

WATER'S EDGE
COMMUNITY DEVELOPMENT DISTRICT
MANATEE COUNTY, FLORIDA

FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2012

WATER'S EDGE COMMUNITY DEVELOPMENT DISTRICT
MANATEE COUNTY, FLORIDA

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Water's Edge Community Development District
Manatee County, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of Water's Edge Community Development District, Manatee County, Florida (the "District") as of and for the fiscal year ended September 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2012, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 7 and budgetary comparison information on page 24 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Shinn & Company LLC

CERTIFIED PUBLIC ACCOUNTANTS

July 5, 2013
Bradenton, FL

MANAGEMENT DISCUSSION AND ANALYSIS

Our discussion and analysis of Water's Edge Community Development District, Manatee County, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2012. Please read it in conjunction with the District's Independent Auditors' Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

FINANCIAL HIGHLIGHTS

- In 2012, a major restructure of debt was done. The 2012 series retired all or portions of the 2006A-1, 2006A-2, and 2006B Series Bonds. See Note 5 for more detail.
- At September 30, 2012, the District's governmental funds reported combined ending fund balances of \$3,135,406 a decrease of (\$43,661). Of the total fund balance, \$3,177,866 is restricted for debt service and capital projects and (\$42,460) is negative unassigned fund balance.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

The District maintains three individual governmental funds. 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, debt service and capital projects funds. All three of the funds are considered to be major funds.

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

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by \$355,421 at September 30, 2012, and liabilities exceeded assets resulting in deficit net assets of (\$704,011) at September 30, 2011.

The largest portion of the District's net assets reflects investment in capital assets (e.g. land, land improvements, and infrastructure); less any related debt used to acquire those assets that is still outstanding. These assets are used to provide services to residents; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. They are funds set aside for debt service under the District's Bond Indentures and for capital projects and subsequent infrastructure construction. The remaining balance of unrestricted net assets may be used to meet the District's other obligations.

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

NET ASSETS SEPTEMBER 30,		
	2012	2011
Assets, excluding capital assets	\$ 3,895,679	\$ 3,617,833
Capital assets, net of depreciation	9,085,683	9,026,608
Total assets	12,981,362	12,644,441
Liabilities, excluding long-term liabilities	514,853	623,452
Long-term liabilities	12,111,088	12,725,000
Total liabilities	12,625,941	13,348,452
Net Assets		
Invested in capital assets, net of related debt	(3,222,756)	(3,598,534)
Restricted for debt service	888,812	689,667
Restricted for capital projects	2,241,575	2,385,113
Unrestricted	447,790	(180,257)
Total net assets	\$ 355,421	\$ (704,011)

The change in the District's total net assets during the fiscal year ended September 30, 2012 was an increase of \$1,059,432. The majority of the increase is the result of increased assessments, including the receivables established through the debt restructure. The District is not able to report positive balances in net assets invested in capital assets, net of related debt for its governmental activities. In the prior fiscal year, invested in capital assets, net of related debt and unrestricted net assets both showed negative balances.

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30,

	<u>2012</u>	<u>2011</u>
Revenues:		
Program revenues	\$ 1,270,311	\$ 159,509
General revenues	<u>527</u>	<u>45</u>
Total revenues	<u>1,270,838</u>	<u>159,554</u>
Expenses:		
General government	267,368	51,863
Maintenance and operations	127,020	106,807
Interest	<u>(182,982)</u>	<u>10,792</u>
Total expenses	<u>211,406</u>	<u>169,462</u>
Change in net assets	1,059,432	(9,908)
Net assets (deficit), beginning	<u>(704,011)</u>	<u>(694,103)</u>
Net assets (deficit), ending	<u>\$ 355,421</u>	<u>\$ (704,011)</u>

Program revenues for 2012 and 2011 fiscal years were comprised primarily of special assessments and developer contributions. Also, in 2012 assessments increased based on the debt restructure previously mentioned.

FINANCIAL ANALYSIS OF GOVERNMENTAL 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 financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the operating fund of the District and includes all activities related to providing management and operating services.

In the table below we have presented the cost of the largest functions/programs as a percentage of total government funds.

