

**MEDITERRA SOUTH  
COMMUNITY DEVELOPMENT DISTRICT  
COLLIER COUNTY, FLORIDA  
INDEPENDENT AUDITORS' REPORT AND  
GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2003**

MEDITERRA SOUTH COMMUNITY DEVELOPMENT DISTRICT  
COLLIER COUNTY, FLORIDA

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## INDEPENDENT AUDITORS' REPORT

To the Board of Supervisors  
Mediterra South Community Development District  
Collier County, Florida

We have audited the accompanying general-purpose financial statements of Mediterra South Community Development District, Collier County, Florida ("District") as of and for the fiscal year ended September 30, 2003, as listed in the Table of Contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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 general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the District, as of September 30, 2003, and the results of its operations 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 a report dated December 4, 2003, on our consideration of the Mediterra South Community Development District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

December 4, 2003

**MEDITERRA SOUTH COMMUNITY DEVELOPMENT DISTRICT**  
**COLLIER COUNTY, FLORIDA**  
**COMBINED BALANCE SHEET - ALL FUND TYPES**  
**AND ACCOUNT GROUPS**  
**SEPTEMBER 30, 2003**  
**(With Comparative Totals for September 30, 2002)**

	Governmental Fund Types			Account Groups			Totals	
	General	Debt Service	Capital Projects	General Fixed Assets	Long-Term Debt	(Memorandum Only)	2003	2002
<b>ASSETS</b>								
Cash	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -	\$ 6,192
Investments	135,584	3,728,335	4,435,802				8,299,721	2,592,559
Due from other governments	105,904	-	-				105,904	
Accrued interest	-	1,566	1,867				3,433	2,458
Due from other funds	1,250						1,250	1,877
Other receivables								1,247
Fixed assets				34,004,532			34,004,532	26,145,124
Amounts available in Debt Service Fund					3,700,953		3,700,953	2,491,319
Amounts to be provided for Retirement of Long-Term Debt					25,959,047		25,959,047	15,053,681
<b>Total Assets</b>	<b>\$ 242,738</b>	<b>\$ 3,729,901</b>	<b>\$ 4,437,669</b>	<b>\$ 34,004,532</b>	<b>\$ 29,660,000</b>		<b>\$ 72,074,840</b>	<b>\$ 46,294,457</b>

(Continued)

See notes to financial statements

**MEDITERRA SOUTH COMMUNITY DEVELOPMENT DISTRICT**  
**COLLIER COUNTY, FLORIDA**  
**COMBINED BALANCE SHEET - ALL FUND TYPES**  
**AND ACCOUNT GROUPS**  
**SEPTEMBER 30, 2003**  
**(With Comparative Totals for September 30, 2002)**  
**(Continued)**

	Governmental Fund Types				Account Groups			Totals	
	General	Debt Service	Capital Projects	General Fixed Assets	Long-Term Debt	2003	2002	(Memorandum Only)	
<b>LIABILITIES</b>									
Accounts payable	\$ 9,215	\$ -	\$ -	\$ -	\$ -	\$ 9,215	\$ 6,099		
Accrued interest		27,698				27,698			
Due to Developer			1,524,911			1,524,911			
Due to other funds		1,250				1,250	1,877		
Bonds Payable					29,660,000	29,660,000	17,545,000		
<b>Total Liabilities</b>	<b>9,215</b>	<b>28,948</b>	<b>1,524,911</b>	<b>-</b>	<b>29,660,000</b>	<b>31,223,074</b>	<b>17,552,976</b>		
<b>FUND EQUITY</b>									
Investments in General				34,004,532		34,004,532	26,145,124		
Fixed Assets									
Fund Balance		3,700,953				3,700,953	2,491,319		
Reserved for Debt Service			2,912,758			2,912,758	324		
Reserved for Capital Projects									
Unreserved	233,523					233,523	104,714		
<b>Total Fund Equity</b>	<b>233,523</b>	<b>3,700,953</b>	<b>2,912,758</b>	<b>34,004,532</b>	<b>-</b>	<b>40,851,766</b>	<b>28,741,481</b>		
<b>Total Liabilities and Fund Equity</b>	<b>\$ 242,738</b>	<b>\$ 3,729,901</b>	<b>\$ 4,437,669</b>	<b>\$ 34,004,532</b>	<b>\$ 29,660,000</b>	<b>\$ 72,074,840</b>	<b>\$ 46,294,457</b>		

