

**MEDITERRA NORTH COMMUNITY  
DEVELOPMENT DISTRICT  
BASIC FINANCIAL STATEMENTS**

September 30, 2004

MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT  
BASIC FINANCIAL STATEMENTS  
September 30, 2004

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# BASIC FINANCIAL STATEMENTS

**OTHER REPORTS OF  
INDEPENDENT AUDITORS**

## INDEPENDENT AUDITORS' REPORT

To the Board of Supervisors  
Mediterra North Community Development District  
Bonita Springs, Florida

We have audited the accompanying statement of net assets (deficit) and balance sheet of the governmental activities and major funds of Mediterra North Community Development District (the District) as of September 30, 2004, and the statement of activities, statement of revenues, expenditures and changes in fund balances and statement of revenues, expenditures and change in fund balance - budget and actual - General Fund at September 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major funds of the Mediterra North Community Development District as of September 30, 2004, and the changes in its financial position and budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the basic financial statements, effective October 1, 2003, the Mediterra North Community Development District adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments* and related pronouncements.

In accordance with Government Auditing Standards, we have also issued our report dated January 4, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. That 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.

Mediterra North Community Development District

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the GASB. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida  
January 4, 2005

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2004**

Our discussion and analysis of Mediterra North Community Development District's (the District) financial performance provides an overview of the District's financial activities for the year ended September 30, 2004. Please read it in conjunction with the District's basic financial statements, which immediately follow this discussion. Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

**FINANCIAL HIGHLIGHTS**

The following are the highlights of financial activity for the year ended September 30, 2004:

- The District's total liabilities exceeded its assets at September 30, 2004 by \$ 333,374 (deficit).
- The District's total revenues were \$ 1,857,525, \$ 1,811,196 from non-ad valorem assessments and \$ 46,329 from investment income. The District's expenses for this year were \$ 1,527,303.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements.

**Government-Wide Financial Statements**

The government-wide financial statements, which consist of the following two 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 District's net assets changed during the 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 can be found on pages 7 and 8 of this report.

**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 has only one fund type: governmental funds.

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2004**

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 balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government'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 statement of revenues, expenditures, and changes in fund balances provide reconciliations to facilitate this comparison between governmental funds and governmental activities.

The governmental fund financial statements can be found on pages 9 through 13 of this report.

**Notes to Basic Financial Statements**

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 14 through 22 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following table reflects the condensed government-wide statement of net assets as of September 30, 2004.

Mediterra North Community Development District Statement of Net Assets (Deficit)	
Current and other assets	\$ 5,635,067
Capital assets	<u>12,872,480</u>
Total assets	<u>18,507,547</u>
Long-term liabilities	18,085,000
Other liabilities	<u>755,921</u>
Total liabilities	<u>18,840,921</u>
Net assets:	
Invested in capital assets, net of related debt	(1,847,132)
Restricted	1,293,567
Unrestricted	<u>220,191</u>
Total net assets (deficit)	\$ <u><u>(333,374)</u></u>

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2004**

**Governmental Activities**

Governmental activities increased the District's net assets by \$ 330,222, as reflected in the table below:

Mediterra North Community Development District Statement of Activities		
<b>REVENUES:</b>		
Program revenue:		
Non-ad valorem assessments	\$	1,811,196
General revenue:		
Investment income		<u>46,329</u>
Total revenues		<u>1,857,525</u>
<b>EXPENSES:</b>		
Interest expense		1,250,335
Physical environment		196,585
General government		62,378
Other debt service costs		<u>18,005</u>
Total expenses		<u>1,527,303</u>
Change in net assets		330,222
<b>NET ASSETS (DEFICIT),</b>		
October 1, 2003, as restated		<u>(663,596)</u>
<b>NET ASSETS (DEFICIT),</b>		
September 30, 2004	\$	<u><u>(333,374)</u></u>

**ANALYSIS OF THE GOVERNMENTAL FUNDS**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year. The General, Debt Service and Capital Project Funds comprise the total governmental funds.

As of the end of the most current fiscal year, the District's governmental funds reported combined ending fund balance of approximately \$ 5,280,000, a decrease of approximately \$ 981,000 as compared to the total balance on October 1, 2003.

