

**MINUTES OF MEETING
TERN BAY
COMMUNITY DEVELOPMENT DISTRICT**

The Regular Board Meeting of the Tern Bay Community Development District's Board of Supervisors was held on **Thursday, March 3, 2011**, at **9:00 a.m.**, at the **office of Charlotte Engineering and Surveying, 1700 El Jobean Road, Port Charlotte, Florida 33948.**

Present and constituting a quorum were:

Matthew Morris	Chairman
Neale Montgomery	Vice Chairperson
Richard Brylanski	Assistant Secretary
Mark Gillis	Assistant Secretary

Also present were:

James P. Ward	District Manager
Scott Clark	District Counsel (Telephonic)
Bill Riley	CAS Asset Management
Ceil Fillenworth	General Audience
Tom Fillenworth	General Audience
Tom Goelen	General Audience
Kathy Karlen	General Audience
Bill Karen	General Audience

FIRST ORDER OF BUSINESS

Call to Order/Roll Call

Mr. Ward called the meeting to order at 9:11 a.m. and noted, upon Roll Call, all members of the Board were present.

SECOND ORDER OF BUSINESS

Administration of Oath of Office for New Board Member from November 2010 Election

Mr. Ward stated, with the Board's consent, I would like to add the administration of the oath of office to Ms. Montgomery who was elected at the November, 2010 meeting. For the record I am a notary of the State of Florida and authorized to administer this oath. Led by Mr. Ward, Ms. Montgomery recited the Oath of Office.

THIRD ORDER OF BUSINESS

Consideration of Minutes

a. November 4, 2010 – Regular Meeting

Mr. Ward stated, you have been previously distributed a copy of the minutes and if there are any additions, corrections or deletions, and that it would be appropriate at this time to so indicate; otherwise a motion for their approval will be in order.

Mr. Brylanski stated, good job on the minutes, by the way.

Ms. Montgomery stated they were easy to read also.

On MOTION by Mr. Gillis and seconded by Mr. Brylanski with all in favor of approving the November 4, 2010 Regular Meeting minutes.

b. November 4, 2010 – Landowner’s Meeting

Mr. Ward stated, the second set of minutes is your November 4, 2010 Landowner’s meeting. I’ll ask you to accept the minutes simply for purposes of inclusion in the record.

On MOTION by Mr. Brylanski and seconded by Mr. Gillis with all in favor of approving the November 4, 2010 Landowner’s Meeting minutes.

Mr. Ward stated, as I noted in the agenda package, we have not had a meeting since November and there has really not been much that has occurred within the District since that time so we will go right into staff reports and I thought it would be an opportune time for both Scott and Bill to spend a few minutes with you and go through the activities that occurred both legally and from a field perspective and I’ll just take a few minutes after that to go through your financial information with you that has occurred since we last met.

FOURTH ORDER OF BUSINESS**Staff Reports****A. Attorney**

Mr. Clark stated, thanks. I will update the various litigation matters that we have going on which is about all that I've been doing since our last meeting.

First, let's talk about the Ryan Golf matter. It has stepped up in activity. There has been a hearing and a case management conference and it is sort of headed toward trial. We have objected to being set for trial because Tern Bay, LLC, which was party, was never served and they've tried to drop them and we've objected to that.

In the meantime, we have had a motion for summary judgment that it has been prepared for quite some time, we have tweaked a little bit based on some discovery. We're basically asking Ryan Golf to present documentation that supports their claim. At this point, what they're saying – their claim has diminished from what it originally was. They're saying that they are owed an extra \$100,000 but they can't really explain why, other than they sent the District a final bill for the public part of the work. The District paid that bill and then they sent another requisition for \$100,000 after they received final payment, according to their own documents. So we've prepared that. We're ready to file it. Jim, I have sent you some materials that you and I need to talk about connected with it, an affidavit needs to go with it. You were on the Board at the time and probably have some memory of those events that you can help me with, maybe beyond the affidavit. That will be filed and, we anticipate being heard in the next 30 to 45 days and we hope that will be the end of that action.

Moving from there, I am happy to report that the Tarpon IV appeal of our foreclosure action was dismissed just a few days ago. I mentioned at the November meeting that they missed deadlines to file briefs. We filed a motion to dismiss. The court, as I suspected, said we're not going to dismiss but we will give them a deadline to file a brief. They missed the deadline. The court waited a little while longer and it finally entered the order dismissing the case, so that's the end of that appeal. Having said that, we are still waiting for input from our bond holders as to what they want us to do about taking title to the property. I inquired of Warren Bloom about a week ago when the agenda came out, to see if they could provide an update to the Board, but none was received. He forwarded that to bond holders and they didn't give him any information. He does believe that the deal that they were working is not

going to happen and has inquired as to whether they are now ready for us to go ahead and execute the plan of completing the foreclosure and putting the property into the entity that we formed back in the fall and moving forward on that basis. I'm hoping that we'll get some instruction on that here pretty quickly so we can get out of the limbo that we're in.

