

**MAGNOLIA CREEK
COMMUNITY DEVELOPMENT DISTRICT
WALTON COUNTY, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2019**

**MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT
WALTON COUNTY, FLORIDA**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-6
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet – Governmental Funds	9
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	10
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Notes to the Financial Statements	13-21
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	22
Notes to Required Supplementary Information	23
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>	24-25
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE REQUIREMENTS OF SECTION 218.415, FLORIDA STATUTES, REQUIRED BY RULE 10.556(10) OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA	26
MANAGEMENT LETTER PURSUANT TO THE RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA	27-29



INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Magnolia Creek Community Development District
Walton County, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Magnolia Creek Community Development District, Walton County, Florida ("District") as of and for the fiscal year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 from material misstatement.

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

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

Basis for Adverse Opinion on Special Purpose Entity Fund and Governmental Activities

As discussed in Note 9 to the financial statements, management has not recorded the land held for sale by the special purpose entity ("SPE"), a blended component unit of the District. Accounting principles generally accepted in the United States of America require that land held for resale be recorded as an asset in the fund financial statements, thus increasing the assets and net position of the governmental activities. The amount by which this departure would affect the assets, fund balance, and net position of the special purpose entity fund and the governmental activities has not been determined.

Adverse Opinions

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Special Purpose Entity Fund and Governmental Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the special purpose entity fund and the governmental activities of the District, as of September 30, 2019, or the changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the general fund, debt service fund, and capital projects fund of the District as of September 30, 2019, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 7 and other notes to the basic financial statements, the District's financial conditions continue to deteriorate. Due to the Developer's non-payment of assessments, the District did not have sufficient funds to make certain scheduled debt service payments in prior, current, or subsequent fiscal years and, as a result, the payments were not made. The District's inability to make its scheduled debt service payments when they are due are considered events of default. Additionally, certain default related expenditures were paid from the trust accounts. As a result of these events, the debt service fund had a deficit fund balance of (\$26,598,503) at September 30, 2019. Furthermore, the District and the Trustee, on behalf of the Bondholders, formed a SPE which took title to the Developer's property through foreclosure. The SPE is funding a portion of the general operations of the District through funds from the Trust estate. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2020, 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, grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the District's 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.

May 8, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Magnolia Creek Community Development District, Walton County, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2019. Please read it in conjunction with the District's Independent Auditor's Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year resulting in a net position deficit balance of (\$16,056,652).
- The change in the District's total net position in comparison with the prior fiscal year was (\$1,327,196), an increase in the deficit. The key components of the District's net position and change in net position are reflected in the table in the government-wide financial analysis section.
- At September 30, 2019, the District's governmental funds reported combined ending fund balances of (\$24,807,766), a decrease of (\$1,485,361) in comparison with the prior fiscal year. The total fund balance is non-spendable for prepaid items, restricted for capital projects, and the remainder is unassigned fund balance.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as the introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

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

The statement of net position presents information on all the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual amount being 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 the general government (management), maintenance and operations, and SPE costs.

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: the governmental funds.

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Governmental Funds

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

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

The District maintains four governmental funds for external reporting. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund and capital projects fund, all of which are considered major funds. The District uses a special revenue fund to account for the SPE and its operations, which is also considered a major fund of the District.

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

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, liabilities exceeded assets at the close of the most recent fiscal year.

Key components of the District's net position are reflected in the following table:

	NET POSITION	
	SEPTEMBER 30,	
	2019	2018
Current and other assets	\$ 1,835,575	\$ 1,919,040
Capital assets, net of depreciation	15,603,472	15,603,472
Total assets	17,439,047	17,522,512
Current liabilities	27,153,345	25,751,449
Long-term liabilities	6,342,354	6,500,519
Total liabilities	33,495,699	32,251,968
Net position		
Net investment in capital assets	(6,006,927)	(5,846,851)
Restricted	1,463,939	1,594,881
Unrestricted	(11,513,664)	(10,477,486)
Total net position	\$ (16,056,652)	\$ (14,729,456)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The District's net position reflects its investment in capital assets (e.g. land, land improvements, and infrastructure) less any related debt used to acquire those assets that is still outstanding. These assets are used to provide services to residents; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the District's net position represents resources that are subject to external restrictions on how they may be used.

The District's net position decreased during the most recent fiscal year. The majority of the decrease represents the extent to which the cost of operations exceeded ongoing program revenues.