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2004**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The District's investment in capital assets, net of accumulated depreciation for its governmental activities as of September 30, 2004 amounts to \$ 12,872,480 and consists of land and improvements, improvements other than buildings and infrastructure.

At the end of the year, the District had total bonded debt outstanding of \$ 18,325,000. The District's debt represents bonds secured solely by a specified revenue source (i.e., revenue bonds).

Additional information on the District's long-term debt can be found in Note 5 on pages 20 and 21 of this report.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

There were no amendments to the September 30, 2004 budget. Revenues were over budget while expenditures were under the adopted budget for the year. There were no significant variances between the budgeted and actual amounts.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Revenues and expenditures for the fiscal year 2005 adopted budget for all funds of the District total approximately \$ 1,650,000, a decrease of 16% over prior year. The majority of the decrease is in the Debt Service Fund, which projects no bond prepayments in the fiscal year 2005 budget.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of Mediterra North Community Development District's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Mediterra North Community Development District, 210 North University Drive, Suite 702, Coral Springs, Florida 33071.

MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT  
STATEMENT OF NET ASSETS (DEFICIT)  
September 30, 2004

	<u>Governmental Activities</u>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 5,013,408
Accrued interest receivable	9,573
Accounts receivable	46
Prepaid expenses	1,531
Investments	253,586
Capital assets:	
Non-depreciable	8,667,410
Depreciable, net	4,205,070
Unamortized bond issuance costs	<u>356,923</u>
Total assets	<u>18,507,547</u>
 <b>LIABILITIES:</b>	
Accounts payable	63
Accrued interest payable	515,858
Bonds payable, due within one year	240,000
Bonds payable, due in more than one year	<u>18,085,000</u>
Total liabilities	<u>18,840,921</u>
 <b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	(1,847,132)
Restricted for:	
Debt service	1,293,567
Unrestricted	<u>220,191</u>
Total net assets (deficit)	\$ <u><u>(333,374)</u></u>

The accompanying notes to basic financial statements are an integral part of these statements.

MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT  
STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2004

	Program Revenues				Governmental Activities Net
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Change in Net Assets (Deficit)	
<b>FUNCTIONS/PROGRAMS:</b>					
Governmental Activities:					
Interest expense	\$ 1,250,335	\$ 1,675,577	\$ --	\$ --	\$ 425,242
Physical environment	196,585	83,379	--	--	(113,206)
General government	62,378	52,240	--	--	(10,138)
Other debt service costs	18,005	--	--	--	(18,005)
Total governmental activities	\$ 1,527,303	\$ 1,811,196	\$ --	\$ --	283,893
General revenues:					
Investment income					46,329
Change in net assets					330,222
Net assets (deficit), October 1, 2003, as restated (Note 2)					(663,596)
Net assets (deficit), September 30, 2004					\$ (333,374)

The accompanying notes to basic financial statements are an integral part of these statements.

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
September 30, 2004

**A S S E T S**

	Major Governmental Funds			Total Governmental Funds
	General Fund	Debt Service Fund	Capital Projects Fund	
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 215,033	\$ 1,554,851	\$ 3,243,524	\$ 5,013,408
Accrued interest receivable	86	4,546	4,941	9,573
Accounts receivable	46	--	--	46
Prepaid expenditures	1,531	--	--	1,531
Investments	--	253,586	--	253,586
Due from other funds	3,558	--	--	3,558
Total assets	\$ 220,254	\$ 1,812,983	\$ 3,248,465	\$ 5,281,702

**L I A B I L I T I E S   A N D   F U N D   B A L A N C E S**

<b>LIABILITIES:</b>				
Accounts payable	\$ 63	\$ --	\$ --	\$ 63
Due to other funds	--	3,558	--	3,558
Total liabilities	63	3,558	--	3,621
<b>FUND BALANCES:</b>				
Reserved for debt service	--	1,809,425	--	1,809,425
Reserved for capital projects	--	--	3,248,465	3,248,465
Reserved for prepaid expenditures	1,531	--	--	1,531
Unreserved	218,660	--	--	218,660
Total fund balances	220,191	1,809,425	3,248,465	5,278,081
Total liabilities and fund balances	\$ 220,254	\$ 1,812,983	\$ 3,248,465	\$ 5,281,702

The accompanying notes to basic financial statements are an integral part of these statements.

