



**NATUREWALK
COMMUNITY
DEVELOPMENT
DISTRICT**

FINANCIAL REPORT

Year Ended September 30, 2016

NATUREWALK COMMUNITY DEVELOPMENT DISTRICT

TABLE OF CONTENTS

Year Ended September 30, 2016

	Page
I. Financial Section:	
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet - Governmental Funds	9
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	11
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	12
Notes to Financial Statements	13
II. Compliance Section:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26
Management Comments	28
Response to Management Comments	33
Independent Auditor's Report on Compliance with the Requirements of Section 218.415, Florida Statutes	35

INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
NatureWalk Community Development District

We have audited the accompanying financial statements of the governmental activities and each major fund of the *NatureWalk Community Development District* (the "District") as of and for the year ended September 30, 2016, 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

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

MCDIRMIT DAVIS & COMPANY, LLC

934 NORTH MAGNOLIA AVENUE, SUITE 100 ORLANDO, FLORIDA 32803
TELEPHONE: 407-843-5406 FAX: 407-649-9339 EMAIL: INFO@MCDIRMITDAVIS.COM

Opinions

Basis for Adverse Opinion on the Reporting Entity

The financial statement referred to above include only the primary government of NatureWalk Community District, which consists of all funds, departments, and offices that comprise NatureWalk Community Development District's legal entity. The financial statements do not include financial data for NatureWalk Community Development District's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of NatureWalk Community Development District's primary government.

Adverse Opinion on the Reporting Entity

In our opinion, because of the significance of the matter described in the *Basis for Adverse Opinion on the Reporting Entity* paragraph, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of NatureWalk Community Development District, as of September 30, 2016, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on the Major Funds

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, as of September 30, 2016, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis starting on page 3, 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 a report dated June 28, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

McDiernit Davis & Company, LLC

Orlando, Florida
June 28, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the *NatureWalk Community Development District's* (the "District") financial accomplishments provide an overview of the District's financial activities for the year ended September 30, 2016. Please read it in conjunction with the District's Independent Auditor's Report, financial statements and accompanying notes.

This information is being presented to provide additional information regarding the activities of the District and to meet the disclosure requirements of Government Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* issued June 1999.

Financial Highlights

- The liabilities of the District exceeded its assets at September 30, 2016 by \$2,677,225, an increase in the deficit of \$855,547 in comparison with the prior year.
- At September 30, 2016, the District's governmental funds reported a combined fund balance deficit of \$(5,333,743), a decrease of \$8,337,018 in comparison with the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the *NatureWalk Community Development District's* financial statements. The District's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements.

Government-Wide Financial Statements

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

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

The government-wide financial statements include all governmental activities that are principally supported by special assessment revenues. The District does not have any business-type activities. The governmental activities of the District include general government and physical environment related functions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fund Financial Statements

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

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

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

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, debt service fund and capital projects fund, all of which are considered to be major funds.

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

Notes to Financial Statements

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

Government-Wide Financial Analysis

Statement of Net Position - The District's net position was \$(2,677,225) at September 30, 2016. The following analysis focuses on the net position of the District's governmental activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-Wide Financial Analysis (Continued):

NatureWalk Community Development District
Statement of Net Position

	September 30, 2016	September 30, 2015
Assets, excluding capital assets	\$ 2,846,777	\$ 3,564,484
Capital assets not being depreciated	1,237,990	1,067,201
Capital assets, net of depreciation	<u>7,015,147</u>	<u>7,718,490</u>
Total assets	<u>11,099,914</u>	<u>12,350,175</u>
Liabilities, excluding long-term liabilities	8,482,056	862,745
Long-term liabilities	<u>5,295,083</u>	<u>13,309,108</u>
Total liabilities	<u>13,777,139</u>	<u>14,171,853</u>
Net Position:		
Net investment in capital assets	(2,299,128)	(1,963,477)
Restricted for:		
Debt service	45,638	505,934
Capital projects	158,028	380,490
Unrestricted	<u>(581,763)</u>	<u>(744,625)</u>
Total net position	<u>\$ (2,677,225)</u>	<u>\$ (1,821,678)</u>

The following is a summary of the District's Governmental activities for the fiscal years ended September 30, 2016 and 2015.

