

**SPRING RIDGE
COMMUNITY DEVELOPMENT DISTRICT
HERNANDO COUNTY, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2013**

**SPRING RIDGE COMMUNITY DEVELOPMENT DISTRICT
HERNANDO COUNTY, FLORIDA**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Spring Ridge Community Development District
Hernando County, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund, of Spring Ridge Community Development District, Hernando County, Florida ("District") as of and for the fiscal year ended September 30, 2013, 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 Opinions on Special Purpose Entity Fund and on Governmental Activities

As discussed in Note 8 to the financial statements, management has not recorded the land held for resale in its SPE Fund (a blended component unit of the District that accounts for the activity of the SPE). 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 and fund balance of the SPE Fund, and the assets and net position of the governmental activities has not been determined.

Adverse Opinions

In our opinion, because of the omission of the land held for resale in the Special Purpose Entity ("SPE") Fund, as discussed in the "Basis for Adverse Opinions on Special Purpose Entity Fund and Qualified Opinion on

Governmental Activities”, the financial statements referred to above do not present fairly the financial position of the SPE Fund and the governmental activities of the District as of September 30, 2013, 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.

Unmodified Opinions

In addition, in our opinion, the financial statements present fairly, in all material respects, the financial position of the General and Debt Service Funds of the District as of September 30, 2013, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note 2 to the financial statements, in fiscal year 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board (“GASB”) Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*.

As discussed in Note 7 and other referenced notes to the financial statements, the District’s financial conditions are deteriorating. The Developer and certain landowners failed to pay their share of assessments in prior fiscal years resulting in non-payment of certain debt service obligations and a deficit fund balance in the debt service fund of (\$4,133,160). Furthermore, in a prior fiscal year a special purpose entity was created to own, manage, maintain and dispose of property subject to delinquent assessments. In addition, the SPE fund has a deficit of (\$1,286,830) related to unpaid property taxes related to the land acquired in the prior fiscal year.

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 February 10, 2014, on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

February 10, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Spring Ridge Community Development District, Hernando County, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2013. 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 (\$2,679,227).
- The change in the District's total net position in comparison with the prior fiscal year was (\$750,752), a decrease. 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, 2013, the District's governmental funds reported combined ending fund balances of (\$4,751,469), a decrease of (\$579,432) in comparison with the prior fiscal year. A portion of fund balance is restricted for debt service and non-spendable for prepaid items, assigned to subsequent year's expenditures, and the remainder is unassigned fund balance which is available for spending at the District's discretion.
- During fiscal year 2013, the District implemented Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board ("FASB") and American Institute of Certified Public Accountants ("AICPA") Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Please see New Accounting Standards Adopted in Note 2 of the financial statements for additional information.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are 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. The District does not have any business-type activities. The governmental activities of the District include the general government (management), maintenance and recreational functions.

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Fund Financial Statements

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

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflow 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 three 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 special revenues fund, all of which are considered major funds.

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

Notes to 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,	
	2013	2012
Current and other assets	\$ 895,987	\$ 1,140,936
Capital assets, net of depreciation	4,385,167	4,604,813
Total assets	<u>5,281,154</u>	<u>5,745,749</u>
Current liabilities	5,773,849	5,242,667
Long-term liabilities	2,186,532	2,234,858
Total liabilities	<u>7,960,381</u>	<u>7,477,525</u>
Net position		
Net investment in capital assets	(1,091,365)	2,566,654
Unrestricted	(1,587,862)	(4,298,430)
Total net position (deficit)	<u>\$ (2,679,227)</u>	<u>\$ (1,731,776)</u>

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 and depreciation expense 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,	
	2013	2012
Revenues:		
Program revenues	\$ 357,676	\$ 362,735
General revenues	7,224	7,087
Total revenues	<u>364,900</u>	<u>369,822</u>
Expenses:		
General government	372,813	558,335
Maintenance and operations	302,038	282,391
Parks and recreation	135,783	167,165
Interest	305,018	314,385
Total expenses	<u>1,115,652</u>	<u>1,322,276</u>
Change in net position	<u>(750,752)</u>	<u>(952,454)</u>
Net position (deficit) - beginning, previously stated	(1,731,776)	(779,322)
Effect of adoption of GASB No. 65 (Note 2)	(196,699)	-
Net assets (deficit), beginning	<u>(1,928,475)</u>	<u>(779,322)</u>
Net assets (deficit), ending	<u>\$ (2,679,227)</u>	<u>\$ (1,731,776)</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2013 was \$1,115,652. The costs of the District's activities were primarily funded by program revenues. Program revenues are comprised primarily of assessments. The remainder of the current fiscal year revenue includes interest revenue and miscellaneous income. The decrease in current fiscal year expenses is primarily the result of a decrease in professional fees incurred for the Special Purpose Entity (SPE).

