

Arborwood Community Development District

ANNUAL FINANCIAL REPORT

September 30, 2014

Arborwood Community Development District

ANNUAL FINANCIAL REPORT

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Berger, Toombs, Elam, Gaines & Frank

Certified Public Accountants PL

600 Citrus Avenue
Suite 200
Fort Pierce, Florida 34950

772/461-6120 // 461-1155
FAX: 772/468-9278

REPORT OF INDEPENDENT AUDITORS

To the Board of Supervisors
Arborwood Community Development District
Lee County, Florida

Report on the Financial Statements

We have audited the accompanying basic financial statements of Arborwood Community Development District as of and for the year ended September 30, 2014, 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 opinion.

To the Board of Supervisors
Arborwood Community Development District

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Units	Adverse
General Fund	Unmodified
Debt Service 2005	Unmodified
Debt Service 2005A/B	Unmodified
Debt Service 2006A-1/A-2/A-3	Unmodified
Debt Service 2006B	Unmodified
Capital Projects 2005A/B	Unmodified
Non Major Fund	Unmodified

Other Matters

Required Supplementary Information

Governmental accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 in accordance with governmental auditing standards generally accepted in the United States of America, which consisted principally of inquires of management regarding 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 a report dated September 19, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arborwood Community Development District's internal control over financial reporting and compliance.



To the Board of Supervisors
Arborwood Community Development District

Opinion on the Aggregate Remaining Fund Information

The financial statements do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The District has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net position, revenues, and expenses of the aggregate discretely presented component unit should have been presented.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Discretely Presented Component Unit", the financial statements referred to above do not present fairly, the financial position of the discretely presented component unit of the District as of September 30, 2014, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Adverse Opinion on the Discretely Presented Component Unit" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate remaining fund information of the District as of September 30, 2014, 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 Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Berger, Toombs, Elam,
Gaines & Frank*

Berger, Toombs, Elam, Gaines & Frank
Certified Public Accountants PL
Fort Pierce, Florida

June 30, 2015

**Arborwood Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2014**

Management's discussion and analysis of Arborwood Community Development District's (the District) financial performance provides an objective and easily readable analysis of the District's financial activities. The analysis provides summary financial information for the District and should be read in conjunction with the District's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's basic financial statements comprise three components; 1) *Government-wide financial statements*, 2) *Fund financial statements*, and 3) *Notes to financial statements*. The *Government-wide financial statements* present an overall picture of the District's financial position and results of operations. The *Fund financial statements* present financial information for the District's major funds. The *Notes to financial statements* provide additional information concerning the District's finances.

The *Government-wide financial statements* are the **statement of net position** and the **statement of activities**. These statements use accounting methods similar to those used by private-sector companies. Emphasis is placed on the net position of governmental activities and the change in net position. Governmental activities are primarily supported by special assessments.

The **statement of net position** presents information on all assets and liabilities of the District, with the difference between assets and liabilities reported as net position. Net position is reported in three categories; 1) net investment in capital assets 2) restricted and 3) unrestricted. Assets, liabilities, and net position are reported for all Governmental activities.

The **statement of activities** presents information on all revenues and expenses of the District and the change in net position. Expenses are reported by major function and program revenues relating to those functions are reported, providing the net cost of all functions provided by the District. To assist in understanding the District's operations, expenses have been reported as governmental activities. Governmental activities financed by the District include general government and physical environment.

Fund financial statements present financial information for governmental funds. These statements provide financial information for the major governmental funds of the District. Governmental fund financial statements provide information on the current assets and liabilities of the funds, changes in current financial resources (revenues and expenditures), and current available resources.

**Arborwood Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund financial statements include a **balance sheet** and a **statement of revenues, expenditures and changes in fund balances** for all governmental funds. A **statement of revenues, expenditures, and changes in fund balances – budget and actual**, is provided for the District's General Fund. *Fund financial statements* provide more detailed information about the District's activities. Individual funds are established by the District to track revenues that are restricted to certain uses or to comply with legal requirements.

The *agency fund financial statement* includes a **statement of fiduciary net position**. These are funds held by the District on behalf of others and may not be used in governmental activities.

The *government-wide financial statements* and the *fund financial statements* provide different pictures of the District. The *government-wide financial statements* provide an overall picture of the District's financial standing. These statements are comparable to private-sector companies and give a good understanding of the District's overall financial health and how the District paid for the various activities, or functions, provided by the District. All assets of the District, including capital assets, are reported in the **statement of net position**. All liabilities obligated but not paid by the District, are included. In the **statement of activities** transactions between the different functions of the District are eliminated in order to avoid "doubling up" the revenues and expenses. The *fund financial statements* provide a picture of the major funds of the District. In the case of governmental activities, outlays for long lived assets are reported as expenditures and long term liabilities are not included in the fund financial statements. To provide a link from the *fund financial statements* to the *government-wide financial statements*, a reconciliation is provided from the *fund financial statements* to the *government-wide financial statements*.

Notes to financial statements provide additional detail concerning the financial activities and financial balances of the District. Additional information about the accounting practices of the District is also included in the *notes to financial statements*.

Financial Highlights

The following are the highlights of financial activity for the year ended September 30, 2014:

- The District's total assets exceeded total liabilities by \$34,564,894 (net position). Unrestricted net position for governmental activities were \$(2,903,279). Net investment in capital assets for governmental activities were 37,468,173.
- Governmental activities revenues totaled \$10,658,601 while governmental activities expenses totaled \$7,100,244.

**Arborwood Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Financial Analysis of the District

The following tables present condensed, government-wide current year and prior year data about net position and changes in net position. Comparative year data is shown based on the Government financial reporting model under the Governmental Accounting Standards Board Statement No. 34.

