

**WATERS EDGE
COMMUNITY DEVELOPMENT DISTRICT**

FINANCIAL REPORT

Year Ended September 30, 2012

WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT

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Year Ended September 30, 2012

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the *Waters Edge Community Development District* as of and for the 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the *Waters Edge Community Development District*, as of September 30, 2012, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund for the 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 a report dated May 30, 2013 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis starting on page 3, be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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

McDiernit Davis & Company, LLC

May 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the *Waters Edge Community Development District's* (the "District") financial accomplishments provide an overview of the District's financial activities for the year ended September 30, 2012. Please read it in conjunction with the District's Independent Auditor's Report, financial statements and accompanying notes.

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

Financial Highlights

- The liabilities of the District exceeded its assets at September 30, 2012 by \$(5,349,233), an increase in the deficit of \$50,259 in comparison with the prior year.
- At September 30, 2012, the District's governmental funds reported a combined fund balance of \$1,000,705, a decrease of \$24,222 in comparison with the prior year.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

The statement of net assets presents information on all of 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 general government, physical environment and roads and streets related functions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fund Financial Statements

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

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

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

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

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

Notes to Financial Statements

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

Government-Wide Financial Analysis

Statement of Net Assets - The District's net deficit was \$(5,349,233) at September 30, 2012. The analysis that follows focuses on the net assets (deficit) of the District's governmental activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-Wide Financial Analysis (Continued):

Waters Edge Community Development District
Statement of Net Assets

	September 30, 2012	September 30, 2011
Assets, excluding capital assets	\$ 1,233,718	\$ 1,320,684
Capital assets, net of depreciation	<u>5,048,198</u>	<u>5,345,387</u>
Total assets	<u>6,281,916</u>	<u>6,666,071</u>
Liabilities, excluding long-term liabilities	256,149	315,045
Long-term liabilities	<u>11,375,000</u>	<u>11,650,000</u>
Total liabilities	<u>11,631,149</u>	<u>11,965,045</u>
Net assets:		
Invested in capital assets, net of related debt	(1,049,036)	(890,781)
Restricted for:		
Debt service	158,921	170,701
Unrestricted	<u>(4,459,118)</u>	<u>(4,578,894)</u>
Total net assets	<u>\$ (5,349,233)</u>	<u>\$ (5,298,974)</u>

The following is a summary of the District's Governmental activities for the fiscal years ended September 30, 2012 and 2011.

Changes in Net Assets
Year Ended September 30.

	2012	2011
Revenues:		
Program revenues	1,088,100	\$ 1,159,656
General revenues	<u>340</u>	<u>596</u>
Total revenues	<u>1,088,440</u>	<u>1,160,252</u>
Expenses:		
General government	83,622	81,910
Physical environment	444,231	438,671
Interest on long-term debt	<u>610,846</u>	<u>624,252</u>
Total expenses	<u>1,138,699</u>	<u>1,144,833</u>
Change in net assets	(50,259)	15,419
Net assets (deficit) - beginning	<u>(5,298,974)</u>	<u>(5,314,393)</u>
Net assets (deficit) - ending	<u>\$ (5,349,233)</u>	<u>\$ (5,298,974)</u>

As noted above and in the statement of activities, the cost of all governmental activities during the year ended September 30, 2012 was \$1,138,699. The majority of these costs are comprised of physical environment expenses and interest on long-term debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Analysis of the Government's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At September 30, 2012, the District's governmental funds reported combined ending fund balances of \$1,000,705. Of this total, \$9,478 is nonspendable, \$789,969 is restricted and the remainder of \$201,258 is unassigned.

The fund balance of the general fund increased by \$9,879 in the current year due to special assessment collections in excess of expenditures. The debt service fund balance decreased by \$34,101, due to use of prior year investment balances to pay debt service expenditures.

General Fund Budgetary Highlights

An operating budget was adopted and maintained by the governing board for the District pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. There were no amendments to the September 30, 2012 general fund budget. The legal level of budgetary control is at the fund level.

Capital Asset and Debt Administration

Capital Assets - At September 30, 2012, the District had \$5,048,198 invested in infrastructure, net of accumulated depreciation. More detailed information about the District's capital assets are presented in the notes to the financial statements.