	<u>2012</u>		<u>2011</u>	
General government	\$ 267,368	32%	\$ 51,863	17%
Maintenance and operations	127,020	15%	106,807	35%
Capital outlay	59,075	7%	-	0%
Interest and principal on long-term debt	<u>370,786</u>	<u>45%</u>	<u>143,623</u>	<u>48%</u>
Total	<u>\$ 824,249</u>	<u>100%</u>	<u>\$ 302,293</u>	<u>100%</u>

GENERAL BUDGETING HIGHLIGHTS

An operating budget was adopted and maintained by the governing board for the District pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. The legal level of budgetary control, the level at which expenditures may not exceed the budget, is at the fund level. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. The 2012 general fund budget was not amended.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2012 and 2011, the District had \$9,085,683 and \$9,026,608, respectively, invested in construction in progress. The acquisition and construction of the District's infrastructure, due to the major down turn in the economy has not yet been completed, thus the capital assets are non-depreciable. As a result, no depreciation has been taken in the government-wide statements. More detailed information about the District's capital assets is presented in Note 4 of the financial statements.

Capital Debt

As of September 30, 2012 and 2011, the District had \$12,563,110 and \$12,890,000, respectively, in Bonds outstanding for its governmental activities. On May 10, 2012, the 2006 Capital Improvement Revenue Bonds were refinanced with 2012 Capital Improvement Revenue Bonds. The 2012 bonds have initial principal amounts of \$193,000 and \$10,411,499 with interest rates of 5.350% and 6.60%, respectively. More detailed information about the District's capital debt is presented in Note 5 of the financial statements.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, land owners, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages and the stewardship of the facilities it maintains. If you have questions about this report or need additional financial information, contact the Water's Edge Community Development District's Finance Department at 5800 Lakewood Ranch Boulevard, Sarasota, FL 34240.

WATER'S EDGE COMMUNITY DEVELOPMENT DISTRICT
MANATEE COUNTY, FLORIDA
STATEMENT OF NET ASSETS
September 30, 2012

	Governmental Activities
ASSETS	
Cash	\$ 77,069
Assessment receivables	490,250
Other assets	200
Restricted assets:	
Investments	3,073,489
Deferred charges	254,671
Capital assets:	
Nondepreciable	9,085,683
Total assets	12,981,362
 LIABILITIES	
Accounts payable	947
Accrued expenses	80
Accrued interest payable	47,479
Due to developer	14,325
Bonds payable, due within one year	452,022
Bonds payable, long-term	12,111,088
Total liabilities	12,625,941
 NET ASSETS	
Invested in capital assets, net of related debt	(3,222,756)
Restricted for debt service	888,812
Restricted for capital projects	2,241,575
Unrestricted	447,790
Total net assets	\$ 355,421

See notes to the financial statements.

WATER'S EDGE COMMUNITY DEVELOPMENT DISTRICT
MANATEE COUNTY, FLORIDA
STATEMENT OF ACTIVITIES
For The Fiscal Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues		Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		
Primary government:					
Governmental activities:					
General government	\$ 267,368	\$ 267,368	\$ -	\$ -	\$ -
Maintenance and operations	127,020	25,567	-	-	(101,453)
Interest on long-term debt	<u>(182,982)</u>	<u>977,376</u>	<u>-</u>	<u>-</u>	<u>1,160,358</u>
Total governmental activities	<u>\$ 211,406</u>	<u>\$ 1,270,311</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,058,905</u>
General revenues:					
Interest income					<u>527</u>
Change in net assets					1,059,432
Net assets - beginning					<u>(704,011)</u>
Net assets - ending					<u>\$ 355,421</u>

See notes to the financial statements.

WATER'S EDGE COMMUNITY DEVELOPMENT DISTRICT
MANATEE COUNTY, FLORIDA
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2012

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
ASSETS				
Cash	\$ 77,069	\$ -	\$ -	\$ 77,069
Investments	-	963,598	2,109,891	3,073,489
Due from other funds	-	104,377	131,684	236,061
Other assets	200	-	-	200
Total assets	\$ 77,269	\$ 1,067,975	\$ 2,241,575	\$ 3,386,819
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 947	\$ -	\$ -	\$ 947
Accrued expenses	80	-	-	80
Due to other funds	104,377	131,684	-	236,061
Due to developer	14,325	-	-	14,325
Total liabilities	119,729	131,684	-	251,413
Fund balances:				
Restricted:				
Debt service	-	936,291	-	936,291
Capital projects	-	-	2,241,575	2,241,575
Unassigned:				
General fund	(42,460)	-	-	(42,460)
Total fund balances	(42,460)	936,291	2,241,575	3,135,406
Total liabilities and fund balances	\$ 77,269	\$ 1,067,975	\$ 2,241,575	\$ 3,386,819

See notes to the financial statements.

