

**TALAVERA
COMMUNITY DEVELOPMENT DISTRICT
PASCO COUNTY, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2015**

**TALAVERA COMMUNITY DEVELOPMENT DISTRICT
PASCO COUNTY, FLORIDA**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Talavera Community Development District
Pasco County, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Talavera Community Development District, Pasco County, Florida ("District") as of and for the fiscal year ended September 30, 2015, 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 of material misstatement.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2015, 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.

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 June 28, 2016, 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.

Report on Other Legal and Regulatory Requirements

We have also issued our report dated June 28, 2016, on our consideration of the District's compliance with the requirements of Section 218.415, Florida Statutes, as required by Rule 10.556(10) of the Auditor General of the State of Florida. The purpose of that report is to provide an opinion based on our examination conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.



June 28, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Talavera Community Development District, Pasco County, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2015. 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 (\$142).
- The change in the District's total net position in comparison with the prior fiscal year was (\$79), 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, 2015, the District's governmental funds reported combined ending fund balances of \$638, an increase of \$701 in comparison with the prior fiscal year. The total fund balance is non-spendable for prepaid items and deposits, restricted for capital projects and unassigned deficit general fund balance.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

The statement of net position presents information on all the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual amount being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements include all governmental activities that are principally supported by Developer contributions. The District does not have any business-type activities. The governmental activities of the District include the general government (management) and physical environment.

Fund Financial Statements

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

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Governmental Funds

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

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

The District maintains two individual 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 and capital projects fund both 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,	
		(Restated)
	2015	2014
Current assets	\$ 696,606	\$ 996,707
Capital assets	6,893,435	1,797,234
Total assets	<u>7,590,041</u>	<u>2,793,941</u>
Current liabilities	695,968	996,770
Long-term liabilities	6,894,215	1,797,234
Total liabilities	<u>7,590,183</u>	<u>2,794,004</u>
Net position		
Net investment in capital assets	(780)	-
Restricted	637	-
Unrestricted	1	(63)
Total net position	<u>\$ (142)</u>	<u>\$ (63)</u>

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

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

		CHANGES IN NET POSITION	
		FOR THE FISCAL YEAR ENDED SEPTEMBER 30,	
		(Restated)	
		2015	2014
Revenues:			
Program revenues			
Operating grants and contributions	\$	62,909	\$ 67,006
Total revenues		62,909	67,006
Expenses:			
General government		52,788	62,152
Physical environment		10,200	-
Total expenses		62,988	62,152
Change in net position		(79)	4,854
Net position - beginning (restated)		(63)	(4,917)
Net position - ending	\$	(142)	\$ (63)

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2015 was \$62,988. The costs of the District's activities were funded by program revenues. Program revenues are comprised primarily of Developer contributions in both fiscal year 2014 and 2015.

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, 2015.

Actual general fund expenditures for the fiscal year ended September 30, 2015 were less than appropriations due primarily to anticipated costs which were not incurred in the current fiscal year. Accordingly, Developer contributions were less than budgeted amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2015, the District had \$6,893,435 invested in construction in progress. More detailed information about the District's capital assets is presented in the notes to the financial statements.

Capital Debt

At September 30, 2015, the District had advances due to the Developer of \$6,894,215. More detailed information about the District's capital debt is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND OTHER EVENTS

The District anticipates continuing the infrastructure project in the subsequent fiscal year. In addition, it is anticipated that the general operations of the District will increase.

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 Talavera Community Development District's Finance Department at 3434 Colwell Avenue, Suite 200, Tampa, FL 33614.

FINANCIAL STATEMENTS

**TALAVERA COMMUNITY DEVELOPMENT DISTRICT
PASCO COUNTY, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015**

	Governmental Activities
ASSETS	
Cash	\$ 26,876
Accounts receivable	
Due from Developer	667,297
Prepaid items and deposits	2,433
Capital assets:	
Nondepreciable	6,893,435
Total assets	7,590,041
 LIABILITIES	
Accounts payable and accrued expenses	13,764
Contracts and retainage payable	675,590
Unearned revenue	6,614
Non-current liabilities:	
Due in more than one year	6,894,215
Total liabilities	7,590,183
 NET POSITION	
Net investment in capital assets	(780)
Restricted for capital projects	637
Unrestricted	1
Total net position	\$ (142)

See notes to the financial statements

**TALAVERA COMMUNITY DEVELOPMENT DISTRICT
PASCO COUNTY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> Operating Grants and Contributions	<u>Net (Expense) Revenue and Changes in Net Position</u> Governmental Activities
Primary government:			
Governmental activities:			
General government	\$ 52,788	\$ 62,909	\$ 10,121
Physical environment	10,200	-	(10,200)
Total governmental activities	<u>62,988</u>	<u>62,909</u>	<u>(79)</u>
			(79)
			(63)
			<u>\$ (142)</u>

