

Series 2007B Capital Improvement Revenue Bonds

On February 1, 2007, the District issued \$25,430,000 of Capital Improvement Revenue Bonds, Series 2007B with a fixed interest rate of 5.125%. Principal is payable in one lump sum on May 1, 2016. Interest is paid semiannually on each May 1 and November 1, commencing May 1, 2007. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the property within the District.

The Series 2007B Bonds are not subject to redemption at the option of the District. The Series 2007B Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Indenture.

In the current year, \$7,565,000 of the Series 2007B Bonds were redeemed from developer prepayments. This transaction included an additional payment of \$1,550,825 to payoff \$345,425 of matured interest payable and \$1,205,400 of current interest expense.

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 was not met at September 30, 2013.

CONNERTON WEST COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

Note 6 - 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. Payment of principal and interest on the 2007B Bonds is secured by a pledge and a first lien upon the pledged special assessment revenue. The District is not in compliance with the certain requirements of the Bond Indenture.

Total principal and interest remaining on the Series 2007B Bonds at September 30, 2013 is \$21,678,857. Of this amount, \$3,270,775 is past due and recorded as matured interest payable. For the year ended September 30, 2013, principal and interest paid was \$9,115,825 which included \$345,425 of matured interest payable. Total special assessment revenue pledged in the current year was \$7,958,307.

Long-term debt activity for the year ended September 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable:					
Series 2004	\$ 7,880,000	\$ -	\$ (155,000)	\$ 7,725,000	\$ 170,000
Series 2006	8,810,000	-	(165,000)	8,645,000	175,000
Series 2007	23,520,000	-	(7,565,000)	15,955,000	-
Less issuance discount	(18,786)	-	5,256	(13,530)	-
Governmental activity long-term liabilities	<u>\$ 40,191,214</u>	<u>\$ -</u>	<u>\$ (7,879,744)</u>	<u>\$ 32,311,470</u>	<u>\$ 345,000</u>

The schedule above includes reductions of \$165,000 that were due but were not paid. The beginning balance includes \$450,000 in prior year reductions that were due but were not paid. These amounts, totaling \$615,000 were reclassified into matured bonds payable. At September 30, 2013, the scheduled debt service requirements on the bonds payable were as follows, excluding amounts owed for principal and interest that are currently due and recorded in matured bonds payable and matured interest payable:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 345,000	\$ 1,773,047
2015	365,000	1,753,615
2016	16,340,000	1,733,054
2017	405,000	893,672
2018	425,000	870,860
2019 - 2023	2,560,000	3,962,488
2024 - 2028	3,390,000	3,151,100
2029 - 2033	4,485,000	2,073,405
2034 - 2038	4,010,000	695,483
	<u>\$ 32,325,000</u>	<u>\$ 16,906,724</u>

CONNERTON WEST COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2013

Note 7 - Related Party Transactions:

Developer Transactions

In the current year, the District recorded revenue of \$9,192,792 from the Developer, representing 93% of total special assessments revenue. Included in the above amount is the \$9,115,825 used for the partial redemption of the Series 2007B Bonds as discussed in Note 6.

Subsequent to year end, Glick Family Investments partnered with the Developer in a joint venture to own the entire Series 2006 and Series 2007 debt issuance for the District.

Note 8 - Deficit Net Position:

The District has a government-wide net deficit of \$(1,389,582) at September 30, 2013. This deficit primarily results from 1) capital assets which were financed by District long-term debt but were conveyed to other governmental entities and 2) uncollected revenues.

Note 9 - 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 10 - Subsequent Events:

Bond Activity

Subsequent to year end, the District was unable to make the November 1, 2013 and May 1, 2014 required debt service payments on the Series 2006A Bonds. The District failed to make the November 1, 2013 required debt service payments on the Series 2007B Bonds prior to the extinguishment of the debt series.

Subsequent to year end, the District accepted and surrendered Series 2007B Bonds and cancelled all assessments in addition to accepting a forbearance agreement for the Series 2006A bonds.

Notwithstanding the compliance matters for debt service payments identified in the audit for the period ending September 30, 2013, the District is not in default of bond obligations as of the dates of issuance for this report. The District anticipates that a restructuring of certain bonds in cooperation with the Developer may be pursued in fiscal year 2014. As in fiscal year 2013, the District continues to maintain adequate funds for operation and maintenance of District facilities and services.