Key elements of the change in net position are reflected in the following table:

CHANGES IN NET POSITION		
FOR THE FISCAL YEAR ENDED SEPTEMBER 30,		
	2019	2018
Revenues:		
Program revenues		
Charges for services	\$ 111,951	\$ 109,740
Operating grants and contributions	289	471
Capital grants and contributions	29,463	17,711
General revenues		
Unrestricted investment earnings	457	-
Total revenues	142,160	127,922
Expenses:		
General government	153,565	144,902
Maintenance and operations	3,473	12,173
SPE costs	75,738	111,277
Interest on long-term debt	1,236,580	1,236,580
Total expenses	1,469,356	1,504,932
Change in net position	(1,327,196)	(1,377,010)
Net position - beginning	(14,729,456)	(13,352,446)
Net position - ending	\$ (16,056,652)	\$ (14,729,456)

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2019 was \$1,469,356. The costs of the District's activities were partially funded by program revenues. As in the prior fiscal year, program revenues are comprised primarily of assessments. A portion of the District's operations were also funded by using funds available in the trust accounts. In total, expenses decreased from the prior fiscal year primarily due to a decrease in the SPE's expenses.

GENERAL BUDGETING HIGHLIGHTS

An operating budget was adopted and maintained by the governing board for the District pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2019.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2019, the District had \$15,603,472 invested in capital assets for its governmental activities. More detailed information about the District's capital assets is presented in the notes to the financial statements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Debt

At September 30, 2019, the District had \$6,375,000 Bonds outstanding for its governmental activities. In addition, matured debt service obligations of \$26,602,942 are included in Due to Bondholders amount at September 30, 2019. More detailed information about the District's capital debt is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND OTHER EVENTS

As discussed in the notes to the basic financial statements, the District's financial conditions continue to deteriorate. The District formed a SPE and foreclosed on certain Developer property for which there were significant delinquent assessments in prior fiscal years. In addition, in the prior, current, and subsequent fiscal years, certain scheduled debt service payments were not made. As a result, the District declared an event of default in accordance with the Series 2007 Bond Indenture which allowed the District to pay certain significant trustee, legal, and other professional fees incurred in association with the default using funds available in the trust accounts. Further, the debt service fund reported a deficit fund balance of (\$26,598,503) at September 30, 2019.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, land owners, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages and the stewardship of the facilities it maintains. If you have questions about this report or need additional financial information, contact the Magnolia Creek Community Development District's Finance Department at 12750 Citrus Park Lane, Suite 115, Tampa, Florida 33625.

FINANCIAL STATEMENTS

**MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT
WALTON COUNTY, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019**

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 338,003
Prepaid items	7,653
Restricted assets:	
Investments	1,489,919
Capital assets:	
Nondepreciable	<u>15,603,472</u>
Total assets	<u>17,439,047</u>
 LIABILITIES	
Accounts payable and accrued expenses	28,566
Accrued interest payable	510,004
Unearned revenue	11,833
Due to Bondholders:	
Principal	15,265,000
Interest	11,337,942
Non-current liabilities:	
Due within one year	170,000
Due in more than one year	<u>6,172,354</u>
Total liabilities	<u>33,495,699</u>
 NET POSITION	
Net investment in capital assets	(6,006,927)
Restricted for capital projects	1,463,939
Unrestricted	<u>(11,513,664)</u>
Total net position	<u>\$ (16,056,652)</u>

See notes to the financial statements

**MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT
WALTON COUNTY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</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>	<u>Governmental Activities</u>
Primary government:					
Governmental activities:					
General government	\$ 153,565	\$ 53,288	\$ -	\$ -	\$ (100,277)
Maintenance and operations	3,473	-	-	29,463	25,990
SPE costs	75,738	-	-	-	(75,738)
Interest on long-term debt	1,236,580	58,663	289	-	(1,177,628)
Total governmental activities	<u>1,469,356</u>	<u>111,951</u>	<u>289</u>	<u>29,463</u>	<u>(1,327,653)</u>
General revenues:					
Unrestricted investment earnings					457
Total general revenues					<u>457</u>
Change in net position					(1,327,196)
Net position - beginning					(14,729,456)
Net position - ending					<u>\$ (16,056,652)</u>

