

**CHAPEL CREEK  
COMMUNITY DEVELOPMENT DISTRICT**

**FINANCIAL REPORT**

Year Ended September 30, 2013

CHAPEL CREEK COMMUNITY DEVELOPMENT DISTRICT

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Year Ended September 30, 2013

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors  
*Chapel Creek Community Development District*

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, and each major fund of the *Chapel Creek Community Development District* (the "District"), as of and for the year ended September 30, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

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## **Opinions**

### *Basis for Adverse Opinion Due to Component Unit and Land Value*

Management has not included a blended component unit, Special Revenue Fund - Special Purpose Entity, New Chapel Creek, LLC in the Chapel Creek Community Development District's financial statements. Accounting principles generally accepted in the United States of America require this Special Revenue Fund to be presented as a major governmental fund and financial information about this Fund to be part of the governmental activities, thus increasing the activity's assets, liabilities, revenues, and expenses, and changing its net assets. The amount by which this departure would affect the assets, liabilities, net assets, revenues and expenses of the governmental activities and the omitted major fund is not reasonably determinable.

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

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

In our opinion, because of the omission of the Special Revenue Fund (New Chapel Creek, LLC) and omission of the land valuation (Chapel Creek CDD Holdings, LLC), as discussed above, the financial statements referred to above, do not purport to, and do not, present fairly the financial position of governmental activities and the Special Revenue Fund of the District, as of September 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

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

### *Other Information*

As discussed in Note 10, the two Special Purpose Entities ("SPE") referred to above, were formed by the Trustee, on behalf of the Bondholders, to own, manage and dispose of the land within the District. This land was purchased at a tax deed sale or through foreclosure sale due to nonpayment of Developer assessments. The District has been unable to make its debt service payments on the Series 2006A Bonds. In the current year, the Trustee used Trust Estate funds to redeem a portion of the Series 2006A. The Trustee has temporarily deferred collection of debt service assessments on these Bonds.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated May 12, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*McDiernit Davis & Company, LLC*

Orlando, Florida  
May 12, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the *Chapel Creek Community Development District's*, (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 \$2,608,446, a decrease in the net deficit of \$2,938,489 in comparison with the prior year. Net position was also decreased by \$274,572 due to implementation of GASB 65.
- At September 30, 2013, the District's governmental funds reported a total fund balance of \$3,262,271, a decrease of \$1,627,442 in the fund balance compared with the prior year.
- In the current year, the Trustee used \$4,150,000 of Trust Estate funds to redeem a portion of the Series 2006A Bonds. Additionally, \$665,000 of these bonds were cancelled and accrued interest was forgiven.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the *Chapel 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, 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 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. 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. All funds are considered to be major funds.

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

### Notes to 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 \$(2,608,446) at September 30, 2013. The analysis that follows focuses on the net position of the District's governmental activities.

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

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

Chapel Creek Community Development District  
Statement of Net Position

	<u>September 30, 2013</u>	<u>September 30, 2012</u>
Assets, excluding capital assets	\$ 3,422,917	\$ 8,568,783
Capital assets not being depreciated	<u>5,447,856</u>	<u>5,082,269</u>
Total assets	<u>8,870,773</u>	<u>13,651,052</u>
Liabilities, excluding long-term liabilities	414,219	3,768,415
Long-term liabilities	<u>11,065,000</u>	<u>15,155,000</u>
Total liabilities	<u>11,479,219</u>	<u>18,923,415</u>
Net position		
Net investment in capital assets	180,411	295,032
Restricted for capital projects	1,323,985	1,446,479
Unrestricted	<u>(4,112,842)</u>	<u>(7,013,874)</u>
Total net position	<u>\$ (2,608,446)</u>	<u>\$ (5,272,363)</u>