Given that the Tarpon IV appeal has been dismissed, I would like to bring to the Board one of the pieces that we talked about several months ago that we now need to pursue. You might recall that one of the Tarpon IV tax deeds included a 40-acre piece near the roadway, kind of off to the side of the commercial parcel that is owned by the District, yet it was included in the tax deed in error, I believe. The parcel should have never been taxed as public property.

I suggested several months ago that, when we were through with Tarpon, that we should go ahead and try to clear up the title to that and I think now is the time to do that. What I would suggest to the Board is that we should file, probably, a two count action: One count to quiet title, the other to compel the tax collector to correct its records and rescind the tax notice that it sent when the tax deeds were issued and try to take back title to that forty acres. I can answer questions about that process, but I would like to see the Board's authorization today to move forward with that action.

Mr. Gillis asked, how long do you think that's going to take? Are we talking a month or two or a year?

Mr. Clark stated, any litigation is painfully slow these days. It already was, but because of the glut of the foreclosure matters, cases are tending to languish a couple of years. I hope that it won't take that long, but sometimes it's very difficult just to get a hearing in front of a court, so I'm not going to make promises on it. I would like to see us conclude that in a nine month time span, but it may be subject to court calendars. That's my update unless there are questions to answer.

<p>On MOTION by Ms. Montgomery and seconded by Mr. Morris with all in favor, to authorize Mr. Clark to file a two or more count action; to quiet title, the other to compel the tax collector to correct the records on the 40-acre parcel.</p>
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Mr. Ward asked, if there are any other questions from the Board? Does the audience have any questions for Scott?

Mr. Karlen stated, I've got one on the forty acres. Does that end in having that piece in limbo will that affect the sale of the property, will that have to be justified first before the sale can then take place?

Mr. Clark stated, I don't think it affects any sale the bond holders will be working on. They are looking to sell a developable property to someone and this is a piece that was titled into the District, yet some of the documents doing that discussed stormwater as being the reason for that, although it's not totally clear where this piece fit into the ultimate development plan. It is not something that could be sold to a third party, anyway, for development as it stands right now. I think it's just a loose end that the District needs to clean up.

Mr. Karlen asked, was this forty acres the acreage that was involved in being turned over to the County at some point or turning over to the State at some point for their drainage?

Mr. Clark stated, I don't think so. I don't see that element in it. There was a very large conservation piece that the District acquired over toward the water, but this is different. This is just a square piece of property closer to the road, toward the front of it. I don't know if it's wet or if it contains property that remains undevelopable and I'm somewhat curious whether it was just a means to fund some more money to the developer in the bond issuance. I don't have a reason to know that, but I wonder why it was done that way and it's curious to me that these forty acres was acquired by the District.

Ms. Montgomery stated, look at the map that Jim showed us that says, "Conservation Area and Wildlife Crossing". That tells me they didn't want the responsibility for the ongoing maintenance and monitoring that's likely associated with that property.

Mr. Clark stated, possibly, but I don't see in the title work a conservation easement of any type of this property.

Ms. Montgomery stated, it may be that they were obligated to do it under permits and they haven't done it yet.

Mr. Clark stated, that could be. In the long scheme of things, when acquiring the project, just going to have to get those permits back and get a good standing and do a number of things that haven't been done yet.

Ms. Montgomery stated, it seems like an odd location for a wildlife crossing so I don't know what critter it is. They don't need a crossing for turtles, so I don't know. Usually you have crossings for mammals.

Mr. Menan stated, that's for gopher tortoise habitat.

Mr. Clark asked, do you think it was critter mitigation?

Mr. Menan stated, yes.

Mr. Clark stated, that's the legal term we use. In any event, I think cleaning it up is going to be important to the overall success of the development and I'll ask the bond holders to provide the funding for the litigation as they've done for the other things.

Mr. Karlen stated, Scott, it sounds as if you mentioned that the on-going discussions for the development purchased with the bond holders with the person they were going to make the deal with – has fallen through. If that's the case, does that put it back on the docket for putting the land up for auction with the county again?

Mr. Clark stated, that's the question I'm asking. I don't want to overstate the information I have about it. It's probably more accurate to say that I was told that it wasn't going anywhere and maybe it's a little bit short of having totally terminated. My belief is that I would ask the bond holders, at that point, if the deal's not pending, to go ahead and proceed forward with the plan that we had. We all agreed on a plan with them. They asked us to wait because they thought that they had a deal that they could do and we've been in that status for about six months now. I think it's time to move on.

Mr. Karlen stated, you mentioned that they were trying to sell the developable land. Does that exclude the golf course?

Mr. Clark stated, I don't know what their plan is or was for the golf course.

Mr. Karlen stated, it sounds like they could break up the property.

Mr. Clark stated, I would think, just intuitively that the golf course would be included in a deal because I think it's difficult, in this market, to sell a golf course as a freestanding asset. I think you've got to look for someone to come take the whole package and try to make a go of it.