See notes to the financial statements

**MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT
WALTON COUNTY, FLORIDA
BALANCE SHEET –
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019**

	Major Funds				Total Governmental Funds
	General	Debt Service	Capital Projects	Special Purpose Entity	
ASSETS					
Cash	\$ 337,248	\$ -	\$ -	\$ 755	\$ 338,003
Investments	-	4,439	1,485,480	-	1,489,919
Prepaid items	7,653	-	-	-	7,653
Total assets	<u>\$ 344,901</u>	<u>\$ 4,439</u>	<u>\$ 1,485,480</u>	<u>\$ 755</u>	<u>\$ 1,835,575</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued expenses	\$ 3,025	\$ -	21,541	\$ 4,000	\$ 28,566
Due to Bondholders	-	26,602,942	-	-	26,602,942
Unearned revenue	11,833	-	-	-	11,833
Total liabilities	<u>14,858</u>	<u>26,602,942</u>	<u>21,541</u>	<u>4,000</u>	<u>26,643,341</u>
Fund balances:					
Nonspendable:					
Prepaid items	7,653	-	-	-	7,653
Restricted for:					
Capital projects	-	-	1,463,939	-	1,463,939
Assigned to:					
Subsequent year expenditures	2,100	-	-	-	2,100
Unassigned	320,290	(26,598,503)	-	(3,245)	(26,281,458)
Total fund balances	<u>330,043</u>	<u>(26,598,503)</u>	<u>1,463,939</u>	<u>(3,245)</u>	<u>(24,807,766)</u>
Total liabilities and fund balances	<u>\$ 344,901</u>	<u>\$ 4,439</u>	<u>\$ 1,485,480</u>	<u>\$ 755</u>	<u>\$ 1,835,575</u>

See notes to the financial statements

**MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT
WALTON COUNTY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2019**

Fund balance - governmental funds \$ (24,807,766)

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 as assets in the governmental funds. The statement of net position includes those capital assets, net of any accumulated depreciation, in the net position of the government as a whole.

Cost of capital assets	15,603,472	
Accumulated depreciation	-	15,603,472

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

Accrued interest payable	(510,004)	
Bonds payable	(6,342,354)	(6,852,358)

Net position of governmental activities		\$ (16,056,652)
---	--	-----------------

See notes to the financial statements

**MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT
WALTON COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019**

	Major Funds				Total Governmental Funds
	General	Debt Service	Capital Projects	Special Purpose	
REVENUES					
Assessments	\$ 53,288	\$ 58,663	\$ -	\$ -	\$ 111,951
Interest income	457	289	29,463	-	30,209
Total revenues	<u>53,745</u>	<u>58,952</u>	<u>29,463</u>	<u>-</u>	<u>142,160</u>
EXPENDITURES					
Current:					
General government	81,354	11,353	21,154	39,704	153,565
Maintenance and operations	3,473	-	-	-	3,473
SPE costs	-	27,474	48,264	-	75,738
Debt service:					
Principal	-	160,000	-	-	160,000
Interest	-	1,234,745	-	-	1,234,745
Total expenditures	<u>84,827</u>	<u>1,433,572</u>	<u>69,418</u>	<u>39,704</u>	<u>1,627,521</u>
Excess (deficiency) of revenues over (under) expenditures	(31,082)	(1,374,620)	(39,955)	(39,704)	(1,485,361)
OTHER FINANCING SOURCES (USES)					
Transfer in (out)	80,664	(26,381)	(90,987)	36,704	-
Total other financing sources (uses)	<u>80,664</u>	<u>(26,381)</u>	<u>(90,987)</u>	<u>36,704</u>	<u>-</u>
Net change in fund balances	49,582	(1,401,001)	(130,942)	(3,000)	(1,485,361)
Fund balances - beginning	<u>280,461</u>	<u>(25,197,502)</u>	<u>1,594,881</u>	<u>(245)</u>	<u>(23,322,405)</u>
Fund balances - ending	<u>\$330,043</u>	<u>\$(26,598,503)</u>	<u>\$ 1,463,939</u>	<u>\$ (3,245)</u>	<u>\$(24,807,766)</u>

See notes to the financial statements

**MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT
WALTON COUNTY, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019**

Net change in fund balances - total governmental funds	\$ (1,485,361)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Repayment of long-term liabilities are reported as expenditures in the governmental fund financial statements, but such repayments reduce liabilities in the statement of net position and are eliminated in the statement of activities.</p>	160,000
<p>Amortization of bond discount is not recognized in the governmental fund financial statements, but is reported as an expense in the statement of activities.</p>	(1,835)
Change in net position of governmental activities	<u>\$ (1,327,196)</u>

See notes to the financial statements

**MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT
WALTON COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY

Magnolia Creek Community Development District (the "District") was established by the City of Freeport Ordinance 2006-26 enacted on September 12, 2006 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The Act provides among other things, the power to manage basic services for community development, power to borrow money and issue bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure.