See notes to the financial statements

**TALAVERA COMMUNITY DEVELOPMENT DISTRICT
PASCO COUNTY, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015**

	Major Funds		Total Governmental Funds
	General	Capital Projects	
ASSETS			
Cash	\$ 17,946	\$ 8,930	\$ 26,876
Due from Developer	-	667,297	667,297
Prepaid items and deposits	2,433	-	2,433
Total assets	<u>\$ 20,379</u>	<u>\$ 676,227</u>	<u>\$ 696,606</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued expenses	\$ 13,764	\$ -	\$ 13,764
Contracts and retainage payable	-	675,590	675,590
Unearned revenue	6,614	-	6,614
Total liabilities	<u>20,378</u>	<u>675,590</u>	<u>695,968</u>
Fund balances:			
Nonspendable:			
Prepaid items and deposits	2,433	-	2,433
Restricted for:			
Capital projects	-	637	637
Unassigned	(2,432)	-	(2,432)
Total fund balances	<u>1</u>	<u>637</u>	<u>638</u>
Total liabilities and fund balances	<u>\$ 20,379</u>	<u>\$ 676,227</u>	<u>\$ 696,606</u>

See notes to the financial statements

**TALAVERA COMMUNITY DEVELOPMENT DISTRICT
PASCO COUNTY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2015**

Fund balance - governmental funds	\$	638
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>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.</p>		
Infrastructure under construction		6,893,435
<p>Liabilities not due and payable from current available resources are not reported as liabilities in the governmental fund statements. All liabilities, both current and long-term, are reported in the government-wide financial statements.</p>		
Developer advances		<u>(6,894,215)</u>
Net position of governmental activities	\$	<u><u>(142)</u></u>

See notes to the financial statements

**TALAVERA COMMUNITY DEVELOPMENT DISTRICT
PASCO COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

	Major Funds		Total Governmental Funds
	General	Capital Projects	
REVENUES			
Developer contributions	\$ 62,909	\$ -	\$ 62,909
Total revenues	62,909	-	62,909
EXPENDITURES			
Current:			
General government	52,709	79	52,788
Physical environment	10,200	-	10,200
Capital outlay	-	4,414,148	4,414,148
Total expenditures	62,909	4,414,227	4,477,136
Excess (deficiency) of revenues over (under) expenditures	-	(4,414,227)	(4,414,227)
OTHER FINANCING SOURCES (USES)			
Developer advances		4,414,928	4,414,928
Total other financing sources (uses)	-	4,414,928	4,414,928
Net change in fund balances	-	701	701
Fund balances - beginning	1	(64)	(63)
Fund balances - ending	\$ 1	\$ 637	\$ 638

See notes to the financial statements

TALAVERA COMMUNITY DEVELOPMENT DISTRICT
PASCO 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, 2015

Net change in fund balances - total governmental funds	\$	701
<p style="margin-left: 40px;">Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p style="margin-left: 40px;">Governmental funds report capital outlays as expenditures, however, the cost of capital assets is eliminated in the statement of activities and capitalized in the statement of net position.</p>		
		4,414,148
<p style="margin-left: 40px;">Governmental funds report Developer advances as financial resources when cash is received, whereas these amounts are eliminated in the statement of activities and recognized as long-term liabilities in the statement of net position.</p>		
		(4,414,928)
Change in net position of governmental activities	\$	(79)

See notes to the financial statements

**TALAVERA COMMUNITY DEVELOPMENT DISTRICT
PASCO COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY

Talavera Community Development District ("District") was established by Ordinance 06-33 of the Board of County Commissioners of Pasco County, Florida enacted on October 24, 2006. The District was established pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190. The Act provides among other things, the power to manage basic services for community development, power to borrow money and issue Bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure.

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

The District is governed by the Board of Supervisors ("Board"), which is composed of five members. The Supervisors are elected on an at large basis by landowners of the District. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes. At September 30, 2015, all Board members are affiliated with M/I Homes ("Developer").

The Board has the responsibility for:

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

The financial statements were prepared in accordance with Governmental Accounting Standards Board ("GASB") Statements. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District is considered to be financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that, if excluded, the financial statements of the District would be considered incomplete or misleading. There are no entities considered to be component units of the District; therefore, the financial statements include only the operations 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Assessments

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

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

For the fiscal year ended September 30, 2015, the District was funded solely by Developer contributions.

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.