Mr. Karlen asked, is it possible to make a left-hand turn here and talk a little bit about the taxes because I believe that you'd be an important person to talk to about that. Would the fact that we have the taxes outstanding for the CDD and how does that relate to the property like the Tarpon IV and the other individual homeowners? I'm a little vague as to the legal aspects of this. Apparently they have paid the County up-to-date but they haven't paid a penny of the CDD up-to-date. Are we allowing anyone to have the ability to catch up on their payment and then continue to own the land going forward or are we going to insist that they pay the entire amount as the court case was determined when we took Ocean Bank to court?

Mr. Clark stated, I think that's a question that gets deferred to the bond holders. In my opinion, and I think it's one that's shared by most people who have looked at these questions, is that the assessments become accelerated when we bring a foreclosure action. As a District with promises and obligations to our bond holders, we would not unilaterally take action to de-accelerate them, which is what we would do if we let someone come with a check and catch up the payments. Although, I would think that bond holders would love to have someone pay some money and get back into the program. We've actually got a tax deed owner with a few lots -- I think it's five lots -- who wants to do that and I've presented that program to the bond holders and I'm waiting on their response. Its part of the single family platted lots. I would think that they would want to do that, although I think they've been waiting to respond to try to see if they had some larger overall deal that they were going to cut.

Mr. Karlen asked, if they did that, wouldn't that then break up any sort of potential homeowners' association because they would be all parceled out and not under one developer who had then set up homeowners' association for the entire development?

Mr. Clark stated, I think it's awkward at this point to parcel it out like that. Among the other things that haven't been done in the development are those things you're talking about; setting up an association and providing for basic governance of that -- someone really needs to come in and take care of those things.

Mr. Karlen stated, we could end up just being a scattered neighborhood at that point, with homes being built under any direction that the homeowner or lot owner wishes to build with no requirements or any regulation whatsoever.

Mr. Clark stated, yes, and that's not a good result. Let me ask you this question. When you were sold, were you presented information about an association to be set up or anything like that?

Mrs. Karlen stated, there was an association.

Mr. Karlen stated, we were under an association which basically fell apart.

Mr. Ward stated, Scott, there was a master HOA established over all this property, which has long since been dissolved.

Mr. Clark stated, I guess the question is to try to put that back in place or something.

Mr. Karlen stated, without it you're going to get a helter-skelter neighborhood, depending on who wants to do what with their property. Even if an HOA is formed later on by a developer who buys the majority of the land, you'll have to get those other homeowners who have built already to come on board with the HOA or be sort of independent islands of whatever they wish to do.

Mr. Clark asked, should the District take an interest in the property using the entity that we set up? I think those are things that we can put on our list of things to get done – try to correct that situation with the HOA.

Mr. Karlen stated, I would like to bring that to the attention to everybody and have that on the table, whatever that involves. Thank you.

B. Engineer

There being no report, the next item followed.

C. Manager

I. Field Management Report

Mr. Riley stated, there have been quite a bit of changes since last we met. ValleyCrest has taken over the landscape contract right before the cool weather came. They made quite a bit of improvements, we've had some frost damage and some things which are starting to come at them in the warm season now – they have cleaned up a lot of shrubbery, the turf is starting to come back with the warm weather. This month they'll fertilize and do a treatment for weeds again this month. There's some sod they're going to replace this month.

In the last couple of weeks, we bush hogged and cleaned around all the utilities and all the major roads in the property, there were trees and large vegetation growing around

everything. That cleaned it up a lot, which will help out the facilities in there. Along Burnt Store Road it made a big difference in them going out and mowing, regularly maintaining and there are some other things – trees to be removed that were dead and some other operations going on. All in all, that's starting to improve, especially with warm weather. In the next two months, we'll probably start to see a big difference in the way the property looks. We have already. The cold weather has fallen us back a little bit when they came onto the property.

I don't know if you've been in there – we've had quite a bit of problems with vandalism and theft on the property. Not only us – the homes owned by Lennar, and in the back southern end of the property where we were putting in gates those have been stolen. Then we put up barricades, they were moved. Then we put concrete pipes, they were moved. We finally put large concrete structures to keep people from entering. They cut their way with chainsaws through the wood to get around. They have been very resilient.

Ms. Montgomery asked, now this is all before you got the security, right?

Mr. Riley stated, yes. In doing so, they came into the area where the golf compound was –where the truck was from the original golf course. They broke out the window, attempted to steal the truck, did \$3,000 to \$4,000 in damage, in the process, to the truck. Broke into the trailer, busted the door open, cut through everything we have – everything we have had heavy cables, heavy locks. They brought power tools and cut through everything to get through. The most damage was the golf course pump station. They went in there and cut all the pipes, the wires, everything to the electric meters, opened up the cabinets to the computer equipment and destroyed it, stole it, which received an estimate of \$55,000 in damage just from that. We have heavy locks on there now. Jim has authorized an electrician coming out. They added some large flood lights. A motion detector is up on poles up at the pump station. I just had some quotes come in for some fencing and barbed wire to put around the facility. In addition, we put Sheriff's officers out there various evenings throughout the week and the weekends to patrol the property after all this happened.