Changes in Net Position
Year Ended September 30,

	2016	2015
Revenues:		
Program revenues	\$ 1,239,307	\$ 1,423,288
General revenues	-	33
Total revenues	<u>1,239,307</u>	<u>1,423,321</u>
Expenses:		
General government	485,598	168,193
Physical environment	884,596	869,168
Interest on long-term debt	<u>724,660</u>	<u>823,600</u>
Total expenses	<u>2,094,854</u>	<u>1,860,961</u>
Change in net position	(855,547)	(437,640)
Net Position - beginning	<u>(1,821,678)</u>	<u>(1,384,038)</u>
Net Position - ending	<u>\$ (2,677,225)</u>	<u>\$ (1,821,678)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-Wide Financial Analysis (Continued):

As noted on the previous page and in the statement of activities, the cost of all governmental activities during the year ended September 30, 2016 was \$2,094,854. The majority of these costs are comprised of physical environment expenses and interest on long-term debt.

Financial Analysis of the Government's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At September 30, 2016, the District's governmental funds reported combined ending fund balances of \$(5,333,743). Of this total, \$1,969,657 is restricted, \$5,970 is nonspendable and the remainder is an unassigned fund balance of (\$7,309,370).

The fund balance of the general fund increased \$137,197, in the current year, due to an increase in assessment revenue and a decrease in expenditures. The debt service fund balance decreased by \$8,475,296 due to an increase in debt service payments accrued. The capital projects fund balance did not change significantly from the previous year.

General Fund Budgetary Highlights

An operating budget was adopted and maintained by the governing board for the District pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. There were no budget amendments to the September 30, 2016 general fund budget. The legal level of budgetary control is at the fund level.

Capital Asset and Debt Administration

Capital Assets - At September 30, 2016, the District had \$8,253,137 invested in infrastructure under construction and infrastructure, net of accumulated depreciation. More detailed information about the District's capital assets is presented in the notes to financial statements.

Capital Debt - At September 30, 2016, the District had \$13,445,000 in bonds outstanding, including \$8,130,000 in matured bonds payable. The assessments are subject to a Forbearance Agreement by and between the District, the Trustee and the Developer. More detailed information about the District's capital debt is presented in the notes to financial statements.

Requests for Information

If you have questions about this report or need additional financial information, contact the *NatureWalk Community Development District's* Finance Department at 12750 Citrus Park Lane, Suite 115, Tampa, Florida 33625.

FINANCIAL STATEMENTS

NATUREWALK COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF NET POSITION

September 30, 2016

	Governmental Activities
Assets:	
Cash	\$ 247,438
Due from Developer	46,412
Prepaid costs	4,430
Deposits	1,540
Restricted assets:	
Temporarily restricted investments	2,546,957
Capital assets:	
Capital assets not being depreciated	1,237,990
Capital assets being depreciated, net	7,015,147
Total assets	<u>11,099,914</u>
Liabilities:	
Accounts payable and accrued expenses	50,520
Accrued interest payable	301,536
Matured bonds payable	8,130,000
Noncurrent liabilities:	
Due within one year	130,000
Due in more than one year	5,165,083
Total liabilities	<u>13,777,139</u>
Net Position:	
Net investment in capital assets	(2,299,128)
Restricted for debt service	45,638
Restricted for capital projects	158,028
Unrestricted	(581,763)
Total net position	<u>\$ (2,677,225)</u>

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

NATUREWALK COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF ACTIVITIES

Year Ended September 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
			<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
General government	\$ 485,598	\$ 134,654	\$ -	\$ -	\$ (350,944)
Physical environment	884,596	245,294	-	170,789	(468,513)
Interest on long-term debt	724,660	687,039	565	966	(36,090)
Total governmental activities	<u>\$ 2,094,854</u>	<u>\$ 1,066,987</u>	<u>\$ 565</u>	<u>\$ 171,755</u>	<u>(855,547)</u>
					Change in net position (855,547)
					Net Position - beginning (1,821,678)
					Net Position - ending <u>\$ (2,677,225)</u>