COMPLIANCE SECTION

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations 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 May 30, 2014. 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
May 30, 2014

- Section 10.554(1)(i)5., Rules of the Auditor General, requires that the name or official title and legal authority for the District and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information has been disclosed in the notes to the financial statements.
- Section 10.554(1)(i)6.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District met one of the conditions described in Section 218.503(1), Florida Statutes. See appendix C.
- Section 10.554(1)(i)6.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the District for the fiscal year ended September 30, 2013, 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, 2013. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)6.c. and 10.556(7), 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 above under Section 10.554(1)6.a.

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 and applicable management, and is not intended to be and should not be used by anyone other than those specified parties.

McDiernit Davis & Company, LLC

Orlando, Florida
May 30, 2014

CONNERTON WEST COMMUNITY DEVELOPMENT DISTRICT

APPENDIX A - PRIOR YEAR FINDINGS

Year Ended September 30, 2013

<u>No.</u>	<u>Prior Year's Finding</u>	<u>Finding No Longer Relevant</u>	<u>Finding is Still Relevant</u>	<u>Finding Included in Second Preceding Audit</u>
12-01	Failure to Make Debt Service Payments When Due		X	X
12-02	Failure to Meet Debt Service Account Reserve Requirements		X	X

Refer to Note 10 on page 26 of the audit report for additional information on subsequent events which impact the findings reported above.

CONNERTON WEST COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2013

13-01 - Failure to Make Debt Service Payments When Due

Criteria

The Series 2006A and Series 2007B Capital Improvement Revenue Bonds require semiannual interest payments. The Series 2006A requires annual principal payments.

Condition

In the current and prior years, the District did not pay principal and interest due on the Series 2006A and Series 2007B Bonds.

Cause

The Developer has not remitted all required debt service special assessments to the District.

Effect

At September 30, 2013, the District was not in compliance with the requirements of the Bond Indentures and has met a financial emergency condition as described in Florida Statute 218.503(1).

Recommendation

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

13-02 - Failure to Meet Debt Service Account Reserve Requirements

Criteria

The Trust Indentures require the District to maintain a minimum balance in the Debt Service Reserve Accounts.

Condition

At September 30, 2013, the Debt Service Reserve Accounts for the Series 2006A Bonds and Series 2007B Bonds were deficient.

Cause

The balances in the Debt Service Reserve Accounts were used to pay prior year debt service.

Effect

The District is not in compliance with the requirements of the Series 2006A and Series 2007B Trust Indentures.

Recommendation

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

CONNERTON WEST COMMUNITY DEVELOPMENT DISTRICT

APPENDIX C - CONDITIONS OF FINANCIAL EMERGENCY

Year Ended September 30, 2013

13-01 - Failure to Make Debt Service Payments When Due

In the current and prior years, the District did not pay principal and interest due on the Series 2006A Bonds and interest due on the Series 2007B Bonds as a result of lack of funds; therefore the District meets Section 218.503(1)(a) as a financial emergency condition.

CONNERTON WEST COMMUNITY DEVELOPMENT DISTRICT

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

May 30, 2014

Response to the Management Letter for the fiscal year ended September 30, 2013

13-01

The auditor noted that the District was unable to make the required debt service payments due in the current and prior years.

District response to the finding:

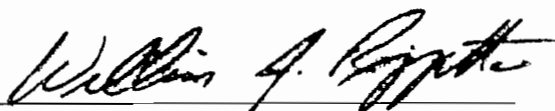
The District has taken all necessary and available actions in order to comply with the Trust Indenture. During a prior year the District entered into a forbearance agreement with the Trustee and Developer. The Forbearance agreement will delay all debt service payments until June 2012 or restructure of the bonds. During the current year the District received approximately \$9million from the Developer of which approximately \$8.3 million was deposited in the Series 2007B revenue and prepayment account and approximately \$250,000 was deposited into the Series 2006 A-1 prepayment account. These funds were used redeem approximately \$7.5 mm of principal and \$1.5mm of interest on the Series 2007B Bonds. Subsequent to year end the remaining Series 2007B Bonds were surrendered and all related assessments were cancelled. In addition to this the District entered into a forbearance agreement relating to the Series 2006A Bond assessments.

13-02:

The auditor noted that the District was unable to maintain the Reserve account balance requirement for the Series 2006 and 2007 bonds.

District response to the finding:

The District has taken all necessary and available actions in order to comply with the Trust Indenture. During FY09-10 the District was charged for default expenses relating to both Bond Counsel and Trustee fees which resulted in the District not meeting the debt service reserve requirements. As noted above the District has entered into a forbearance agreement with the Trustee and Developer. Due to the collection of assessments and anticipated payment relating to the Series 2006 A-1 and Series 2007B Bonds the reserve requirements will change. Whether or not the Trustee will use funds to replenish the reserve deficiencies is unknown at this time.



William J. Rizzetta

Treasurer

Connerton West Community Development District