Ms. Montgomery asked, have they seen anybody, caught anybody? Any idea who it is?

Mr. Riley stated, no. I was speaking with the detectives yesterday for about an hour and there's not an issue with it. As far as who even owns the truck or the golf course facility

– those were assets purchased by Tern Bay, LLC so there's no one even to press charges, should they even catch someone they want to know if there's someone who can actually – I told them we really don't know. That's where we're at with the vandalism.

The guardhouse – their has been a number of people have moved in to Lennar brand new homes into the property. A few new residents. We've added a security door on the guardhouse, which isn't finished. Kids were going in there, residents were telling us – to keep them out and things like that.

Also, right after we had our vandalism, they had thirteen or fifteen air conditioners stolen for the second time.

Ms. Montgomery stated, how do they know they've replaced them? Seems like somebody who must be closer knows what's going on.

Mr. Riley stated, they're coming in and scouting it out. Yes, they are not amateurs. They came in with trucks and power tools.

Ms. Montgomery stated, they knew what they were looking for.

Mr. Riley stated, it wasn't random at all, by any means. As a precaution, we are looking at security cameras at the pump station. We have a few quotes which, I think, are excessive, and will continue looking. The problem is, it's an isolated location so we hope the big fence and flood lights and some other security measures, and additional patrols will keep the theft t down. Theft is just rampant. We moved the truck this week, over by some of the homes, just to get it out of there so it will be less attractive for people to come back and try to get anything.

Mr. Riley continued, that we received a letter from Southwest Florida Water Management District saying we're out of compliance for the mitigation reporting, monitoring, and collection. I spoke to a representative, told them the condition of the property. They said we're still in violation – the report was due in October, 2011 but they would take no action but they are expecting it to be done for 2011 – the report is due in October, 2011. I just received a proposal, this morning from Entrex, which used to be the environmental consultant and took care of that on the property to evaluate. Basically, we would have to monitor and maintain the wetlands and mitigations and things and that's about most of the updates that I have. That completes my update on the programs.

Mr. Ward asked, does the Board have any questions for Bill?

Mr. Gillis asked, what are we doing to try to solve this problem? We're putting a fence around the building and we're having the Sheriff do more patrol?

Mr. Riley stated, we've hired a Sheriff Deputy in a police car for night patrols on the property for various times in the evening. We are looking to put a fence around the pump station, security lighting which is large floodlights on motion detectors; so that if anybody comes in the area, it'll light up the entire area. We will lock off the area in the back again to try to keep anybody from coming in through the back. I looked at security cameras with the remote access guard, which we use in some other properties. I just received that proposal and the equipment alone was \$14,000 plus monitoring service. It was rather excessive, so we are not going to proceed with that idea.

Mr. Riley continued, when we had the vandalism occur, they turned the power off at the golf course and common pump. For some reason we believe they got scared off and did not vandalize the common pump, which runs all the homes and all the common grounds in the District. That's the main power disconnect to the District. I believe it was their intent to disconnect the common pumps. Our fear is that they'll be coming back maybe sometime later to get some more of the things. We had heavy locks on them, but when they come with power tools it doesn't matter, the chains and fencing is only going to slow them down for a minute or two here.

Mr. Ward asked, do you have any questions for Bill? Do the residents have any questions?

Mr. Karlen stated, without some kind of visual inspection and monitoring, it is a weak link. It will eventually, if they want to, get back there. The police patrol helps a lot and we're all really grateful for having that, but he does park on the one side of the bridge. I'm not even sure if that he opens the gate bridge to keep it accessible for him for quick access if he were to hear something on the other side. Plus, he's in a police car so he's limited to where he can go on the property once he gets back there. Is it conceivable that we would get some sort of security that might have more of a four wheel drive situation where they could get after the back section where these people were obviously coming in? I mean, he's monitoring the front gate, which is good, but that's not really where the thefts -- I don't think the persons are coming in that way. I think they're coming in the back way through the

rough property. Not having that actually physically monitored – it's good. Much better than nothing, but is it the best solution?

Mr. Riley stated, they should be opening up the gate, as far as going back, opening that gate up when they're out there.

Mr. Karlen stated, they're going to be hesitant taking their crews back in there.

Mr. Riley stated, they're not going to go off the roadway. It's very overgrown back there and without an off road vehicle, you really can't get around back there. It's very overgrown.

Mr. Karlen stated, even if he were to hear something back there, he couldn't necessarily get to the problem.

Mr. Riley stated, no. The back part of the property is phase II, it's a few square miles of area.

Mr. Karlen stated, I just wanted to bring that to the Board's attention because it's nice to have the patrol, but that's not where we're having the problem. We're having the problem on the other side. I like it because it's patrolling the houses, so I feel safer.

