

**DUPREE LAKES COMMUNITY
DEVELOPMENT DISTRICT**

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2012

**DUPREE LAKES COMMUNITY DEVELOPMENT DISTRICT
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SEPTEMBER 30, 2012**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Dupree Lakes Community Development District, Pasco County, Florida ("District") as of and for the fiscal year ended September 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2013 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, 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* and should be considered in assessing the results of our audit.

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.

Barzana & Associates PA

Barzana & Associates, P.A.

Tampa, Florida
February 8, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Dupree Lakes Community Development District, Pasco County, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2012. 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 assets of the District exceeded its liabilities at the close of the fiscal year ended September 30, 2012 resulting in a net asset balance of \$11,837,687.
- The change in the District's total net assets in comparison with the prior year was \$1,946,084, an increase. The key components of the District's net assets and change in net assets are reflected in the table in the government-wide financial analysis section.
- At September 30, 2012, the District's governmental funds reported combined ending fund balance of \$2,371,251, a decrease of (\$2,763,674) in comparison with the prior year. A portion of fund balance is restricted for debt service, capital projects. The remainder is unreserved fund balance which is available for spending at the District's discretion.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as the introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to 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 assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements include all governmental activities that are principally supported by special assessment revenues. The District does not have any business-type activities. The governmental activities of the District include the general government (management), recreational and maintenance functions.

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.

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 balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three 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, Debt Service Fund and Capital Project Fund. All funds 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

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

The District's net assets 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 landowners; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the District's other obligations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

		NET ASSETS SEPTEMBER 30,	
		2012	2011
Assets			
Assets, excluding capital assets	\$	2,692,818	\$ 5,348,144
Capital assets, net		19,688,426	17,112,159
Total assets	\$	<u>22,381,244</u>	<u>\$ 22,460,303</u>
Liabilities			
Liabilities, excluding long-term liabilities	\$	428,557	\$ 433,700
Long-term liabilities		10,115,000	12,135,000
Total Liabilities		10,543,557	12,568,700
Net Assets			
Invested in capital assets, net of related debt		10,012,891	8,366,803
Restricted for:			
Debt service		1,419,772	1,073,379
Unrestricted		405,024	451,421
Total net assets		<u>11,837,687</u>	<u>9,891,603</u>
Total liabilities and net assets	\$	<u>22,381,244</u>	<u>\$ 22,460,303</u>

The District's net assets increased during the most recent fiscal year. The majority of the increase represents the extent to which ongoing program revenues exceeded the cost of operations and depreciation expense.

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

		CHANGES IN NET ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30,	
		2012	2011
Revenues:			
Program revenues:			
Charges for services	\$	3,660,912	\$ 2,593,648
Operating grants and contributions		-	20
Capital grants and contributions		-	93
General revenues:			
Interest and other revenues		10,794	5,557
Total revenues		3,671,706	2,599,318
Expenses:			
General government		114,944	130,128
Maintenance and operations		798,785	684,106
Parks an recreation		213,438	232,494
Interest		598,455	843,867
Total expenses		<u>1,725,622</u>	<u>1,890,595</u>
Increases (decreases) in net assets		1,946,084	708,723
Net assets (deficit), beginning		9,891,603	9,182,880
Net assets (deficit), ending	\$	<u>11,837,687</u>	<u>\$ 9,891,603</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2012 was \$1,725,622. The majority of the costs of the District's activities were paid by program revenues. Program revenues in the current and prior year were comprised primarily of assessments.

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, 2012.

The variance between budgeted and actual general fund revenues for the 2012 fiscal year was as a result of excess tax roll and miscellaneous revenue being recognized in the current year but not budgeted. The actual general fund expenditures for the 2012 fiscal year were lower than budgeted amounts due primarily to anticipated costs which were not incurred in the current fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2012, the District had \$22,033,817 invested in capital assets. In the government-wide financial statements depreciation of \$2,345,391 has been taken, which resulted in a net book value of \$19,688,426. More detailed information about the District's capital assets is presented in the notes to the financial statements.