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
September 30, 2004**

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE  
STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:

Total fund balances of governmental funds in the balance sheet, page 9	\$ 5,278,081
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:	
Governmental capital assets	13,111,066
Less accumulated depreciation	(238,586)
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:	
Deferred charge on issuance costs (to be amortized over the life of the debt)	415,439
Less accumulated amortization	(58,516)
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Accrued interest payable	(515,858)
Governmental bonds	<u>(18,325,000)</u>
NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES, PAGE 7	\$ <u><u>(333,374)</u></u>

The accompanying notes to basic financial statements are an integral part of these statements.

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
For the Year Ended September 30, 2004

	Major Governmental Funds			Total Governmental Funds
	General Fund	Debt Service Fund	Capital Projects Fund	
<b>REVENUES:</b>				
Non-ad valorem assessments	\$ 135,619	\$ 1,675,577	\$ --	\$ 1,811,196
Investment income	<u>2,162</u>	<u>17,211</u>	<u>26,956</u>	<u>46,329</u>
Total revenues	<u>137,781</u>	<u>1,692,788</u>	<u>26,956</u>	<u>1,857,525</u>
<b>EXPENDITURES:</b>				
Current:				
General government	36,551	25,827	--	62,378
Physical environment	56,860	--	--	56,860
Capital outlay	--	--	843,298	843,298
Debt service:				
Principal	--	610,000	--	610,000
Interest	<u>--</u>	<u>1,266,410</u>	<u>--</u>	<u>1,266,410</u>
Total expenditures	<u>93,411</u>	<u>1,902,237</u>	<u>843,298</u>	<u>2,838,946</u>
Excess (deficiency) of revenues over expenditures	44,370	(209,449)	(816,342)	(981,421)
<b>FUND BALANCES,</b>				
October 1, 2003	<u>175,821</u>	<u>2,018,874</u>	<u>4,064,807</u>	<u>6,259,502</u>
<b>FUND BALANCES,</b>				
September 30, 2004	\$ <u><u>220,191</u></u>	\$ <u><u>1,809,425</u></u>	\$ <u><u>3,248,465</u></u>	\$ <u><u>5,278,081</u></u>

The accompanying notes to basic financial statements are an integral part of these statements.

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2004**

**NET CHANGES IN FUND BALANCES - TOTAL**  
**GOVERNMENTAL FUNDS, PAGE 11** \$ (981,421)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	843,298
Less current provision for depreciation	(139,725)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	610,000
---	---------

Certain items 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:

Change in accrued interest payable	16,075
Provision for amortization of bond issuance costs	<u>(18,005)</u>

**CHANGE IN NET ASSETS OF GOVERNMENTAL**  
**ACTIVITIES, PAGE 8** \$ 330,222

The accompanying notes to basic financial statements are an integral part of these statements.

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
For the Year Ended September 30, 2004

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES:</b>			
Non-ad valorem assessments	\$ 135,749	\$ 135,619	\$ (130)
Investment income	<u>    --</u>	<u>2,162</u>	<u>2,162</u>
Total revenues	<u>135,749</u>	<u>137,781</u>	<u>2,032</u>
<b>EXPENDITURES:</b>			
Current:			
General government:			
Professional fees	34,675	27,725	6,950
Operating expenditures	9,973	5,959	4,014
Engineering fees	7,653	2,867	4,786
Physical government	<u>83,448</u>	<u>56,860</u>	<u>26,588</u>
Total expenditures	<u>135,749</u>	<u>93,411</u>	<u>42,338</u>
Excess of revenues over expenditures	--	44,370	44,370
<b>FUND BALANCE,</b> October 1, 2003	<u>    --</u>	<u>175,821</u>	<u>175,821</u>
<b>FUND BALANCE,</b> September 30, 2004	\$ <u>    --</u>	\$ <u>220,191</u>	\$ <u>220,191</u>

The accompanying notes to basic financial statements are an integral part of these statements.

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2004

**NOTE 1 - ORGANIZATION AND OPERATIONS**

Mediterra North Community Development District (the "District") was created on February 21, 2001, pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes, by Bonita Springs Ordinance 01-04. The Act provides, among other things, the power to manage basic services for community development, power to borrow money and issue bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure.