Mr. Fillenworth stated, we're having problems on this side, too, though. We picked up a bunch of garbage out in the circle there and with the sixteen air conditioners gone – what I'm a little concerned about with the lights back there. If we don't see the lights – let's say they bust in there and they do something and we don't pick up on the lights because we're all asleep, it might be the next day or the next night before we'll ever even notice the lights.

Mr. Brylanski asked, can you get a siren associated with that?

Mr. Riley stated, yes we've talked to the electrician about a siren.

Mr. Fillenworth stated, I think if a good loud siren goes off when you touch that fence, that would.

Mr. Karlen stated, a horn or something would shut back off again, but would give us awareness to pick up the phone call the police. Otherwise or if it's during the day the lights won't do anything for us. We won't even know.

Mr. Riley stated, yes I believe it's a nighttime operation. We can add some additional gates over at the back. Like I said, they come in and they're taking saws and bolt cutters and they're just cutting right through a lot of that stuff.

Mr. Fillenworth asked, the main thing is just something to scare them off?

Mr. Riley stated, yes just let them know that someone might be coming, that someone knows they're out there potentially now and try to get them to turn around and go back.

Mrs. Karlen stated, a question probably not for Bill, but the truck is probably not owned by anyone. The truck would have been homeowners' association and I'm wondering if someone gets hurt or something is there any insurance that protects the District.

Mr. Ward stated, the District carries insurance for its property, but the truck is not owned by the District and as a result of that, we don't insure property that we don't own and couldn't if we tried.

Mrs. Karlen stated, that's what I figured, so it's just a non-issue because we couldn't do anything because there is no entity that owns it anymore.

Mr. Ward stated, we have asked the prior golf manager to remove the truck from the site. I don't know if he has done that at that point.

Mr. Riley stated, we've moved it.

Mr. Gillis stated, it says in your report, Bill, we have acquired the keys and the title for the truck?

Mr. Riley stated, that says golf's. Yes. That's how we moved it. We gave them the title and keys.

Mr. Ward asked, it's off the property?

Mr. Riley stated, no, it's on the property. They don't want it and we don't want it. I can have it moved somewhere.

Mr. Riley stated, I was just trying to make it a less than attractive nuisance to come in there because there are still all those things back there.

Mrs. Karlen stated, thank you very much. We do appreciate that.

Mr. Gillis asked, can't the truck be removed as an abandoned vehicle?

Ms. Montgomery stated that it's abandoned property and it's not as easy as we might think.

Mr. Ward stated, not as easy and I don't know where to put it even if we could. I'll talk to Bill and see what we can figure out.

Ms. Montgomery stated, then you have to give notice to all the people you reasonably think might own it and it's a whole long process. It sounds like it's just going to fall apart on its own.

Mr. Karlen stated, it might be that S and S management – I'm not sure if it changed names. They might accept the truck as partial payment for what they may be owed by the HOA. I don't know if we have the right to –

Mr. Ward stated, no. We don't have the right to do that.

II. Financial Statements for the period ending January 31, 2011

Mr. Ward stated I have tried to clean up a lot of the accounting issues that we were seeing in the Rizzetta financial statements and I'll go through those with you. There are some that are still outstanding that are still shown on these statements that I have not had the chance to clean up yet, but I do want to highlight them.

If you look on pages one and two, or what we call the Balance Sheet for the District, what's interesting to note is that in your Capital Projects Fund, we have roughly \$3.183 million left and at our current pace of expenditure, assuming the bond holders do not want payment for any prior debt service, that would last us another five or six years at our current spending pace. There are still sufficient funds left in these bond accounts that will hold us for a number of years.

If you look in the debt service fund, you obviously see there is not a lot of money in there. We have about \$75,000 in what we call the revenue account. What the revenue account is that when property owners pay their actual tax bills, those funds go into that revenue account. What the trustee is doing at the request of the bond holder is that money then is transferred to our general fund account. I'll show you how that's done in a second. It is used to pay the operating expenses so what happens is about \$90,000 over a one year period will get transferred to our general account and used to pay our operating expenses and then it is supplemented by what is left in the construction account to pay the operating expenses during the year. I'll go through that with you in a minute or two.

The amount of money that we have in the general fund which is cash – the \$20,000 - - on a yearly basis we receive \$15,000 a year from property owners in total that covers \$300,000 to \$400,000 in expenses. If you look at it just on an aggregate basis, you'll see

that both Lennar and existing residents pay a particularly small percentage of the total expenses to run this District. The balance is obviously coming from bond holders.

The two most interesting numbers that are on here, however, are what are in what's called "Assessments Receivable". In the debt service fund – what I receive from Rizzetta's office is around \$6 million in debt service assessments that obviously had not been paid over time from prior property owners. If you look on page two, you will see a corresponding account, that's called "Deferred Revenue" in the exact same amount. Conceptually, in this field, a deferred revenue account is used to indicate that, at some point, the government expects the revenue to be received from the receivable that it has on the books. In this instance, and it was a major issue when I was on the Board with the Rizzetta folk on the prior years' audits is this was still showing on the books. We had it taken off at audit. I haven't taken it off here because I'm just trying to get my way through where the number came to begin with.