Capital Debt - At September 30, 2012, the District had \$11,375,000 in bonds outstanding. More detailed information about the District's capital debt is presented in the notes to the financial statements.

Requests for Information

This financial report is designed to provide our citizens, 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 *Waters Edge Community Development District's* Finance Department at 3434 Colwell Avenue, Suite 200, Tampa, Florida, 33614.

FINANCIAL STATEMENTS

WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF NET ASSETS

September 30, 2012

	Governmental Activities
Assets:	
Cash	\$ 205,508
Investments	701
Bond issuance costs	228,062
Prepaid costs	9,478
Restricted assets:	
Temporarily restricted investments	789,969
Capital assets:	
Capital assets being depreciated, net	<u>5,048,198</u>
Total assets	<u>6,281,916</u>
Liabilities:	
Accounts payable and accrued expenses	4,951
Accrued interest payable	251,198
Due within one year	240,000
Due in more than one year	<u>11,135,000</u>
Total liabilities	<u>11,631,149</u>
Net Assets:	
Invested in capital assets, net of related debt	(1,049,036)
Restricted for debt service	158,921
Unrestricted	<u>(4,459,118)</u>
Total net assets (deficit)	<u>\$ (5,349,233)</u>

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

WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF ACTIVITIES

Year Ended September 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Governmental Activities</u>
Governmental activities:			
General government	\$ 83,622	\$ 36,481	\$ (47,141)
Physical environment	444,231	193,801	(250,430)
Interest on long-term debt	610,846	857,818	246,972
Total governmental activities	<u>\$ 1,138,699</u>	<u>\$ 1,088,100</u>	<u>(50,599)</u>
General Revenues:			
Investment income			<u>340</u>
Total general revenues			<u>340</u>
Change in net assets			(50,259)
Net assets (deficit) - beginning			<u>(5,298,974)</u>
Net assets (deficit) - ending			<u>\$ (5,349,233)</u>

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

WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Assets:			
Cash	\$ 205,508	\$ -	\$ 205,508
Investments	701	789,969	790,670
Prepaid costs	9,478	-	9,478
Total assets	<u>\$ 215,687</u>	<u>\$ 789,969</u>	<u>\$ 1,005,656</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable and accrued expenses	\$ 4,951	\$ -	\$ 4,951
Total liabilities	<u>4,951</u>	<u>-</u>	<u>4,951</u>
Fund balances:			
Nonspendable- prepaid costs	9,478	-	9,478
Restricted for debt service	-	789,969	789,969
Unassigned	201,258	-	201,258
Total fund balances	<u>210,736</u>	<u>789,969</u>	<u>1,000,705</u>
Total liabilities and fund balances	<u>\$ 215,687</u>	<u>\$ 789,969</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 5,048,198

Bond issuance costs which are expenditures in the funds, are deferred and amortized over the life of the bonds. 228,062

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

Accrued interest payable	(251,198)	
Bonds payable	(11,375,000)	<u>(11,626,198)</u>

Net Assets(Deficit) of Governmental Activities (page 7) \$ (5,349,233)

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

WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Revenues:			
Special assessments	\$ 230,282	\$ 857,818	\$ 1,088,100
Investment income	340	-	340
Total revenues	<u>230,622</u>	<u>857,818</u>	<u>1,088,440</u>
Expenditures:			
Current:			
General government	73,701	-	73,701
Physical environment	147,042	-	147,042
Debt service:			
Interest	-	616,919	616,919
Principal	-	275,000	275,000
Total expenditures	<u>220,743</u>	<u>891,919</u>	<u>1,112,662</u>
Excess (Deficit) of Revenues Over Expenditures	<u>9,879</u>	<u>(34,101)</u>	<u>(24,222)</u>
Net change in fund balances	9,879	(34,101)	(24,222)
Fund Balance - Beginning of Year	<u>200,857</u>	<u>824,070</u>	<u>1,024,927</u>
Fund Balance - End of Year	<u><u>\$ 210,736</u></u>	<u><u>\$ 789,969</u></u>	<u><u>\$ 1,000,705</u></u>

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

WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2012

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

Net change in fund balances - total governmental funds (page 10)	\$	(24,222)
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Depreciation on capital assets is not recognized in the governmental fund statement;
however it is reported as an expense on the Statement of Activities

Depreciation expense	<u>(297,189)</u>	(297,189)
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Repayment of long-term liabilities are reported as expenditures in governmental funds, while repayment reduces long-term liabilities in the statement of net assets.	275,000
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Some expenses reported in the statement of activities do not require the use of current
financial resources and, therefore, are not reported as expenditures in governmental funds:

Change in accrued interest	6,073	
Amortization of bond issuance costs	<u>(9,921)</u>	<u>(3,848)</u>

Change in net assets of governmental activities (page 8)	<u>\$</u>	<u>(50,259)</u>
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The accompanying Notes to Financial Statements are an integral part of this statement.

WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT

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

Year Ended September 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Developer contributions	\$ 42,280	\$ 42,280	\$ -	\$ (42,280)
Special assessments	258,500	258,500	230,282	(28,218)
Investment income	-	-	340	340
Total revenues	<u>300,780</u>	<u>300,780</u>	<u>230,622</u>	<u>(70,158)</u>
Expenditures:				
Current:				
General government	73,530	73,530	73,701	(171)
Physical environment	192,250	192,250	147,042	45,208
Roads and streets	<u>35,000</u>	<u>35,000</u>	<u>-</u>	<u>35,000</u>
Total expenditures	<u>300,780</u>	<u>300,780</u>	<u>220,743</u>	<u>80,037</u>
Net change in fund balance	-	-	9,879	9,879
Fund balance - beginning of year	<u>200,857</u>	<u>200,857</u>	<u>200,857</u>	<u>-</u>
Fund balance - end of year	<u>\$ 200,857</u>	<u>\$ 200,857</u>	<u>\$ 210,736</u>	<u>\$ 9,879</u>

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

NOTES TO FINANCIAL STATEMENTS

WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2012

Note 1 - Summary of Significant Accounting Policies:

Reporting Entity

The *Waters Edge Community Development District*, (the "District") was created on February 14, 2005 by Pasco County Ordinance 05-02 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The Act provides among other things, the power to manage basic services for community development, the power to borrow money and issue bonds, and the power to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure. The District was established for the purpose of financing and managing the acquisition, construction, maintenance and operation of a portion of the infrastructure necessary for community development within the District.

The District is governed by the Board of Supervisors (the "Board"), which is composed of five members. The Supervisors are elected on an at large basis by the owners of the property within the District. Three Board members are affiliated with Ryland Homes (the "Developer"). The District is economically dependent on the Developer. The Board of Supervisors of the District exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes.

The Board has the final responsibility for:

1. Allocating and levying special 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. Management has determined that there are no entities considered to be component units of the District.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2012

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

Government-Wide and Fund Financial Statements

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

The government-wide financial statements (i.e., the statement of net 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment and 3) operating-type special assessments that are treated as charges for services (including assessments for maintenance and debt service). Other items not included among program revenues are reported instead as *general revenues*.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the modified *accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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, including debt service assessments and operation and maintenance assessments, are non-ad valorem assessments imposed on all lands located within the district and benefited by the District's activities. Operation and maintenance assessments are levied by the District prior to the start of the fiscal year which begins October 1st and ends on September 30th. Operation and maintenance special assessments are imposed upon all lands located in the District. Debt service special assessments are imposed upon certain lots and lands as described in each resolution imposing the special assessment for each series of bonds issued by the District.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2012

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

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

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

The District reports the following major governmental funds:

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

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

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

Investments of the District are reported at fair value. The District's investments consist of investments authorized per their investment policy adopted in accordance with Section 218.415, Florida Statutes.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2012

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

Assets, Liabilities and Net Assets or Equity (Continued):

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend 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 system	25
Landscaping and entry	15

Long Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net 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. Bonds payable are reported net of premiums or discounts.

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

Fund Balance Categories and Classification - The District implemented GASB 54 in 2011, which established the following fund balance classifications: nonspendable, restricted, committed, assigned, and unassigned. The District's general spending prioritization policy is to consider restricted resources to have been used first, followed by assigned and unassigned amounts when expenditures have been incurred for which resources in more than one classification could be used.

Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2012

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

Fund Balance Categories and Classification (Continued):

Spendable Fund Balance

- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by debt covenants or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority, which is the Board of Supervisors.
- Assigned - includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The Board of Supervisors has authorized the District Manager to assign amounts for specific purposes.
- Unassigned - includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

Net assets in the government-wide 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.