The District was established for the purposes of financing and managing the acquisition, construction, maintenance and operation of a portion of the infrastructure necessary for community development within the District.

The District is governed by the Board of Supervisors ("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 exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes. In a prior year, Magnolia Creek CDD Holdings, LLC, a Special Purpose Entity ("SPE"), acquired the property owned by Owls Head Development, LLC ("Developer") through foreclosure.

The Board has the 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") Statements. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District 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. Blended component units, although legally separate entities, are, in substance, part of the government's operations.

Blended Component Unit

The SPE owns, manages, maintains, and will sell and dispose of property for the benefit of the Bondholders. The SPE is reported as a special revenue fund.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements

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

The government-wide financial statements (i.e., the statement of net 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; operating-type special assessments for maintenance and debt service are treated as charges for services and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not included among program revenues are reported instead as *general revenues*.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Assessments

Assessments are non-ad valorem assessments imposed on assessable lands located within the District. Assessments may be levied on property to pay for the operations and maintenance of the District. The fiscal year for which annual assessments may be levied begins on October 1 with discounts available for payments through February 28 and become delinquent on April 1. For debt service assessments, amounts collected as advance payments are used to prepay a portion of the Bonds outstanding. Otherwise, assessments are collected annually to provide funds for the debt service on the portion of the Bonds which are not paid with prepaid assessments.

Assessments and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. The portion of assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period.

The District reports the following major governmental funds:

General Fund

The general fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund

The debt service fund is used to account for the accumulation of resources for the annual payment of principal and interest on long-term debt.

Capital Projects Fund

This fund accounts for the financial resources to be used for the acquisition or construction of major infrastructure within the District.

Special Purpose Entity Fund

The special purpose entity fund is a special revenue fund that accounts for the activities of the SPE, a blended component unit of the government. The SPE owns, manages, maintains, and will sell and dispose of property for the benefit of the Bondholders.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first for qualifying expenditures, then unrestricted resources as they are needed.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity

Restricted Assets

These assets represent cash and investments set aside pursuant to Bond covenants or other contractual restrictions.

Deposits and Investments

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

The District has elected to proceed under the Alternative Investment Guidelines as set forth in Section 218.415 (17) Florida Statutes. The District may invest any surplus public funds in the following:

- a) The Local Government Surplus Trust Funds, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act;
- b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
- c) Interest bearing time deposits or savings accounts in qualified public depositories;
- d) Direct obligations of the U.S. Treasury.

Securities listed in paragraph c and d shall be invested to provide sufficient liquidity to pay obligations as they come due. In addition, surplus funds may be deposited into certificates of deposit which are insured and any unspent Bond proceeds are required to be held in investments as specified in the Bond Indenture.

The District records all interest revenue related to investment activities in the respective funds. Investments are measured at amortized cost or reported at fair value as required by generally accepted accounting principles.

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 and equipment, and infrastructure assets (e.g., roads, sidewalks and similar items) are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of 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.

No depreciation has been taken in the current fiscal year as the District's infrastructure and other capital assets have not been completed.

Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

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 ratably over the life of the Bonds. Bonds payable are reported net of applicable premiums or discounts. Bond issuance costs are expensed when incurred.

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

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.

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.

Fund Equity/Net Position

In the fund financial statements, governmental funds report non spendable and restricted fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Assignments of fund balance represent tentative management plans that are subject to change.

The District can establish limitations on the use of fund balance as follows:

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

Assigned fund balance – Includes spendable fund balance amounts established by the Board of Supervisors that are intended to be used for specific purposes that are neither considered restricted nor committed. The Board may also assign fund balance as it does when appropriating fund balance to cover differences in estimated revenue and appropriations in the subsequent year's appropriated budget. Assignments are generally temporary and normally the same formal action need not be taken to remove the assignment.

