

**MEDITERRA SOUTH
COMMUNITY DEVELOPMENT DISTRICT
COLLIER COUNTY, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

**MEDITERRA SOUTH COMMUNITY DEVELOPMENT DISTRICT
COLLIER COUNTY, FLORIDA**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the remaining non major fund of Mediterra South Community Development District, Collier County, Florida (the "District") as of and for the fiscal year ended September 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the remaining non major fund of the District as of September 30, 2010, and the respective changes in financial position, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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


February 3, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Mediterra South Community Development District, Collier County, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2010. Please read it in conjunction with the District's Independent Auditor's Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the fiscal year ended September 30, 2010 resulting in a net asset balance of \$4,905,531.
- The change in the District's total net assets in comparison with the prior fiscal year was \$941,080, an increase. The key components of the District's net assets and change in net assets are reflected in the table in the government-wide financial analysis section.
- At September 30, 2010, the District's governmental funds reported combined ending fund balances of \$2,752,340. Of the total fund balance, \$2,442,205 is reserved for debt service and capital projects fund and \$310,135 is unreserved fund balance which is available for spending at the District's discretion.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Governmental Funds

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

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

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund and capital projects fund. The general, debt service, are considered major funds while the capital projects fund is a non major fund.

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

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District assets exceeded liabilities at the close of the most recent fiscal year.

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

	NET ASSETS	
	SEPTEMBER 30,	
	2010	2009
Assets, excluding capital assets	\$ 3,165,291	\$ 3,147,323
Capital assets, net of depreciation	21,856,880	22,276,812
Total assets	<u>25,022,171</u>	<u>25,424,135</u>
Liabilities, excluding long-term liabilities	576,640	614,684
Long-term liabilities	19,540,000	20,845,000
Total liabilities	<u>20,116,640</u>	<u>21,459,684</u>
Net Assets		
Invested in capital assets, net of related debt	2,691,957	1,840,355
Restricted for debt service	1,885,672	1,799,884
Unrestricted	327,902	324,212
Total net assets	<u>\$ 4,905,531</u>	<u>\$ 3,964,451</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

The restricted portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the District's other obligations.

The District's net assets increased during the most recent fiscal year. The increase represents the degree to which ongoing program revenues exceeded the cost of operations and depreciation expense.

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

	CHANGES IN NET ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30,	
	2010	2009
Revenues:		
Program revenues		
Charges for services	\$ 1,520,942	\$ 1,310,586
Operating grants and contributions	1,688,989	944,385
General revenues		
Investment income	738	955
Total revenues	<u>3,210,669</u>	<u>2,255,926</u>
Expenses:		
General government	237,271	232,932
Maintenance and operations	634,723	648,858
Interest	1,397,595	1,450,507
Total expenses	<u>2,269,589</u>	<u>2,332,297</u>
Change in net assets	<u>941,080</u>	<u>(76,371)</u>
Net assets beginning	<u>3,964,451</u>	<u>4,040,822</u>
Net assets ending	<u>\$ 4,905,531</u>	<u>\$ 3,964,451</u>

The cost of all governmental activities during the fiscal year ended September 30, 2010 was \$2,269,589. The majority of the costs of the District's activities were paid by program revenues. Program revenues for the fiscal year ended September 30, 2010 are comprised principally of approximately \$1,707,000 in Developer assessments, \$1,282,000 from assessments and \$221,000 from prepaid assessments. The majority of the increase in program revenues resulted from increases in Developer assessments and prepaid assessments.

GENERAL BUDGETING HIGHLIGHTS

An operating budget was adopted and maintained by the governing board for the District pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2010.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2010, the District had \$25,245,937 invested in land, land improvements, and infrastructure. In the government-wide financial statements depreciation of \$3,389,057 has been taken, which resulted in a net book value of \$21,856,880. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Capital Debt

At September 30, 2010, the District had \$19,540,000 in Bonds outstanding for its governmental activities. More detailed information about the District's capital debt is presented in the notes of the financial statements.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, land owners, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages and the stewardship of the facilities it maintains. If you have questions about this report or need additional financial information, contact the Mediterra South Community Development District's Finance Department at 6131 Lyons Road, Suite 100, Coconut Creek, Florida, 33073.