	Governmental Activities	
	2014	2013
Net Position		
Current assets	\$ 428,074	\$ 182,933
Restricted assets	4,321,715	4,642,025
Capital assets	<u>118,669,852</u>	<u>120,046,471</u>
Total Assets	<u>123,419,641</u>	<u>124,871,429</u>
Current liabilities	13,743,055	16,596,339
Non-current liabilities	<u>75,241,692</u>	<u>77,398,553</u>
Total Liabilities	88,984,747	93,994,892
Net position - net investment in capital assets	37,468,173	35,554,414
Net position - unrestricted	<u>(2,903,279)</u>	<u>(4,677,877)</u>
Total Net Position	<u>\$ 34,564,894</u>	<u>\$ 30,876,537</u>

The decrease in capital assets was related to current year depreciation.

The increase in net investment in capital assets is the result of principal payments in excess of depreciation in the current year.

The decrease in total liabilities is related to the principal payments on long-term debt in the current year.

**Arborwood Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Financial Analysis of the District - (Continued)

The following schedule provides a summary of the changes in net position of the District and is presented by category for comparison purposes.

	Governmental Activities	
	2014	2013
Change in Net Position		
Program Revenues		
Charges for services	\$ 10,588,842	\$ 5,411,670
General Revenues		
Investment earnings	373	1,103
Miscellaneous revenues	69,386	358
Total Revenues	<u>10,658,601</u>	<u>5,413,131</u>
Expenses		
General government	316,380	309,422
Physical environment	2,089,930	2,019,624
Interest	4,693,934	6,640,144
Total Expenses	<u>7,100,244</u>	<u>8,969,190</u>
Change in Net Position	3,558,357	(3,556,059)
Net Position – Beginning of Year	31,136,537	34,692,596
Net Position – End of Year	<u>\$ 34,694,894</u>	<u>\$ 31,136,537</u>

The increase in charges for services is primarily due to the increase in special assessments levied for debt service.

The decrease in interest is due to the bifurcation of the bonds in the prior year and the current year principal payments.

**Arborwood Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Capital Assets Activity

The following schedule provides a summary of the District's capital assets as of 2014 and 2013.

<u>Description</u>	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Land	\$ 84,410,571	\$ 84,410,571
Construction in Progress	682,618	51,079
Infrastructure	39,039,107	39,039,107
Improvements	562,032	562,032
Less: Accumulated depreciation	<u>(6,024,476)</u>	<u>(4,016,318)</u>
	<u>\$ 118,669,852</u>	<u>\$ 120,046,471</u>

The capital asset activity for the current year was construction in progress additions of \$631,539 and depreciation of \$2,008,158.

General Fund Budgetary Highlights

Actual expenditures exceeded budgeted governmental expenditures primarily due to higher general government expenditures than was expected.

There was an amendment to the September 30, 2014 budget to reflect the reduction in anticipated revenues and general government expenditures.

Debt Management

Governmental Activities debt includes the following:

- ◆ In June 2005, the District issued \$40,375,000 Capital Improvement Revenue Bonds, Series 2005A (Master Infrastructure Projects), and \$3,930,000 Capital Improvement Revenue Bonds, Series 2005B (Master Infrastructure Projects). The Bonds were issued to (i) finance the cost of acquiring, constructing and equipping assessable improvements (the "2005 Master Infrastructure Project") comprising a part of the Capital Improvement Plan (as more particularly described herein, the "Capital Improvement Plan"); (ii) pay certain cost associated with the issuance of the 2005 Bonds; (iii) make a deposit into the related Series Reserve Accounts for the benefit of all of the 2005 Bonds; and (iv) pay a portion of the interest to become due on the 2005 Bonds. The bonds were bifurcated in December 2013 into Series 2005A-1, 2005A-2, 2005B-1, and 2005B-2. The outstanding balance at that time, \$36,395,000 and \$2,965,000, was split into two series each, \$7,470,000 and \$28,925,000, and \$775,000 and \$2,190,000. The balance outstanding at September 30, 2014 was \$6,375,000 for the A-1 bond, \$27,610,000 for the A-2 bond.

**Arborwood Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Debt Management (Continued)

- ◆ In May 2006, the District issued \$46,420,000 Capital Improvement Revenue Bonds, Series 2006A-1 (Centex Homes Project), and \$33,800,000 Capital Improvement Revenue Bonds, Series 2006A-2 (Centex Homes Project). The Bonds were issued to (i) refinance the 2005 bond anticipation note, (ii) pay certain cost associated with the issuance of the 2006 Bonds; (iii) make a deposit into the related Series Reserve Accounts for the benefit of all of the 2006 Bonds; and (iv) pay a portion of the interest to become due on the 2006 Bonds. The Series 2006A-1 bonds were bifurcated into Series 2006A-1 and 2006A-3 bonds in December 2010. The outstanding balance at that time, \$43,605,000, was split into two series, \$20,618,600 and \$25,801,400. The balance outstanding at September 30, 2014 was \$17,880,000 for the A-1 bond and \$270,000 for the A-2 bond, and \$22,340,000 for the A-3 bond.
- ◆ In May 2006, the District issued \$63,685,000 Capital Improvement Revenue Bonds, Series 2006B (Centex Homes Project). The Bonds were issued to (i) finance the cost of acquiring, constructing and equipping assessable improvements that comprised a part of the Capital Improvement Plan (as more particularly described herein, the "Capital Improvement Plan"); (ii) pay certain cost associated with the issuance of the 2006 Bonds; (iii) make a deposit into the related Series Reserve Accounts for the benefit of all of the 2006 Bonds; and (iv) pay a portion of the interest to become due on the 2006 Bonds. The balance outstanding at September 30, 2014 was \$2,465,000.
- ◆ Matured Bonds Payable at September 30, 2014 consisted of the following:

Series 2005-1 School Bonds	\$ 1,210,000
Series 2005A-1 Bonds	1,085,000
Series 2005B-1 Bonds	770,000
Series 2006A-1 Bonds	1,500,000
	<u>\$ 4,565,000</u>

Economic Factors and Next Year's Budget

Except for delinquent assessments on parcel C lands, which are to be paid through the Tri-Party Agreement and the bond restructuring that occurred in December, 2014, the District anticipates that next year's budget will be consistent with current results.