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, 2013.

The variance between budgeted and actual general fund revenues for the current fiscal year is primarily the result of the budget treating assessments billed to the SPE as revenue instead of transfers as well as the result of the non-payment of a significant portion of the current fiscal year assessments by the Developer and the SPE. The actual general fund expenditures for the current fiscal year were lower than budgeted amounts due primarily to anticipated costs which were not incurred in the current fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2013, the District had \$6,228,958 invested in land, infrastructure, and improvements, for its governmental activities. In the government-wide financial statements depreciation of \$1,843,791 has been taken, which resulted in a net book value of \$4,385,167. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Capital Debt

At September 30, 2013, the District had \$5,510,000 Bonds outstanding for its governmental activities. More detailed information about the District's capital debt is presented in the notes of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND OTHER EVENTS

The District does not anticipate any major projects or significant changes to its infrastructure maintenance program for the subsequent fiscal year. In addition, it is anticipated that the general operations of the District will remain fairly constant. As discussed in the notes to the basic financial statements, there are amounts due from the Developer and certain landowners for prior fiscal years and for the subsequent period that have not been collected. As a result, the Series 2004B Bonds due May 1, 2009 have not been paid. In addition, certain scheduled debt service payments on the Series 2004A and B Bonds were not made in the current and prior fiscal years, and, subsequent to fiscal year end, certain scheduled debt service payments were not made. In addition, there is a deficit fund balance reported in the debt service fund and SPE fund at September 30, 2013 of (\$4,133,160) and (\$1,286,830), respectively. The SPE owns the land that has delinquent assessments and is in the process of marketing the land for sale.

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 Spring Ridge Community Development District's Finance Department 210 N. University Drive, Suite 702, Coral Springs, Florida, 33071

**SPRING RIDGE COMMUNITY DEVELOPMENT DISTRICT
HERNANDO COUNTY, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013**

	Governmental Activities
ASSETS	
Cash	\$ 591,236
Investments	75,528
Due from other governments	5,497
Accounts receivable	53
Prepays	3,207
Restricted assets:	
Investments	220,466
Capital assets:	
Nondepreciable	1,631,372
Depreciable, net	2,753,795
Total assets	5,281,154
 LIABILITIES	
Accounts payable	1,293,830
Accrued interest payable	126,393
Matured interest payable	1,063,626
Matured bonds payable	3,290,000
Non-current liabilities:	
Due within one year*	50,000
Due in more than one year	2,136,532
Total liabilities	7,960,381
 NET POSITION	
Net investment in capital assets	(1,091,365)
Unrestricted	(1,587,862)
Total net assets (deficit)	\$ (2,679,227)

* The missed debt service payments due for the Series 2004A and 2004B bonds are reflected in the Matured bonds payable balance.

See notes to the financial statements

**SPRING RIDGE COMMUNITY DEVELOPMENT DISTRICT
HERNANDO COUNTY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Position Governmental Activities</u>
Primary government:			
Governmental activities:			
General government	\$ 372,813	\$ 107,096	\$ (265,717)
Maintenance and operations	302,038	86,765	(215,273)
Parks and recreation	135,783	39,005	(96,778)
Interest on long-term debt	305,018	124,810	(180,208)
Total governmental activities	<u>1,115,652</u>	<u>357,676</u>	<u>(757,976)</u>
General revenues:			
Investment earnings			3,204
Miscellaneous and other revenues			4,020
Total general revenues			<u>7,224</u>
Change in net position			<u>(750,752)</u>
Net position (deficit) - beginning, previously stated			<u>(1,731,776)</u>
Effect of adoption of GASB No. 65 (Note 2)			<u>(196,699)</u>
Net position (deficit) - beginning			<u>(1,928,475)</u>
Net position (deficit) - ending			<u><u>\$ (2,679,227)</u></u>