The District was established for the purposes of financing and managing the acquisition, construction, maintenance and operations of a portion of the infrastructure necessary for community development within the District.

The District is governed by the Board of Supervisors (the "Board") which is composed of five elected members. The Developer, Long Bay Partners, LLC, currently owns a majority of the land. All of the Board members are affiliated with the Developer.

The District is related to Mediterra South Community Development District (Mediterra South), and share the same Developer and common Board members. The District and Mediterra South 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.

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

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The District's more significant accounting policies are described below:

The financial reporting entity:

The criteria used for including component units consists of identification of legally separate organizations for which the Board of Supervisors of the District are financially accountable. This criteria also includes identification of organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete. Based upon this review, there were no potential component units of the District.

Basis of presentation:

**FINANCIAL STATEMENTS - GOVERNMENT-WIDE STATEMENTS**

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis, if applicable, and is reported on a full-accrual, economic resource basis, which recognizes all noncurrent assets and receivables as well as all noncurrent debt and obligations, when and if applicable. The effect of interfund activity has been eliminated from the government-wide financial statements.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The net costs, by function, are also supported by general revenues, other revenue, etc. The statement of activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflect capital-specific grants. For the year ended September 30, 2004, the District had program revenues of \$ 1,811,196.

This government-wide focus is more on the ability to sustain the District as an entity and the change in the District's net assets (deficit) resulting from the current year's activities.

FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds. The operations of the funds are accounted for with separate self-balancing accounts that comprise their assets, liabilities, fund equity, revenues and expenditures.

The District reports the following major governmental funds:

**General Fund** - This fund is used to account for all operating activities of the District. At this time, revenues are derived principally from non-ad valorem assessments and investment income.

**Debt Service Fund** - This fund is used to account for the accumulation of resources for and the payment of long-term debt principal and interest.

**Capital Projects Fund** - This fund is used to account for financial resources segregated for the acquisition or construction of capital facilities other than those financed by enterprise operations, if applicable.

Measurement focus, basis of accounting and presentation:

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the basic financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. Governmental funds use the current financial resources measurement focus and the government-wide statements use the economic resources measurement focus.

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The governmental fund financial statements are presented on the modified accrual basis of accounting under which revenue is recognized in the accounting period in which it becomes susceptible to accrual (i.e., when it becomes both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty days of the end of the current year.

Encumbrances:

The District does not utilize encumbrance accounting.

Budget:

A budget is adopted for the General Fund and Debt Service Fund on an annual basis. Appropriations lapse at year end. Changes or amendments to the total budgeted expenditures of the District must be approved by the District Board of Supervisors.

The District prepared the annual budget on the modified accrual basis of accounting which is consistent with generally accepted accounting principles.

Cash and cash equivalents:

Cash and cash equivalents are defined as demand deposits, money market accounts, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments:

Investments are stated at their fair value.

Prepaid expenses/expenditures:

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

Capital assets:

Capital assets, which include land and improvements, improvements other than buildings and infrastructure, are reported in the governmental activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$ 750 and an estimated useful life in excess of one year. 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. Depreciation on all capital assets is charged to operations using the straight-line method over the assets' estimated service lives, ranging from 10-30 years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GASB 34 encourages, but does not require, certain governments to retroactively report infrastructure assets. The District has elected to not retroactively report any unrecorded infrastructure which may exist.

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. 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 for the District.

Special assessments:

The District is required to impose special assessments on each parcel of benefitted 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.

Equity classifications:

*Government-wide statements*

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net assets - consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

*Fund statements*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Bond issuance costs:

Bond issuance costs are amortized over the life of the applicable bond issue using the straight-line method.

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Change in accounting principle:

Effective October 1, 2003, the District adopted the financial reporting requirements of GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and related pronouncements. As a result, beginning net assets for governmental activities have been restated to reflect the following changes:

Total fund balances - governmental funds, September 30, 2003, as previously reported	\$ 6,259,502
Capital assets, net of accumulated depreciation	12,168,907
Bond issuance costs, net of accumulated amortization	374,928
Long-term liabilities	<u>(19,466,933)</u>
Total net assets (deficit) - governmental activities, September 30, 2003, as restated	\$ <u><u>(663,596)</u></u>

**NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

Florida Statutes provide that each special district may deposit its public funds in the Florida State Board of Administration Local Government Investment Pool or in banks and savings associations that participate in the Florida Multiple Financial Institution Collateral Pool. All such deposits are classified as fully insured. Florida Statutes also provide that special districts may invest in securities limited to obligations of the United States Government, mortgage backed securities guaranteed by the United States Government and in mutual funds which invest in only the aforementioned securities. All deposits at the end of the year were in compliance with statutes.