Request for Information

The financial report is designed to provide a general overview of Arborwood Community Development District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Arborwood Community Development District, Special District Services, 2501A Burns Road, Palm Beach Gardens, Florida 33410.

Arborwood Community Development District
STATEMENT OF NET POSITION
September 30, 2014

	Governmental Activities
ASSETS	
Current Assets	
Cash and investments	\$ 258,774
Receivables	169,300
Total Current Assets	428,074
Non-current Assets	
Restricted Assets:	
Investments - debt service	3,207,965
Investments - capital projects	1,113,750
Capital Assets:	
Assets not being depreciated	
Land and improvements	84,410,571
Construction in progress	682,618
Assets being depreciated	
Infrastructure	39,039,107
Improvements	562,032
Less: accumulated depreciation	(6,024,476)
Total Non-current Assets	122,991,567
Total Assets	123,419,641
LIABILITIES	
Current Liabilities	
Accounts payable and accrued expenses	366,510
Matured interest payable	4,746,177
Matured bonds payable	4,565,000
Bonds payable, current	1,810,000
Accrued interest payable	2,255,368
Total Current Liabilities	13,743,055
Non-current Liabilities	
Bonds payable, net	75,111,692
Total Liabilities	88,854,747
NET POSITION	
Net investment in capital assets	37,468,173
Unrestricted	(2,903,279)
Total Net Position	\$ 34,564,894

See accompanying notes to financial statements.

**Arborwood Community Development District
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2014**

ASSETS	<u>General</u>	<u>Debt Service 2005</u>	<u>Debt Service 2005A/B</u>	<u>Debt Service 2006</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 258,774	\$ -	\$ -	\$ -	\$ -	\$ 258,774
Receivables	33,613	-	74,429	61,258	-	169,300
Restricted assets:						
Investments	-	-	1,233,280	1,974,685	1,113,750	4,321,715
Total Assets	<u>\$ 292,387</u>	<u>\$ -</u>	<u>\$1,307,709</u>	<u>\$ 2,035,943</u>	<u>\$ 1,113,750</u>	<u>\$ 4,749,789</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable and accrued expenses	\$ 176,173	\$ -	\$ -	\$ 190,337	\$ -	\$ 366,510
Matured bonds payable	-	1,210,000	1,855,000	1,500,000	-	4,565,000
Matured interest payable	-	675,429	245,302	3,825,446	-	4,746,177
Total Liabilities	<u>176,173</u>	<u>1,885,429</u>	<u>2,100,302</u>	<u>5,515,783</u>	<u>-</u>	<u>9,677,687</u>
Fund Balances:						
Restricted:						
Capital Projects	-	-	-	-	1,113,750	1,113,750
Unassigned	<u>116,214</u>	<u>(1,885,429)</u>	<u>(792,593)</u>	<u>(3,479,840)</u>	<u>-</u>	<u>(6,041,648)</u>
Total Fund Balances	<u>116,214</u>	<u>(1,885,429)</u>	<u>(792,593)</u>	<u>(3,479,840)</u>	<u>1,113,750</u>	<u>(4,927,898)</u>
Total Liabilities and Fund Balances	<u>\$ 292,387</u>	<u>\$ -</u>	<u>\$1,307,709</u>	<u>\$ 2,035,943</u>	<u>\$ 1,113,750</u>	<u>\$ 4,749,789</u>

See accompanying notes to financial statements.

Arborwood Community Development District
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
September 30, 2014

Total Governmental Fund Balances	\$ (4,927,898)
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets not being depreciated, land (\$84,410,571) and construction in progress (\$682,618) used in governmental activities are not financial resources and; are not reported in the fund level statements.	85,093,189
Capital assets being depreciated, infrastructure (\$39,039,107) and improvements (\$562,032) net of accumulated depreciation (\$6,024,476)), used in governmental activities are not financial resources and; therefore are not reported in the funds.	33,576,663
Long-term liabilities, including bonds payable are not due and payable in the current period and; are not reported in the fund level statements.	(76,945,000)
The bonds payable include a discount on bonds (\$418,470); net of accumulated amortization (\$395,162)); which is reflected as a decrease to bonds payable.	23,308
Accrued interest expense for long-term debt is not a financial use and is not reported in the funds level statements.	<u>(2,255,368)</u>
Net Position of Governmental Activities	<u><u>\$ 34,564,894</u></u>

See accompanying notes to financial statements.

Arborwood Community Development District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended September 30, 2014

	General	Debt Service 2005	Debt Service 2005A/B	Debt Service 2006A-1/A-2/A-3	Capital Projects 2005A/B	Total Governmental Funds
Revenues						
Special assessments	\$ 329,089	\$ 3,017,080	\$ 4,294,348	\$ 2,948,325	\$ -	\$ 10,588,842
Investment earnings	-	12	128	136	97	373
Miscellaneous income	2,335	-	67,051	-	-	69,386
Total Revenues	<u>331,424</u>	<u>3,017,092</u>	<u>4,361,527</u>	<u>2,948,461</u>	<u>97</u>	<u>10,658,601</u>
Expenditures						
Current						
General government	305,066	-	-	11,314	-	316,380
Physical environment	81,765	-	-	-	7	81,772
Capital outlay	-	-	-	-	631,539	631,539
Debt service						
Principal	-	4,370,000	3,625,000	1,210,000	-	9,205,000
Interest	-	170,019	1,616,718	2,395,585	-	4,182,322
Other	-	-	-	190,639	-	190,639
Total Expenditures	<u>386,831</u>	<u>4,540,019</u>	<u>5,241,718</u>	<u>3,807,538</u>	<u>631,546</u>	<u>14,607,652</u>
Excess revenues over/(under) expenditures	<u>(55,407)</u>	<u>(1,522,927)</u>	<u>(880,191)</u>	<u>(859,077)</u>	<u>(631,449)</u>	<u>(3,949,051)</u>
Other Financing Sources/(Uses)						
Operating transfers in	-	-	-	11,297	-	11,297
Operating transfers out	-	-	-	-	(11,297)	(11,297)
Total Other Financing Sources/(Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,297</u>	<u>(11,297)</u>	<u>-</u>
Net change in fund balances	(55,407)	(1,522,927)	(880,191)	(847,780)	(642,746)	(3,949,051)
Fund Balances - October 1, 2013	<u>171,621</u>	<u>(362,502)</u>	<u>87,598</u>	<u>(2,632,060)</u>	<u>1,756,496</u>	<u>(978,847)</u>
Fund Balances - September 30, 2014	<u>\$ 116,214</u>	<u>\$(1,885,429)</u>	<u>\$ (792,593)</u>	<u>\$ (3,479,840)</u>	<u>\$ 1,113,750</u>	<u>\$ (4,927,898)</u>

See accompanying notes to financial statements.