See notes to the financial statement

**SPRING RIDGE COMMUNITY DEVELOPMENT DISTRICT
HERNANDO COUNTY, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013**

	Major Funds			Total Governmental Funds
	General	Special Purpose Entity	Debt Service	
ASSETS				
Cash and equivalents	\$ 591,236	\$ -	\$ -	\$ 591,236
Investments	75,528	-	220,466	295,994
Accounts receivable	53	-	-	53
Due from other governments	5,497	-	-	5,497
Prepays	3,207	-	-	3,207
Total assets	<u>\$ 675,521</u>	<u>\$ -</u>	<u>\$ 220,466</u>	<u>\$ 895,987</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 7,000	\$ 1,286,830	\$ -	\$ 1,293,830
Matured bonds payable	-	-	3,290,000	3,290,000
Accrued interest payable	-	-	1,063,626	1,063,626
Total liabilities	<u>7,000</u>	<u>1,286,830</u>	<u>4,353,626</u>	<u>5,647,456</u>
Fund balances:				
Nonspendable:				
Prepaid items	3,207	-	-	3,207
Assigned to:				
Future maintenance	112,214	-	-	112,214
Subsequent year's expenditures	88,576	-	-	88,576
Unassigned, reported in:				
General fund	464,524	-	-	464,524
Debt service	-	-	(4,133,160)	(4,133,160)
Special purpose entity	-	(1,286,830)	-	(1,286,830)
Total fund balances	<u>668,521</u>	<u>(1,286,830)</u>	<u>(4,133,160)</u>	<u>(4,751,469)</u>
Total liabilities and fund balances	<u>\$ 675,521</u>	<u>\$ -</u>	<u>\$ 220,466</u>	<u>\$ 895,987</u>

See notes to the financial statements

**SPRING RIDGE COMMUNITY DEVELOPMENT DISTRICT
HERNANDO COUNTY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2013**

Fund balance - governmental funds \$ (4,751,469)

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	6,228,958	
Accumulated depreciation	<u>(1,843,791)</u>	4,385,167

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

Accrued interest payable	(126,393)	
Bond discount, net of accumulated amortization	33,468	
Bonds payable*	<u>(2,220,000)</u>	<u>(2,312,925)</u>

Net position of governmental activities		<u><u>\$ (2,679,227)</u></u>
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* The missed debt service payments due for the Series 2004A and 2004B Bonds are reflected in the Matured bonds payable account balance.

See notes to the financial statements

**SRING RIDGE COMMUNITY DEVELOPMENT DISTRICT
HERNANDO COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013**

	Major Funds			Total Governmental Funds
	General	Special Purpose Entity	Debt Service	
REVENUES				
Assessments	\$ 232,866	\$ -	\$ 124,810	\$ 357,676
Interest	3,110	-	94	3,204
Miscellaneous	4,020	-	-	4,020
Total revenues	<u>239,996</u>	<u>-</u>	<u>124,904</u>	<u>364,900</u>
EXPENDITURES				
Current:				
General government	90,355	275,779	6,679	372,813
Maintenance and operations	105,455	-	-	105,455
Parks and recreation	99,382	-	-	99,382
Debt service:				
Principal	-	-	50,000	50,000
Interest	-	-	303,344	303,344
Capital outlay	13,338	-	-	13,338
Total expenditures	<u>308,530</u>	<u>275,779</u>	<u>360,023</u>	<u>944,332</u>
Excess (deficiency) of revenues over (under) expenditures	(68,534)	(275,779)	(235,119)	(579,432)
OTHER FINANCING SOURCES (USES)				
Transfers in	80,758	178,611	-	259,369
Transfers out	-	(80,758)	(178,611)	(259,369)
Total other financing sources (uses)	<u>80,758</u>	<u>97,853</u>	<u>(178,611)</u>	<u>-</u>
Net change in fund balances	12,224	(177,926)	(413,730)	(579,432)
Fund balances - (deficit) beginning	<u>656,297</u>	<u>(1,108,904)</u>	<u>(3,719,430)</u>	<u>(4,172,037)</u>
Fund balances - (deficit) ending	<u>\$ 668,521</u>	<u>\$ (1,286,830)</u>	<u>\$ (4,133,160)</u>	<u>\$ (4,751,469)</u>