See notes to financial statements

**MEDITERRA SOUTH COMMUNITY DEVELOPMENT DISTRICT  
COLLIER COUNTY, FLORIDA  
COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003  
(With Comparative Totals for September 30, 2002)**

	Governmental Fund Types			Totals (Memorandum Only)	
	General	Debt Service	Capital Projects	2003	2002
<b>REVENUES</b>					
Developer Contributions	\$ 218,221	\$ 907,365	\$ -	\$ 1,125,586	\$ 343,874
Maintenance Assessments	150,283	-	-	150,283	65,340
Special Assessments		519,130	-	519,130	1,445,816
Interest and other revenues	2,128	18,271	20,168	40,567	51,620
<b>Total Revenues</b>	<b>\$ 370,632</b>	<b>\$ 1,444,766</b>	<b>\$ 20,168</b>	<b>\$ 1,835,566</b>	<b>\$ 1,906,650</b>
<b>EXPENDITURES</b>					
<b>Current</b>					
General government	97,602	56,389		153,991	121,162
Maintenance	144,221			144,221	68,096
<b>Debt Service</b>					
Bond issue costs			356,648	356,648	2,145
Principal retirement		1,030,000		1,030,000	2,720,000
Interest		1,185,421		1,185,421	1,244,889
Capital outlay	-		7,859,408	7,859,408	311,583
<b>Total Expenditures</b>	<b>241,823</b>	<b>2,271,810</b>	<b>8,216,056</b>	<b>10,729,689</b>	<b>4,467,875</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>					
	128,809	(827,044)	(8,195,888)	(8,894,123)	(2,561,225)
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from long-term debt		2,036,581	11,108,419	13,145,000	
Operating transfer in		97		97	303,000
Operating transfer (out)			(97)	(97)	(303,000)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>2,036,678</b>	<b>11,108,322</b>	<b>13,145,000</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)</b>					
	128,809	1,209,634	2,912,434	4,250,877	(2,561,225)
<b>FUND BALANCES- OCTOBER 1</b>	<b>104,714</b>	<b>2,491,319</b>	<b>324</b>	<b>2,596,357</b>	<b>5,157,582</b>
<b>FUND BALANCES- SEPTEMBER 30</b>	<b>\$ 233,523</b>	<b>\$ 3,700,953</b>	<b>\$ 2,912,758</b>	<b>\$ 6,847,234</b>	<b>\$ 2,596,357</b>

See notes to the financial statements

**MEDITERRA SOUTH COMMUNITY DEVELOPMENT DISTRICT**  
**COLLIER COUNTY, FLORIDA**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003**

	General Fund			Debt Service Fund			Variance Favorable (Unfavorable)
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	
<b>REVENUES</b>							
Developer Contributions	\$ 219,739	\$ 218,221	\$ (1,518)	\$ 807,634	\$ 907,365	\$ 99,731	
Maintenance Assessments	155,764	150,283	(5,481)				
Special Assessments		2,128	2,128	618,861	519,130	(99,731)	
Interest and other revenues				18,274	18,271	(3)	
<b>Total Revenues</b>	<b>375,503</b>	<b>370,632</b>	<b>(4,871)</b>	<b>1,444,769</b>	<b>1,444,766</b>	<b>(3)</b>	
<b>EXPENDITURES</b>							
Current							
General government	159,921	97,602	62,319	56,293	56,389	(96)	
Maintenance	215,582	144,221	71,361				
Debt Service							
Principal retirement				1,030,000	1,030,000	-	
Interest				1,185,421	1,185,421	-	
<b>Total Expenditures</b>	<b>375,503</b>	<b>241,823</b>	<b>133,680</b>	<b>2,271,714</b>	<b>2,271,810</b>	<b>(96)</b>	

(Continued)

See notes to the financial statements

**MEDITERRA SOUTH COMMUNITY DEVELOPMENT DISTRICT**  
**COLLIER COUNTY, FLORIDA**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003**  
**(Continued)**

	General Fund		Variance Favorable (Unfavorable)	Debt Service Fund		Variance Favorable (Unfavorable)
	Budget	Actual		Budget	Actual	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	128,809	128,809	(826,945)	(827,044)	(99)
OTHER FINANCING SOURCES (USES)						
Proceeds from long-term debt				2,064,279	2,036,581	(27,698)
Operating transfer in					97	97
Total other financing sources (uses)		-	-	2,064,279	2,036,678	(27,601)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCED OVER (UNDER) EXPENDITURES AND OTHER (USES)	\$ -	128,809	\$ 128,809	\$ 1,237,334	1,209,634	\$ (27,700)
FUND BALANCES- OCTOBER 1		104,714			2,491,319	
FUND BALANCES- SEPTEMBER 30		\$ 233,523			\$ 3,700,953	