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,

	<u>2013</u>	<u>2012</u>
Revenues:		
Program revenues	<u>\$ 180,541</u>	<u>\$ 105,619</u>
Expenses:		
General government	620,108	428,496
Physical environment	17,488	4,171,602
Interest on long-term debt	<u>253,573</u>	<u>624,549</u>
Total expenses	<u>891,169</u>	<u>5,224,647</u>
Special Items:		
Gain on debt cancellation	<u>3,649,117</u>	<u>7,509,614</u>
Change in net position	<u>2,938,489</u>	<u>2,390,586</u>
Net position - beginning as previously stated	(5,272,363)	(7,662,949)
Restatement of net position (GASB 65)	(274,572)	-
Net position - beginning as restated	<u>(5,546,935)</u>	<u>(7,662,949)</u>
Net position - ending	<u>\$ (2,608,446)</u>	<u>\$ (5,272,363)</u>

In the current year, a portion of outstanding bonds was cancelled, resulting in a gain on debt cancellation of \$3,649,117 and a reduction to interest expense from the prior year. Physical environment expense in the prior year includes \$4,148,115 of asset conveyances to Pasco County. General government expenditures increased from the prior year primarily due to increased SPE costs for impact fee payments made to the County by the SPE.

## 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, 2013, the District's governmental funds reported a combined ending fund balance of \$3,262,271. Of this total, \$3,264,085 is restricted, \$1,231 is nonspendable and the remainder is an unassigned negative fund balance of \$(3,045).

The fund balance of the District's general fund decreased by \$21,236 because expenditures exceeded special assessment revenue.

The debt service fund received transfers of \$4,325,146 from the capital projects fund, as directed by the Trustee. Of this amount, \$4,150,000 was used to redeem a portion of the Series 2006A Bonds (\$725,000 had previously been recorded as matured bonds payable) and an additional \$665,000 of these bonds were cancelled. Additionally, accrued interest was forgiven, resulting in income of \$2,620,200 from the reversal of matured interest payable that was recorded as expenditures in prior years. The fund balance of the debt service fund increased by \$3,417,153 from the prior year, primarily due to the net effects of this transaction.

The fund balance of the capital projects fund decreased by \$5,022,459, primarily due to the transfer to the debt service fund described above. Additionally, capital projects funds were used to pay for District improvements.

### 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 budget 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 \$5,447,856 invested in infrastructure under construction. 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 \$11,065,000 in bonds outstanding. 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 *Chapel Creek Community Development District's* Finance Department at 3434 Colwell Avenue, Suite 200, Tampa, Florida 33614.

## **FINANCIAL STATEMENTS**

CHAPEL CREEK COMMUNITY DEVELOPMENT DISTRICT

**STATEMENT OF NET POSITION**

September 30, 2013

**Assets:**

Cash	\$ 1,333
Due from special purpose entity	12,704
Due from bondholders	13,795
Prepaid costs	931
Deposits	300
Restricted assets:	
Temporarily restricted investments	3,393,854
Capital assets not being depreciated	<u>5,447,856</u>
Total assets	<u>8,870,773</u>

**Liabilities:**

Accounts payable and accrued expenses	156,230
Accrued interest payable	253,573
Retainage payable	4,416
Noncurrent liabilities:	
Due within one year	210,000
Due in more than one year	<u>10,855,000</u>
Total liabilities	<u>11,479,219</u>

**Net Position:**

Net investment in capital assets	180,411
Restricted for capital projects	1,323,985
Unrestricted	<u>(4,112,842)</u>
Total net position	<u>\$ (2,608,446)</u>

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

CHAPEL CREEK COMMUNITY DEVELOPMENT DISTRICT

**STATEMENT OF ACTIVITIES**

Year Ended September 30, 2013

<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	\$ 620,108	\$ -	\$ 127,270	\$ -	(492,838)
Physical environment	17,488	-	3,688	-	(13,800)
Interest on long-term debt	253,573	46,967	131	2,485	(203,990)
Total governmental activities	<u>\$ 891,169</u>	<u>\$ 46,967</u>	<u>\$ 131,089</u>	<u>\$ 2,485</u>	<u>(710,628)</u>
Special Items:					
Gain on debt cancellation					<u>3,649,117</u>
Change in net position					<u>2,938,489</u>
Net position - beginning as previously stated					(5,272,363)
Restatement of net position due to implementation of GASB 65					<u>(274,572)</u>
Net position - beginning as restated					<u>(5,546,935)</u>
Net position - ending					<u>\$ (2,608,446)</u>