WATER'S EDGE COMMUNITY DEVELOPMENT DISTRICT
MANATEE COUNTY, FLORIDA
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO STATEMENT OF NET ASSETS
September 30, 2012

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

Fund balance - governmental funds, page 10		\$ 3,135,406
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:		
Cost of capital assets		9,085,683
Other assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:		
Assessment receivables	\$ 490,250	
Bond issue costs	315,793	
Accumulated amortization	<u>(61,122)</u>	744,921
Certain liabilities not due and payable in the current period and, therefore, are not reported in the funds:		
Accrued interest payable		(47,479)
Bonds payable		<u>(12,563,110)</u>
Net assets of governmental activities, page 8		<u>\$ 355,421</u>

See notes to the financial statements.

WATER'S EDGE COMMUNITY DEVELOPMENT DISTRICT
MANATEE COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Fiscal Year Ended September 30, 2012

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
REVENUES				
Assessments	\$ 292,718	\$ 487,126	\$ -	\$ 779,844
Interest income	141	127	259	527
Miscellaneous income	217	-	-	217
Total revenues	293,076	487,253	259	780,588
EXPENDITURES				
Current:				
General government	28,259	239,109	-	267,368
Maintenance and operations	127,020	-	-	127,020
Debt Service:				
Principal	-	370,786	-	370,786
Interest	-	-	-	-
Capital outlay	-	-	59,075	59,075
Total expenditures	155,279	609,895	59,075	824,249
Excess (deficiency) of revenues over (under) expenditures	137,797	(122,642)	(58,816)	(43,661)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	84,722	-	84,722
Transfers out	-	-	(84,722)	(84,722)
Total other financing sources	-	84,722	(84,722)	-
Net change in fund balances	137,797	(37,920)	(143,538)	(43,661)
Fund balances - beginning	(180,257)	974,211	2,385,113	3,179,067
Fund balances - ending	\$ (42,460)	\$ 936,291	\$ 2,241,575	\$ 3,135,406

See notes to the financial statements.

WATER'S EDGE COMMUNITY DEVELOPMENT DISTRICT
MANATEE COUNTY, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For The Fiscal Year Ended September 30, 2012

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

Net change in fund balances - total governmental funds	\$	(43,661)
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is eliminated and capitalized as capital assets.		59,075
Repayment of long-term liabilities are reported as expenditures in the governmental fund statement but such repayments reduce liabilities in the statement of net assets and are eliminated in the statement of activities.		326,890
The change in accrued interest on long-term liabilities between the current and prior fiscal year is recorded in the statement of activities but not in the fund financial statements.		237,065
Some revenue reported in the statement of activities is not available for current financial resources and, therefore, are not reported as revenue in the governmental funds.		
Assessment revenue		490,250
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 the governmental funds.		
Amortization of deferred charges		<u>(10,187)</u>
Change in net assets of governmental activities	\$	<u>1,059,432</u>

See notes to the financial statements.

WATER'S EDGE COMMUNITY DEVELOPMENT DISTRICT
MANATEE COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Water's Edge Community Development District (the "District") was created by the Manatee County Commissioners under Ordinance No. 05-34 effective on June 3, 2005 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The Act provides among other things, the power to manage basic services for community development, power to borrow money and issue bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure.

The District was established for the 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 ("Board") which is composed of five members. The Supervisors are elected by the owners of property within the District. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes. All of the Board members are affiliated with Neal Communities, Inc. at September 30, 2012. River Reach Associates, LLC, ("Developer") is a wholly owned subsidiary of Neal Communities, Inc. The District is economically dependent on the Developer.