See notes to the financial statements



**MEDITERRA SOUTH COMMUNITY DEVELOPMENT DISTRICT  
COLLIER COUNTY, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - THE DISTRICT**

Mediterra South Community Development District ("District") was created on September 14, 1999 by the Collier County Board of County Commissioners under the "Uniform Community Development District Act of 1980", otherwise known as Chapter 190, Florida Statutes, and was adopted as Collier County Ordinance 99-67, under the name of Mediterra South Community Development District. During the fiscal year ended September 30, 2001 the District annexed lands owned by the Developer which increased the District boundaries from 944 acres to 1154 acres.

The Ordinance defines the legal description of the District and provides among other things the power to manage basic services for community development and to levy and assess non-ad valorem assessments for the financing and maintenance of improvements.

The District is governed by the Board of Supervisors ("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. Ownership of land within the District entitles the owner to one vote per acre. The Developer "Long Bay Partners, L.L.C." currently owns the majority of the land within the District. All of the Board members are affiliated with the Developer. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes.

The Board has the final responsibility for:

1. Assessing and levying maintenance taxes and 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 District receives no direct financial support from Collier County, and the establishment of the District in no way limits Collier County in the exercise of its powers or authority as provided for in Chapter 125, Florida Statutes.

**Reporting Entity**

The District's financial statements include the operations of all Organizations for which the District Board of Supervisors is considered to be financially accountable and for which it would be considered misleading to exclude. There are no entities considered to be component units of the District; therefore, the financial statements include only the operations of the District. As a result of the facts and circumstances discussed above and that no debt obligation or duty of the District constitute a debt, obligation, duty or burden of or on Collier County, the District is treated as a separate entity from that of the County.

**Budget Requirements**

The District is required to establish a budgetary system and an approved Annual Budget. 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 District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a) Annually the District's Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.

## **NOTE 1 - THE DISTRICT (Continued)**

### **Budget Requirements (Continued)**

- b) Public hearings are conducted to obtain taxpayer comments.
- c) Prior to October 1, the budget is legally adopted by the District Board.
- d) All budget changes must be approved by the District Board.
- e) The budget for all the funds, is adopted on a basis consistent with generally accepted accounting principles.
- f) Unused appropriations for annually budgeted funds lapse at the end of the year.
- g) The budget amounts shown in the financial statements are the final authorized amounts.

The Debt Service Fund Budget was amended by decreasing revenues by \$44,974 and increasing appropriations by \$595,534. Budgetary data for the Capital Projects Fund has not been presented in the accompanying financial statements as such funds are budgeted over the life of the respective project and not on an annual basis.

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Presentation**

The accounts of the District are organized on the basis of funds and account groups each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The various funds are grouped in the financial statements in this report, into one fund type and two account group categories as follows:

### **Governmental Fund Type**

#### **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 general obligation debt.

#### **Capital Projects Fund**

Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities.

### **Account Group**

#### **General Fixed Assets Account Group**

This account group is used to establish accounting control and accountability for the fixed assets of the District utilized in its general operations.

#### **General Long Term Debt Account Group**

The General Long Term Debt Account Group is used to account for long-term liabilities to be financed from governmental fund types.

#### **Fixed Assets**

Public domain general fixed assets consisting of certain improvements including roads, curbs and gutter, streets and sidewalks, lighting systems, bridges and drainage systems are capitalized and are valued at historical cost. No depreciation has been provided on general fixed assets, nor has interest been capitalized.

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Basis of Accounting**

The accounting and financial reporting treatment applied to all funds is determined by its measurement focus. All Governmental Funds are accounted for on a spending measurement focus. Only current assets and current liabilities are generally included in their balance sheet. Their operating statements present sources (revenue and other financing sources) and uses (expenditures and other financing uses) of available spendable resources (net current assets) during the period.

The modified accrual basis of accounting is used for all governmental fund types. Under this method, revenues are recorded when received in cash, except in cases where they are both measurable and available. "Measurable" means that the amount of transaction can be determined and "available" means that the amount of the transaction is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when goods or services are received and actual liabilities are incurred. Disbursements for the purchase of capital assets providing future benefits are considered expenditures and are accounted for in the General Fixed Assets Account Group. Principal and interest on general long-term debt are recorded as fund liabilities when due.