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

CHAPEL CREEK COMMUNITY DEVELOPMENT DISTRICT

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

September 30, 2013

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Special Purpose Entity</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Cash	\$ 1,333	\$ -	\$ -	\$ -	\$ 1,333
Investments	-	392,372	3,001,482	-	3,393,854
Due from special purpose entity	12,704	-	-	-	12,704
Due from bondholders	-	-	-	13,795	13,795
Prepaid costs	931	-	-	-	931
Deposits	300	-	-	-	300
Total assets	<u>\$ 15,268</u>	<u>\$ 392,372</u>	<u>\$ 3,001,482</u>	<u>\$ 13,795</u>	<u>\$ 3,422,917</u>
<b>Liabilities and Fund Balances:</b>					
Liabilities:					
Accounts payable and accrued expenses	\$ 16,272	\$ -	\$ 125,353	\$ 14,605	\$ 156,230
Retainage payable	-	-	4,416	-	4,416
Total liabilities	<u>16,272</u>	<u>-</u>	<u>129,769</u>	<u>14,605</u>	<u>160,646</u>
Fund balances:					
Nonspendable	1,231	-	-	-	1,231
Restricted:					
Debt service	-	392,372	-	-	392,372
Capital projects	-	-	2,871,713	-	2,871,713
Unassigned	(2,235)	-	-	(810)	(3,045)
Total fund balances	<u>(1,004)</u>	<u>392,372</u>	<u>2,871,713</u>	<u>(810)</u>	<u>3,262,271</u>
Total liabilities and fund balances	<u>\$ 15,268</u>	<u>\$ 392,372</u>	<u>\$ 3,001,482</u>	<u>\$ 13,795</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. 5,447,856

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Accrued interest payable	(253,573)	
Bonds payable	<u>(11,065,000)</u>	<u>(11,318,573)</u>
Net position of governmental activities (page 8)		<u>\$ (2,608,446)</u>

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

CHAPEL CREEK 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>Special Purpose Entity</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
Special purpose entity contributions	\$ 117,163	\$ -	\$ -	\$ -	\$ 117,163
Special assessments - prepayments	-	46,967	-	-	46,967
Bondholder contributions	-	-	-	13,795	13,795
Investment income	-	131	2,485	-	2,616
Total revenues	<u>117,163</u>	<u>47,098</u>	<u>2,485</u>	<u>13,795</u>	<u>180,541</u>
<b>Expenditures:</b>					
Current:					
General government	121,001	150,291	334,211	14,605	620,108
Physical environment	17,488	-	-	-	17,488
Debt service:					
Principal	-	3,425,000	-	-	3,425,000
Capital outlay	-	-	365,587	-	365,587
Total expenditures	<u>138,489</u>	<u>3,575,291</u>	<u>699,798</u>	<u>14,605</u>	<u>4,428,183</u>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	(21,326)	(3,528,193)	(697,313)	(810)	(4,247,642)
<b>Other Financing Sources (Uses) :</b>					
Reversal of accrued debt service obligation due to bond cancellation	-	2,620,200	-	-	2,620,200
Transfers in	-	4,325,146	-	-	4,325,146
Transfers out	-	-	(4,325,146)	-	(4,325,146)
Total other financing sources (uses)	<u>-</u>	<u>6,945,346</u>	<u>(4,325,146)</u>	<u>-</u>	<u>2,620,200</u>
Net change in fund balances	(21,326)	3,417,153	(5,022,459)	(810)	(1,627,442)
<b>Fund Balances (Deficit) - Beginning of Year</b>	<u>20,322</u>	<u>(3,024,781)</u>	<u>7,894,172</u>	<u>-</u>	<u>4,889,713</u>
<b>Fund Balances (Deficit) - End of Year</b>	<u>\$ (1,004)</u>	<u>\$ 392,372</u>	<u>\$ 2,871,713</u>	<u>\$ (810)</u>	<u>\$ 3,262,271</u>