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.

WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2012

Note 2 - Stewardship, Compliance and Accountability:

Budgetary Information

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

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

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

Note 3 - Deposits and Investments:

Deposits

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2012

Note 3 - Deposits and Investments (Continued):

Investments

Investments are stated at fair value, which is the amount for which an investment could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Fair value is based on quoted market prices. Changes in the fair value of investments are recognized as revenue and included in investment revenue. Investment revenue is recognized as earned and is recorded in the respective fund related to the investment activity.

The District's investment policies are governed by State Statutes and the District Trust Indenture. The District investment policy allows investments in any financial institution that is a qualified public depository of the State of Florida as identified by the State Treasurer, in accordance with Chapter 280 of the Florida Statutes. Authorized investments are:

1. The State Board of Administration Local Government Investment Pool (SBA);
2. Securities and Exchange Commission Registered Money Market Funds with the highest credit quality rating from a nationally recognized rating agency;
3. Savings accounts and certificates of deposit in state-certified qualified public depositories;
4. U.S. Government Agency Securities and U.S. Treasury Bills, Notes and Bonds;
5. Short-term bond funds investing in U.S. Government securities or U.S. Government Agency Securities;
6. Securities of registered investment companies (mutual funds) that are limited to obligations of the U.S. Government or any agency or instrumentality thereof.

The SBA is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating procedures consistent with the requirements for a 2a-7-like fund for the Florida Prime Fund. Therefore, the pool account balance can be used as fair value for financial reporting. Fund B is accounted for as a fluctuating NAVPOOL, not a 2a-7-like money market fund.

WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2012

Note 3 - Deposits and Investments (Continued):

Investments (Continued):

Investments made by the District at September 30, 2012 are summarized below. In accordance with GASB 31, investments are reported at fair value.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity</u>
First American Treasury Obligations CL Z	\$ 789,969	AAAm	54 days
Local Government Investment Pool:			
Florida Prime	423	AAAm	39 days
Fund B	278	Not rated	4.08 years
	<u>\$ 790,670</u>		

Credit Risk:

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

Custodial Credit Risk:

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires that bank deposits be secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida, and creates the Public Deposits Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2012, all of the District's bank deposits were in qualified public depositories.

For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At September 30, 2012, none of the investments listed are exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk:

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

WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2012

Note 3 - Deposits and Investments (Continued):

Investments (Continued):

Interest Rate Risk:

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

Note 4 - Bond Issue Costs:

In connection with the issuance of long-term debt discussed in Note 6, the District incurred bond issuance costs totaling \$297,644. In the government-wide financial statements, this amount has been capitalized and is being amortized over the estimated life of the bonds. Amortization for the year ended September 30, 2012 was \$9,921.

Note 5 - Capital Assets:

Capital asset activity for the 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 being depreciated:				
Stormwater system	\$ 5,438,383	\$ -	\$ -	\$ 5,438,383
Landscaping and entry	1,194,813	-	-	1,194,813
Total capital assets being depreciated	<u>6,633,196</u>	<u>-</u>	<u>-</u>	<u>6,633,196</u>
Less accumulated depreciation for:				
Stormwater system	(942,645)	(217,535)	-	(1,160,180)
Landscaping and entry	(345,164)	(79,654)	-	(424,818)
Total accumulated depreciation	<u>(1,287,809)</u>	<u>(297,189)</u>	<u>-</u>	<u>(1,584,998)</u>
Total capital assets being depreciated, net	<u>5,345,387</u>	<u>(297,189)</u>	<u>-</u>	<u>5,048,198</u>
Governmental activities capital assets, net	<u>\$ 5,345,387</u>	<u>\$ (297,189)</u>	<u>\$ -</u>	<u>\$ 5,048,198</u>

Depreciation expense for 2012 was charged to physical environment.

WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2012

Note 6 - Long-Term Liabilities:

On September 28, 2005, the District issued \$12,710,000 of Capital Improvement Revenue Bonds, Series 2005 due on May 1, 2036 with a fixed interest rate of 5.3%. 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, commencing May 1, 2006. Principal is paid annually commencing May 1, 2007 through May 1, 2036.