Those revenues susceptible to accrual are developer contributions, assessments and interest revenue.

### **Investments**

Investments consisting of cash management accounts investing in short term government obligations are stated at cost which approximates fair value. Investments in fixed-income government securities with a maturity longer than one year are stated at fair value.

### **Maintenance Assessments**

The District levied a non-ad valorem maintenance assessment on all platted lots within the District. Maintenance assessments are levied each November 1 on property as of the previous January 1. The fiscal year for which taxes are levied begins on October 1 with a maximum discount available for payments through November 30 and becomes delinquent on April 1. The Collier County, Florida, Tax Collector's Office bills and collects maintenance taxes on behalf of the District. The maintenance assessment represents the amount collected from each lot owner for operating and maintenance expenditures of the District. Maintenance assessments levied for the fiscal year ended September 30, 2003 were \$505.73 per unit.

In conformance with governmental accounting principles, maintenance assessments relating to the current budget and collected within 60 days after the end of the budget period are recognized as revenue currently.

### **Special Assessments**

The District is required to impose special assessments on each parcel of benefited land within the District in accordance with the bond indenture. Certain assessments are collected upon closing on each lot sold and are used to prepay a portion of the Bonds and to pay a portion of the interest owed. The District must also levy and collect additional annual assessments to provide funds for additional debt service on the portion of the bonds which are not paid for from the prepaid assessments.

In conformance with governmental accounting principles, special assessments relating to the current budget and collected within 60 days after the end of the budget period are recognized as revenue currently.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Total Columns on Combined Statement

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations, in conformity with generally accepted accounting principles. Also, such data is not comparable to a consolidation.

### 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.

### New Pronouncements

The GASB has issued several statements not yet implemented by the District. The statements which will have an impact on the District are as follows:

GASB Statements No. 34, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*," No. 37, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*": Omnibus; and No. 38, "*Certain Financial Statement Note Disclosures*," will be effective for the District, for the fiscal year beginning October 1, 2003. These statements impose new standards for financial reporting. Management has not yet completed their assessment of the statements; however, it will have an effect on the overall financial statements presentation for the District.

## 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 has elected to proceed under the Alternative Investment Guidelines as set forth in Section 218.415 (17) Florida Statutes.

Certain securities are required to be categorized to give an indication of the level of risk assumed by the entity at year end. The three categories of risk are:

- 1) Insured or registered, or securities held by the entity or its agent in the entities name.
- 2) Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the entities name.
- 3) Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the entities name.

The District records all interest revenue related to investment activities in the respective funds.

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

	CARRYING/ FAIR VALUE
Cash management account	<u>\$8,299,721</u>

The cash management account investments are not categorized because they are not evidenced by securities that exist in physical or book entry form.

**NOTE 4 - GENERAL FIXED ASSETS**

Changes in general fixed assets during the year are summarized below:

	Balance October 1, 2002	Additions	Deletions	Balance September 30, 2003
Land	\$ 7,763,525	\$ 6,331,000	\$ -	\$ 14,094,525
Infrastructure under construction	18,381,599	1,528,408	-	19,910,007
	<u>\$ 26,145,124</u>	<u>\$ 7,859,408</u>	<u>\$ -</u>	<u>\$ 34,004,532</u>

During the year ended September 30, 2003, all of the additions to infrastructure under construction were acquired from the Developer. Acquisitions from the Developer were done in accordance with the Amendment to the Project Improvement Acquisition Agreement. The agreement provides for the maximum amount to be paid by the District for infrastructure and land. Any additional costs associated with acquisition of land and infrastructure would be paid by the Developer with these amounts to be donated to the District. The total projected cost of the land and infrastructure is approximately \$60,000,000.

**NOTE 5 - DUE TO/FROM OTHER FUNDS AND TRANSFER INS AND (OUTS)**

The detail of the due to/from other funds as of September 30, 2003 follows:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ -	\$ 1,250
Debt Service Fund - Series 2001	1,250	
	<u>\$ 1,250</u>	<u>\$ 1,250</u>

**NOTE 5 - DUE TO/FROM OTHER FUNDS AND TRANSFER INS AND (OUTS) (Continued)**

The detail of the transfer in and (out) for the fiscal year ended September 30, 2003 follows:

	<u>Transfer In</u>	<u>Transfer (Out)</u>
Debt Service Fund Series 1999	\$ 97	
Capital Projects Fund Series 1999		\$ (97)
	<u>\$ 97</u>	<u>\$ (97)</u>