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

Net position is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position in the government-wide financial statements are categorized as net investment in capital assets, restricted or unrestricted. Net investment in capital assets represents net position related to infrastructure and property, plant and equipment. Restricted net position represents the assets restricted by the District's Bond covenants or other contractual restrictions. Unrestricted net position consists of the net position not meeting the definition of either of the other two components.

NOTE 2 – 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 3 – BUDGETARY INFORMATION

The District is required to establish a budgetary system and an approved Annual Budget. Annual Budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year-end.

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

- a) Each year, the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
- b) A public hearing is conducted to obtain comments.
- c) Prior to October 1, the budget is legally adopted by the District Board.
- d) All budget changes must be approved by the District Board.
- e) The budgets are adopted on a basis consistent with generally accepted accounting principles.
- f) Unused appropriation for annually budgeted funds lapse at the end of the year.

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

The District's cash balances were entirely covered by federal depository insurance or by a collateral pool pledged to the State Treasurer. Florida Statutes Chapter 280, "Florida Security for Public Deposits Act", requires all qualified depositories to deposit with the Treasurer or another banking institution eligible collateral equal to various percentages of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. Governmental and agency securities, state or local government debt, or corporate Bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

Investments

The District's investments were held as follows at September 30, 2019:

	Amortized Cost	Credit Risk	Maturities
US Bank MMKT Account Managed	\$ 1,489,919	Not available	Not available
Total Investments	<u>\$ 1,489,919</u>		

Credit risk – For investments, credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investment ratings by investment type are included in the preceding summary of investments.

Concentration risk – The District places no limit on the amount the District may invest in any one issuer.

Interest rate risk – The District does not have a formal policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

However, the Bond Indentures limit the type of investments held using unspent proceeds.

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Fair Value Measurement – When applicable, the District measures and records its investments using fair value measurement guidelines established in accordance with GASB Statements. The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques.

These guidelines recognize a three-tiered fair value hierarchy, in order of highest priority, as follows:

- *Level 1:* Investments whose values are based on unadjusted quoted prices for identical investments in active markets that the District has the ability to access;
- *Level 2:* Investments whose inputs - other than quoted market prices - are observable either directly or indirectly; and,
- *Level 3:* Investments whose inputs are unobservable.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the entire fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

Money market investments that have a maturity at the time of purchase of one year or less and are held by governments other than external investment pools should be measured at amortized cost. Accordingly, the District's investments have been reported at amortized cost above.

NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended September 30, 2019 were as follows:

Fund	Transfer in	Transfer out
General	\$ 80,664	\$ -
Debt service	36,590	62,971
Capital projects	-	90,987
Special purpose entity	108,142	71,438
Total	<u>\$ 225,396</u>	<u>\$ 225,396</u>

Transfers are used to move revenues from the fund where collection occurs to the fund where funds have been reallocated for use. In the case of the District, transfers from the debt service fund and capital project fund went to the special purpose entity fund to pay some of the SPE costs and were also transferred to the general fund to fund operations in accordance with the Tri-Party Agreement. See Note 9 for additional information.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2019 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Infrastructure under construction	\$ 15,603,472	\$ -	\$ -	\$ 15,603,472
Total capital assets, not being depreciated	<u>15,603,472</u>	<u>-</u>	<u>-</u>	<u>15,603,472</u>
Governmental activities capital assets	<u>\$ 15,603,472</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,603,472</u>

The total projected cost of the infrastructure development was estimated at \$79.7 million, of which approximately \$17.1 million was expected to be funded with proceeds from Series 2007 Bonds. The remainder of the project was to be funded by the Developer in accordance with the completion agreement or with future Bonds. However, due to the financial condition of the original Developer, the project is currently on hold.

NOTE 6 – CAPITAL ASSETS (Continued)

Further, due to the uncertainty as to the completion of the project within a reasonable period of time, the infrastructure may not be able to be used for its intended purpose as anticipated in the original project description. There is no estimate at this time for the additional funding that might be required if there is a change to the project.

NOTE 7 – LONG-TERM LIABILITIES

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

The Series 2007A Bonds are subject to redemption at the option of the District prior to their maturity. The Series 2007B Bonds are not subject to optional redemption. The Bonds are subject to extraordinary mandatory redemption prior to their selected maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture.