The District's investments are categorized in the following table to give an indication of the level of risk assumed by the District at year end. Category 1 includes insured or registered investments or investments for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the District's name.

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2004

**NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)**

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	<u>Category</u>
<b>Cash and cash equivalents:</b>				
Bank repurchase agreement	\$ 215,033	\$ --	\$ 215,033	
United States Treasury Securities money market fund	--	2,215,036	2,215,036	
Commercial paper	<u>--</u>	<u>2,583,339</u>	<u>2,583,339</u>	
<b>Total cash and cash equivalents</b>	<b>215,033</b>	<b>4,798,375</b>	<b>5,013,408</b>	
<b>Investments:</b>				
Commercial paper	<u>--</u>	<u>253,586</u>	<u>253,586</u>	2
<b>Total cash, cash equivalents and investments</b>	<b>\$ <u>215,033</u></b>	<b>\$ <u>5,051,961</u></b>	<b>\$ <u>5,266,994</u></b>	

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2004 was as follows:

	<u>Balance October 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2004</u>
<b>Governmental Activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land and improvements	\$ <u>8,312,990</u>	\$ <u>354,420</u>	\$ <u>--</u>	\$ <u>8,667,410</u>
<b>Total capital assets, not being depreciated</b>	<u>8,312,990</u>	<u>354,420</u>	<u>--</u>	<u>8,667,410</u>
<b>Capital assets, being depreciated:</b>				
Infrastructure	3,954,778	378,164	--	4,332,942
Improvements other than buildings	<u>--</u>	<u>110,714</u>	<u>--</u>	<u>110,714</u>
<b>Total capital assets being depreciated</b>	<u>3,954,778</u>	<u>488,878</u>	<u>--</u>	<u>4,443,656</u>
<b>Total capital assets</b>	<u>12,267,768</u>	<u>843,298</u>	<u>--</u>	<u>13,111,066</u>
<b>Less accumulated depreciation for:</b>				
Infrastructure	98,861	136,035	--	234,896
Improvements other than buildings	<u>--</u>	<u>3,690</u>	<u>--</u>	<u>3,690</u>
<b>Total accumulated depreciation</b>	<u>98,861</u>	<u>139,725</u>	<u>--</u>	<u>238,586</u>
<b>Total capital assets, being depreciated, net</b>	<u>3,855,917</u>	<u>349,153</u>	<u>--</u>	<u>4,205,070</u>
<b>Governmental activities capital assets, net</b>	<b>\$ <u>12,168,907</u></b>	<b>\$ <u>703,573</u></b>	<b>\$ <u>--</u></b>	<b>\$ <u>12,872,480</u></b>

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2004

NOTE 4 - CAPITAL ASSETS (continued)

Provision for depreciation was charged to functions as follows:

Governmental Activities:	
Physical environment	\$ <u>139,725</u>

NOTE 5 - LONG-TERM DEBT

a. Summary of Long-Term Debt of Governmental Activities

Long-term debt of the governmental activities at September 30, 2004 is comprised of the following:

\$ 18,200,000, Capital Improvement Revenue Bonds, Series 2001A; due in annual installments through May 2031; interest payable semi-annually at 6.8%.	\$ 17,320,000
\$ 1,830,000, Capital Improvement Revenue Bonds, Series 2001B; principal due in 2008; interest payable semi-annually at 6.05%.	<u>1,005,000</u>
	\$ <u>18,325,000</u>

The following is a summary of changes in governmental activities long-term debt for the year ended September 30, 2004:

	Balance October 1, 2003	Additions	Deletions	Balance September 30, 2004	Due Within One Year
Capital Improvement Revenue Bonds, Series 2001A	\$ 17,545,000	\$ --	\$ 225,000	\$ 17,320,000	\$ 240,000
Capital Improvement Revenue Bonds, Series 2001B	<u>1,390,000</u>	<u>--</u>	<u>385,000</u>	<u>1,005,000</u>	<u>--</u>
	<u>\$ 18,935,000</u>	<u>\$ --</u>	<u>\$ 610,000</u>	<u>\$ 18,325,000</u>	<u>\$ 240,000</u>

b. Summary of Significant Debt Terms of Governmental Activities

**\$ 18,200,000 Capital Improvement Revenue Bonds, Series 2001A** - The District previously issued \$ 18,200,000 in Capital Improvement Revenue Bonds, Series 2001A for the purpose of funding certain capital projects within the boundaries of the District. The bonds bear interest at 6.8% and mature in May 2031. Interest is payable semi-annually on the first day of each May and November. The bonds are secured by the pledge of revenues derived from the collection of non-ad valorem special assessments.

The District is required by the bond indenture to levy and collect special assessments pursuant to Florida Statutes, Section 190.022. The collection of these assessments are restricted and applied to the debt service requirements of the bond issue. Further, the District covenants to levy special assessments in annual amounts adequate to provide for payment of principal and interest on the bonds as it becomes due.

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2004

**NOTE 5 - LONG-TERM DEBT (continued)**

The bonds are subject to mandatory redemption at par on a schedule of annual redemptions through May 2031, the maturity date. The District is required to redeem the bonds at par prior to schedule from the proceeds of any assessments prepaid in full or if certain events occur as outlined in the Bond Indenture. The bonds are subject to redemption at the option of the District at a premium from May 2011 through April 2012 and at par on or after May 2012.

The indenture requires a reserve fund equal to 7.83% of the bonds deemed outstanding at September 30, 2004. The reserve fund account balance which is included in the Debt Service Fund was sufficient to satisfy this requirement.

**\$ 1,830,000 Capital Improvement Revenue Bonds, Series 2001B** - The District previously issued \$ 1,830,000 in Capital Improvement Revenue Bonds, Series 2001B. The bonds bear interest at 6.05% and mature in May 2008. Interest is payable semi-annually on the first day of each May and November. The bonds are secured by the pledge of revenues derived from the collection of non-ad valorem special assessments.

The District is required by the bond indenture to levy and collect special assessments pursuant to Florida Statutes, Section 190.022. The collection of these assessments are restricted and applied to the debt service requirements of the bond issue. Further, the District covenants to levy special assessments in annual amounts adequate to provide for the payment of principal and interest on the bonds as it becomes due.

The Series 2001B Bonds are not subject to redemption at the option of the District, prior to their maturity. The Series 2001B Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occur as outlined in the Bond Indenture.

The indenture requires a reserve fund equal to 25.7% of bonds deemed outstanding at September 30, 2004. The reserve fund account balance was sufficient to satisfy this requirement.

- c. The aggregate annual debt service requirements for the Series 2001A and Series 2001B Capital Improvement Revenue Bonds consist of:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 240,000	\$ 1,238,060	\$ 1,478,060
2006	255,000	1,221,740	1,476,740
2007	275,000	1,204,400	1,479,400
2008	1,300,000	1,155,550	2,455,550
2009	315,000	1,105,340	1,420,340
2010-2014	1,920,000	5,175,480	7,095,480
2015-2019	2,660,000	4,428,840	7,088,840
2020-2024	3,695,000	3,392,860	7,087,860
2025-2029	5,145,000	1,952,960	7,097,960
2030-2031	<u>2,520,000</u>	<u>258,060</u>	<u>2,778,060</u>
	<u>\$ 18,325,000</u>	<u>\$ 21,133,290</u>	<u>\$ 39,458,290</u>

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2004

**NOTE 6 - RISK MANAGEMENT**

For the year ended September 30, 2004, the District participated in the Florida League of Cities (FLC) risk pool. This is a statewide pool with several hundred governmental members. FLC provided the District with general liability and property coverages. The FLC pool is nonassessable. There is no self-insured retention for the District excluding a \$ 250 per occurrence deductible. FLC provided the District with \$ 1,000,000 in general liability coverage.