Capital Debt

At September 30, 2012, the District had \$10,115,000 in Bonds outstanding for its governmental activities. More detailed information about the District's capital debt is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEARS BUDGET AND EVENTS

The District does not anticipate any major changes to its operations for the fiscal year 2013. It is anticipated that the general operations of the District will remain fairly constant..

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our landowners, 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 Dupree Lakes Community Development District's Finance Department at 5385 N Nob Hill Road, Sunrise, Florida, 33351.

FINANCIAL STATEMENTS

**DUPREE LAKES COMMUNITY DEVELOPMENT DISTRICT
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 407,832
Investments	776
Assessments receivable	125,997
Accounts Receivable	3,120
Prepaid expenses	25,666
Deposits	2,315
Deferred charges, net	143,460
Restricted assets:	
Investments	1,983,652
Capital assets, net	
Non-depreciable assets	14,534,863
Depreciable assets, net	5,153,563
Total assets	<u>22,381,244</u>
Liabilities	
Accounts payable	18,250
Contracts and retainage payable	159,857
Accrued interest payable	250,450
Non-current liabilities:	
Due within one year	120,000
Due in more than one year	9,995,000
Total liabilities	<u>10,543,557</u>
Net assets	
Invested in capital assets, net of related debt	10,012,891
Restricted for:	
Debt service	1,419,772
Unrestricted	405,024
Total net assets	<u>\$ 11,837,687</u>

See accompanying notes to financial statements.

**DUPREE LAKES COMMUNITY DEVELOPMENT DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Functions / Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ (114,944)	\$ 114,944	\$ -	\$ -	\$ -
Maintenance and operations	(798,785)	368,550	-	-	(430,235)
Parks and recreation	(213,438)	213,438	-	-	-
Interest	(598,455)	2,963,980	-	-	2,365,525
Total governmental activities	<u>\$ (1,725,622)</u>	<u>\$ 3,660,912</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,935,290</u>

General revenues

Investment interest and other revenues	10,794
Change in net assets	1,946,084
Net assets - beginning of the year	9,891,603
Net assets - end of the year	<u>\$ 11,837,687</u>

See accompanying notes to financial statements.

**DUPREE LAKES COMMUNITY DEVELOPMENT DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
Assets				
Cash and cash equivalents	\$ 407,832	\$ -	\$ -	\$ 407,832
Investments	776	1,547,790	435,862	1,984,428
Assessments receivable	3,565	122,432	-	125,997
Accounts Receivable	3,120	-	-	3,120
Prepaid expenditures	25,666	-	-	25,666
Deposits	2,315	-	-	2,315
Total assets	<u>\$ 443,274</u>	<u>\$ 1,670,222</u>	<u>\$ 435,862</u>	<u>\$ 2,549,358</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 18,250	\$ -	\$ -	\$ 18,250
Contracts and retainage payable	-	-	159,857	159,857
Total liabilities	<u>18,250</u>	<u>-</u>	<u>159,857</u>	<u>178,107</u>
Fund balances				
Non-Spendable:				
Prepaid items	25,666	-	-	25,666
Deposits	2,315	-	-	2,315
Restricted for:				
Debt service	-	1,670,222	-	1,670,222
Capital projects	-	-	276,005	276,005
Unassigned	<u>397,043</u>	<u>-</u>	<u>-</u>	<u>397,043</u>
Total fund balances	<u>425,024</u>	<u>1,670,222</u>	<u>276,005</u>	<u>2,371,251</u>
Total liabilities and fund balances	<u>\$ 443,274</u>	<u>\$ 1,670,222</u>	<u>\$ 435,862</u>	<u>\$ 2,549,358</u>

See accompanying notes to financial statements.

**DUPREE LAKES COMMUNITY DEVELOPMENT DISTRICT
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

Total fund balances, governmental funds	\$ 2,371,251
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.	19,688,426
Bond issue costs are not financial resources and therefore are not reported as assets in governmental funds. The Statement of Net Assets includes these costs, net of amortization.	143,460
Liabilities not due and payable from current resources, including accrued interest, are not reported in the fund financial statements.	<u>(10,365,450)</u>
Total net assets - governmental activities	<u>\$ 11,837,687</u>

See accompanying notes to financial statements.