Capital Projects Fund

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

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

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

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity

Deposits and Investments

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

The District has adopted a written investment policy, which complies with the requirements of Section 218.415 Florida Statutes. All investments comply with the requirements of the written investment policy. 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;
- e) Short-term Bond Funds.

In addition, surplus funds may be deposited into certificates of deposit which are insured.

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

Prepaid Items

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

Capital Assets

Capital assets which include property, plant and equipment, and infrastructure assets (e.g., roads, sidewalks and similar items) are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

No depreciation has been taken in the current fiscal year as the District's infrastructure and other capital assets are under construction.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future reporting period(s). For example, the District would record deferred outflows of resources on the statement of net position 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).

Deferred inflows of resources represent an acquisition of net position that applies to future reporting period(s). For example, when an asset is recorded in the governmental fund financial statements, but the revenue is unavailable, the District reports a deferred inflow of resources on the balance sheet 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 first uses committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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

Other Disclosures

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3 – BUDGETARY INFORMATION

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

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

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

NOTE 4 – DEPOSITS

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

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2015 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Infrastructure under construction	\$ 1,797,234	\$ 5,096,201	\$ -	\$ 6,893,435
Total capital assets, not being depreciated	1,797,234	5,096,201	-	6,893,435
Governmental activities capital assets, net	<u>\$ 1,797,234</u>	<u>\$ 5,096,201</u>	<u>\$ -</u>	<u>\$ 6,893,435</u>

The infrastructure intended to serve the District has been estimated at a total cost of approximately \$30,665,530. The infrastructure will include road base and paving, storm sewer, forcemain, water distribution system, signalization, and engineering design/survey/permitting. In addition, the project includes infrastructure that will be operated by others. A portion of the project costs is expected to be financed with the proceeds from future bond proceeds and the remainder to be funded by the Developer. As the District has yet to issue bonds, the District and the Developer entered into the Acquisition and Construction Funding Agreement ("Acquisition Agreement"), whereby the Developer agreed to advance fund and commence work on behalf of the District to enable the District to expeditiously provide the District's improvement plan, with repayment to be made solely from District Bond proceeds, if issued. Upon completion, all infrastructures are to be conveyed to others.

NOTE 6 – DEVELOPER AGREEMENTS AND TRANSACTIONS

The Developer has agreed to fund the general operations of the District. In connection with that agreement, Developer contributions to the general fund were \$62,909 and \$6,614 is unearned at September 30, 2015.

NOTE 6 – DEVELOPER AGREEMENTS AND TRANSACTIONS (Continued)

Acquisition and Construction Funding Agreement

The Developer has undertaken work on the District's improvements, which includes the preparation of the land for the District's infrastructure. Upon completion of the work and/or improvements (or any completed component thereof) a bill of sale shall be issued by the Developer to the District conveying ownership of the work/improvements. Within thirty days of receipt of sufficient funds by the District for the District improvements and facilities, the District shall reimburse Developer in full, exclusive of interest, for the funds advanced under this agreement; provided, however, that in the event bond counsel determines that any such monies advanced or expenses incurred are not properly reimbursable for any reason, the District shall not be obligated to reimburse such monies advanced or expenses incurred. If the District does not or cannot issue bonds to provide the funds for the District improvements within five years of the date of this agreement (dated July 1, 2014) and, thus does not reimburse the Developer for the funds advanced (and no amendment of this agreement is entered into), then the parties agree that such funds shall be deemed paid in lieu of taxes, fees, or assessments which might be levied or imposed by the District.

First Amendment to the Acquisition and Construction Funding Agreement

In accordance with the First Amendment to the Acquisition and Construction Funding Agreement, the District accepted a Bill of Sale conveying work/infrastructure undertaken and completed by the Developer. The value of work/infrastructure contained in the Bill of Sale is \$682,053. The \$682,053 is owed to the Developer and shall be eligible to be paid solely from District Bond proceeds, if Bonds are issued in a subsequent fiscal year.

The Developer has advanced to the District a total of \$6,212,162 to fund the infrastructure project that is ongoing in the District, of which \$4,414,928 was funded in fiscal year 2015 and includes a receivable of \$667,297 at September 30, 2015. The \$6,212,162 is owed to the Developer and shall be eligible to be paid solely from District Bond proceeds, if Bonds are issued in a subsequent fiscal year. Therefore, the total owed to the Developer is \$6,894,215. See Note 12 – Subsequent Events for additional information subsequent to fiscal year end.