**NOTE 7 - CONCENTRATION**

A significant portion of the District's activity is dependent upon the continued involvement of the Developer, Long Bay Partners, LLC, the loss of which would have a materially adverse effect on the District's operations. At September 30, 2004, the Developer held a majority of the assessable property located within the District boundaries.

**NOTE 8 - NET ASSETS (DEFICIT)**

The District has a government-wide net assets deficit of \$ 333,374 as of September 30, 2004, while there is no such deficit reflected in the governmental fund statements. The deficit relates to the accrual of certain expenses, principally interest, which are not currently recorded in the fund statements. When recognized as expenditures in the fund statements, they will be recovered from the Developer (Note 7) or through assessments to benefitted property owners. The deficit also relates to various infrastructure improvements which have been financed through the issuance of long-term debt, but were conveyed to other entities or not required to be recorded on the District's books.

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

To the Board of Supervisors  
Mediterra North Community Development District  
Bonita Springs, Florida

We have audited the statement of net assets (deficit) and balance sheets of Mediterra North Community Development District (the District) as of September 30, 2004, and the statement of activities, statements of revenues, expenditures and changes in fund balances and revenues, expenditures and change in fund balance - budget and actual - General Fund for the year then ended and have issued our report thereon dated January 4, 2005. 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 Mediterra North Community Development District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, noncompliance with which could have a direct and material effect on the determination of basic 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 Mediterra North 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 basic 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 basic financial statements being audited may occur and not be detected within a timely period by management 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.

Mediterra North Community Development District

This report is intended solely for the information of District management, members of the Board of Supervisors, 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. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida  
January 4, 2005

## INDEPENDENT AUDITORS' REPORT TO DISTRICT MANAGEMENT

To the Board of Supervisors  
Mediterra North Community Development District  
Bonita Springs, Florida

We have audited the statement of net assets (deficit) and balance sheets of Mediterra North Community Development District (the District) as of September 30, 2004, and the statement of activities, statements of revenues, expenditures and changes in fund balances and revenues, expenditures and change in fund balance - budget and actual - General Fund for the year then ended and have issued our report thereon dated January 4, 2005.

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. We have also issued our Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. That report, dated January 4, 2005, should be considered in conjunction with this report to District management.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General. Those rules (Section 10.554(1)(g)1.a.) require that we address in the report to District management, if not already addressed in the auditors' report on compliance and internal controls, whether or not inaccuracies, irregularities, shortages, defalcations, fraud, and/or violations of laws, rules, regulations, and contractual provisions reported in the preceding annual financial audit report have been corrected. There were no inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules, regulations, and contractual provisions disclosed in the preceding annual financial audit report.

The Rules of the Auditor General (Section 10.554(1)(g)1.b) require that we address in the report to District management, if not already addressed in the auditors' report on compliance and internal controls, whether or not recommendations made in the preceding annual financial audit report have been followed. There were no recommendations made in the preceding annual financial audit report.

As required by the Rules of the Auditor General (Section 10.554(1)(g)2.), the scope of our audit included a review of the provisions of Section 218.415., Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the District complied with Section 218.415, Florida Statutes.

Mediterra North Community Development District

The Rules of the Auditor General (Section 10.554(1)(g)4.) require disclosure in the report to District management of the following matters if not already addressed in the auditors' report on compliance and internal controls: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the basic financial statements); (4) failure to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit disclosed no matters requiring disclosure in the report to District management or the basic financial statements.

The Rules of the Auditor General (Section 10.554(1)(g)5.) also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the report to District management, unless disclosed in the notes to the basic financial statements. Mediterra North Community Development District was established February 21, 2001, by a City of Bonita Springs, Florida Ordinance No. 01-04 pursuant to the provisions of Chapter 190, Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(g)6.a.), the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, regarding financial emergencies. In connection with our audit, we determined that the District is not in a state of financial emergency as a consequence of the conditions described in Section 218.503(1), Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(g)6.b.), we determined that the annual financial report for the District for the year ended September 30, 2004, filed with the Department of Banking and Finance pursuant to Section 218.32, Florida Statutes, is in agreement with the annual financial audit report for the year ended September 30, 2004.

As required by the Rules of the Auditor General (Section 10.554(g)(6)c. and 10.556), we applied financial condition assessment procedures. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This report to management is intended solely for the information of District management, members of the Board of Supervisors, 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. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida  
January 4, 2005