**DUPREE LAKES COMMUNITY DEVELOPMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Major Funds</u>			Total Governmental Funds
	General	Debt Service	Capital Projects	
Revenues				
Assessments	\$ 696,932	\$ 1,578,461	\$ -	\$ 2,275,393
Assessments - prepayments	-	1,385,519	-	1,385,519
Interest and other revenues	10,794	-	-	10,794
Total revenues	<u>707,726</u>	<u>2,963,980</u>	<u>-</u>	<u>3,671,706</u>
Expenditures				
Current:				
General government	114,944	-	-	114,944
Maintenance and operations	573,781	-	-	573,781
Parks and recreation	45,398	-	-	45,398
Debt service:				
Principal	-	2,020,000	-	2,020,000
Interest	-	711,946	-	711,946
Capital outlay	-	-	2,969,311	2,969,311
Total expenditures	<u>734,123</u>	<u>2,731,946</u>	<u>2,969,311</u>	<u>6,435,380</u>
Excess (Deficiency) of revenues over expenditures	<u>(26,397)</u>	<u>232,034</u>	<u>(2,969,311)</u>	<u>(2,763,674)</u>
Other Financing Sources (Uses)				
Transfer in	-	63,997	-	63,997
Transfer out	-	-	(63,997)	(63,997)
Total other financing sources and (uses)	<u>-</u>	<u>63,997</u>	<u>(63,997)</u>	<u>-</u>
Net change in fund balances	(26,397)	296,031	(3,033,308)	(2,763,674)
Fund balances, beginning of year	<u>451,421</u>	<u>1,374,191</u>	<u>3,309,313</u>	<u>5,134,925</u>
Fund balances, end of year	<u>\$ 425,024</u>	<u>\$ 1,670,222</u>	<u>\$ 276,005</u>	<u>\$ 2,371,251</u>

See accompanying notes to financial statements.

**DUPREE LAKES COMMUNITY DEVELOPMENT DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Net change in fund balances - governmental funds	\$ (2,763,674)
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is eliminated and capitalized as capital assets.	2,969,311
Depreciation on capital assets is not recognized in the fund financial statements but is reported as an expense in the Statement of Activities.	(393,044)
Amortization of bond issuance costs is not recognized in the governmental fund statement but is reported as an expense in the Statement of Activities.	63,129
Governmental funds report principal payment expenditures on bonds when paid, whereas these payments are eliminated in the Statement of Activities and recognized as a decrease in bonds payable in the Statement of Net Assets.	2,020,000
The change in accrued interest between the current and prior year is recorded on the Statement of Activities but not on the fund financial statements.	<u>50,362</u>
Change in net assets of governmental activities	<u><u>\$ 1,946,084</u></u>

See accompanying notes to financial statements.

**DUPREE LAKES COMMUNITY DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY

Dupree Lakes Community Development District ("District") was established September 13, 2004 by Pasco County Ordinance 04-39 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The Act provides, among other things, the power to manage basic services for community development, power to borrow money and issue bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure. The District was established for the purposes of financing and managing the acquisition, construction, maintenance and operation of a portion of the infrastructure necessary for community development within the District.

The District is governed by the Board of Supervisors ("the Board"), which is composed of five members. The Supervisors are elected by the owners of the property within the District. The Board of Supervisors of the District exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes. Three Supervisors are related to the Beazer Home Corporation ("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") Statement 14, and Statement 39, an amendment of GASB Statement 14. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District Board of Supervisors is considered to be financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that, if excluded, the financial statements of the District would be considered incomplete or misleading. 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 assets 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*.

**DUPREE LAKES COMMUNITY DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Assessments

Assessments, including debt service assessments and operations and maintenance assessments, are non-ad valorem assessments imposed on all lands located within the District and benefitted by the District's activities. Assessments are levied by the District prior to the start of the fiscal year which begins on October 1st and ends on September 30th. Operation and maintenance special assessments are imposed upon all benefitted lands in the District. 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 special assessments.