See notes to the financial statements

**SPRING RIDGE COMMUNITY DEVELOPMENT DISTRICT
HERNANDO 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, 2013**

Net change in fund balances - total governmental funds	\$ (579,432)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures, however, the cost of those assets is eliminated in the statement of activities and capitalized as in the statement of net assets.	13,338
Depreciation on capital assets is not recognized in the governmental fund financial statements but is reported as an expense in the statement of activities.	(232,984)
Repayment or accrual 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.	50,000
Governmental funds report the effect of issuance of costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
Amortization of discount	<u>(1,674)</u>
Change in net position of governmental activities	<u>\$ (750,752)</u>

See notes to the financial statements

**SPRING RIDGE COMMUNITY DEVELOPMENT DISTRICT
HERNANDO COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – NATURE OF ORGANIZATION AND REPORTING

Spring Ridge Community Development District ("District") was created as Killarney Community Development District in November, 2000 by Ordinance 2000-14 of the Board of Commissioners of Hernando County, Florida, 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's name was successfully changed from Killarney to Spring Ridge during the fiscal year ended September 30, 2007.

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 by the owners of the property within the District. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes.

The Board has the responsibility for:

1. Assessing and levying assessments.
2. Approving budgets.
3. Exercising control over facilities and properties.
4. Controlling the use of funds generated by the District.
5. Approving the hiring and firing of key personnel.
6. Financing improvements.

The financial statements were prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement 14, and Statement 39, an amendment of GASB Statement 14. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District Board of Supervisors is considered to be financially accountable, and other organizations 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. Spring Ridge Holdings, LLC (SPE) is reported as a blended component unit of the District.

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 collectible 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 on benefited lands within the District. Assessments are levied to pay for the operations and maintenance of the District. For debt service, certain amounts are collected at lot closings as advance payments and 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. The fiscal year for which annual assessments are levied begins on October 1 with discounts available for payments through February 28 and become delinquent on April 1. The District's annual assessments for operations and debt service are billed and collected by the County Tax Assessor/Collector for non-Developer owned lots. The amounts remitted to the District are net of applicable discounts or fees. In addition, amounts remitted by the County Tax Assessor/Collector include interest on monies held from the day of collection to the day of distribution.

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.

Special Revenue Fund

This fund accounts for the activities of the Special Purpose Entity – Spring Ridge Holdings, LLC.

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.

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)

New Accounting Standards Adopted

During fiscal year 2013, the District adopted three new accounting standards as follows:

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

This Statement incorporates into the GASB's authoritative literature certain guidance that previously could only be found in certain FASB and AICPA pronouncements issued on or before November 30, 1989 and eliminates the selection to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources (previously reported as assets and liabilities) into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

The implementation of GASB 65 resulted in the write off of Bond issuance costs and the effect of adoption of GASB 65 is the reduction of beginning net position by \$196,699. The effect on fiscal year 2012 had the implementation of GASB 65 occurred earlier would have resulted in a decrease in expenses of the governmental activities by \$9,367.

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 and cash equivalents are considered to be cash on hand and demand deposits (interest and non-interest bearing).

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

Deposits and Investments (Continued)

The District records all interest revenue related to investment activities in the respective funds and reports investments at fair value.

Inventories and Prepaid Items

Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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 government 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.

Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure – stormwater drainage and roadways	20 – 25
Infrastructure – recreational and other	10 – 30

In the governmental fund financial statements, amounts incurred for the acquisition of capital assets are reported as fund expenditures. Depreciation expense is not reported in the governmental fund financial statements.

Unearned Revenue

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

Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the Bonds. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

Deferred Outflows/Inflows of Resources

The statement of net position reports, as applicable, a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future reporting period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. For example, the District would record deferred outflows of resources related to debit amounts resulting from current and advance refundings resulting in the defeasance of debt (i.e. when there are differences between the reacquisition price and the net carrying amount of the old debt).

The statement of net position reports, as applicable, a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to future reporting period(s) and so will not be recognized as an inflow of resources (revenue) until that time. For example, when an asset is recorded in the governmental fund financial statements, but the revenue is not available, the District reports a deferred inflow of resources until such times as the revenue becomes available.