The Board has the final responsibility for:

1. Assessing 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 current Governmental Accounting Standards.

WATER'S EDGE COMMUNITY DEVELOPMENT DISTRICT
MANATEE COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Assessments

Assessments are non-ad valorem assessments on all platted lots within the District. Assessments are levied each November 1 on property of record as of the previous January 1 to pay for the operations and maintenance and debt service of the District. The fiscal year for which annual assessments are levied begins on October 1 with discounts available for payments through February 28 and become delinquent on April 1. For debt service assessments, amounts collected as advance payments are used to prepay a portion of the Bonds outstanding. Otherwise, assessments are collected annually to provide funds for the debt service on the portion of the Bonds which are not paid with prepaid assessments. The District's annual assessments are billed and collected by the County Tax Assessor/Collector. The amounts remitted to the District are net of applicable discounts or fees and include interest on monies held from the day of collection to the day of distribution. In addition, any excess fees computed by the Tax Collector are remitted to the District.

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

As a part of the debt restructure, assessments receivable of \$490,250 was established and will be collected in the upcoming year as payments from tax certificate redemptions are made.

WATER'S EDGE COMMUNITY DEVELOPMENT DISTRICT
MANATEE COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The District reports the following major governmental funds:

General Fund

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

Debt Service Fund

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

Capital Projects Fund

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

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

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

Deposits and Investments

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

The District has elected to proceed under the Alternative Investment Guidelines as set forth in Section 218.415 (17) Florida Statutes. The District may invest any surplus public funds in the following:

- a) The Local Government Surplus Trust Funds, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act;
- b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
- c) Interest bearing time deposits or savings accounts in qualified public depositories;
- d) Direct obligations of the U.S. Treasury.

Securities listed in paragraph c and d shall be invested to provide sufficient liquidity to pay obligations as they come due. In addition, surplus funds may be deposited into certificates of deposit which are insured and any unspent Bond proceeds are required to be held in investments allowed in the Bond Indenture.

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

WATER'S EDGE COMMUNITY DEVELOPMENT DISTRICT
MANATEE COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, sidewalks and similar items) are reported in the government activities 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.

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

At September 30, 2012, the District had \$9,085,683 invested in construction in progress. Since the acquisition and construction of the District's infrastructure has not yet been completed, thus the capital assets are non-depreciable. As a result, no depreciation has been taken in the government-wide statements.

Deferred Charges

In connection with the issuance of debt during the fiscal year ended September 30, 2007, the District incurred costs totaling \$315,793. In the government-wide statements that amount has been capitalized and amortized ratably over the estimated life of the Bonds. At September 30, 2012 the District reported accumulated amortization of \$61,122.

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 ratably over the life of the Bonds. Bonds payable are reported net of applicable premiums or discounts.

WATER'S EDGE COMMUNITY DEVELOPMENT DISTRICT
MANATEE COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fund Balances

Governmental funds report fund balances are classified either as nonspendable, or as spendable. Spendable fund balances are further classified based on the extent to which there are external and internal constraints on the spending of these fund balances. These classifications are described as follows:

Nonspendable Fund Balance – Amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact.

Restricted Fund Balance – Amounts that are constrained for specific purposes which are externally imposed by creditors, grantors, contributors, or laws or regulations or imposed by laws through constitutional provisions or enabling legislation. The District has restricted debt service and capital project funds.

Committed Fund Balance – Amounts that are constrained for specific purposes imposed by the District's formal action of highest level of decision making authority.

Assigned Fund Balance – Includes spendable fund balances intended to be used for specific purposes, but which are neither restricted nor committed.

Unassigned Fund Balance – Represents the residual positive fund balance within the General Fund, which has not been assigned to other funds and has not been restricted, committed, assigned. In funds other than the General Fund, unassigned fund balances are limited to negative residual balances.

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.

WATER'S EDGE COMMUNITY DEVELOPMENT DISTRICT
MANATEE COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
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. Annual Budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

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

- a) Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
- b) Public hearings are conducted to obtain public comments.
- c) Prior to October 1, the budget is legally adopted by the District Board.
- d) All budget changes must be approved by the District Board.

The legal level of budgetary control, the level at which expenditures may not exceed budget, is at the fund level. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. The 2012 general fund budget was amended once.

NOTE 3 – CASH AND INVESTMENTS

Cash

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

Investments

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

	<u>Fair Value</u>	<u>Credit Risk</u>	<u>Maturity</u>
Money Market Mutual Funds - First American Government Obligation Funds	\$ 3,073,489	S&P AAAM	Weighted average of the fund portfolio: 46 days

WATER'S EDGE COMMUNITY DEVELOPMENT DISTRICT
MANATEE COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 3 – CASH AND INVESTMENTS - continued

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

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

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

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

However, the Bond Indenture limits the type of investments held using unspent proceeds in the debt service and capital projects funds.