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

CHAPEL 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, 2013

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

Net change in fund balances - total governmental funds (page 11)		\$ (1,627,442)
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources; however, in the statement of net position these costs are recorded as capital assets.		365,587
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, not recorded as matured	3,425,000	
Cancellation of bonds payable, not recorded as matured	<u>665,000</u>	4,090,000
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	(253,573)	
Forgiveness of accrued interest	<u>363,917</u>	110,344
Change in net position of governmental activities (page 9)		<u><u>\$ 2,938,489</u></u>

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

CHAPEL CREEK COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2013

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Special purpose entity contributions	\$ 193,725	\$ 193,725	\$ 117,163	\$ (76,562)
<b>Expenditures:</b>				
Current:				
General government	89,725	89,725	121,001	(31,276)
Physical environment	104,000	104,000	17,488	86,512
Total expenditures	193,725	193,725	138,489	55,236
Net change in fund balance	-	-	(21,326)	(21,326)
<b>Fund Balance - beginning</b>	20,322	20,322	20,322	-
<b>Fund Balance (Deficit) - ending</b>	\$ 20,322	\$ 20,322	\$ (1,004)	\$ (21,326)

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTES TO FINANCIAL STATEMENTS**

Year Ended September 30, 2013

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

**Reporting Entity**

The *Chapel Creek Community Development District*, (the "District") was established on August 29, 2005 by Pasco County Ordinance 05-35, 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. The Board of Supervisors of the District exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes.

In fiscal year 2009, the District commenced foreclosure proceedings against the Developer, Chapel Creek Partners, LLC and other delinquent landowners. Two Special Purpose Entities ("SPE") were formed by the Trustee, on behalf of the Bondholders, to own, manage and dispose of the land within the District. In fiscal year 2010, New Chapel Creek, LLC, an SPE, purchased approximately 93% of the land within the District at a tax deed sale. This SPE is not reported as a blended component unit of the District. In fiscal year 2012, a second SPE, Chapel Creek CDD Holdings, LLC acquired the remaining land within the District through foreclosure. This SPE is reported as a blended component unit of the District. At year end, all of the District Board members were associated with these SPE's.

The Board has 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 Governmental Accounting Standards Board ("GASB") Statement 14, and Statement 39, an amendment of GASB Statement 14. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District Board of Supervisors is considered to be financially accountable, and other organizations (component units) 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. In applying the above criteria, Management has determined it has one blended component unit as follows:

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2013

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

**Reporting Entity (Continued)**

Special Purpose Entity Fund

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

**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, 2) grants, contributions and investment earnings 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, except for Developer receivables for retainage, which are collected from the Developer when the amount is due to the contractor. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

**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, 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 special assessments are levied by the District prior to the start of the fiscal year which begins October 1<sup>st</sup> and ends on September 30<sup>th</sup>. These 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.

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 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.

**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.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2013

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

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

**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 by Section 218.415, Florida Statutes and the District's Trust Indenture.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., 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. All capital asset acquisition and construction is considered infrastructure under construction at September 30, 2013.

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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, Deferred Outflows/Inflows of resources, and Net Position/Fund Balance (Continued):**

**Deferred Outflows/Inflows of Resources (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 a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the 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):**

**Fund Balance Policies (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 and 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 issue costs and the effect of adoption of GASB 65 is the reduction of beginning net position by \$274,572 of the governmental activities. The effect on fiscal year 2012 had the implementation of GASB 65 occurred earlier would have resulted in a decrease in reported expenses of the governmental activities by \$10,767.

**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 Equity**

The general fund and special purpose entity 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 funds related to the investment activity.

Instead of establishing a written investment policy, the District elected to limit investments to those approved by Florida Statutes and the District Trust Indenture. Therefore the District does not have an investment policy that addresses credit risk, concentration of credit risk, custodial credit risk or interest rate risk. 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.