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 uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal agreements that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the District would first use 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) Public hearings are conducted to obtain public 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 including certificates of deposit as shown below 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, 2013:

	<u>Fair Value</u>	<u>Credit Risk</u>	<u>Maturities</u>
US Bank Money Market Account - Managed	\$ 220,466	S&P A-1+	Not applicable
Florida Shores Bank Certificate of Deposit	75,528	Not rated	2/9/2014
Total investments	<u>\$ 295,994</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 Indenture limits the type of investments held using unspent proceeds.

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transfers for the fiscal year ended September 30, 2013 were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General	\$ 80,758	\$ -
Special Purpose Entity	178,611	80,758
Debt Service	-	178,611
Total	<u>\$ 259,369</u>	<u>\$ 259,369</u>

Transfers are used to move revenues from the fund where collection occurs to the fund where funds have been allocated for use. The transfers from the debt service fund to the special purpose entity fund are pursuant to a tri-party agreement described in Note 8 for payment of operating costs of the SPE. The transfer from the special purpose entity to the general fund is for payment of operations and maintenance assessments previously owed by Hernando Development, LLC (the former “Developer”).

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land	\$ 1,631,372	\$ -	\$ -	\$ 1,631,372
Total capital assets, not being depreciated	<u>1,631,372</u>	<u>-</u>	<u>-</u>	<u>1,631,372</u>
Capital assets, being depreciated				
Infrastructure - stormwater	1,328,121			1,328,121
Infrastructure - roadways	1,466,802			1,466,802
Infrastructure - recreational facilities	1,092,026			1,092,026
Infrastructure - security, entrance and other	697,299	13,338		710,637
Total capital assets, being depreciated	<u>4,584,248</u>	<u>13,338</u>	<u>-</u>	<u>4,597,586</u>
Less accumulated depreciation for:				
Infrastructure - stormwater	(371,875)	(53,125)		(425,000)
Infrastructure - roadways	(513,380)	(73,340)		(586,720)
Infrastructure - recreational facilities	(254,807)	(36,401)		(291,208)
Infrastructure - security, entrance and other	(470,745)	(70,118)		(540,863)
Total accumulated depreciation	<u>(1,610,807)</u>	<u>(232,984)</u>	<u>-</u>	<u>(1,843,791)</u>
Total capital assets, being depreciated, net	<u>2,973,441</u>	<u>(219,646)</u>	<u>-</u>	<u>2,753,795</u>
Governmental activities capital assets, net	<u>\$ 4,604,813</u>	<u>\$ (219,646)</u>	<u>\$ -</u>	<u>\$ 4,385,167</u>

In connection with the 2004 project and Series 2004 Bond issue, the District established a deferred cost investment account reported in the debt service fund. At September 30, 2013 there is a balance of approximately \$35,213 in the deferred cost account.

Depreciation expense was charged to function/programs as follows:

Maintenance and operations	\$ 196,583
Parks and recreation	36,401
Total depreciation expense	<u>\$ 232,984</u>

NOTE 7 - LONG TERM LIABILITIES

Series 2004

On April 1, 2004 the District issued Special Assessment Revenue Bonds comprised of \$2,535,000 Series 2004A and \$9,675,000 Series 2004B. The Series 2004A Bonds are due May 1, 2035 with a fixed interest rate of 6.00% and the Series 2004B Bonds were due May 1, 2009 with a fixed interest rate of 5.125%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is to be paid semiannually on each May 1 and November 1. Principal on the Series 2004A Bonds is to be paid annually on each May 1 commencing May 1, 2008. Principal on the Series 2004B Bonds were due in one lump sum payment on May 1, 2009.

The Series 2004A Bonds are subject to optional and mandatory redemption per the guidelines in the Bond Indenture. The Series 2004B Bonds are not subject to optional or mandatory redemption prior to maturity. The Series 2004 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.

As a result of non-payment of assessments by the Developer and certain landowners in prior years, there were not sufficient funds available to fully redeem the outstanding Series 2004B Bonds and to make certain scheduled debt service payments for the Series 2004A Bonds during the current and prior fiscal years.