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

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

Debt Service Fund

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

Capital Projects Fund

The capital projects fund is used to account for 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 for qualifying expenditures, then unrestricted resources as they are needed.

**DUPREE LAKES COMMUNITY DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity

Restricted Assets

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

Deposits and Investments

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

The District has 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. Any unspent proceeds are required to be held in investments allowed in the Bond Indenture.

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

Inventories and Prepaid Items

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

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

Capital Assets

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

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

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

<u>Assets</u>	<u>Years</u>
Stormwater management	25
Recreational facilities	20
Landscaping	15

**DUPREE LAKES COMMUNITY DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Capital Assets (Continued)

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

Deferred Charges

In a prior year, in connection with the issuance of certain debt, the District incurred costs totaling \$634,367. In the government-wide financial statements that amount has been capitalized and amortized over the estimated life of the Bonds. At September 30, 2012 the District reported accumulated amortization of \$490,907.

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method, which does not result in a material difference from the effective interest method. Bonds payable are reported net of applicable premiums or discounts.

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.

Fund Balances and Net Assets

In the fund financial statements, fund balance consists of Nonspendable fund balance which includes amounts that cannot be spent because they are not in spendable form, or they are legally or contractually required to be maintained intact. Restricted fund balance are amounts restricted to specific purposes. Committed fund balance are amounts that can only be used for specific purposes as pursuant to official action by the District Board prior to the end of the reporting period. Assigned fund balance are amounts the District intends to use for a specific purpose that are neither restricted nor committed. The District administration has authority to assign fund balance. Unassigned fund balance represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

When restricted and other fund balance resources are available for use, it is the District's policy to use restricted resources first, followed by committed, assigned, and unassigned amounts, respectively.

Net assets in the government-wide financial statements are categorized as invested in capital assets, net of related debt, restricted or unrestricted. Invested in capital assets, net of related debt represents net assets related to infrastructure and property, plant and equipment, net of any related debt. Restricted net assets represent the assets restricted by the District's Bond covenants or other contractual restrictions.

**DUPREE LAKES COMMUNITY DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Other Disclosures

Use of Estimates

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

NOTE 3 – BUDGETARY INFORMATION

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

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

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

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

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

Investments

The District's investments were held as follows at September 30, 2012:

	<u>Fair Value</u>	<u>Credit Risk</u>	<u>Weighted Average Maturities</u>
State Board of Administration Florida PRIME	\$ 476	S&P AAAM	39 days
State Board of Administration Investment Pool B	300	not rated	4.08 years
First American Treasury Obligations Fund Class Z	<u>1,983,652</u>	S&P AAAM	54 days
Total investments	<u>\$ 1,984,428</u>		

Custodial risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The District has no formal policy for custodial risk. The investments are not evidenced by securities that exist in physical or book entry form.

**DUPREE LAKES COMMUNITY DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

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

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

The Bond Indenture limits the type of investments held for unspent Bond proceeds.

NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended September 30, 2012 were as follows:

<u>Fund</u>	<u>Transfer in</u>	<u>Transfer out</u>
Capital projects	\$ -	\$ 63,997
Debt service	63,997	-
Total	<u>\$ 63,997</u>	<u>\$ 63,997</u>

Transfers from the debt service fund to the capital projects fund were for excess funds held in the Series 2006 Revenue account to the Series 2006 Deferred Cost account and were made pursuant to the terms of the Bond Indenture. See Note 6 – Capital Assets for additional details.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated				
Construction in progress	\$ 11,565,552	\$ 2,969,311	\$ -	\$ 14,534,863
Total capital assets, not being depreciated	<u>11,565,552</u>	<u>2,969,311</u>	<u>-</u>	<u>14,534,863</u>
Capital assets, being depreciated				
Stormwater management	1,993,571	-	-	1,993,571
Recreational facilities	3,292,131	-	-	3,292,131
Landscaping	<u>2,213,252</u>	<u>-</u>	<u>-</u>	<u>2,213,252</u>
Total capital assets, being depreciated	<u>7,498,954</u>	<u>-</u>	<u>-</u>	<u>7,498,954</u>
Less accumulated depreciation for:				
Stormwater management	398,715	79,743	-	478,458
Recreational facilities	823,035	164,607	-	987,642
Landscaping	<u>730,597</u>	<u>148,694</u>	<u>-</u>	<u>879,291</u>
Total accumulated depreciation	<u>1,952,347</u>	<u>393,044</u>	<u>-</u>	<u>2,345,391</u>
Total capital assets, being depreciated, net	<u>5,546,607</u>	<u>(393,044)</u>	<u>-</u>	<u>5,153,563</u>
Governmental activities capital assets, net	<u>\$ 17,112,159</u>	<u>\$ 2,576,267</u>	<u>\$ -</u>	<u>\$ 19,688,426</u>