**Arborwood Community Development District
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED September 30, 2014**

Net Change in Fund Balances - Total Governmental Funds \$ (3,949,051)

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

Governmental funds report capital outlays as expenditures. At the government wide level these expenditures are capitalized as capital assets and depreciated over their useful lives. This is the amount of depreciation (\$2,008,158) in excess of capital outlay (\$631,539) in the current year. (1,376,619)

Governmental funds report principal payments as expenditures since they use current financial resources from governmental funds. However, in the Statement of Activities, bond payments decrease long-term liabilities. 9,205,000

In the Statement of Activities, interest is accrued on outstanding bonds; whereas in governmental funds, interest expenditures are reported when due. This is the decrease in accrued interest from the prior year. (312,834)

Governmental funds report bond discounts as other financing uses since they use current financial resources from governmental funds. At the government wide level the cost are allocated based on an effective interest rate as amortization expense. This is the current year amortization expense associated with the bond discount. (8,139)

Change in Net Position of Governmental Activities \$ 3,558,357

See accompanying notes to financial statements.

**Arborwood Community Development District
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
GENERAL FUND
FOR THE YEAR ENDED September 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Special assessments	\$ 385,190	\$ 331,626	\$329,089	\$ (2,537)
Miscellaneous revenues	-	1,350	2,335	985
Total Revenues	<u>385,190</u>	<u>332,976</u>	<u>331,424</u>	<u>(1,552)</u>
Expenditures				
Current				
General government	296,546	299,753	305,066	(5,313)
Physical environment	118,948	85,200	81,765	3,435
Total Expenditures	<u>415,494</u>	<u>384,953</u>	<u>386,831</u>	<u>(1,878)</u>
Net change in fund balances	<u>(30,304)</u>	<u>(51,977)</u>	<u>(55,407)</u>	<u>(3,430)</u>
Fund Balances - October 1, 2013	<u>159,235</u>	<u>129,154</u>	<u>171,621</u>	<u>42,467</u>
Fund Balances - September 30, 2014	<u><u>\$ 128,931</u></u>	<u><u>\$ 77,177</u></u>	<u><u>\$116,214</u></u>	<u><u>\$ 39,037</u></u>

See accompanying notes to financial statements.

Arborwood Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

The District was created on June 14, 2004, pursuant to the Rule 42RR-1, Florida Administrative Code and Chapter 190, Florida Statutes. The District was established for the purposes of financing and managing the acquisition, construction, maintenance and operation of the infrastructure necessary for community development within its jurisdiction. The District is authorized to issue bonds for the purpose, among others, of financing, funding, planning, establishing, acquiring, constructing or re-constructing, enlarging or extending, equipping, operating and maintaining water management, bridges or culverts, district roads, landscaping, street lights and other basic infrastructure projects within or without the boundaries of the Arborwood Community Development District. The District is governed by a five-member Board of Supervisors who are elected for four year terms. The District operates within the criteria established by Chapter 190.

As required by GAAP, these financial statements present the Arborwood Community Development District (the primary government) as a stand-alone government. The reporting entity for the District includes all functions of government in which the District's Board exercises oversight responsibility includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, significant ability to influence operations and accountability for fiscal matters.

Based upon the application of the above-mentioned criteria as set forth by the Governmental Accounting Standards Board Statement Number 61, the Financial Reporting Entity, the District has identified one discretely-presented component unit.

The Discretely-presented component unit is a legally separate entity which did not meet the criteria for blending. The discrete component unit of the District is as follows:

Arborwood Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. Reporting Entity (Continued)

Arborwood CDD Holdings, Inc. – The Company is a special purpose entity created by provisions in the Trust indenture for the 2005A and 2005B Capital Improvement Revenue Bonds for the temporary purpose of owning, maintaining, selling or disposing of the property related to the bonds. The Company and its operations, pursuant to an agreement between the Company, the District and the U.S. Bank National Association (the Trustee), are funded from a \$1,335,000 loan from the District prior to the exchange of the 2005A and 2005B Bonds. Net proceeds received by the Company for the sale of Parcel C lands are to be used first to the Bondholders to repay those 2005A and 2005B Bonds; second, \$17,046 shall be repaid to the District for O&M Assessments, and third, deposit into 2005 School Site Acquisition Account. During the year, the LLC did not receive any proceeds. In the event amounts available to repay the Remaining 2005 Bonds are not sufficient to pay all of the principal and interest due on the Remaining 2005 Bonds, then payments are made first to interest, then to principal, both ratably according to the amounts due on the date of the 2013 Bond restructuring. The 2005 Bonds outstanding are to be paid in full as land is sold by home builders to end users.

2. Measurement Focus and Basis of Accounting

The basic financial statements of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to financial statements

a. Government-wide Financial Statements

Government-wide financial statements report all non-fiduciary information about the reporting government as a whole. These statements include all the governmental activities of the primary government. The effect of interfund activity has been removed from these statements.

Governmental activities are primarily supported by special assessments. Program revenues include charges for services and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the Statement of Activities to present the net cost of each program

Amounts paid to acquire capital assets are capitalized as assets, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as an other financial source.

Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Arborwood Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Measurement Focus and Basis of Accounting (Continued)

b. Fund Financial Statements

The underlying accounting system of the District is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually.