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

NATUREWALK COMMUNITY DEVELOPMENT DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets:				
Cash	\$ 247,438	\$ -	\$ -	\$ 247,438
Investments	-	577,300	1,969,657	2,546,957
Due from Developer	-	-	46,412	46,412
Prepaid costs	4,430	-	-	4,430
Deposits	1,540	-	-	1,540
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 253,408</u>	<u>\$ 577,300</u>	<u>\$ 2,016,069</u>	<u>\$ 2,846,777</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenses	\$ 4,108	\$ -	\$ 46,412	\$ 50,520
Matured bonds payable	-	8,130,000	-	8,130,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>4,108</u>	<u>8,130,000</u>	<u>46,412</u>	<u>8,180,520</u>
Fund Balances:				
Nonspendable	5,970	-	-	5,970
Restricted for capital projects	-	-	1,969,657	1,969,657
Unassigned	243,330	(7,552,700)	-	(7,309,370)
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	<u>249,300</u>	<u>(7,552,700)</u>	<u>1,969,657</u>	<u>(5,333,743)</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 253,408</u>	<u>\$ 577,300</u>	<u>\$ 2,016,069</u>	
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				8,253,137
Liabilities not due and payable from current available resources are not reported in governmental fund statements. All liabilities, both current and long-term, are reported in the government-wide statements.				
	Accrued interest payable	(301,536)		
	Bonds payable	(5,295,083)		(5,596,619)
		<hr/>		<hr/>
Net Position of Governmental Activities				<u>\$ (2,677,225)</u>

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

NATUREWALK COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended September 30, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues:				
Special assessments	\$ 379,948	\$ 300,563	\$ -	\$ 680,511
Special assessments - prepayments	-	386,476	-	386,476
Developer contributions	-	-	170,789	170,789
Investment income and other	-	565	966	1,531
Total revenues	<u>379,948</u>	<u>687,604</u>	<u>171,755</u>	<u>1,239,307</u>
Expenditures:				
Current:				
General government	61,498	424,100	-	485,598
Physical environment	181,253	-	-	181,253
Debt service:				
Interest	-	723,685	-	723,685
Principal	-	8,015,000	-	8,015,000
Capital outlay	-	-	170,789	170,789
Total expenditures	<u>242,751</u>	<u>9,162,785</u>	<u>170,789</u>	<u>9,576,325</u>
Excess (Deficit) of Revenues Over Expenditures	<u>137,197</u>	<u>(8,475,181)</u>	<u>966</u>	<u>(8,337,018)</u>
Other Financing Sources (Uses):				
Transfers in	-	-	115	115
Transfers out	-	(115)	-	(115)
Total other financing sources (uses)	<u>-</u>	<u>(115)</u>	<u>115</u>	<u>-</u>
Net change in fund balances	137,197	(8,475,296)	1,081	(8,337,018)
Fund Balances - beginning of year	<u>112,103</u>	<u>922,596</u>	<u>1,968,576</u>	<u>3,003,275</u>
Fund Balances - end of year	<u>\$ 249,300</u>	<u>\$ (7,552,700)</u>	<u>\$ 1,969,657</u>	<u>\$ (5,333,743)</u>

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

NATUREWALK COMMUNITY DEVELOPMENT DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

Year Ended September 30, 2016

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

Net Change in Fund Balances - total governmental funds (page 10) \$ (8,337,018)

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources; however, in the statement of net position the cost of those assets is recorded as capital assets. Depreciation of capital assets is not recognized in the governmental fund statements but is reported as an expense in the statement of activities.

Capital outlay	170,789	
Depreciation expense	<u>(703,343)</u>	(532,554)

Repayments of long-term liabilities are reported as expenditures in governmental funds, while repayments reduce long-term liabilities in the statement of net position. 8,015,000

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest	-	
Amortization of bond discount	<u>(975)</u>	<u>(975)</u>

Change in Net Position of Governmental Activities (page 8) \$ (855,547)

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

NATUREWALK COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Special Assessments	\$ 301,950	\$ 301,950	\$ 379,948	\$ 77,998
Total revenues	301,950	301,950	379,948	77,998
Expenditures:				
Current:				
General government	94,250	94,250	61,498	32,752
Physical environment	207,700	207,700	181,253	26,447
Total expenditures	301,950	301,950	242,751	59,199
Net change in fund balance	-	-	137,197	137,197
Fund Balance - beginning of year	112,103	112,103	112,103	-
Fund Balance - end of year	\$ 112,103	\$ 112,103	\$ 249,300	\$ 137,197

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

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

Note 1 - Summary of Significant Accounting Policies:

Reporting Entity

The *NatureWalk Community Development District* (the "District") was established by Walton County Ordinance 05-23 enacted on June 28, 2005 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The Act provides, among other things, the power to manage basic services for community development, the power to borrow money and issue bonds, and the power to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure. The District was established for the purpose of financing and managing the acquisition, construction, maintenance and operation of a portion of the infrastructure necessary for community development within the District.