Long –term debt activity for the fiscal year ended September 30, 2015 was as follows:

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Developer advances	\$ 1,797,234	\$ 5,096,981	\$ -	\$ 6,894,215	\$ -
Total	\$ 1,797,234	\$ 5,096,981	\$ -	\$ 6,894,215	\$ -

NOTE 7 – PRIOR PERIOD ADJUSTMENT

The 2015 report has adjusted the following items listed in the 2014 report:

	Governmental Activities
Net assets - as previously stated	\$ 1,797,171
Understatement of liabilities	(1,797,234)
Net assets - as restated	\$ (63)

NOTE 8 – CONCENTRATION

The District's activity is dependent upon the continued involvement of the Developer, the loss of which could have a material adverse effect on the District's operations.

NOTE 9 – MANAGEMENT COMPANY

The District has contracted with a management company to perform management advisory services, which include financial and accounting advisory 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, computer and other administrative costs.

NOTE 10 – COMMITMENTS

As of September 30, 2015, the District had an open contract for the current construction project. The contract totaled approximately \$5.46 million, of which approximately \$265,000 was uncompleted at September 30, 2015.

NOTE 11 – 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; natural disasters; and environmental remediation. The District has obtained commercial insurance from independent third parties to mitigate the costs of these risks; coverage may not extend to all situations. The District has not filed any claims under this commercial insurance coverage during the last three years.

NOTE 12 – SUBSEQUENT EVENTS

Second Amendment to the Acquisition and Construction Funding Agreement

The District entered into the Second Amendment to the Acquisition and Construction Funding Agreement with the Developer to update and/or supplement the previous funding agreements, discussed in further detail in Note 6, to include additional components of the infrastructure project paid for by the Developer and subject to reimbursement by the District, if Bonds are issued in a subsequent fiscal year.

**TALAVERA COMMUNITY DEVELOPMENT DISTRICT
PASCO COUNTY, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

	Budgeted Amounts Original & Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Developer Contribution	\$ 159,520	\$ 62,909	\$ (96,611)
Total revenues	159,520	62,909	(96,611)
EXPENDITURES			
Current:			
General government	71,138	52,709	18,429
Physical environment	88,382	10,200	78,182
Total expenditures	159,520	62,909	96,611
Excess (deficiency) of revenues over (under) expenditures	\$ -	-	\$ -
Fund balance - beginning		1	
Fund balance - ending		\$ 1	

See notes to required supplementary information

**TALAVERA COMMUNITY DEVELOPMENT DISTRICT
PASCO 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, 2015.

Actual general fund expenditures for the fiscal year ended September 30, 2015 were less than appropriations due primarily to anticipated costs which were not incurred in the current fiscal year. Accordingly, Developer contributions were less than budgeted amounts.



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
Talavera Community Development District
Pasco 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 Talavera Community Development District, Pasco County, Florida ("District") as of and for the fiscal year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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.

Compliance and Other Matters

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

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.



June 28, 2016



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

To the Board of Supervisors
Talavera Community Development District
Pasco County, Florida

We have examined Talavera Community Development District, Pasco, Florida's ("District") compliance with the requirements of Section 218.415, Florida Statutes, in accordance with Rule 10.556(10) of the Auditor General of the State of Florida during the fiscal year ended September 30, 2015. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the 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 the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the fiscal year ended September 30, 2015, except that the individual assigned to make investment decisions did not have the required hours of continuing education for the year. The District should adopt the alternative guidelines for investments according to Florida Statute 218.415 or ensure the investment officer obtains the required hours.

This report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, management, and the Board of Supervisors of Talavera Community Development District, Pasco, Florida and is not intended to be and should not be used by anyone other than these specified parties.

Grau & Associates

June 28, 2016



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

To the Board of Supervisors
Talavera Community Development District
Pasco County, Florida

Report on the Financial Statements

We have audited the accompanying basic financial statements of Talavera Community Development District, Pasco County, Florida ("District") as of and for the fiscal year ended September 30, 2015, and have issued our report thereon dated June 28, 2016.

Auditor's Responsibility

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

Other Reports and Schedule

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 Independent Auditor's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated June 28, 2016, should be considered in conjunction with this management letter.

Purpose of this Letter

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

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

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

We wish to thank Talavera Community Development District, Pasco, 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.

Grau & Associates

June 28, 2016

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2014-01: Statute Compliance

Current Status: Recommendation has been implemented.

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 was no audit for the fiscal year ended September 30, 2014, except as noted above.

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

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported for the fiscal year ended September 30, 2015.

3. Noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported, for the fiscal year ended September 30, 2015.

4. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.
5. 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, 2015 financial audit report.
6. The District has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
7. We applied financial condition assessment procedures and no deteriorating financial conditions were noted as of September 30, 2015. 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.