The Bond Indenture established a reserve requirement which is held in the debt service fund. The Bond Indenture also has certain restrictions and requirements relating principally to the use of proceeds 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. The District was not in compliance with the requirements at September 30, 2013, as the reserve requirement was not met.

Long-term Debt Activity

Changes in long-term liability activity for the fiscal year ended September 30, 2013 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 2004A	\$ 2,395,000	\$ -	\$ -	\$ 2,395,000	\$ 225,000
Series 2004B	3,115,000	-	-	3,115,000	3,115,000
Less: Amortization of bond discount	(35,142)	-	(1,674)	(33,468)	-
Governmental activity long-term liabilities	<u>\$ 5,474,858</u>	<u>\$ -</u>	<u>\$ (1,674)</u>	<u>\$ 5,476,532</u>	<u>\$ 3,340,000</u>

* Includes the missed debt service payments due for the Series 2004A and 2004B Bonds which were not paid

At September 30, 2013, the scheduled debt service requirements on the long-term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2014	\$3,340,000	\$1,207,326	\$ 4,547,326
2015	55,000	135,000	190,000
2016	55,000	131,700	186,700
2017	60,000	128,400	188,400
2018	65,000	124,800	189,800
2019-2023	380,000	561,300	941,300
2024-2028	515,000	432,600	947,600
2029-2033	700,000	256,800	956,800
2034-2035	340,000	40,500	380,500
	<u>\$ 5,510,000</u>	<u>\$ 3,018,426</u>	<u>\$ 8,528,426</u>

NOTE 8 – SPECIAL PURPOSE ENTITY “SPE”

During the prior fiscal year, pursuant to the remedial provisions of the Trust Indenture, Spring Ridge Holdings, LLC (the “SPE”) was established to own, manage and maintain property subject to delinquent assessments to ensure orderly and efficient disposition of the property to satisfy or remediate such delinquency. In order to avoid the foreclosure process, the Developer and other landowners deeded the properties to the SPE. The District, Trustee, and the SPE entered into a tri-party agreement, dated December 30, 2009. The SPE is now responsible for paying the special assessments necessary to fund its pro-rata share of the District’s operation and maintenance and debt service costs.

During the current fiscal year, \$178,611 was remitted to the SPE from the Trust Accounts. Subsequent to fiscal year end, additional amounts were remitted to the SPE from the Trust Accounts. In addition, certain unpaid expenses related to real estate taxes were recorded in the fund financial statements, and, consequently, the government-wide financial statements at an amount estimated by management of \$1,286,830.

In the event that the SPE does not sell and/or dispose of the Property, the SPE may convey, and the District may accept, the Property for ownership and maintenance. Immediately upon conveying the Property to the District, or as otherwise mutually agreed upon by the parties, the SPE shall dissolve. Upon dissolution, all records shall be transferred to the District for maintenance and storage.

Pursuant to the Tri-party agreement, the SPE’s operations will be funded from amounts held on deposit in the Trust Estate and revenues from the sale of all or a portion of the properties held for resale. If cash is received from the sale of all or a portion of the properties, the monies will be applied as follows; first for payment of operating costs of the SPE, second to satisfy delinquent Series 2004 assessments, and third to the District’s general fund.

In addition, the SPE should adopt an annual budget prior to the commencement of each fiscal year. A budget was not adopted for fiscal years 2011, 2012, 2013, nor 2014.

Land Held for Resale

The Property owned by the SPE should be recorded in the fund financial statements as land held for resale and, consequently, the government-wide financial statements. However, no appraisal was performed on the Property so the market value as of September 30, 2013 could not be determined. Consequently, no amount was recorded in the financial statements for this asset.

NOTE 9 – SPE LAND MARKETING COMPANY

During fiscal year ended September 30, 2010, The SPE had engaged Greenpointe Communities LLC. (“Greenpointe”), a real estate company, to manage, market and sell its land held for resale. However, during the current fiscal year, the SPE terminated its agreement with Greenpointe. During the current fiscal year and prior to the termination, the SPE paid Greenpointe \$15,000 for its services. As of September 30, 2013, The SPE has not engaged a new management company.