The District is governed by the Board of Supervisors (the "Board"), which is composed of five members. The Board of Supervisors of the District exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes. In a previous year, the Developer, KLP Destin, LLC ("Developer") deeded a portion of their property in lieu of foreclosure to New Naturewalk, LLC, a Special Purpose Entity ("SPE").

The Board has the final responsibility for, among other things:

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 GASB Statements 14, 39 and 61. 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. Management has determined that there are no entities considered to be component units of the District.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2016

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

Government-Wide and Fund Financial Statements

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

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants, contributions and investment income that are restricted to meeting the operational or capital requirements of a particular function or segment and 3) operating-type special assessments that are treated as charges for services (including assessments for maintenance and debt service). Other items not included among program revenues are reported instead as *general revenues*.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Assessments, including debt service assessments and operation and maintenance assessments, are non-ad valorem assessments imposed on all lands located within the District and benefited by the District's activities. Operation and maintenance assessments are typically certified for collection by the District prior to the start of the fiscal year which begins October 1st and ends on September 30th. Operation and maintenance special assessments are imposed upon all benefited lands located in the District. Debt service special assessments are imposed upon certain benefited lots and lands as described in each resolution imposing the special assessments for each series of bonds issued by the District. Certain debt service assessments are collected upon the closing of those lots subject to short term debt and are used to prepay a portion of the bonds outstanding.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2016

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued):

Assessments and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

General Fund - is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Debt Service Fund - accounts for the accumulation of resources for the annual payment of principal and interest on long-term debt.

Capital Projects 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 District's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

Restricted Assets - These assets represent cash and investments set aside pursuant to bond covenants.

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

Investments of the District are reported at fair value and are categorized within the fair value hierarchy established in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. The District's investments consist of investments authorized in accordance with Section 218.415, Florida Statutes.

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.

NATUREWALK COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2016

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

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

Capital Assets - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks, water management systems and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset 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>
Roads, earthwork and other	20
Stormwater management system	25
Retaining walls	15
Landscaping/entry features	15

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond 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 expenditures.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any item that qualifies for reporting in this category for the year ended September 30, 2016.

NATUREWALK COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2016

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

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

Deferred Outflows/Inflows of Resources (Continued) - In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District does not have any item that qualifies for reporting in this category for the year ended September 30, 2016.

Net Position Flow Assumption - Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Fund Balance Flow Assumptions - Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies - Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes fund balance amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Board of Supervisors is the highest level of decision-making authority for the government that can, by adoption of an ordinance or resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance or resolution remains in place until a similar action is taken to remove or revise the limitation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2016

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

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

Fund Balance Policies (Continued) - Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Board of Supervisors has authorized the District Manager to assign amounts for specific purposes. The Board of Supervisors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above an additional action is essential to either remove or revise a commitment.

Other Disclosures

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

Note 2 - Stewardship, Compliance and Accountability:

Budgetary Information

The District is required to establish a budgetary system and an approved annual budget for the General Fund. Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at the fiscal year end. The legal level of budgetary control is at the fund level. Any budget amendments that increase the aggregate budgeted appropriations, at the fund level, must be approved by the Board of Supervisors.

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

1. Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
2. A public hearing is conducted to obtain comments.
3. Prior to October 1, the budget is legally adopted by the District Board.
4. All budget changes must be approved by the District Board, unless delegated by the District board.
5. The budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
6. The appropriation resolution authorizes District staff to initiate budget reclassifications.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2016

Note 3 - Deposits and Investments:

Deposits

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

Investments

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The District uses a market approach in measuring fair value that uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or groups of assets and liabilities.