**MEDITERRA SOUTH COMMUNITY DEVELOPMENT DISTRICT
COLLIER COUNTY, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010**

	Governmental Activities
ASSETS	
Cash	\$ 65,059
Investments	272,297
Assessments receivable	11,385
Due from Developer	21,007
Restricted assets:	
Temporarily restricted	
Investments	2,421,894
Deferred charges	373,649
Capital assets:	
Nondepreciable	14,019,205
Depreciable, net	7,837,675
Total assets	25,022,171
LIABILITIES	
Accounts payable	21,535
Accrued interest payable	555,105
Non-current liabilities:	
Due within one year	370,000
Due in more than one year	19,170,000
Total liabilities	20,116,640
NET ASSETS	
Invested in capital assets, net of related debt	2,691,957
Restricted for debt service	1,885,672
Unrestricted	327,902
Total net assets	\$ 4,905,531

See notes to the financial statements

**MEDITERRA SOUTH COMMUNITY DEVELOPMENT DISTRICT
COLLIER COUNTY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary government:				
Governmental activities:				
General government	\$ 237,271	\$ 307,810	\$ 121,334	\$ 191,873
Maintenance and operations	634,723	-	-	(634,723)
Interest on long-term debt	1,397,595	1,213,132	1,567,655	1,383,192
Total governmental activities	2,269,589	1,520,942	1,688,989	940,342
General revenues:				
Unrestricted investment earnings				738
Total general revenues				738
Change in net assets				941,080
Net assets - beginning				3,964,451
Net assets - ending				\$ 4,905,531

See notes to the financial statements

**MEDITERRA SOUTH COMMUNITY DEVELOPMENT DISTRICT
COLLIER COUNTY, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010**

	Major Funds		Non-Major Fund	Total Governmental Funds
	General	Debt Service	Capital Projects	
ASSETS				
Cash	\$ 65,059	\$ -	\$ -	\$ 65,059
Investments	272,297	2,420,466	1,428	2,694,191
Due from other funds	-	26,359	-	26,359
Due from Developer	21,007	-	-	21,007
Assessments receivable	2,587	8,798	-	11,385
Total assets	\$ 360,950	\$ 2,455,623	\$ 1,428	\$ 2,818,001
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 6,689	\$ 14,846	\$ -	\$ 21,535
Due to other funds	26,359	-	-	26,359
Deferred revenue	17,767	-	-	17,767
Total liabilities	50,815	14,846	-	65,661
Fund balances:				
Reserved for:				
Debt service	-	2,440,777	-	2,440,777
Capital projects	-	-	1,428	1,428
Unreserved, reported in:				
General fund	310,135	-	-	310,135
Total fund balances	310,135	2,440,777	1,428	2,752,340
Total liabilities and fund balances	\$ 360,950	\$ 2,455,623	\$ 1,428	\$ 2,818,001

See notes to the financial statements

**MEDITERRA SOUTH COMMUNITY DEVELOPMENT DISTRICT
COLLIER COUNTY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010**

Fund balance - governmental funds		\$ 2,752,340
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The statement of net assets includes those capital assets, in the net assets of the government as a whole.		
Cost of capital assets	25,245,937	
Accumulated depreciation	<u>(3,389,057)</u>	21,856,880
Assets that are not available to pay for current-period expenditures are deferred in the fund statements.		
		17,767
Bond issue costs are not financial resources and, therefore are not reported as assets in the governmental funds. The statements of net assets includes these costs, net of amortization.		
Bond issue costs	1,100,408	
Accumulated amortization	<u>(726,759)</u>	373,649
Liabilities not due and payable from current available resources are not reported as liabilities in the governmental fund statements. All liabilities, both current and long-term, are reported in the government-wide financial statements.		
Accrued interest payable	(555,105)	
Bonds payable	<u>(19,540,000)</u>	<u>(20,095,105)</u>
Net assets of governmental activities		<u><u>\$ 4,905,531</u></u>

See notes to the financial statements

**MEDITERRA SOUTH COMMUNITY DEVELOPMENT DISTRICT
COLLIER COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

	Major Funds		Non-Major Fund	Total Governmental Funds
	General	Debt Service	Capital Projects	
REVENUES				
Assessments	\$ 290,043	\$ 1,213,132	\$ -	\$ 1,503,175
Developer assessments	121,334	1,567,655	-	1,688,989
Interest	738	-	-	738
Total revenues	412,115	2,780,787	-	3,192,902
EXPENDITURES				
Current:				
General government	211,401	25,870	-	237,271
Maintenance and operations	214,791	-	-	214,791
Debt Service:				
Principal	-	1,305,000	-	1,305,000
Interest	-	1,388,614	-	1,388,614
Total expenditures	426,192	2,719,484	-	3,145,676
Excess (deficiency) of revenues over (under) expenditures	(14,077)	61,303	-	47,226
Fund balances - beginning	324,212	2,379,474	1,428	2,705,114
Fund balances - ending	\$ 310,135	\$ 2,440,777	\$ 1,428	\$ 2,752,340