In the general fund side, however, it's a little more complicated. If you look at the "Assessments Receivable", it is \$1,783,000 and then if you look on page two, the deferred revenue is \$1,092,000. There is no way those number's can be right. They have to be, in Tern Bay's instance, theoretically the same number. The reason they do is, theoretically, actually have no money coming from anywhere other than this source and other than the \$15,000 a year we get. The difference between the deferred revenue and the assessments receivable make no sense on here. That will eventually get cleaned up. What will happen, and what I'm thinking will happen, is if you look at the unreserved fund balance, which is a negative number on the bottom of page two of the general fund of roughly \$487,000, is that number is going to go up by the difference between the deferred revenue and the assessments receivable. What you're essentially saying is that your fund balance, or the amount of money that you have expended over time for expenditures, has been in excess of \$1 million more than what you took in, which is the real condition that's going on here in Tern Bay.

The other number on here that we'll probably clean up – if you look on page two is the bonds payable current portion on the debt service fund. What Rizzetta was doing was booking the expense for the bonds that were due and then, at year end, basically saying they're still outstanding and payable. If you look in what we call the general long-term debt

account group, both the current and long-term piece – that number is included already in our long-term debt pieces. Almost, when you look at a balance sheet, you're \$5.5 million more in debt than you really are in debt. So showing a bond payable in a debt service fund is not normal in the governmental sector, so that number will probably need to be corrected but I am again waiting on where the numbers actually came from.

From a balance sheet perspective, those are probably the most significant issues that we have on here.

The other number that's interesting to look at is on page one in the capital projects fund and the due from other funds, you'll see \$1.349 million due from the general fund. Then if you look on page two in the general fund due to other funds, you'll see the same number. It's basically telling you the amount of money that has been transferred from the capital projects fund to the general fund from the inception of this District through the date of these financial statements to fund the operations of the District. In theory, that number ought to be darn close to the negative fund balance and you'll notice that it's not. The negative fund balance is well below that number. I'm suspecting the difference is really the problem between the assessments receivable, the \$1.7 million, and the deferred revenue of, basically, \$1.1 million. You'll see those numbers get closer as we finish through the audit period and I'm able to clean up those balance sheet numbers.

On the income statements side for the general fund, which is pages three, four, and five, I have taken a somewhat different approach to the accounting for this in that I'm not recognizing the revenue that's due from the off roll assessments in the current period and you'll see special assessments off-roll – you'll see them all as zero in the general fund. I am recognizing the revenue that we get on a monthly basis from the property owners, where their assessments went on the tax bill. You'll notice that we are fully collected for that. What that's telling you is both Lennar and property owners paid their tax bills, essentially, and since most of the money came in December, they paid it in November and we were remitted those funds in the month of November.

The operating expense statements are relatively consistent with the budget that we adopted. We are in the process of cleaning up some past due balances that I've noticed on Florida Power and Light accounts and some other services over time in order to try to get those cleaned up. We can maybe look at these statements on a more consistent basis and

you will see what the Florida Power and Light bills actually should be. I think we've got that pretty much done as of the end of January, so moving forward you'll be able to see a more consistent look at the Florida Power and Light bills, etcetera, and other services that we deemed payable on a regular basis.

On the debt service fund, which is really page seven, the same accounting theory that we're using on the general fund we're using here. You'll notice in the revenue section of the \$94,800 that we budgeted we've received roughly \$94,800. It tells you both Lennar and the property owners, again, on the debt service fund side, paid their assessments that are on the tax bill and obviously on the special assessments off-roll, which is all of the property that we build that is subject to the foreclosure action. Nothing has been paid on that.

The other change that I made on these statements in comparison to the way Rizzetta was doing it was that we obviously had an interest payment due on both the A and B bonds on November 1. I'm not indicating that they were paid and the reason I'm not doing it is that they weren't. When you recognize that expenditure, it creates these unusual entries on the balance sheet that Rizzetta was booking, which are including the assessments receivable and the deferred revenue so it makes it difficult to read a set of financial statements. What you really are seeing is just a financial statement that shows you simply what you received in revenue on-roll. As I mentioned to you when I started out, the operating transfers that the trustee is making out of this account of the \$94,000 – these are the transfers that are going out on a regular basis to fund the general fund operations. Essentially all of the \$94,000 that we get, they transfer that to our operating account, we pay the expenses with it, and then they supplement that difference with construction funds necessary to pay the total bills, and I just noted the statements – we have not made the interest payment and the bonds are in default.

The construction account on page eight is actually very simple. You'll see the way the trustee actually does it is they transfer from debt service to the capital projects fund. That's why you see the \$53,000 going in there and then they transfer it to our general fund account. That's why you see it this way. Then you see the \$3.9 million we started out the year with, and you will see what our balances really are as we move through time.

That is an overview of the financial statements and the changes that I have made to them. They are intended to make the reading of them a little easier on a monthly basis.