The Bond Indenture requires that the District maintain adequate funds in a reserve account to meet the debt service reserve requirement as defined in the Indenture. In addition, 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 agrees to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements.

During prior fiscal years, the Developer failed to make payment on the special assessments which ultimately secure the Bonds. As a result of the delinquent assessments, the District did not have sufficient funds to make certain scheduled debt service payments in current and prior fiscal years, and as a result, the payments were not made. As a result, the Bonds are in default. The past due amounts have been reported on the financial statements as due to Bondholders and reflects \$15,265,000 due for principal and \$11,337,942 due for interest. The nonpayment of its debt service payments by the District are considered event of defaults. Additionally, the funds needed to pay certain default related expenditures were paid from the Debt Service Reserve Accounts. The Debt Service Reserve Accounts were also used to partially fund certain debt service payments in prior fiscal years. As a result of these payments, there is a deficit of approximately \$546,000 in the Series 2007A Reserve Account and \$784,000 in the Series 2007B Reserve Account at September 30, 2019. See Note 13 for additional information subsequent to fiscal year end.

Changes in long-term liability activity for the fiscal year ended September 30, 2019 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 2007	\$ 6,535,000	\$ -	\$ (160,000)	\$ 6,375,000	\$ 170,000
Less issue discount	(34,481)	-	1,835	(32,646)	-
Total	\$ 6,500,519	\$ -	\$ (158,165)	\$ 6,342,354	\$ 170,000

NOTE 7 – LONG-TERM LIABILITIES (Continued)

At September 30, 2019, the scheduled debt service requirements on the long-term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2020	\$ 170,000	\$ 450,465	\$ 620,465
2021	180,000	440,435	620,435
2022	195,000	429,815	624,815
2023	205,000	418,310	623,310
2024	220,000	406,215	626,215
2025-2029	1,300,000	1,821,625	3,121,625
2030-2034	1,755,000	1,387,975	3,142,975
2035-2039	2,350,000	804,465	3,154,465
Total	\$ 6,375,000	\$ 6,159,305	\$ 12,534,305

NOTE 8 – DEFICIT FUND EQUITY

The debt service fund had a deficit fund balance of (\$26,598,503) at September 30, 2019. It is unclear how the deficit will be covered as the SPE has not sold any of the property held for sale to-date. The special purpose entity had a deficit fund balance of (\$3,245) at September 30, 2019. The deficit will be covered by interfund transfers in the subsequent fiscal year.

NOTE 9 – TRI-PARTY AGREEMENT AND SPECIAL PURPOSE ENTITY

The Developer originally agreed to fund the general fund operations of the District and assessments were levied for this purpose on an annual basis. However, as discussed in Note 7, as a result of the Developer's failure to pay assessments in prior fiscal years, the District did not make certain debt service payments when due, which constitutes an event of default under the applicable Trust Indenture. In November 2013, the District obtained a final judgment of foreclosure against property on which assessments had not been paid ("Foreclosed Property"). The District and the Trustee, on behalf of the Bondholders, created the SPE to own, manage and dispose of the Foreclosed Property. The District, Trustee and the SPE entered into a Tri-Party Agreement whereby the parties acknowledged that the funds to operate the SPE would be provided by the Trustee. The Trustee agreed that it will use available funds on deposit in the Trust Estate, including proceeds from the sale of all or a portion of the Foreclosed Property, subject to the consent of the Bondholders, to pay quarterly operating funding requests. If funds are no longer available in the Trust Estate and another funding source has not been secured, the SPE may convey the Foreclosed Property to the District (with the District's consent) for ownership and maintenance. Any conveyance of the Foreclosed Property to the District shall be subject to the preservation or satisfaction of any other District liens that may otherwise be extinguished as a result of the District's ownership of the Property.

Pursuant to the Bond Indenture, the Trustee, on behalf of the Bondholders, has access to the funds held on deposit in the trust accounts. Expenditures (including legal fees, trustee fees, and SPE property management fees) totaling \$87,091 were paid out of the trust accounts in the current fiscal year.

The property held by the SPE should be recorded in the financial statements as land held for resale. However, no appraisal was performed on the property so the market value cannot be determined. Consequently, no amount was recorded in the financial statements for this asset.

NOTE 10 – RELATED PARTY TRANSACTIONS AND CONCENTRATION

The Developer still owns a large bulk acreage parcel within the District on which it is obligated to pay operating and maintenance assessments. During fiscal year 2019, the Developer paid assessments totaling \$47,332.