**DUPREE LAKES COMMUNITY DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 6 – CAPITAL ASSETS (Continued)

The infrastructure intended to serve the District has been estimated at a total cost of approximately \$23,210,000. The infrastructure will include roadways, potable water and wastewater systems, recreational facilities and land improvements including wetland mitigation areas. The total estimated cost to complete the project is approximately \$1,100,000. The District will convey certain infrastructure improvements to other governmental entities upon completion of the project.

During the year excess funds in the 2006 Reserve and Revenue accounts, were transferred to redeem outstanding related debt.

NOTE 7 – LONG TERM LIABILITIES

Series 2005

On May 1, 2005 the District issued \$16,765,000 of Capital Improvement Revenue Bonds Series 2005, due on November 1, 2010 with a fixed interest rate of 5%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is to be paid semiannually on each May 1 and November 1. In October 2010, the District with the consent of the majority owners of the Bonds amended the first supplemental indenture to extend the maturity of the Bond from November 1, 2010 to November 1, 2015 with an interest rate of 6.83%. Principal on the Bond is due in one lump sum on November 1, 2015.

Series 2006

On June 1, 2006 the District issued \$9,825,000 of Capital Improvement Revenue Bonds, consisting of \$6,905,000 Series 2006A Bonds due on May 1, 2037 with a fixed interest rate of 5.375% and \$2,920,000 Series 2006B Bonds due on May 1, 2012 with a fixed interest rate of 5%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is paid semiannually on each May 1 and November 1. Principal on the 2006A Bonds is paid annually commencing May 1, 2008 through May 1, 2037. Principal on the 2006B Bonds is due in one lump sum payment on May 1, 2012.

The Series 2006A Bonds are subject to optional redemption prior to maturity anytime after May 1, 2015. The Series 2005, 2006A, and 2006B Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Indenture.

The Bond Indentures require that the District maintain adequate funds in a reserve account to meet the debt service reserve requirement as defined in the Indentures. In addition, the Bond Indentures have certain restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agrees to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The District is in compliance with the requirements of the Bond Indentures as of September 30, 2012.

Long term debt transactions

Changes in long-term liability activity for the fiscal year ended September 30, 2012 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds Payable:					
Series 2005	\$ 5,005,000	\$ -	\$ 1,060,000	\$ 3,945,000	\$ -
Series 2006	7,130,000	-	960,000	6,170,000	120,000
Governmental activity long-term liabilities	<u>\$ 12,135,000</u>	<u>\$ -</u>	<u>\$ 2,020,000</u>	<u>\$ 10,115,000</u>	<u>\$ 120,000</u>

**DUPREE LAKES COMMUNITY DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 7 – LONG TERM LIABILITIES (Continued)

At September 30, 2012, the scheduled debt service requirements on the long - term debt were as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2013	\$ 120,000	\$ 601,081	\$ 721,081
2014	125,000	594,631	719,631
2015	135,000	587,912	722,912
2016	4,085,000	445,934	4,530,934
2017	150,000	303,688	453,688
2018 - 2022	880,000	1,388,363	2,268,363
2023 - 2027	1,145,000	1,125,256	2,270,256
2028 - 2032	1,505,000	780,719	2,285,719
2033 - 2037	1,970,000	328,681	2,298,681
	<u>\$ 10,115,000</u>	<u>\$ 6,156,265</u>	<u>\$ 16,271,265</u>

NOTE 8 – DEVELOPER TRANSACTIONS AND CONCENTRATION

The Developer owns land within the District; therefore, assessments billed for the fiscal year ended September 30, 2012 include applicable amounts from the Developer. General fund assessments billed include \$183,050 and debt service fund assessments billed include \$1,239,403 from the Developer.