NOTE 10 – ASSESSMENTS

A significant portion of the assessments for prior fiscal years and the current fiscal year were delinquent. Due to the uncertainty of collection, an allowance has been created to offset the assessment receivable. The table below shows the total delinquent assessments that are not being reported on the face of the financial statements.

Assessments receivable	\$ 3,836,920
Less: allowance for uncollected amounts	<u>(3,836,920)</u>
Net assessments receivable reported	<u><u>\$ -</u></u>

NOTE 11 – DEFICIT FUND EQUITY

At September 30, 2013, the District has a deficit fund balance in the SPE fund of (\$1,286,830) and debt service fund of (\$4,133,160). The deficits were not cleared in the subsequent fiscal year.

NOTE 12 - MANAGEMENT COMPANY

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

NOTE 13 - 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. Settled claims from these risks have not exceeded commercial insurance coverage over the past three years.

NOTE 14 – SUBSEQUENT EVENTS

Bond Payments

Subsequent to year end, the District did not make certain scheduled debt service payments.

**SPRING RIDGE COMMUNITY DEVELOPMENT DISTRICT
HERNANDO COUNTY, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013**

	Budgeted Amounts <u>Original & Final</u>	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Assessments	\$ 352,544	\$ 232,866	\$ (119,678)
Interest	1,763	3,110	1,347
Miscellaneous		4,020	4,020
Total revenues	<u>354,307</u>	<u>239,996</u>	<u>(114,311)</u>
EXPENDITURES			
Current:			
General government	111,852	90,355	21,497
Maintenance and operations	92,100	105,455	(13,355)
Parks and recreation	150,355	99,382	50,973
Capital outlay	-	13,338	(13,338)
Total expenditures	<u>354,307</u>	<u>308,530</u>	<u>45,777</u>
Excess (deficiency) of revenues over (under) expenditures	-	(68,534)	(68,534)
OTHER FINANCING SOURCES			
Transfers in	-	80,758	80,758
Total other financing sources	<u>-</u>	<u>80,758</u>	<u>80,758</u>
Net change in fund balances	<u>\$ -</u>	<u>12,224</u>	<u>\$ 12,224</u>
Fund balance - beginning		<u>656,297</u>	
Fund balance - ending		<u>\$ 668,521</u>	

See notes to required supplementary information.

**SPRING RIDGE COMMUNITY DEVELOPMENT DISTRICT
HERNANDO 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, 2013. The actual general fund expenditures for the 2013 fiscal year were lower than budgeted amounts due primarily to anticipated costs which were not incurred in the current fiscal year. The variance between budgeted and actual general fund revenues for the current fiscal year is the result of the budget treating assessments billed to the SPE as revenues instead of transfers.



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
Spring Ridge Community Development District
Hernando 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 Spring Ridge Community Development District Hernando County, Florida (the "District") as of and for the fiscal year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our opinion thereon dated February 10, 2014, which includes the "Basis for Adverse Opinions on Special Purpose Entity Fund and on Governmental Activities" paragraph and an emphasis of matters 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 control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying management letter, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiency described in the accompanying management letter as 2010-02 to be a material weakness.

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. Given the limitations in the second paragraph above, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies. However, significant deficiencies may exist that have not been identified.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying management letter as 2009-03, 2009-02, 2010-06, and 2012-01.

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.

February 10, 2014



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

To the Board of Supervisors
Spring Ridge Community Development District
Hernando County, Florida

We have audited the accompanying basic financial statements of Spring Ridge Community Development District, Hernando County, Florida ("District") as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated February 10, 2014, which includes the "Basis for Adverse Opinions on Special Purpose Entity Fund and on Governmental Activities" paragraph and an emphasis of matters paragraph.

Except as discussed in the "Basis for Adverse Opinions on Special Purpose Entity Fund and on Governmental Activities" paragraph and the emphasis of matters paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Florida Auditor General. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In addition, we have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards* and Chapter 10.550, Rules of the Florida Auditor General dated February 10, 2014. Disclosures in that report should be considered in conjunction with this management letter.

The purpose of this letter is to comment on those matters required by Chapter 10.550 of the Rules of the Auditor General for 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 Spring Ridge Community Development District, Hernando County, Florida and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank Spring Ridge Community Development District, Hernando 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.

February 10, 2014

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Material Weakness

2010-02 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 fund financial statements and, consequently, the government-wide 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 as of September 30, 2013 could not be determined.