During the current fiscal year, \$67,559 was paid to Lerner Real Estate Advisors for monthly management fees and expenses for services related to the SPE. During the fiscal year ended September 30, 2019, three of the five Board members were affiliated with Lerner Real Estate Advisors.

NOTE 11 – MANAGEMENT COMPANY

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

NOTE 12 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has obtained commercial insurance from independent third parties to mitigate the costs of these risks; coverage may not extend to all situations. There were no settled claims during the past three years.

NOTE 13 – SUBSEQUENT EVENTS

Subsequent to fiscal year end, certain scheduled debt service payments were not made. The District's inability to make its scheduled debt service payments when due is considered an event of default. Also, the Series 2007 Debt Service Reserve Account has not been replenished; therefore, the District is not in compliance with the requirements of the Bond Indenture.

**MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT
WALTON COUNTY, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019**

	<u>Budgeted Amounts</u> <u>Original & Final</u>	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Assessments	\$ 126,475	\$ 53,288	\$ (73,187)
Interest Income	-	457	457
Total revenues	<u>126,475</u>	<u>53,745</u>	<u>(72,730)</u>
EXPENDITURES			
Current:			
General government	92,475	81,354	11,121
Maintenance and operations	34,000	3,473	30,527
Total expenditures	<u>126,475</u>	<u>84,827</u>	<u>41,648</u>
Excess (deficiency) of revenues over (under) expenditures	-	(31,082)	(31,082)
OTHER FINANCING SOURCES			
Transfer in	-	80,664	80,664
Total other financing sources	<u>-</u>	<u>80,664</u>	<u>80,664</u>
Net change in fund balances	<u>\$ -</u>	49,582	<u>\$ 49,582</u>
Fund balance - beginning		<u>280,461</u>	
Fund balance - ending		<u>\$ 330,043</u>	

See notes to required supplementary information

**MAGNOLIA CREEK COMMUNITY DEVELOPMENT DISTRICT
WALTON COUNTY, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

The District is required to establish a budgetary system and an approved Annual Budget for the general fund. The District's budgeting process is based on estimates of cash receipts and cash expenditures which are approved by the Board. The budget approximates a basis consistent with accounting principles generally accepted in the United States of America (generally accepted accounting principles).

The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2019.



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

To the Board of Supervisors
Magnolia Creek Community Development District
Walton County, Florida

We have audited, in accordance with the 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 Magnolia Creek Community Development District, Walton County, Florida ("District") as of and for the fiscal year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our opinion thereon dated May 8, 2020, which includes explanatory paragraphs regarding the adverse opinion on the special purpose entity fund and the governmental activities as to the departure from generally accepted accounting principles and an emphasis of matter paragraph.

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 our 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. However, as discussed in the accompanying report to management dated May 8, 2020, we consider deficiency 2019-01 to be a material weakness in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters involving the internal control over financial reporting and compliance that we have reported to management of the District in a separate letter dated May 8, 2020.

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

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.

May 8, 2020



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE
REQUIREMENTS OF SECTION 218.415, FLORIDA STATUTES, REQUIRED BY
RULE 10.556(10) OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

To the Board of Supervisors
Magnolia Creek Community Development District
Walton County, Florida

We have examined Magnolia Creek Community Development District, Walton County, Florida's ("District") compliance with the requirements of Section 218.415, Florida Statutes, in accordance with Rule 10.556(10) of the Auditor General of the State of Florida during the fiscal year ended September 30, 2019. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the District complied, in all material respects, with the specified requirements referenced in Section 218.415, Florida Statutes. An examination involves performing procedures to obtain evidence about whether the District complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the fiscal year ended September 30, 2019.

This report 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, management, and the Board of Supervisors of Magnolia Creek Community Development District, Walton County, Florida and is not intended to be and should not be used by anyone other than these specified parties.

May 8, 2020



**MANAGEMENT LETTER PURSUANT TO THE RULES OF
THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

To the Board of Supervisors
Magnolia Creek Community Development District
Walton County, Florida

Report on the Financial Statements

We have audited the accompanying basic financial statements of Magnolia Creek Community Development District, Walton County, Florida ("District") as of and for the fiscal year ended September 30, 2019, and have issued our report thereon dated May 8, 2020, which includes explanatory paragraphs regarding the adverse opinion on the special purpose entity fund and the governmental activities as to the departure from generally accepted accounting principles and an emphasis of matter paragraph.