Governmental Funds

The District classifies fund balance according to Governmental Accounting Standards Board Statement 54 – Fund Balance Reporting and Governmental Fund Type Definitions. The Statement requires the fund balance for governmental funds to be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The District has various policies governing the fund balance classifications.

Nonspendable Fund Balance – This classification consists of amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted Fund Balance – This classification includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Assigned Fund Balance – This classification consists of the Board of Supervisors' intent to be used for specific purposes, but are neither restricted nor committed. The assigned fund balances can also be assigned by the District's management company.

Unassigned Fund Balance – This classification is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

Arborwood Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Measurement Focus and Basis of Accounting (Continued)

b. Fund Financial Statements (Continued)

Governmental Funds (Continued)

Fund Balance Spending Hierarchy – For all governmental funds except special revenue funds, when restricted, committed, assigned, and unassigned fund balances are combined in a fund, qualified expenditures are paid first from restricted or committed fund balance, as appropriate, then assigned and finally unassigned fund balances.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of “available spendable resources”. Governmental fund operating statements present increases (revenues and other financial sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Because of their current financial resource measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources are expended, rather than as fund assets. The proceeds of long-term debt are recorded as an other financing source rather than as a fund liability.

Debt service expenditures are recorded only when payment is due.

3. Basis of Presentation

a. Governmental Major Funds

General Fund - The 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.

2005-1/2 Debt Service Fund - Accounts for debt service requirements to retire the capital improvement bonds which were used to finance the cost of acquisition of a 30 – acre school site together with certain wetlands. The bond series is secured by a pledge (lien) of all debt service special assessment revenues on all acreage of benefited land.

Arborwood Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Basis of Presentation (Continued)

a. Governmental Major Funds (Continued)

2005 A-1/A-2/B-1/B-2 Debt Service Fund - Accounts for debt service requirements to retire the capital improvement bonds which were used to finance the construction of District infrastructure improvements. The bond series is secured by a pledge (lien) of all debt service special assessment revenues on all acreage of benefited land.

2006 A-1/A-2/A-3 Debt Service Fund - Accounts for debt service requirements to retire the capital improvement bonds which were used to redeem the 2005 Bond Anticipation Notes. The bond series is secured by a pledge (lien) of all debt service special assessment revenues on all acreage of benefited land.

2006 B Debt Service Fund - Accounts for debt service requirements to retire the capital improvement bonds which were used to finance the construction of District infrastructure improvements. The bond series is secured by a pledge (lien) of all debt service special assessment revenues on all acreage of benefited land.

2005 A/B Capital Projects Fund - The Project Fund accounts for construction of infrastructure improvements within the boundaries of the district.

b. Non-current Governmental Assets/Liabilities

GASB Statement 34 requires that non-current governmental assets, such as land and buildings, and non-current governmental liabilities, such as general obligation bonds, be reported in the governmental activities column in the government-wide Statement of Net Position.

4. Assets, Liabilities, and Net Position or Equity

a. Cash and Investments

Chapter 280, Florida Statutes require state and local governmental units to deposit monies with financial institutions classified as "Qualified Public Depositories," a multiple financial institution pool whereby groups of securities pledged by the various financial institutions provide common collateral from their deposits of public funds. This pool is provided as additional insurance to the federal depository insurance and allows for additional assessments against the member institutions, providing full insurance for public deposits.

Arborwood Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Assets, Liabilities, and Net Position or Equity (Continued)

a. Cash and Investments (Continued)

The District is authorized to invest in those financial instruments as established by Section 218.415, Florida Statutes. The authorized investments consist of:

1. Direct obligations of the United States Treasury;
2. The Local Government Surplus Funds Trust or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperative Act of 1969;
3. Interest-bearing time deposits or savings accounts in authorized qualified public depositories;
4. Securities and Exchange Commission, registered money market funds with the highest credit quality rating from a nationally recognized rating agency.

Cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less and held in a qualified public depository as defined by Chapter 280.02, Florida Statutes.

b. Restricted Assets

Certain assets of the District are classified as restricted assets on the statement of net position because their use is limited either by law through constitutional provisions or enabling legislation; or by restrictions imposed externally by creditors. In a fund with both restricted and unrestricted assets, qualified expenses are considered to be paid first from restricted net position and then from unrestricted net position.

c. Capital Assets

Capital assets, which include land, construction in progress and equipment, are reported in governmental activities.

The District defines capital assets as assets with an initial, individual cost of \$1,000 or more and an estimated useful life in excess of one year. The valuation basis for all assets is historical cost.

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

Arborwood Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Assets, Liabilities, and Net Position or Equity (Continued)

c. Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation of capital assets is computed and recorded by utilizing the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Buildings and improvements	7-39 years
Infrastructure	20-40 years
Machinery and equipment	5-10 years

d. Unamortized Bond Discounts

Bond discounts associated with the issuance of revenue bonds are amortized according to the effective interest method. For financial reporting, unamortized bond discounts are netted against the applicable long-term debt.

e. Budgets

Budgets are prepared and adopted after public hearings for the governmental funds, pursuant to Chapter 190 and Section 200.065, Florida Statutes. The District utilizes the same basis of accounting for budgets as it does for revenues and expenditures in its various funds. Formal budgets are adopted for the general and debt service funds. The legal level of budgetary control is at the fund level. All budgeted appropriations lapse at year end.

**Arborwood Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014**

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. Explanation of Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

“Total fund balances” of the District’s governmental funds (\$(4,927,898)) differs from “net position” of governmental activities (\$34,564,894) reported in the Statement of Net Position. This difference primarily results from the long-term economic focus of the Statement of Net Position versus the current financial resources focus of the Governmental Fund Balance Sheet. The effect of the differences is illustrated below.

Capital related items

When capital assets (land and improvements and construction in progress that are to be used in governmental activities) are purchased or constructed, the cost of those assets is reported as expenditures in governmental funds. However, the Statement of Net Position included those capital assets among the assets of the District as a whole.