See notes to the financial statements

**MEDITERRA SOUTH COMMUNITY DEVELOPMENT DISTRICT
COLLIER COUNTY, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

Net change in fund balances - total governmental funds	\$	47,226
Amounts reported for governmental activities in the statement of activities are different because:		
Depreciation on capital assets is not recognized in the governmental fund statement but is reported as an expense in the statement of activities.		(419,932)
The change in deferred revenue between current and prior year is recorded in the statement of activities but not in the fund financial statements.		17,767
Repayment of long-term liabilities are reported as expenditures in the governmental fund statement but such repayments reduce liabilities in the statement of net assets and are eliminated in the statement of activities.		1,305,000
Governmental funds report the effect of issuance of costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		(33,466)
The change in accrued interest on long-term liabilities between the current and prior fiscal year is recorded in the statement of activities but not in the fund financial statements.		24,485
Change in net assets of governmental activities	\$	941,080

See notes to the financial statements

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

NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY

Reporting Entity

Mediterra South Community Development District ("District") was created on September 14, 1999 by Collier County Ordinance 99-67 and amended its boundaries on July 2, 2001 by Collier County Ordinance 2001-38, pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The Act provides among other things, the power to manage basic services for community development, power to borrow money and issue bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure.

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

The District is governed by the Board of Supervisors ("Board"), which is composed of five members. The Supervisors are elected by qualified electors living within the District. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes. At September 30, 2010, one Board member is affiliated with London Bay Homes (the "new Developer"). See note 7 for Developer transactions.

The Board has the responsibility for:

1. Assessing and levying 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 and Mediterra North share the majority of their costs based on a common budget whereby all appropriations are shared based on the total projected equivalent residential units for each District

The financial statements were prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement 14, and Statement 39, an amendment of GASB Statement 14. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District Board of Supervisors is considered to be financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that, if excluded, the financial statements of the District would be considered incomplete or misleading. There are no entities considered to be component units of the District; therefore, the financial statements include only the operations of the District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements

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

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment (Operating-type special assessments for maintenance and debt service are treated as charges for services.) and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not included among program revenues are reported instead as *general revenues*.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Assessments

Assessments are non-ad valorem assessments on all platted lots within the District. Assessments are levied each November 1 on property as of the previous January 1 to pay for the operations and maintenance of the District. The fiscal year for which annual assessments are levied begins on October 1 with discounts available for payments through February 28 and become delinquent on April 1. For debt service assessments, amounts collected as advance payments are used to prepay a portion of the Bonds outstanding. Otherwise, assessments are collected annually to provide funds for the debt service on the portion of the Bonds which are not paid with prepaid assessments.

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

The District reports the following major governmental funds:

General Fund

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

Debt Service Fund

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

The District also reports the following nonmajor governmental fund:

Capital Projects Fund

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Assets, Liabilities and Net Assets or Equity

Restricted Assets

These assets represent cash and investments set aside pursuant to Bond covenants.

Deposits and Investments

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

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

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

Securities listed in paragraph c and d shall be invested to provide sufficient liquidity to pay obligations as they come due.

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

Inventories and Prepaid Items

Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, sidewalks and similar items) are reported in the government activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) 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.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the District are depreciated using the straight-line method over the assets estimated lives, ranging from 10-30 years.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Capital Assets (Continued)

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

Deferred Charges

In a prior year, in connection with the issuance of certain debt, the District incurred costs totaling \$1,100,408. In the government-wide financial statements that amount has been capitalized and amortized over the estimated life of the Bonds. At September 30, 2010, the District reported accumulated amortization of \$726,759.

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized ratably over the life of the Bonds. Bonds payable are reported net of applicable premiums or discounts.

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

Fund Equity/Net Assets

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.

Net assets in the government-wide financial statements are categorized as invested in capital assets, net of related debt, restricted or unrestricted. Invested in capital assets, net of related debt represents net assets related to infrastructure and property, plant and equipment, net of any related debt. Restricted net assets represent the assets restricted by the District's Bond covenants.

Other Disclosures

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3 – BUDGETARY INFORMATION

Budgetary Information

The District is required to establish a budgetary system and an approved Annual Budget. Annual Budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

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

- a) Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
- b) Public hearings are conducted to obtain public comments.
- c) Prior to October 1, the budget is legally adopted by the District Board.
- d) All budget changes must be approved by the District Board.
- e) The budgets are adopted on a basis consistent with generally accepted accounting principles.
- f) Unused appropriation for annually budgeted funds lapse at the end of the year.