Auditor's Responsibility

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

Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Auditor's Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated May 8, 2020, should be considered in conjunction with this management letter.

Purpose of this Letter

The purpose of this letter is to comment on those matters required by Chapter 10.550 of the Rules of the Auditor General of the State of Florida. Accordingly, in connection with our audit of the financial statements of the District, as described in the first paragraph, we report the following:

- I. Current year findings and recommendations.**
- II. Status of prior year findings and recommendations.**
- III. Compliance with the Provisions of the Auditor General of the State of Florida.**

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, as applicable, management, and the Board of Supervisors of Magnolia Creek Community Development District, Walton County, Florida and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank Magnolia Creek Community Development District, Walton County, Florida and the personnel associated with it, for the opportunity to be of service to them in this endeavor as well as future engagements, and the courtesies extended to us.

May 8, 2020

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Material Weakness

2019-01: Appraisal Not Performed and Land Held for Resale Not Recorded

Observation: No appraisal was performed on the property owned by the SPE. Consequently, while the property should be recorded in the financial statements as land held for resale, no amount was recorded in the financial statements related to this asset as the market value of the property could not be determined.

Recommendation: An annual appraisal should be performed on the property owned by the SPE to determine its value as of the end of each fiscal year.

Management Response: Magnolia Creek CDD Holdings, LLC is a Florida limited liability company, (“Holdings”) 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, 2019 and no amount was recorded in the financial statements for the asset.

Other Findings

2019-02: Financial Condition Assessment

Observation: The District’s financial conditions continue to deteriorate. The Developer failed to pay assessments during prior fiscal years. As a result, the District foreclosed on the related property which was acquired by the SPE. Due to a lack of sufficient funds, certain scheduled debt service payments were not made in the prior, current, or subsequent fiscal years resulting in events of default. In addition, the reserve requirements of the Series 2007 Bonds have not been met. Further, the debt service fund reported a deficit fund balance of (\$26,598,503) at September 30, 2019.

Recommendation: The District should take the necessary steps to alleviate the deteriorating financial condition.

Management Response: The District has taken all necessary and available actions in order to comply with the Trust Indenture. The District obtained a final judgement of foreclosure in November of 2013. As discussed in the notes to financial statements the District and the Trustee, on behalf of the bondholders, created a special purpose entity (“SPE”), Magnolia Creek CDD Holdings, LLC, to own, manage and dispose of the land taken through foreclosure from the Developer, a significant landowner of the District. The District, Trustee and the SPE entered into a tri-party agreement whereby the SPE assumed responsibility for delinquent operating and maintenance assessments owed to the District and agreed to pay future operating and maintenance assessments. If funds are no longer available in the Trust Estate, and another funding source has not been secured, the SPE may convey the property to the District, with the District’s consent, the Trustee or another SPE.

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

14-01 - Land held for Sale Not Recorded

Current Status: See finding no. 2019-01 above.

Reference Numbers for Prior Year Findings: 14-01 in fiscal years 2014 – 2016, 2017-01 in 2017, and 2018-01 in 2018.

REPORT TO MANAGEMENT (Continued)

12-01 - Failure to Meet Debt Service Reserve Requirements

Current Status: See finding no. 2019-02 above.

Reference Numbers for Prior Year Findings: 12-02 in fiscal years 2014 – 2016, 2017-02 in 2017, and 2018-02 in 2018.

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

Current Status: See finding no. 2019-02 above.

Reference Numbers for Prior Year Findings: 12-02 in fiscal years 2014 – 2016, 2017-02 in 2017, and 2018-02 in 2018.

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

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

1. A statement as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

There were no significant findings and recommendations made in the preceding annual financial audit report for the fiscal year ended September 30, 2018, except as noted above.

2. Any recommendations to improve the local governmental entity's financial management.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported for the fiscal year ended September 30, 2019, except as noted above.

3. 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.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported, for the fiscal year ended September 30, 2019, except as noted above.

4. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.

5. In connection with our audit, we determined that the District has met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes. The District failed to make certain scheduled debt service payments due on the Series 2007 Bonds, as a result of a lack of funds. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and determined that a deteriorating financial condition was noted. See Findings section above for additional information. It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.