Land and improvements	\$ 84,410,571
Construction in progress	682,618
Infrastructure	39,039,107
Improvements	562,032
Less: accumulated depreciation	<u>(6,024,476)</u>
Total	<u>\$ 118,669,852</u>

Long-term debt transactions

Long-term liabilities applicable to the District’s governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Position.

Bonds payable	<u>\$ (76,945,000)</u>
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Certain discounts are reflected net of amortization expense as a reduction of bonds payable in the Statement of Net Position.

Bonds discount	<u>\$ 23,308</u>
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Accrued interest

Accrued liabilities in the Statement of Net Position differ from the amount reported in governmental funds due to the accrued interest on bonds.

Accrued interest	<u>\$ (2,255,368)</u>
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**Arborwood Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014**

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

2. Explanation of Differences Between the Governmental Fund Operating Statements and the Statement of Activities

The “net change in fund balances” for government funds (\$(3,949,051)) differs from the “change in net position” for governmental activities (\$3,558,357) reported in the Statement of Activities. The differences arise primarily from the long-term economic focus of the Statement of Activities versus the current financial resources focus of the governmental funds. The effect of the differences is illustrated below.

Capital related items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balances decrease by the amount of financial resources expended, whereas net position decrease by the amount of depreciation expense charged for the year.

Depreciation	\$ (2,008,158)
Capital Outlay	631,539
Total	<u>\$ (1,376,619)</u>

Long-term debt transactions

Repayments of bond principal are reported as expenditures in the governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used.

Principal payments	<u>\$ 9,205,000</u>
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Some expenses reported in the Statement of Activities do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds.

Net decrease in accrued interest payable	<u>\$ (312,834)</u>
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In the Statement of Activities, bond discounts decrease long-term liabilities and are amortized over the life of the bonds in governmental funds, bond discounts are treated as other financing uses since they use current financial resources from governmental funds.

Bond discount amortization	<u>\$ (8,139)</u>
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Arborwood Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE C - CASH AND INVESTMENTS

All operating deposits are held in qualified public depositories and are included on the accompanying balance sheet as cash and investments.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk; however, they follow the provisions of Chapter 280, Florida Statutes regarding deposits and investments. As of September 30, 2014, the District's bank balance was \$182,886 and the carrying value was \$258,774. Exposure to custodial credit risk was as follows. The District maintains cash deposits in a qualified public depository in accordance with the provisions of Chapter 280, Florida Statutes, which means that all deposits are fully insured by Federal Depositors Insurance or collateralized under Chapter 280, Florida Statutes.

As of September 30, 2014, the District had the following investments and maturities:

Investment	Maturities	Fair Value
First American Government Obligation Fund Class Y	N/A	\$ 3,882,278
Money Market Accounts	N/A	439,737
Total Investments		\$ 4,322,015

Interest Rate Risk

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

Credit Risk

The District's investments in treasury funds, commercial paper, and government loans are limited by state statutory requirements and bond compliance. The District has no investment policy that would further limit its investment choices. As of September 30, 2014, the District's investment in the First American Government Obligation Fund Class Y was rated A-1+ by Standard & Poor's.

Concentration of Credit Risk

The District places no limit on the amount it may invest in any one investment. The investments in First American Government Obligation Fund Class Y are 94% of the District's total investments. The District considers any decline in fair value for certain investments to be temporary.

Arborwood Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE D – CAPITAL ASSETS

Capital Asset activity for the year ended September 30, 2014 was as follows:

	Balance October 1, 2013	Additions	Deletions	Balance September 30, 2014
Governmental Activities:				
Capital assets, not being depreciated				
Land and improvements	\$ 84,410,571	\$ -	\$ -	\$ 84,410,571
Construction in progress	51,079	631,539	-	682,618
Total Capital Assets, Not Depreciated	<u>84,461,650</u>	<u>631,539</u>	<u>-</u>	<u>85,093,189</u>
Capital assets, being depreciated				
Infrastructure	39,039,107	-	-	39,039,107
Improvements	562,032	-	-	562,032
Total Capital Assets, Being Depreciated	<u>39,601,139</u>	<u>-</u>	<u>-</u>	<u>39,601,139</u>
Less accumulated depreciation for:				
Infrastructure	(3,903,912)	(1,951,955)	-	(5,855,867)
Improvements	(112,406)	(56,203)	-	(168,609)
Total accumulated depreciation	<u>(4,016,318)</u>	<u>(2,008,158)</u>	<u>-</u>	<u>(6,024,476)</u>
Total capital assets depreciated, net	<u>35,584,821</u>	<u>(2,008,158)</u>	<u>-</u>	<u>33,576,663</u>
Total Capital Assets	<u><u>\$120,046,471</u></u>	<u><u>\$(1,376,619)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 118,669,852</u></u>

Depreciation of \$2,008,159 was charged to physical environment.

NOTE E – LONG-TERM DEBT

The following is a summary of activity in the long-term debt of the District for the year ended September 30, 2014:

Long-term debt at October 1, 2013	\$ 86,150,000
Bond payments	<u>(9,205,000)</u>
Bond payable, September 30, 2014	76,945,000
Less: Bond discount, net	<u>23,308</u>
Long-term debt at September 30, 2014	<u><u>\$ 77,051,692</u></u>

Arborwood Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE E – LONG-TERM DEBT (CONTINUED)

Capital Improvement Revenue Bonds

On December 10, 2010, the Series 2005 Master Infrastructure Bonds were bifurcated into Series 2005-A1, 2005-A2, 2005 B-1 and 2005 B-2.