NOTE 4 – CAPITAL ASSETS

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

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Construction in progress	\$ 9,026,608	\$ 59,075	\$ -	\$ 9,085,683

The total cost of the District's infrastructure is estimated at approximately \$18,025,500 and will be completed in phases. Phase 1 is projected to cost \$11,507,500 and will be acquired by the District with the proceeds of the 2006 Bonds with funds for the water management facilities portion being provided by the Developer. It is anticipated that Phase 2 costs will be financed either with additional Bonds or Developer contributions.

WATER'S EDGE COMMUNITY DEVELOPMENT DISTRICT
MANATEE COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 5 – LONG TERM LIABILITIES

At September 30, 2012 the District has the following Bond issues outstanding:

Capital Improvement Revenue Bonds:	Original Face Amount	Interest Rate	Mandatory Redemption Beginning May 1	Interest Payments	Maturity
Series 2006A-1	\$ 8,060,000	5.35%	2010	May and November	May 1, 2023
Series 2006B	\$ 2,765,000	5.40%	2010	May and November	November 1, 2012
Series 2012A-1	\$ 193,000	5.35%	N/A	May and November	May 1, 2039
Series 2012A-2	\$ 13,485,000	6.60%	N/A	May and November	May 1, 2039

The Bonds were issued to finance the acquisition and construction of certain infrastructure within the District.

On May 10, 2012 the Series 2006A-1 and Series 2006B Bonds were restructured in exchange for 2012A-1 and 2012A-2 Series Bonds, to be payable from and secured by special assessments levied, imposed and collected on the Non-Restructured Lands for \$193,000 and \$10,411,499, respectively, of initial principal amount of Capital Improvement Revenue Refunding Bonds, to be payable from and secured by special assessments levied, imposed and collected on the Developer lands, as well as payoff the Series 2006A-2 Bonds. The 2012A-2 Series Bonds have total bond value of \$10,743,500 as of September 30, 2012, which includes accreted interest of \$332,001.

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. In addition, 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 agrees to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements.

WATER'S EDGE COMMUNITY DEVELOPMENT DISTRICT
MANATEE COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 5 – LONG TERM LIABILITIES - continued

Long-term debt activity

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
2006A-1	\$ 7,230,000	\$ -	\$ 5,603,411	\$ 1,626,589	\$ 120,000
2006A-2	3,275,000	-	3,275,000	-	-
2006B	2,385,000	-	2,052,978	332,022	332,022
2012A-1	-	193,000	-	193,000	-
2012A-2	-	10,411,499	-	10,411,499	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Series 2006	<u>\$ 12,890,000</u>	<u>\$ 10,604,499</u>	<u>\$ 10,931,389</u>	<u>\$ 12,563,110</u>	<u>\$ 452,022</u>

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

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2013	\$ 452,022	\$ 100,486	\$ 552,508
2014	133,000	90,847	223,847
2015	138,000	83,733	221,733
2016	149,000	76,324	225,324
2017	154,000	513,356	667,356
2018-2022	2,064,678	4,763,074	6,827,752
2023-2027	1,667,074	4,149,446	5,816,520
2028-2032	2,251,010	3,515,890	5,766,900
2033-2037	3,123,878	2,638,457	5,762,335
2038-2039	2,430,448	1,025,715	3,456,163
Total	<u>\$ 12,563,110</u>	<u>\$ 16,957,328</u>	<u>\$ 29,520,438</u>

NOTE 6 – NET ASSETS/FUND BALANCES (DEFICIT)

The District has a government-wide net assets deficit of (\$704,011) as of September 30, 2011. The District also showed a negative General Fund balance of (\$42,460) and (\$180,257) reflected in the governmental fund statements for the fiscal years ended September 30, 2012 and 2011. The deficit in the government-wide statement of net assets and general fund primarily relates to expenses or expenditures (debt service related and operations) in excess of revenue.