Recommendation: An annual appraisal should be performed on the Property owned by the SPE to determine its value as of September 30 of a given fiscal year.

Management Response: The Spring Ridge Community Development District (the "District") is not legally obligated under Chapter 190, Florida Statutes to conduct an annual appraisal of the property owned by the special purpose entity (the "SPE"). Furthermore, the District has not been notified of any offers to purchase the property from the SPE. An appraisal may be ordered if a purchaser makes an offer to buy the property.

Compliance Findings

2009-03 Reserve Requirement

Observation: The Debt Service Reserve Requirements were not met as of September 30, 2013.

Recommendation: The District should take the necessary steps to replenish the reserve account.

Management Response: If the debt assessments levied on the property owned by the special purpose entity (the "SPE") are ever collected, the Spring Ridge Community Development District (the "District") may be able to repay the debt service owed to the bondholders pursuant to the provisions of the trust indentures governing the bonds. The District has paid the portion of the debt service to the bondholders that it collected from properties that are not owned by the SPE.

2009-02 Financial Condition

Observation: The District's financial condition continues to deteriorate. In prior years the Developer and certain landowners failed to pay their share of assessments. As a result, the District failed to pay off the Series 2004B Bonds due May 1, 2009 and make the scheduled principal and interest payments for the Series 2004A Bond. In addition, debt service payments due in the current and prior fiscal years were not paid. Further, the debt service fund and the SPE fund reported a deficit fund balance for the fiscal year ended September 30, 2013.

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

Management Response: The Spring Ridge Community Development District (the "District") is cooperating with the bondholders in an effort to resolve the portion of the debt service for the bonds which is delinquent. In an effort to alleviate the situation, the District entered into the Tri-Party Agreement between the District and U.S. Bank, as trustee, dated December 30, 2009. Under this agreement, the bondholders established a special purpose entity to take deeds in lieu of foreclosure lawsuits. The SPE has taken ownership of a number of lots in accordance with that agreement.

REPORT TO MANAGEMENT (Continued)

2010-06 Bondholder Consent

Observation: During procedures, the auditor was not provided Bondholder consent for the transfer of funds from the Trust Estate and the creation of the Special Purpose Entity. In addition, the auditor was also not provided Bondholder consent pages related to the Tri-Party Agreement discussed in Note 8.

Recommendation: The District should ensure written consent is received from the Bondholders for all transfer of funds related to the trust accounts and expenditures paid for by the trust accounts that are not outlined in the Bond Indenture. The District should ensure written consent is received from the Bondholders for agreements that require Bondholder approval.

Management Response: U.S. Bank is the trustee under the bond indentures. Under the Tri-Party Agreement between the Spring Ridge Community Development District (the "District") and U.S. Bank, as trustee, dated December 30, 2009, U.S. Bank represented to the District that it had the full authority to enter into that agreement on behalf of the bondholders.

2012-01 SPE Budget

Observation: The District did not adopt a Budget for the SPE Fund, a major special revenue fund as required.

Recommendation: The District should adopt a Budget on an annual basis for the SPE Fund.

Management Response: The Spring Ridge Community Development District (the "District") does not own or control the special purpose entity (the "SPE"). The District is not responsible for adopting a budget for the SPE or funding the budget for the SPE.

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2009-01 Financial Condition Assessment

Current Status: Matter was not resolved for fourth consecutive year. See finding 2009-02 above.

2009-02 Reserve Requirement

Current Status: Matter was not resolved for third consecutive year. See finding 2009-03 above

2010-01 Appraisal Not Performed and Land Held for Resale Not Recorded

Current Status: Matter was not resolved. See finding 2010-02 above.

2010-05 Bondholder Consent

Current Status: Matter was not resolved. See finding 2010-06 above.

REPORT TO MANAGEMENT (Continued)

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, 2012, except as noted above.

2. A statement as to whether or not the local governmental entity complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

The District complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

3. 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, 2013, except as noted above.

4. 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, 2013, except as noted above.

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

6. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2013 financial audit report.

7. 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 pay off its Series 2004B Bonds and make the scheduled principal and interest payments for the Series 2004A Bonds in the current and prior fiscal years.

8. 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.