Assets or liabilities are classified into one of three levels. Level 1 is the most reliable and is based on quoted price for identical assets, or liabilities, in an active market. Level 2 uses significant other observable inputs when obtaining quoted prices for identical or similar assets, or liabilities, in markets that are not active. Level 3 is the least reliable, and uses significant unobservable inputs that uses the best information available under the circumstances, which includes the District's own data in measuring unobservable inputs.

The District has the following recurring fair value measurements as of September 30, 2016:

- Money market mutual funds of \$2,546,957 are valued using Level 2 inputs.

The District's investment policies are governed by State Statutes and the District Trust Indentures. The District investment policy allows investments in any financial institution that is a qualified public depository of the State of Florida as identified by the State Treasurer, in accordance with Chapter 280 of the Florida Statutes. Authorized District investments include, but are not limited to:

1. The Local Government Surplus Funds Trust Fund (SBA);
2. Securities and Exchange Commission Registered Money Market Funds with the highest credit quality rating from a nationally recognized rating agency;
3. Interest-bearing time deposits or savings accounts in qualified public depositories;
4. Direct obligations of the U.S. Treasury;

NATUREWALK COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2016

Note 3 - Deposits and Investments (Continued):

Investments (Continued):

Investments made by the District at September 30, 2016 are summarized below. In accordance with GASB 31, investments are reported at fair value.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity</u>
US Bank Money Market Account	\$ 2,546,957	N/A	N/A
	<u>\$ 2,546,957</u>		

Credit Risk:

The District's investment policy limits credit risk by restricting authorized investments to those described. Investments in U.S. Government securities and agencies must be backed by the full faith and credit of the United States Government. Short term bond funds shall be rated by a nationally recognized ratings agency and shall maintain the highest credit quality rating.

Custodial Credit Risk:

In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires that bank deposits be secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida, and creates the Public Deposits Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2016, all of the District's bank deposits were in qualified public depositories.

For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At September 30, 2016, none of the investments listed are exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk:

The District's investment policy does not specify limits on the amount the District may invest in any one issuer.

NATUREWALK COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2016

Note 3 - Deposits and Investments (Continued):

Investments (Continued):

Interest Rate Risk:

The District's investment policy does not specifically address interest rate risk; however, the general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and in general, avoid speculative investments. The District manages its exposure to declines in fair values by investing primarily in pooled investments that have a weighted average maturity of less than three months.

Note 4 - Receivables:

Receivables as of year-end, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Debt Service Fund
Assessments Receivable	\$ 83,092	\$ 7,210,299
Less: allowance for uncollectible accounts	(83,092)	(7,210,299)
Net Receivable	<u>\$ -</u>	<u>\$ -</u>

Note 5 - Interfund Transfers:

During the year, \$115 was transferred from the debt service fund to the capital projects fund as per the bond indenture.

NATUREWALK COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2016

Note 6 - Capital Assets:

Capital asset activity for the year ended September 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Infrastructure under construction	\$ 1,067,201	\$ 170,789	\$ -	\$ 1,237,990
Capital assets being depreciated:				
Roads, earthwork and other	7,404,044	-	-	7,404,044
Stormwater management system	1,917,033	-	-	1,917,033
Retaining walls	3,379,577	-	-	3,379,577
Landscaping/entry features	467,331	-	-	467,331
Total capital assets being depreciated	<u>13,167,985</u>	<u>-</u>	<u>-</u>	<u>13,167,985</u>
Less accumulated depreciation for:				
Roads, earthwork and other	(2,870,625)	(370,202)	-	(3,240,827)
Stormwater management system	(591,304)	(76,681)	-	(667,985)
Retaining walls	(1,746,114)	(225,305)	-	(1,971,419)
Landscaping/entry features	(241,452)	(31,155)	-	(272,607)
Total accumulated depreciation	<u>(5,449,495)</u>	<u>(703,343)</u>	<u>-</u>	<u>(6,152,838)</u>
Total capital assets being depreciated, net	<u>7,718,490</u>	<u>(703,343)</u>	<u>-</u>	<u>7,015,147</u>
Governmental activities capital assets, net	<u>\$ 8,785,691</u>	<u>\$ (532,554)</u>	<u>\$ -</u>	<u>\$ 8,253,137</u>

Depreciation expense for 2016 was charged to physical environment.