WATER'S EDGE COMMUNITY DEVELOPMENT DISTRICT
 MANATEE COUNTY, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2012

NOTE 7 – RELATED PARTY TRANSACTIONS

The District has entered into an agreement with Citizens Management Services, Inc. to manage the planning, construction and development of the project. Citizens' is affiliated with the Developer through common ownership.

NOTE 8 – RISK MANAGEMENT

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

NOTE 9 – TRANSFERS/DUE TO OTHER FUNDS

The District made the following transfers during the year ended September 30, 2012:

From	To	Amount
Capital Projects	Debt Service	\$ 84,722

To cover costs related to debt service payments.

The District had the following balances owed to various funds at September 30, 2012:

From	To	Amount
Debt Service	General	\$ 104,377
Capital Projects	Debt Service	\$ 131,684

The Debt Service Fund paid the cost of various operations for the General Fund.

The Capital Projects Fund paid the cost of various debt service transactions related to the restructure of the Bonds.

WATER'S EDGE COMMUNITY DEVELOPMENT DISTRICT
MANATEE COUNTY, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
For The Fiscal Year Ended September 30, 2012

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Assessments	\$ 196,205	\$ 196,205	\$ 292,718	\$ 96,513
Interest income and other revenues	-	-	358	358
Total revenues	<u>196,205</u>	<u>196,205</u>	<u>293,076</u>	<u>96,871</u>
EXPENDITURES				
Current:				
General government	80,804	80,804	28,259	52,545
Maintenance and operations	<u>115,401</u>	<u>115,401</u>	<u>127,020</u>	<u>(11,619)</u>
Total expenditures	<u>196,205</u>	<u>196,205</u>	<u>155,279</u>	<u>40,926</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	137,797	137,797
Fund balance - beginning	<u>-</u>	<u>-</u>	<u>(180,257)</u>	<u>(180,257)</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (42,460)</u>	<u>\$ (42,460)</u>

WATER'S EDGE COMMUNITY DEVELOPMENT DISTRICT
MANATEE COUNTY, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The District is required to establish a budgetary system and an approved Annual Budget for the general fund. The District's budgeting process is based on estimates of cash receipts and cash expenditures which are approved by the Board. The budget approximates a basis consistent with accounting principles generally accepted in the United States of America (generally accepted accounting principles).

The legal level of budgetary control, the level at which expenditures may not exceed budget, is at the fund level. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. The 2012 general fund budget was not amended.

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
Water's Edge Community Development District
Manatee County, Florida

We have audited the financial statements of the governmental activities and each major fund of Water's Edge Community Development District Manatee County, Florida (the "District") as of and for the fiscal year ended September 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 5, 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

Management of the District 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 opinion 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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 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 previously.

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, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Supervisors of Water's Edge Community Development District, Manatee County, Florida, others within the entity, and the Auditor General of the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

Shinn & Company LLC

CERTIFIED PUBLIC ACCOUNTANTS

July 5, 2013
Bradenton, FL

MANAGEMENT LETTER
REQUIRED BY CHAPTER 10.554(I)(i) OF THE RULES OF
THE AUDITOR GENERAL OF THE STATE OF FLORIDA

To the Board of Supervisors
Water's Edge Community Development District
Manatee County, Florida

We have audited the accompanying basic financial statements of Water's Edge Community Development District ("District") as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated July 5, 2013.

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

In addition, we have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters dated July 5, 2013. Disclosures in that report should be considered in conjunction with this management letter.

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

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

This report is intended for the information and use of the management, Board of Supervisors of Water's Edge Community Development District, Manatee County, Florida, others within the entity, and the Auditor General of the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.



CERTIFIED PUBLIC ACCOUNTANTS

July 5, 2013
Bradenton, FL

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None in the current year

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

The negative fund balances were decreased greatly and will continue to work towards elimination in 2013.

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

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

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

See above

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

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

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

There were no such other matters discovered by, or that came to the attention of, the auditor, to be reported other than shown above.

4. 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.

There were no other such matters discovered by, or that came to the attention of, the auditor, to be reported other than shown above.

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

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

There were no other such matters discovered by, or that came to the attention of, the auditor, to be reported other than shown above.

6. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.
- 7a. The District has not met any of the conditions described in Section 218.503(1), Florida Statutes.
- 7b. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2012 financial audit report.
- 7c. We applied financial condition assessment procedures pursuant to Rule 10.556(7). It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.