CHAPEL CREEK 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 Fund	\$ 3,393,854	AAA	NA

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

As discussed in Note 10, the Special Purpose Entity, Chapel Creek CDD Holdings, LLC was formed by the District, on behalf of bondholders, to own, manage, and dispose of approximately 7% of District land taken through foreclosure on the debt service special assessment lien. This 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, 2013 and no amount was recorded in the financial statements for this asset.

**Note 5 - Interfund Transfers:**

As directed by the Trustee, \$4,325,146 was transferred from the capital projects fund to the debt service fund to pay \$4,150,000 of principal (\$725,000 had been previously recorded as matured principal payable) on the Series 2006A Bonds, SPE expenses and professional fees.

**Note 6 - 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>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Infrastructure under construction	\$ 5,082,269	\$ 365,587	\$ -	\$ 5,447,856
Governmental activities capital assets, net	<u>\$ 5,082,269</u>	<u>\$ 365,587</u>	<u>\$ -</u>	<u>\$ 5,447,856</u>

There was no construction activity in fiscal years 2009 and 2010, and minor activity in fiscal years 2011 and 2012. The scope of the District's improvement plan was revised in the current fiscal year in connection with the 2006A Bond restructure and construction resumed in fiscal year 2013. The estimated cost to complete District improvements is \$2,900,000.

CHAPEL CREEK COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2013

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

Special Assessment Revenue Bonds Series 2006

On September 13, 2006, the District issued \$27,510,000 of Special Assessment Revenue Bonds Series 2006 consisting of \$16,095,000 Series 2006A Bonds due on May 1, 2038 with a fixed interest rate of 5.5%, \$7,325,000 Series 2006B Bonds due on May 1, 2015 with a fixed interest rate of 5.25% and \$4,090,000 Series 2006B1 Bonds due on May 1, 2011 with a fixed interest rate of 5.2%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the property within the District. Interest is due semiannually on each May 1 and November 1. Principal on the Series 2006A Bonds is due annually commencing May 1, 2009 through May 1, 2038. Principal on the Series 2006B Bonds is due in one lump sum on May 1, 2015. Principal on the Series 2006B1 Bonds was due in one lump sum on May 1, 2011. In fiscal year 2012, the remaining principal due on the Series 2006B and Series 2006B1 Bonds were redeemed or cancelled.

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, 2016 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.

In the current year, the Trustee used Trust Estate funds to redeem \$4,150,000 of the Series 2006A Bonds. Additionally the Bondholders cancelled \$665,000 of these bonds and forgave all accrued interest. The cancellation of these bonds, reversal of related matured interest payable of \$2,620,200 and accrued interest payable of \$363,917 resulted in a gain on restructuring of debt of \$3,649,117 which was recorded in the government wide financial statements. On the fund financial statements, matured interest payable totaling \$2,620,200 relating to these bonds, which had been expensed in prior years, was reversed in the current year and is recorded as another financing source.

The Bond Indenture requires that the District maintain adequate funds in a reserve account to meet the debt service reserve requirement as defined in the Indenture. The requirement has been met at September 30, 2013 on the Series 2006A Bonds.

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 collect special assessments in annual installments adequate to provide payment of debt service and to meet the reserve requirements. Payment of the principal and interest on the Series 2006A Bonds is secured by a pledge of and first lien upon the pledged special assessment revenue. The District is not in compliance with certain requirements of the Bond Indenture.

For the year ended September 30, 2013, \$4,150,000 of principal was paid on the Series 2006A Bonds; \$725,000 has been previously recorded in matured bonds payable and \$3,425,000 was expensed in the current year. Special assessment revenue of \$46,967 was pledged in the current year on these bonds. Total principal and interest remaining on the Series 2006A Bonds as of September 30, 2013 is \$20,664,425.

CHAPEL CREEK COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2013

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

Special Assessment Revenue Bonds Series 2006 (Continued):

Bonds payable 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>
<b>Governmental activities:</b>					
Bonds payable:					
Series 2006	\$ 15,155,000	\$ -	\$ (4,090,000)	\$ 11,065,000	\$ 210,000
Governmental activity long-term liabilities	<u>\$ 15,155,000</u>	<u>\$ -</u>	<u>\$ (4,090,000)</u>	<u>\$ 11,065,000</u>	<u>\$ 210,000</u>

The current year reduction above includes \$3,425,000 of current year principal expense plus \$665,000 of principal cancellation.