The total projected cost of the infrastructure improvements has been estimated at \$18.7 million, of which approximately \$16.6 million will be funded with proceeds from Series 2007 bonds. The Developer had agreed to fund the remaining portion of the project; however during the fiscal year ended September 30, 2010, the Developer transferred all property to two separate, related significant landowners. During the year ended September 30, 2011, the significant landowners, the Trustee and the District, with the consent of the bondholders, entered into a Forbearance Agreement regarding, among other things, the completion of construction relating to certain property, not including the multi-family property, within the District. District management is uncertain of when construction will recommence on the multi-family property now owned by the SPE and not the Developer.

Note 7 - Long-Term Liabilities:

On March 1, 2007, the District issued \$20,000,000 of Capital Improvement Revenue Bonds Series 2007, consisting of \$8,295,000 Series 2007A Bonds and \$11,705,000 of Series 2007B Bonds with fixed interest rates of 5.50% and 5.30%, respectively. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the property within the District. Interest is paid semiannually on each May 1 and November 1. Principal on the Series 2007A Bonds is payable serially commencing May 1, 2009, and continuing through May 1, 2038. Principal on the 2007B Bonds is due in one lump sum on May 1, 2016.

NATUREWALK COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2016

Note 7 - Long-Term Liabilities (Continued):

The Series 2007A Bonds are subject to redemption at the option of the District, in whole or in part at any time on or after May 1, 2017 at a redemption price as set forth in the Bond Indenture.

The Series 2007 Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occur as outlined in the Bond Indenture.

The Bond Indenture requires that the District maintain adequate funds in a reserve account to meet the debt service reserve requirement as defined in the Indenture. The District is not in compliance with this requirement at September 30, 2016.

The Bond Indenture has certain restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agreed to 1) levy special assessments in annual amounts adequate to provide payment of debt service and 2) to meet the reserve requirements. Payment of the principal and interest on the Series 2007 Bonds is secured by a pledge of and first lien upon the pledged special assessment revenue. The District is not in compliance with the reserve requirements of the Bond Indenture.

Total principal and interest remaining on the Series 2007 Bonds as of September 30, 2016 is \$17,722,075. Of this amount, \$8,130,000 is recorded as matured bonds payable. For the year ended September 30, 2016, principal of \$8,015,000 (paid \$0 and accrued \$8,015,000) and interest of \$723,685 (paid \$723,685 and accrued \$0) was paid or accrued. In addition, \$361,843 of matured interest was paid during the current fiscal year. Total special assessment revenue pledged was \$687,039.

Long-term debt activity for the year ended September 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Bonds Payable:					
Series 2007A	\$ 5,435,000	\$ -	\$ (120,000)	\$ 5,315,000	\$ 130,000
Series 2007B	7,895,000	-	(7,895,000)	-	-
Less: issue discount	(20,892)	-	975	(19,917)	-
Special assessment debt	13,309,108	-	(8,014,025)	5,295,083	130,000
Governmental activity long-term liabilities	<u>\$ 13,309,108</u>	<u>\$ -</u>	<u>\$ (8,014,025)</u>	<u>\$ 5,295,083</u>	<u>\$ 130,000</u>

The beginning balance of this schedule includes a reduction of \$115,000 which was due in the prior year, but was not paid. During the current fiscal year, \$120,000 of Series 2007A and \$7,895,000 of Series 2007B bonds were not paid and are included in matured bonds payable at September 30, 2016.

NATUREWALK COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2016

Note 7 - Long-Term Liabilities (Continued):

At September 30, 2016, the scheduled debt service requirements on the bonds payable were as follows:

Year Ending September 30,	Governmental Activities	
	Principal	Interest
2017	\$ 130,000	\$ 305,250
2018	135,000	298,100
2019	140,000	290,675
2020	150,000	282,975
2021	160,000	274,725
2022 - 2026	945,000	1,231,175
2027 - 2031	1,235,000	941,325
2032 - 2036	1,630,000	561,275
2037 - 2038	790,000	91,575
	<u>\$ 5,315,000</u>	<u>\$ 4,277,075</u>

Note 8 - Related Party Transactions:

Assessments:

Revenue generated from two major landowners in the current year totaled \$513,732, 48% of total special assessments revenue.