Series 2005A-1 was bifurcated into Series 2005A-1 and 2005A-2 Capital Improvement Revenue Bonds. Series 2005A-1 Capital Improvement Revenue Bonds, \$7,470,000, due in annual principal installments beginning May 2013. Interest at a rate of 5.35% is due May 1, and November 1, beginning May 2013. \$ 6,375,000

Series 2005A-2 Capital Improvement Revenue Bonds, \$28,310,000, due in annual principal installments beginning May 2013. Interest at a rate of 5.35% is due May 1, and November 1, beginning May 2013. 27,615,000

Series 2006A-1 was bifurcated into Series 2006A-1 and 2006A-3 Capital Improvement Revenue Bonds. Series 2006A-1 Capital Improvement Revenue Bonds, \$20,618,600, are due in annual installments beginning December 2010. Interest at a rate of 5.50% is due May 1, and November 1, beginning May 2011. 17,880,000

Series 2006A-2 Capital Improvement Revenue Bonds, \$33,800,000, due in annual principal installments beginning May 2007. Interest at a rate of 5.25% is due May 1, and November 1, beginning November 2006. 270,000

Series 2006A-3 Capital Improvement Revenue Bonds, \$25,801,400, due in annual principal installments beginning December 2010. Interest at a rate of 5.50% is due May 1, and November 1, beginning May 2011. 22,340,000

Series 2006B Capital Improvement Revenue Bonds, \$63,685,000, maturing in May 2016. Interest at a rate of 5.25% is due May 1, and November 1, beginning November 2006. 2,465,000

Bonds payable 76,945,000

Bond discount, net (23,308)

Bonds Payable, Net \$ 76,921,692

Arborwood Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE E – LONG-TERM DEBT (CONTINUED)

Capital Improvement Revenue Bonds (Continued)

The annual requirements to amortize the principal and interest of bonded debt outstanding as of September 30, 2014 are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,810,000	\$ 4,175,889	\$ 5,985,889
2016	4,375,000	4,075,880	8,450,880
2017	2,020,000	3,842,763	5,862,763
2018	2,130,000	3,733,083	5,863,083
2019	2,250,000	3,617,428	5,867,428
2020-2024	13,250,000	16,115,215	29,365,215
2025-2029	17,400,000	12,092,163	29,492,163
2030-2034	22,820,000	6,809,315	29,629,315
2035-2036	<u>10,890,000</u>	<u>893,620</u>	<u>11,783,620</u>
Totals	<u>\$ 76,945,000</u>	<u>\$ 55,355,356</u>	<u>\$ 132,300,356</u>

Summary of Significant Bonds Resolution Terms and Covenants

Capital Improvement Revenue Bonds, Series 2005A-1, 2005A-2, 2006A-1, 2006A-2, 2006A-3 and 2006B.

Depository Funds - The bond indentures establish certain funds and determines the order in which revenues are to be deposited into these funds. A description of the significant funds, including their purposes, is as follows:

Certain scheduled bond payments have not been made and are reflected as matured bonds payable in the accompanying financial statements as follows:

Series 2005-1 School Bonds	\$ 1,210,000
Series 2005A-1 Bonds	1,085,000
Series 2005B-1 Bonds	770,000
Series 2006A-1 Bonds	<u>1,500,000</u>
	<u>\$ 4,565,000</u>

**Arborwood Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014**

NOTE E – LONG-TERM DEBT (CONTINUED)

Capital Improvement Revenue Bonds (Continued)

1. Reserve Fund – The Series 2005A-1/2005A-2, 2006A1/A2/A3, and 2006B Capital Improvement Revenue Bonds Reserve Accounts are funded from the proceeds of the Bonds in an amount equal to reserve accounts percentage times the deemed outstanding principal amount of the bonds, as of the time of any such calculation. Monies held in the reserve accounts will be used only for the purposes established in the Trust Indenture.

	<u>Reserve Balance</u>	<u>Reserve Requirement</u>
Series 2005A-1 Capital Improvement Revenue Bond	\$ 70,286	\$ 499,813
Series 2005A-2 Capital Improvement Revenue Bond	922,676	1,850,161
Series 2006A-1 Capital Improvement Revenue Bond	174,133	1,320,166
Series 2006A-2 Capital Improvement Revenue Bond	18,227	17,896
Series 2006A-3 Capital Improvement Revenue Bond	535,605	1,470,696
Series 2006B Capital Improvement Revenue Bond	64,669	59,856

NOTE F – ECONOMIC DEPENDENCY AND RELATED PARTIES

A substantial portion of the District's activity is dependent upon the continued involvement of the developers and landowners, the loss of which could have a materially adverse effect on the District. At September 30, 2014, the developers held the majority of the assessable property located within District boundaries. The amount of assessments directly collected from a significant landowner for District operations, debt service and capital assets during the year ended September 30, 2014 was \$2,471,906.

NOTE G – RISK MANAGEMENT

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance.

Arborwood Community Development District
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE H – TRI-PARTY AGREEMENT

On June 19, 2009, the District filed a complaint against one of the original developers (developer) and the bank holding the mortgage (mortgage holder) seeking to foreclose special assessments levied by the District to secure the District's Series 2005 School Site Acquisition Bonds, Series 2005A Bonds, Series 2005B Bonds and Series 2006A-1 Bonds. The complaint also seeks to foreclose special assessments levied to fund the District's operation and maintenance expenses for Fiscal Year 2009. After the lawsuit was filed, the developer transferred its interest in the subject real property to a separate landowner who, in turn, transferred the real property to a significant landowner (landowner). The landowner has now intervened, but the landowner's intervention is subordinate to the main proceeding. With the transfer of the real property to the landowner, the mortgage holder released its mortgage and as a result, the District voluntarily dismissed the mortgage holder from the foreclosure on December 21, 2010. In addition, the developer ceased defending the action, and the Court entered a default against it. Presently, the landowner and the District are the only parties actively involved in the litigation. The Court entered partial summary judgment in favor of the District on July 23, 2012.

In March, 2013, the Board adopted Resolution 2013-04, which approved the bifurcation of the Series 2005 A and B Bonds, a Tri-Party Agreement and a Forbearance Agreement.

The Tri-Party Agreement between the District, the Trustee and Arborwood CDD Holdings, Inc. (an "SPE") addresses the following four substantive issues among the parties; a loan from the 2005 Acquisition and Construction Account to the "SPE" for the acquisition of parcel C lands, the District's use of the above referenced account to pay for a portion of the 2005 Master Infrastructure Project, a street lighting project defined in the agreement, the District's forgiveness of certain O & M assessments previously levied on parcel C lands and the dismissal of the foreclosure action.