At September 30, 2013, the scheduled debt service requirements on the bonds payable were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 210,000	\$ 608,575
2015	225,000	597,025
2016	235,000	584,650
2017	250,000	571,725
2018	265,000	557,975
2019 - 2023	1,560,000	2,554,475
2024 - 2028	2,055,000	2,074,325
2029 - 2033	2,705,000	1,441,275
2034 - 2038	3,560,000	609,400
	<u>\$ 11,065,000</u>	<u>\$ 9,599,425</u>

**Note 8 - Deficit Net Position:**

The District has a government-wide net deficit of \$(2,608,446) primarily resulting from the conveyance of infrastructure improvements of \$4,148,115 to Pasco County for maintenance. These improvements, which were financed through the issuance of bonds, are not included in District assets; however, the associated long-term debt remains a District liability.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2013

**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 - Special Purpose Entities:**

New Chapel Creek, LLC

In the prior fiscal year, a Special Purpose Entity ("SPE"), New Chapel Creek, LLC, purchased approximately 93% of the land within the District at a tax deed sale. This SPE was formed by the Trustee, on behalf of the Bondholders, to own, manage and dispose of this land. The District and SPE entered into an agreement whereby the SPE assumed responsibility for delinquent operating and maintenance assessments owed to the District related to the purchased land and also agreed to pay future operating and maintenance costs related to the purchased land. The Trustee has directed the District to temporarily defer collection of the debt service assessments encumbering the SPE property. The collection of debt service assessments will be held in abeyance until the District receives notice from the Trustee to the contrary. In the current year, this SPE paid the District \$117,163 to fund District operations. The District recorded SPE costs of \$380,107 which included impact fee expense of \$181,956. Management does not consider this SPE to be a blended component unit, see independent auditor's opinion.

All SPE costs are paid from the Trust Estate at the direction of the Trustee. If funds are no longer available in the Trust Estate and another funding source has not been secured, the SPE may convey its property to the District or another mutually agreed upon party and the SPE will dissolve.

Chapel Creek CDD Holdings, LLC

In the prior fiscal year, a second SPE, Chapel Creek CDD Holdings, LLC acquired approximately 7% of the land within the District through foreclosure. This SPE is considered a blended component unit.

**Note 11 - Subsequent Events:**

Subsequent to year end, no debt service assessments were collected and no debt service amounts were paid on the Series 2006A Bonds. As of the date of this report, the Special Purpose Entities still own the land within the District and continue to fund District operations and its fees, with Trust Estate assets.

**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  
*Chapel 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 *Chapel Creek Community Development District* (the "District") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 12, 2014.

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 deficiencies that we consider to be material weaknesses as described in Appendix B.

## 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 C.

We noted certain other matters that we reported to management of the District, in a separate letter dated May 12, 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 12, 2014

## MANAGEMENT COMMENTS

Board of Supervisors  
*Chapel Creek Community Development District*

We have audited the financial statements of the *Chapel Creek Community Development District* (the "District"), as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated May 12, 2014.

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. 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. Disclosures in that report, which is dated May 12, 2014, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information which is not included in the aforementioned auditor's report.

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. The status of management's response to our recommendations included in the preceding annual financial report is outlined in Appendix A to this report.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the District complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., 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)4., 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.

**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

- 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 D.
- 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 in the Independent Auditor's Report.