The Series 2005 Bonds are subject to redemption at the option of the District, in whole or in part at anytime on or after May 1, 2015 at a redemption price set forth in the Bond Indenture.

The Series 2005 Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Indenture.

The Bond Indenture requires that the District maintain adequate funds in a reserve account to meet the debt service reserve requirement as defined in the Indenture. The requirement has been met at September 30, 2012.

The Bond Indenture has certain restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agreed to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. Payment of the principal and interest on the Series 2005 Bonds is secured by a pledge of and first lien upon the pledged special assessment revenue. The District is in compliance with the requirements of the Bond Indenture.

Total principal and interest remaining on the Series 2005 Bonds as of September 30, 2012 is \$20,348,032. For the year ended September 30, 2012 principal and interest paid was \$891,919 and total special assessment revenue pledged was \$857,818.

Long-term debt activity for the year ended September 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
Series 2005	\$ 11,650,000	\$ -	\$ (275,000)	\$ 11,375,000	\$ 240,000
Special assessment debt	11,650,000	-	(275,000)	11,375,000	240,000
Governmental activity long-term liabilities	<u>\$ 11,650,000</u>	<u>\$ -</u>	<u>\$ (275,000)</u>	<u>\$ 11,375,000</u>	<u>\$ 240,000</u>

WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2012

Note 6 - Long-Term Liabilities (Continued):

At September 30, 2012, the scheduled debt service requirements on the bonds payable were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 240,000	\$ 602,875
2014	255,000	590,155
2015	270,000	576,640
2016	285,000	562,330
2017	300,000	547,225
2018-2022	1,755,000	2,480,665
2023-2027	2,290,000	1,961,795
2028-2032	2,980,000	1,285,250
2033-2037	3,000,000	406,510
	<u>\$ 11,375,000</u>	<u>\$ 9,013,445</u>

Note 7 - Deficit Net Assets:

The District has a government-wide net deficit of \$(5,350,233) at September 30, 2012. This deficit primarily results from capital assets which were financed by District long-term debt but were conveyed to other governmental entities. There is no deficit in the governmental fund financial statements.

Note 8 - Developer Transactions:

The Developer paid special assessments to the District of \$234,785 in the current year, which is 22% of total special assessment revenue. The Developer has also agreed to fund the general operations of the District which are not paid through special assessments.

Note 9 - Cost Share Agreement:

The District has an agreement with the Waters Edge Master Association ("Association") to share certain maintenance costs, including landscaping of common areas and gate repairs. The agreement provides that the District is responsible for paying 40% of maintenance costs associated with the landscaping of common areas whereas the Association is responsible for paying the remaining 60%. In addition, in the event that damages occur to the Association's entry gates, both parties agree to split the cost. In connection with the agreement, the District's portion of shared costs for the fiscal year ended September 30, 2012 totaled approximately \$67,200.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2012

Note 10 - 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 11 - Risk Management:

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

COMPLIANCE SECTION

**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
Waters Edge Community Development District
Pasco County, Florida

We have audited the financial statements of the governmental activities and each major fund of the *Waters Edge Community Development District* (the "District") as of and for the year ended September 30, 2012, which collectively comprise the District's financial statements and have issued our report thereon dated May 30, 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

District management is responsible for establishing and maintaining effective 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, contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

See management comments in a separate letter dated May 30, 2013.

This report is intended solely for the information and use of the *Waters Edge Community Development District* and management, and the Florida Auditor General, and is not intended to be, and should not be used by anyone other than these specified parties.

McDiarmid Davis & Company, LLC

May 30, 2013

MANAGEMENT COMMENTS

Board of Supervisors
Waters Edge Community Development District
Pasco County, Florida

We have audited the financial statements of the *Waters Edge Community Development District*, as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated May 30, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Florida Auditor General. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated May 30, 2013, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's report:

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address the findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations made in the preceding annual financial audit report.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the *Waters Edge Community Development District* complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, fraud, illegal acts, 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. In connection with our audit, we did not have any such findings.

MCDIRMIT DAVIS & COMPANY, LLC
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- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information has been disclosed in the notes to the financial statements.
- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the *Waters Edge Community Development District* did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the *Waters Edge Community Development District* for the fiscal year ended September 30, 2012, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2012. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's 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.

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

McDiernit Davis & Company, LLC

May 30, 2013