The bifurcation of the 2005 A and B Bonds resulting in the exchanging of such bonds for the proportionate share of 2005A-1 and 2005A-2 Bonds and 2005B-1 and 2005B-2 Bonds.

NOTE I – SUBSEQUENT EVENT

In December, 2014, the District refunded and restructured certain outstanding debt and issued Capital Improvement Revenue Refunding Bonds Series 2014A-1, Series 2014A-2 and Series 2014-B, which retired and cancelled Series 2005A-1, 2005B-1, 2005-1 and 2006A-1 Bonds, of the total debt refunded and restructured \$15,080,000 was retired and \$13,740,000 was cancelled.



Certified Public Accountants PL
600 Citrus Avenue
Suite 200
Fort Pierce, Florida 34950

772/461-6120 // 461-1155
FAX: 772/468-9278

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
Arborwood Community Development District
Lee 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 Arborwood Community Development District, as of and for the year ended September 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Arborwood Community Development District's internal control over financial reporting 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 Arborwood Community Development District's internal control. Accordingly, we do not express an opinion on the effectiveness of Arborwood Community Development District's internal control over financial reporting.

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 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Supervisors
Arborwood Community Development District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arborwood Community Development District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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*.

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.

*Berger, Toombs, Elam,
Gaines & Frank*

Berger, Toombs, Elam, Gaines & Frank
Certified Public Accountants PL
Fort Pierce, Florida

June 30, 2015



Berger, Toombs, Elam, Gaines & Frank

Certified Public Accountants PL
600 Citrus Avenue
Suite 200
Fort Pierce, Florida 34950

772/461-6120 // 461-1155
FAX: 772/468-9278

MANAGEMENT LETTER

To the Board of Supervisors
Arborwood Community Development District
Lee County, Florida

Report on the Financial Statements

We have audited the financial statements of Arborwood Community Development District as of and for the year ended September 30, 2014, and have issued our report thereon dated June 30, 2015.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States; 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 Florida Auditor General.

Other Reports and Schedule

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 Financial Statements Performed in Accordance with *Government Auditing Standards* and our Independent Auditor's Report on an examination conducted in accordance with AICPA Professionals Standards, Section 601 regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in that report, which is dated June 30, 2015, should be considered in conjunction with this Management Letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we address in the Management Letter, if not already addressed in the auditor's report on compliance and internal controls, whether or not recommendations made in the preceding annual financial report have been followed.

2013-01 - Consideration of Financial Emergency Criteria

Finding: The District continues to meet conditions described in Section 218.503(1), Florida Statutes, related to the failure to make debt service payments when due.

To the Board of Supervisors
Arborwood Community Development District

2013-02: Noncompliance with Provisions of Trust Indenture

Finding: The District did not adequately meet the reserve requirement on the Series 2005A and 2006A Capital Improvement Revenue Bonds as set forth in the Trust Indenture.

Financial Condition

Section 10.554(1)(i)5.a., Rules of the Auditor General, requires that we report the results of our determination as to whether or not Arborwood Community Development District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, we determined that Arborwood Community Development District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, related to the failure to make certain debt service payments when due.

Finding 2014-01

Finding: The District continues to meet the conditions described in Section 218.503(1), Florida Statutes, related to the failure to make debt service payments on the Series 2005A and 2006A Capital Improvement Revenue Bonds when due.

Recommendation: We recommend that the District take steps to becoming current in the debt service payments on both of these bonds.

Management response: The District has restructured the debt to address this financial situation. The Series 2005-1, Series 2005A-1 and Series 2006 A-1 Bonds had been restructured in December 2010 and subsequent to year end they were again restructured. A portion of the bonds outstanding were cancelled by the Bondholders and the remaining non-performing bonds were replaced by the Series 2014 Refunding Bonds.

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

Annual Financial Report

Section 10.554(1)(i)5.b., Rules of the Auditor General, requires that we report the results of our determination as to whether the annual financial report for the Arborwood Community Development District for the fiscal year ended September 30, 2014, 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, 2014. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

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

To the Board of Supervisors
Arborwood Community Development District

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we noted the following findings.

Finding 2014-02

Finding: The District did not meet the reserve requirement on the Series 2005A and 2006A Capital Improvement Revenue Bonds as set forth in the Trust Indenture.

Recommendation: We recommend that the District take steps to ensure that the reserve requirement stipulated in the trust indenture is adequate.

Management Response: Subsequent to year end as noted in our response to Finding 2014-01, the District has refunded, restructured and retired certain Bonds outstanding. The effect on the reserve requirements has not been finalized.

Purpose of this Letter

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

*Berger, Toombs, Elam,
Gaines & Frank*

Berger, Toombs, Elam, Gaines & Frank
Certified Public Accountants PL
Fort Pierce, Florida

June 30, 2015



**Berger, Toombs, Elam,
Gaines & Frank**

Certified Public Accountants PL
600 Citrus Avenue
Suite 200
Fort Pierce, Florida 34950

772/461-6120 // 461-1155
FAX: 772/468-9278

**INDEPENDENT ACCOUNTANT'S REPORT/COMPLIANCE
WITH SECTION 218.415, FLORIDA STATUTES**

Arborwood Community Development District
Lee County, Florida

We have examined Arborwood Community Development District's compliance with Section 218.415, Florida Statutes during the year ended September 30, 2014. Management is responsible for Arborwood Community Development District's compliance with those requirements. Our responsibility is to express an opinion on Arborwood Community Development District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about Arborwood Community Development District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Arborwood Community Development District's compliance with the specified requirements.

In our opinion, Arborwood Community Development District complied, in all material respects, with the aforementioned requirements during the year ended September 30, 2014.

*Berger, Toombs, Elam,
Gaines & Frank*

Berger, Toombs, Elam, Gaines & Frank
Certified Public Accountants PL
Fort Pierce, Florida

June 30, 2015