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 12, 2014

CHAPEL CREEK COMMUNITY DEVELOPMENT DISTRICT

**APPENDIX A - PRIOR YEAR RECOMMENDATIONS**

Year Ended September 30, 2013

<b>No.</b>	<b>Prior Year's Finding</b>	<b>Finding No Longer Relevant</b>	<b>Finding is Still Relevant</b>	<b>Finding Included in Second Preceding Audit</b>
12-01	Failure to Make Debt Service Payments When Due		X	X
12-02	Failure to Meet Debt Service Reserve Account Requirement	X		
12-03	Failure to Include Component Unit Financial Statements in the Financial Report		X	X
12-04	Land Held for Resale Not Recorded		X	X
12-05	Failure to Pay Claims from Creditors within 90 Days	X		

**APPENDIX B - MATERIAL WEAKNESSES**

Year Ended September 30, 2013

**12-03 - Failure to Include Component Unit Financial Statements in the Financial Report**

**Criteria**

Generally accepted accounting principles require that the District include the financial statements of the Special Purpose Entities (“SPE’s”) in their audited financial report as blended component units.

**Condition**

SPE New Chapel Creek, LLC is not included as a component unit in the District’s financial report.

**Cause**

It is the District’s position that this SPE is not a component unit of the District.

**Effect**

McDirmit Davis could not audit these records nor include them as a blended component unit in the District’s government-wide financial statements.

**Recommendation**

We recommend the District include this SPE as a blended component unit of the District’s government-wide financial statements.

**12-04 - Land Held for Resale Not Recorded**

**Criteria**

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

**Condition**

No appraisal was performed on the land held for resale, owned by the SPE Chapel Creek CDD Holdings, LLC. As a result, the market value of the land could not be determined at September 30, 2013 and no amount was recorded in the financial statements for this asset.

**Cause**

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

**Effect**

At September 30, 2013, the amount by which this departure from generally accepted accounting principles affect the assets, liabilities, fund balances and net assets 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 C - COMPLIANCE VIOLATIONS OF LAWS, REGULATIONS AND CONTRACTUAL PROVISIONS**

Year Ended September 30, 2013

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

**Criteria**

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

**Condition**

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

**Cause**

The District is not receiving debt service assessments due to Developer nonpayment and Special Purpose Entity purchase of the land.

**Effect**

As September 30, 2013, the District was not in compliance with the requirements of the Bond Indenture and has met a financial emergency condition described in the Florida Statutes.

**Recommendation**

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

CHAPEL CREEK COMMUNITY DEVELOPMENT DISTRICT

**APPENDIX D - CONDITION OF FINANCIAL EMERGENCY**

Year Ended September 30, 2013

**12-01 - 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 as a result of lack of funds; therefore the District meets Section 218.503(1)(a) as a financial emergency condition.

# CHAPEL CREEK COMMUNITY DEVELOPMENT DISTRICT

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

May 12, 2014

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

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

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

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

*The Trustee, on behalf of the bondholders, created New Chapel Creek, LLC, a Special Purpose Entity ("SPE") to own, manage and dispose of the land purchased at a tax deed sale. The District, Trustee, and the SPE entered into a tri-party agreement whereby the SPE assumed responsibility for the prior year debt service assessments owed to the District related to the land owned by the SPE. The Trustee has temporarily deferred payment of principal and interest on the bonds and has directed the District to defer collection of debt service assessments until such time as the District receives notice from the Trustee to the contrary.*

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

*The auditor noted that the SPE (New Chapel Creek, LLC) was not included as a blended component unit of the District.*

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

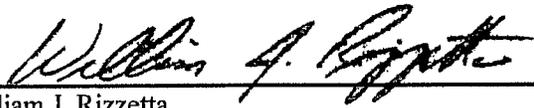
*Management does not agree that the Special Purpose Entity (New Chapel Creek, LLC) should be included as a blended component unit on the government-wide financial statements. In summary, management feels that it would be misleading to the users of the financial statements to include the SPE (New Chapel Creek, LLC) as a component unit for the following reasons. The District has no ownership and/or control over this SPE and in no way can it impose its will on this SPE. In addition, the District will not benefit from the activities of this SPE. When the land held by this SPE is sold, the proceeds will be paid to the Bondholders to satisfy the Bond debt. The District will not be responsible for any deficiency between the net proceeds of the sale and the associated Bond debt.*

### **Management Letter finding 12-04:**

*The auditor noted that land owned by Chapel 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, 2013 and no amount was recorded in the financial statements for the asset.*



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William J. Rizzetta

Treasurer

Chapel Creek Community Development District