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 advisory and accounting services. Certain employees of the management company also serve as officers (Board appointed non-voting positions) of the District. Under the agreement, the District compensates the management company for management, accounting, financial reporting, and other administrative costs.

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has obtained commercial insurance from independent third parties to mitigate the costs of these risks; coverage may not extend to all situations. The District has not filed any claims under this commercial coverage during the last three years.

NOTE 11 –SUBSEQUENT EVENTS

Subsequent to year end, the District prepaid \$990,000 of the Series 2005 Bonds and \$10,000 of the Series 2006A Bonds. The prepayments were an extraordinary mandatory redemption as outlined in the Bond indentures.

**DUPREE LAKES COMMUNITY DEVELOPMENT DISTRICT
BUDGET TO ACTUAL COMPARISON STATEMENT – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues			
Assessments	\$ 690,289	\$ 696,932	\$ 6,643
Interest and other revenues	-	10,794	10,794
Total revenues	<u>690,289</u>	<u>707,726</u>	<u>17,437</u>
Expenditures			
General government	134,567	114,944	19,623
Maintenance and operations	582,370	573,781	8,589
Parks and recreation	78,050	45,398	32,652
Total expenditures	<u>794,987</u>	<u>734,123</u>	<u>60,864</u>
Excess (deficiency) of revenues over expenditures	(104,698)	(26,397)	78,301
Fund balance, beginning of year	<u>104,698</u>	<u>451,421</u>	<u>346,723</u>
Fund balance, end of year	<u><u>.</u></u>	<u><u>\$ 425,024</u></u>	<u><u>\$ 425,024</u></u>

See notes to required supplementary information.

**DUPREE LAKES COMMUNITY DEVELOPMENT DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2012**

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, 2012.

The variance between budgeted and actual general fund revenues for the 2012 fiscal year was as a result of interest and other revenues being recognized in the current year but not budgeted. The actual general fund expenditures for the 2012 fiscal year were lower than budgeted amounts due primarily to anticipated costs which were not incurred in the current fiscal year.



**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
Dupree Lakes Community Development District
Pasco County, Florida

We have audited the financial statements of the governmental activities and each major fund of Dupree Lakes Community Development District, Pasco County, Florida ("District") as of and for the fiscal year ended September 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 8, 2013. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended for the information of the management, Board of Supervisors of the District, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

Barzana & Associates PA

Barzana & Associates, P.A.

Tampa, Florida
February 8, 2013



MANAGEMENT LETTER

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

We have audited the accompanying basic financial statements of Dupree Lakes Community Development District, Pasco County, Florida ("District") as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated February 8, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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.

In addition, we have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters dated February 8, 2013. Disclosures in that report should be considered in conjunction with this management letter.

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

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

This report is intended for the information of the management, Board of Supervisors of the District, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the District, 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.

Barzana & Associates PA

Barzana & Associates, P.A.

Tampa, Florida
February 8, 2013

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

None

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

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

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

There were no significant findings and recommendations made in the preceding annual financial audit report for the fiscal year ended September 30, 2011.

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

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

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

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported for the fiscal year ended September 30, 2012.

4. Violations of 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 more than inconsequential.

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, 2012.

5. For matters that have an inconsequential effect on the financial statements, considering both quantitative and qualitative factors, the following may be reported based on professional judgment:

- a. Violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse.
- b. Deficiencies in internal control that are not significant deficiencies.

There were no such matters discovered by, or that came to the attention of, the auditor, that in our judgment, are required to be reported, for the fiscal year ended September 30, 2012.

REPORT TO MANAGEMENT (Continued)

6. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.
7. The District has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
8. 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, 2012 financial audit report.
9. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and no deteriorating financial conditions were noted. 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.