Receivables:

Assessments totaling \$7,293,391 are owed by the SPE for debt service and operation and maintenance assessments on certain properties; of this amount, \$7,210,299 has been offset by an allowance for doubtful accounts due to the conditions of the Forbearance Agreement.

Special Purpose Entity:

As contemplated in the Forbearance Agreement, the Trustee, on behalf of the bondholders, created a special purpose entity ("SPE"), New Naturewalk, LLC, to own, manage and dispose of land taken in lieu of foreclosure from the Developer of the District. The Trustee has directed the District to temporarily defer collection of the debt service assessments encumbering the SPE property. These assessments will be held in abeyance until the District receives notice from the Trustee to the contrary. If funds are no longer available in the Trust Estate and another funding source has not been secured, the SPE may convey the property to the District (with the District's consent), the Trustee or another SPE.

NATUREWALK COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2016

Note 9 - Risk Management:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance from independent third parties. The District has not filed any claims under this commercial coverage during the last three years.

Note 10 - Subsequent Events:

The District did not make the November 1, 2016 and the May 1, 2017 interest payments on the Series 2007A and Series 2007B Bonds.

COMPLIANCE SECTION

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

To the Board of Supervisors
NatureWalk Community Development District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the *NatureWalk Community Development District* (the "District") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements and have issued our report thereon dated June 28, 2017, which includes an explanatory paragraph regarding the adverse opinion for the omission of the discrete component unit.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we identified a deficiency that we consider to be a material weakness as described in Appendix A.

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, 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 Appendix B to this report.

We noted certain other matters that we reported to management of the District in a separate letter dated June 28, 2017. The District's response to our findings identified in our audit is included in this report. We did not audit the District's response, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McDiernit Davis & Company, LLC

Orlando, Florida
June 28, 2017

MANAGEMENT COMMENTS

Board of Supervisors
NatureWalk Community Development District

Report on the Financial Statements

We have audited the financial statements of the *NatureWalk Community Development District*, (the “District”) as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated June 28, 2017, which includes an explanatory paragraph regarding the adverse opinion for the omission of a discrete component unit.

Auditor’s Responsibility

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

Other Reports

We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 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, 2017, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i).1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, except as noted below.

Tabulation of Uncorrected Audit Findings		
Current Year Finding #	2014-15 FY Finding #	2013-2014 FY Finding #
12-01	12-01	12-01
12-02	12-02	12-02
15-01	15-01	N/A

MCDIRMIT DAVIS & COMPANY, LLC

934 NORTH MAGNOLIA AVENUE, SUITE 100 ORLANDO, FLORIDA 32803
 TELEPHONE: 407-843-5406 FAX: 407-649-9339 EMAIL: INFO@MCDIRMITDAVIS.COM

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to financial statements. This information has been disclosed in the notes to financial statements.

Financial Condition

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether or not the District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District met one of the conditions described in Section 218.503(1), Florida Statutes, as listed in Appendix C.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the District 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.

Annual Financial Report

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 2016, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2016. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

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

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

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

McDermitt Davis & Company, LLC

Orlando, Florida
June 28, 2017

APPENDIX A – MATERIAL WEAKNESS

Year Ended September 30, 2016

15-01 - Failure to Include Component Unit Financial Statements in the Financial Report

Criteria

Generally accepted accounting principles require that the District include the financial statements of the SPE in their audited financial report as a discretely-presented component unit.

Condition

The SPE is not included as a component unit in the District's financial report.

Cause

Due to the lack of control by the District and that the SPE's primary beneficiaries are the Bondholders, the District's position is that the SPE is not a component unit of the District.

Effect

McDermitt Davis could not audit these records nor include them as a discretely-presented component unit in the District government-wide financial statements.

Recommendation

We recommend the District include the SPE as a discretely-presented component unit of the District's government-wide financial statements.

APPENDIX B - INSTANCES OF NONCOMPLIANCE OR OTHER MATTERS REQUIRED TO BE REPORTED UNDER GOVERNMENT AUDITING STANDARDS

Year Ended September 30, 2016

12-01 - Failure to Meet Debt Service Reserve Requirements

Criteria

The Trust Indentures require the District to keep minimum amounts in the Debt Service Reserve Accounts.