**NOTE 6 - LONG TERM DEBT**

Series 1999

On December 29, 1999, the District issued \$30,495,000 of Capital Improvement Revenue Bonds, Series 1999 consisting of \$11,415,000 Term Bonds Series 1999A due on May 1, 2031 with a fixed interest rate of 6.95%, and \$19,080,000 Term Bonds Series 1999B due on May 1, 2004 with a fixed interest rate of 6.25%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is to be paid semiannually on each May 1 and November 1. Principal on the Series 1999A Bonds is to be paid serially commencing May 1, 2002 through May 1, 2031. Principal on the Series 1999B Bonds is due in one lump sum payment on May 1, 2004.

The Series 1999 B Bonds are not subject to redemption at the option of the District prior to their maturity. The Series 1999A Bonds may, at the option of the District, be called for redemption as a whole or in part on any interest payment date on or after May 1, 2008 at a redemption price set in the Bond Indenture.

The Series 1999A Bonds and Series 1999B Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture. This occurred during the fiscal year ended September 30, 2003 as the District collected prepayments which were used to pay down the Bonds by \$850,000.

The Bond Indenture established a Debt Service Reserve Requirement in the Reserve Fund which is included in the Debt Service Fund. The requirement was met as of September 30, 2003.

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. The District is in compliance with the requirements of the Bond Indenture.

Series 2001

On July 16, 2001, the District issued \$5,585,000 of Capital Improvement Revenue Bonds, Series 2001 due on May 1, 2031 with a fixed interest rate of 6.85%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is to be paid semiannually on each May 1 and November 1, commencing November 1, 2001. Principal on the Series 2001 Bonds is to be paid serially commencing May 1, 2002 through May 1, 2031.

The Series 2001 Bonds may, at the option of the District, be called for redemption as a whole or in part on any interest payment date on or after May 1, 2011 at a redemption price set in the Bond Indenture.

The Series 2001 Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture.

**NOTE 6 - LONG TERM DEBT (Continued)**

Series 2001 (continued)

The Bond Indenture established a Debt Service Reserve Requirement in the Reserve Fund which is included in the Debt Service Fund. The requirement was met as of September 30, 2003.

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. The District is in compliance with the requirements of the Bond Indenture.

Series 2003

On May 14, 2003, the District issued \$13,145,000 of Capital Improvement Revenue Bonds, Series 2003 consisting of \$5,035,000 Term Bonds Series 2003A due on May 1, 2034 with a fixed interest rate of 6.375%, and \$8,110,000 Term Bonds Series 2003B due on May 1, 2010 with a fixed interest rate of 5.50%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is to be paid semiannually on each May 1 and November 1, commencing November 1, 2003. Principal on the Series 2003A Bonds is to be paid serially commencing May 1, 2005 through May 1, 2034. Principal on the Series 2003B Bonds is due in one lump sum payment on May 1, 2010.

The Series 2003 Bonds may, at the option of the District, be called for redemption as a whole or in part on any interest payment date on or after May 1, 2013 at a redemption price set in the Bond Indenture.

The Series 2003 Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture.

The Bond Indenture established a Debt Service Reserve Requirement in the Reserve Fund which is included in the Debt Service Fund. The requirement was met as of September 30, 2003.

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. The District is in compliance with the requirements of the Bond Indenture.

Long-term Debt Transactions

The following is a summary of bond transactions for the fiscal year ended September 30, 2003:

	<u>General Long-Term Debt Account Group</u>
Balance, October 1, 2002	\$ 17,545,000
Additions	13,145,000
Deletions	(1,030,000)
Bonds payable at September 30, 2003	<u>\$ 29,660,000</u>

## NOTE 6 - LONG TERM DEBT (Continued)

### Long-term Debt Transactions (Continued)

At September 30, 2003, the scheduled debt service requirements on the long - term debt were as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 985,000	\$ 1,908,444	\$ 2,893,444
2005	270,000	1,841,036	2,111,036
2006	290,000	1,822,691	2,112,691
2007	310,000	1,802,990	2,112,990
2008	325,000	1,781,933	2,106,933
Thereafter	27,480,000	21,149,494	48,629,494
Total	<u>\$ 29,660,000</u>	<u>\$ 30,306,588</u>	<u>\$ 59,966,588</u>

## NOTE 7 – RELATED PARTY TRANSACTIONS

### Mediterra North Community Development District

The District is related to Mediterra North Community Development District (Mediterra North) share the same Developer and common Board members. The District and Mediterra North share the majority of their costs based on a common budget whereby all appropriations are shared based on the total projected ERU's for each District. As of September 30, 2003, the District was owed \$105,904 from Mediterra North.