What we call modified accrual basis of accounting I'm not really using. I'm using simply a cash-based accounting just to give you the flavor on a regular basis on what is actually occurring in this District from a monthly perspective.

With that, if you have any questions, I would now answer them for you. From the Board? From the audience?

Mr. Karlen asked, is the difference in these numbers that you have come up with a fault of Rizzetta in their bookkeeping or was it their method of bookkeeping? Is there a problem here that could become litigation at some point?

Mr. Ward stated, no. There are no litigation issues here. It's just differences in the way that –

Mr. Karlen stated, monies are perceived?

Mr. Ward stated, not perceived. If you look at a governmental agency that was not in a default position, I would do exactly what Rizzetta did because that's the way you do it, but when you have an entity that's in a default position, the method of accounting needs to change a little bit. We have changed that for audit purposes, but these internal statements have not been changed yet, so we are going through and making the changes and I just wanted to note for the Board where the differences really were and what they really are.

Mr. Ward stated, the final item I did include in your agenda package is the plethora of requisitions that we have paid since that time. We have implemented, internally, a procedure where, as I indicated to you, of getting bills paid on a much more regular basis so we don't have past due balances on invoices. I have implemented a procedure where invoices are coming to me electronically instead of through the mail. For Florida Power and Light, the ones we can't get electronically, we can go online and get them and then pulling them down so that we can try to clean up these past due balances of vendors and make sure people get paid on a regular basis and on a timely basis. That transition is going well, I think, and I think all vendors seem to be much happier with their payment schedule these days, which I think has helped Bill in the field in actually getting work done.

Mr. Gillis stated, I'll admit I have one for FP&L, but a lot of bills from FP&L and you're going through all those and sorting them out?

Mr. Ward stated, yes. We've gone through and we've categorized them all so I know exactly what we're supposed to get and what they are for and Bill just double checked to

make sure they're correct. On a monthly basis, as the bills come in, we double check the use characteristic and the amount on the bill against what the prior months were – that's why the summary is in there. We have a note to the right of the anomalies on the bill that we find on a monthly basis, but the way it was edited, that didn't happen for maybe two months after the bill came in and we're doing it within a day or two after getting the bill.

Mr. Gillis stated, I also noticed a lot of bills on insurance. It seems like the insurance is exceeding what was budgeted?

Mr. Ward stated, insurance is probably exceeding a little bit above what we budgeted, but overall it won't. I put the insurance on a payment plan over a one year period versus paying it all up front in one period and I did that simply because when I took over this District, I wasn't sure what was going on with the insurance, but I think we'll leave it that way this year and maybe next year we'll just pay it all up front as we move forward. It didn't cost a lot to do the financing method with this particular one. That's why you see that on a regular basis here.

Mr. Gillis asked, the insurance is covering what?

Mr. Ward stated, directives and officers liability, general liability, and property coverage for the assets of the District – I think we have the roads insured, the pump station that Bill was talking about lighting, things of that nature.

Ms. Montgomery asked, does that mean when there's actually damage from the vandals that we file insurance claims?

Mr. Ward stated, we can. The problem in Florida right now is – we are insured, as are all the Community Development Districts, generally insured what's called the Preferred Governmental Insurance Trust, PGIT. PGIT is a governmental pool that was established after Hurricane Andrew for, essentially, Community Development Districts because we could not get insurance in the private sector. Unfortunately, what has happened this past year is that a lot of these Districts that are in default for just the reasons that Bill mentioned to you – on the vandalism we have had – have occurred in these Districts and as a result a lot of claims have been filed with the carrier. So now all of us are jumping through a lot more hoops at renewal time, in identifying the District's assets better, what procedures do you have in place in order to protect your assets, what kind of vandalism have you had, what's your experience ratio. I can assure you if we file a claim, the rates are going to go sky high.

Ms. Montgomery stated, so it will cost us more to file a claim than just to fix it ourselves.

Mr. Ward stated, I think so. That's what the agents are telling me on the CDD's that have filed claims; their premiums have gone up more than what the claims have been. I'm not necessarily going to tell you they're major claims. The ones I'm seeing are \$15,000 to \$30,000 because somebody decided to take street lights out or signage out or something strange like that. There is one big claim on a liability that's going through where the District put dirt up on a road to try to prevent people from going back there and some hot rod kids ran into the dirt pile and were severely injured and what they're doing is suing the District. That's what's occurring right now in Florida on these deals that essentially upside down.

Mr. Ward asked if there are any other questions from the Board? Any from the audience?

Mr. Karlen stated, one of the reasons I brought up with Scott about the taxing and how that's being done and creating islands of paid taxes -- if the Board allows certain people to catch up on their taxes, it would create a community that was not designed like the community we bought into originally. Not to share our woes, but we paid \$150,000 to \$200,000 over the cost of our house for amenities that we never got and those amenities may never come back if the islands of homeowners are allowed to develop and become independent from the community itself. I'd like to stress to the Board that, in taxing, depending on how you decide to tax these individuals, your decision will definitely affect how our community moves forward in the future. A few dollars now to put into the bond holders' hands may in actuality, for perpetuity, completely screw up the idea of Tern Bay as it was originally built. Now that idea may not be functional, but I think some form of that idea is functional, but only if the property holds together as a single piece. Depending on how you tax, that will definitely affect how the outcome of the property moves forward.