Condition

At September 30, 2016, the Series 2007 Debt Service Reserve Accounts were deficient.

Cause

In a prior year, Debt Service Reserves were used to pay debt service on the Bonds due to landowner non-payment of assessments.

Effect

The District is not in compliance with the Bond Indentures.

Recommendation

We recommend the District utilize all legal remedies available to collect delinquent assessments to replenish the Debt Service Reserve Accounts.

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

Criteria

The Capital Improvement Revenue Bonds Series 2007 require semiannual interest payments and annual principal payments.

Condition

In the current year, principal on the 2007A bonds and partial interest were not paid when due on the 2007 Bonds.

Cause

Although significant progress was made during the prior fiscal year, the District was unable to make the required debt service payments due to the SPE's nonpayment of assessments owed to the District.

Effect

At September 30, 2016, the District was not in compliance with the requirements of the Bond Indenture and has met a financial emergency condition as described in Florida Statute Section 218.503(1).

Recommendation

We recommend the District utilize all legal remedies available to collect delinquent assessments to bring debt service payments current.

NATUREWALK COMMUNITY DEVELOPMENT DISTRICT

APPENDIX C - CONDITIONS OF FINANCIAL EMERGENCY

Year Ended September 30, 2016

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

During the year ended September 30, 2016, principal and interest were not paid when due on the 2007 Bonds, due to lack of funds; therefore they meet Section 218.503(1)(a) as a financial emergency condition.

NATUREWALK COMMUNITY DEVELOPMENT DISTRICT

DISTRICT OFFICE · 120 RICHARD JACKSON BLVD · SUITE 220 · PANAMA CITY BEACH, FLORIDA 32407

June 28, 2017

Response to the Management Letter for the fiscal year ended September 30, 2016

Management Letter finding 12-01:

The auditor noted that the District's Series 2007 Debt Service Reserve Accounts were deficient at September 30, 2016, as a result of funds from the Reserve Accounts being used to make debt service payments and fund District operations due to non payment from the Developer.

District response to the finding:

The District and the bondholders have been working to alleviate these issues. The District entered into a Forbearance Agreement dated February 25, 2011, which provides in pertinent part that "so long as KLP and District comply with the terms of this Agreement, the District shall not be in default under the Indenture and any prior defaults shall be deemed to have been cured". The Forbearance Agreement expired on February 25, 2013. Upon expiration of the Forbearance Agreement, installment payments were due to the District. The final installment was received on March 12, 2014. It is uncertain as to when and if the reserve fund will be replenished with funds received per the Forbearance Agreement.

Management Letter finding 12-02:

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

District response to the finding:

During fiscal year 2015 the Trustee, at the direction of the Bondholders, paid all past due principal and interest on the Series 2007A and 2007B Bonds. However, at the direction of the Trustee, on behalf of the Bondholders, the District is to hold all assessments in abeyance. These assessments will be held in abeyance until the District receives direction from the Trustee to resume the collection of assessments. Until then, it is unexpected that debt service payments will be made.

Management Letter finding 15-01:

The auditor noted that the SPE was not included as a component unit of the District.

District response to the finding:

Management does not agree that the Special Purpose Entity should be included as a discretely-presented component unit on the government-wide financial statements. In summary, management feels that it would be misleading to the users of the financial statements to include the SPE as a component unit for the following reasons. The District has no ownership and/or control over the SPE. In addition, the District will not benefit from the activities of the SPE.

When the land held by the SPE is sold, the proceeds will be paid to the Bondholders to satisfy the Bond debt. The District will not be responsible for any deficiency between the net proceeds of the sale and the associated Bond debt.



Scott Brizendine
Treasurer
Nature Walk Community Development District

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE
REQUIREMENTS OF SECTION 218.415, FLORIDA STATUTES**

To the Board of Supervisors
NatureWalk Community Development District

We have examined *NatureWalk Community Development District's* (the "District") compliance with the requirements of Section 218.415, Florida Statutes, during the year ended September 30, 2016. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on 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 the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States, 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 year ended September 30, 2016.

MCDIRMIT DAVIS & COMPANY, LLC

Orlando, Florida
June 28, 2017