### Transactions with Developer

The Developer has agreed to fund the operations of the District. As a majority of the land is currently owned by the Developer and the Developer has agreed to provide the monies for the operations of the District, the District is economically dependent on the Developer.

The Developer is also responsible for funding the debt service interest payments on the various bonds. As a result of this requirement, the Developer provided \$907,365 to the District, which was used to pay a portion of the interest owed on the bonds. Subsequent to year-end, the Developer funded \$478,330, which was used to pay a portion of the interest owed on the bonds.

## NOTE 8 - MANAGEMENT COMPANY

The District has contracted with a management company to perform management advisory services, which include financial and accounting advisory services. Certain employees of the management company also serve as officers of the District. Under the agreement, the District compensates the management company for management, accounting, financing reporting, computer and other administrative costs.

## NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage during the past three years.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF GENERAL-PURPOSE FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Supervisors  
Mediterra South Community Development District  
Collier County, Florida

We have audited the general-purpose financial statements of Mediterra South Community Development District, Collier County, Florida as of and for the fiscal year ended September 30, 2003, and have issued our report thereon dated December 4, 2003. 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.

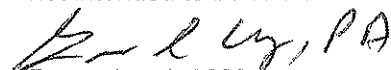
Compliance

As part of obtaining reasonable assurance about whether the Mediterra South Community Development District's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of general-purpose 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mediterra South Community Development District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the management, Board of Supervisors of Mediterra South Community Development District, Collier County, Florida 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.

  
December 4, 2003

**MANAGEMENT LETTER PURSUANT TO THE RULES OF  
THE AUDITOR GENERAL FOR THE STATE OF FLORIDA**

To the Board of Supervisors  
Mediterra South Community Development District  
Collier County, Florida

We have audited the accompanying general-purpose financial statements of the Mediterra South Community Development District, Collier County, Florida (the "District") as of and for the fiscal year ended September 30, 2003, and have issued our report thereon dated December 4, 2003.

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 general-purpose financial statements are free of material misstatement.

The purpose of this letter is to comment on those matters described in Rule 10.554(1)(g) as required by the Rules of the Auditor General for the State of Florida. Accordingly, in connection with our audit of the general-purpose 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.**

We previously reported on the District's internal control in our report dated December 4, 2003.

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

We wish to thank the Mediterra South Community Development District, Collier County, Florida and the personnel associated with it, for the opportunity to be of service to them in this endeavor as well as future engagements and the courtesies extended to us.



December 4, 2003

## REPORT TO MANAGEMENT

### I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None

### II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

None

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

1. There were no inaccuracies, shortages, defalcations, fraud, or violations of laws, rules, regulations, or contractual provisions reported in the previous annual financial audit, for the fiscal year ended September 30, 2002.
2. There were no recommendations made in the annual financial audit for the fiscal year ended September 30, 2002.
3. The financial report filed with the Department of Banking and Finance pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2003 financial audit report.
4. The District is not and was not in a state of financial emergency as a consequence of conditions described in section 218.503(1), Florida Statutes.
5. There were no current year recommendations.
6. There were no violation of laws, rules, regulations and contractual provisions that have occurred, or are likely to have occurred and were discovered within the scope of the audit.
7. There were no illegal or improper expenditures discovered within the scope of the audit that may or may not materially affect the general-purpose financial statements.
8. There were no matters requiring correction that may or may not materially affect the general purpose financial statements. (Improper or inadequate accounting procedures, failure to properly record financial transactions or other inaccuracies, shortages, defalcations, or instances of fraud discovered by or that came to the attention of the auditor.)
9. The District complied with Section 218.415, Florida Statutes, regarding the investment of public funds.
10. The Mediterra South Community Development District, Collier County, Florida was established under Uniform Community Development District Act, of 1980, otherwise known as Chapter 190, Florida Statutes, on September 14, 1999 and is controlled by an elective body consisting of five members of the Board of Supervisors. The District is financially independent as evidenced by the authority to make and approve its own budget, the power to levy non-ad valorem assessments, the authority to buy and sell property, and the authority to incur debt.
11. We applied financial condition assessment procedures pursuant to Rule 10.556 (8) and no deteriorating financial conditions were noted. It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.