Mr. Ward stated, I think you hit the nail on the head. You're right.

Mr. Karlen stated, as far as bond holders go, if they have not accepted this offer with whoever it is they're dealing with, I think we can take a good solid lesson from Ocean Bank. Ocean Bank was offered a sum by Lennar when the whole thing went under first right out of the gate. They did not accept it. That was the best offer they ever received. From then on, they fought to hold on to the property; spent bad money after good to maintain a lawyer and

all that only to, in the end, capitulate the entire property for a total loss. If the bond holders think that they're going to get even just a little or maybe a lot, possibly the Board could influence them in saying take what you can get. The lesson learned is if you lose what you have on the table, you may not have another one on the table. It's what happened to the bank. I was wondering if the Board could write something up to the bond holders in that sense.

Mr. Ward stated, I'm not so sure I would recommend that. These bond holders are sophisticated financial investors and they have sophisticated real estate companies who are advising them on what to do and what not to do. I'm not sure any one of us sitting at this table has a desire to get in the middle of a discussion about what the purchase price and the sale price of a piece of property should or should not be at this point in time. It's too big, it's too complicated, and there are minds out there, from my perspective, that are much smarter than I am that would be able to do that for those bond holders and I think that's not the role of the Board to advise bond holders on what we should or should not do on the sale price of a piece of property.

Mr. Karlen asked, ultimately is not the Board itself the owner of the property? I mean I know it's --

Mr. Ward stated, not at this point.

Mr. Karlen stated, it will ultimately fall to you guys if the bond holders can't come to a decision.

Mr. Ward stated, ultimately, but even under the scenario that we have previously talked about when we set up this LLC Corporation, no matter what this Board decides to do, that is always subject to bond holders' approval because the money is their money, not this Board's money. We would seek their approval for whatever we did and at this point, I would suggest to you it's best to leave that in their hands.

Mr. Karlen stated, the other thing I wanted to mention -- aren't we a Board member short? Are we going to rectify that?

Mr. Ward stated, we are, but I haven't found anybody who wants to sit on this Board. Not that I've actively pursued that greatly in the last couple months, but we are.

Mr. Karlen stated, one other thing and this is for Bill, too. You discussed getting video out there by the pumps. Would it be wise to set up a video at the guard house to video

what vehicles are coming, possibly from the rear, so as to catch the plate? For example, when all those air conditioners were stolen, even if they came in through the back, I doubt they were able to drive those air conditioners out the back because of the rough ground and the air conditioners and the size of truck required. If you were to tape who is coming in and out of the subdivision through the gate area, you might have some knowledge as to who is doing some of this theft.

Mr. Riley stated, it becomes complicated because the equipment is very high tech and expensive, and then there's the monitoring and maintenance cost. The problem with that is not only if you have a gate access point, you stop and the camera can get – there's no people going by there at thirty miles an hour. The equipment doesn't – it has a hard time even if everybody stops. You can pick it up, focus, and be able to get a legible plate and things to ID the person, but when people and things move at that speed, it's very hard to recognize.

Mr. Brylanski stated, a critter cam works great.

Mr. Karlen stated, what about if nothing more than putting up signs saying the property is under video surveillance? I mean, I know it would be a lie. It may deter someone and say, gosh I didn't realize we might be videotaped.

Mr. Ward stated, we'll look at it.

Mr. Riley stated, I mean there's the option of that and then dummy some cameras and things like that. People typically think they're being monitored and they won't come back and take the chance that they've been recorded.

FIFTH ORDER OF BUSINESS

Supervisor's Requests and Audience Comments

SIXTH ORDER OF BUSINESS

Adjournment

On MOTION by Mr. Brylanski and seconded by Mr. Gillis with all in favor, to adjourn the meeting at 10:15 a.m. was approved.


James Ward, Secretary


Mathew Morris, Chairman

OATH OR AFFIRMATION OF OFFICE

I, Neale Montgomery, a citizen of the State of Florida and of the United States of America, and being an officer of the **Tern Bay Community Development District** and a recipient of public funds as such officer, do hereby solemnly swear or affirm that I will support the Constitution of the United States and of the State of Florida, and will faithfully, honestly and impartially discharge the duties devolving upon me as a member of the Board of Supervisors of the **Tern Bay Community Development District**, Charlotte County, Florida.

Neale Montgomery
Signature

Printed Name: Neale Montgomery

STATE OF FLORIDA

COUNTY OF CHARLOTTE

Sworn to (or affirmed) before me this 30th day of March 2011, by NEALE MONTGOMERY, whose signature appears hereinabove, who is personally known to me or who produced _____ as identification.

James P. Ward
NOTARY PUBLIC
STATE OF FLORIDA

Print Name: _____
My Commission Expires: _____