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

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

Investments

The District's investments were held as follows at September 30, 2010:

	Fair Value	Credit Risk	Maturities
Money Market Mutual Funds - First American Government Obligation Fund	\$ 2,421,894	S&P AAAM	Weighted average of the fund portfolio: 42 days
Treasury Obligations Fund SS	272,297	S&P AAAM	Weighted average of the fund portfolio: 21 days
Total Investments	<u>\$ 2,694,191</u>		

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

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

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

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

However, the Bond Indenture limits the type of investments held using unspent proceeds.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2010 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land and improvements	\$ 14,019,205	\$ -	\$ -	\$ 14,019,205
Total capital assets, not being depreciated	14,019,205	-	-	14,019,205
Capital assets, being depreciated				
Infrastructure	10,777,782	-	-	10,777,782
Improvements other than buildings	448,950	-	-	448,950
Total capital assets, being depreciated	11,226,732	-	-	11,226,732
Less accumulated depreciation for:				
Infrastructure	2,875,012	375,037	-	3,250,049
Improvements other than buildings	94,113	44,895	-	139,008
Total accumulated depreciation	2,969,125	419,932	-	3,389,057
Total capital assets, being depreciated, net	8,257,607	(419,932)	-	7,837,675
Governmental activities capital assets	\$ 22,276,812	\$ (419,932)	\$ -	\$ 21,856,880

Depreciation expense was charged to the maintenance and operations function.

NOTE 6 – LONG TERM LIABILITIES

Series 1999A

The District has issued \$11,415,000 of Capital Improvement Revenue Bonds, Series 1999A to finance the acquisition and construction of certain improvements for the benefit of the District. The Bonds are due May 1, 2031 with fixed interest rates of 6.95%. Interest is to be paid semiannually on each May 1 and November 1. Principal on the 1999A Bonds is to be paid serially from May 1, 2002 through May 1, 2031.

The Series 1999A Bonds are subject to redemption at the option of the District, in whole or in part, at any time on or after May 1, 2008 at a redemption price as set forth in the Bond Indenture. The Bonds are subject to extraordinary mandatory redemption prior to their selected maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture. During the fiscal year ended September 30, 2010, the District collected assessments and prepaid \$55,000 of the Bonds. See Note 10 - Subsequent Events for additional prepayment subsequent to year end.

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, 2010.

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

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

NOTE 6 – LONG TERM LIABILITIES (Continued)

Series 2001 (Continued)

The Series 2001 Bonds are subject to redemption at the option of the District, in whole or in part, at any time on or after May 1, 2011 at a redemption price as set forth in the Bond Indenture. The Bonds are subject to extraordinary mandatory redemption prior to their selected maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture. During the fiscal year ended September 30, 2010, the District collected assessments and prepaid \$50,000 of the Bonds. See Note 10 - Subsequent Events for additional prepayment subsequent to year end.

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, 2010.

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

In May, 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. Principal on the 2003 Bonds is to be paid serially from May 1, 2005 through May 1, 2034.

The Series 2003A Bonds are subject to redemption at the option of the District, in whole or in part, at any time on or after May 1, 2013 at a redemption price as set forth in the Bond Indenture. The Series 2003B Bonds are not subject to redemption at the option of the District prior to their maturity. The Bonds are subject to extraordinary mandatory redemption prior to their selected maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture. During the fiscal year ended September 30, 2010, the District collected assessments and prepaid \$210,000 of the Series A Bonds. See Note 10 - Subsequent Events for additional prepayment subsequent to year end.

In addition, during fiscal year 2010, \$1,195,000 principal payment for the Series 2003B Bonds was extended until May 2015 by the first amendment to the Bond Indenture.

The Bond Indenture established a debt service reserve requirement as well as other 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 those requirements of the Bond Indenture at September 30, 2010.

NOTE 6 – LONG TERM LIABILITIES (Continued)

Long-term debt transactions

Changes in long-term liability activity for the fiscal year ended September 30, 2010 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 1999A	\$ 9,855,000	\$ -	\$ (235,000)	\$ 9,620,000	\$ 195,000
Series 2001	4,525,000	-	(145,000)	4,380,000	95,000
Series 2003A	4,635,000	-	(290,000)	4,345,000	80,000
Series 2003B	1,830,000	-	(635,000)	1,195,000	-
Total	<u>\$ 20,845,000</u>	<u>\$ -</u>	<u>\$ (1,305,000)</u>	<u>\$ 19,540,000</u>	<u>\$ 370,000</u>

At September 30, 2010, the scheduled debt service requirements on the long - term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2011	\$ 370,000	\$ 1,332,251	\$ 1,702,251
2012	395,000	1,307,091	1,702,091
2013	420,000	1,280,233	1,700,233
2014	450,000	1,251,670	1,701,670
2015	1,675,000	1,221,061	2,896,061
2016-2020	2,960,000	5,133,333	8,093,333
2021-2025	4,140,000	3,976,679	8,116,679
2026-2030	5,780,000	2,359,070	8,139,070
2031-2034	3,350,000	350,236	3,700,236
Total	<u>\$ 19,540,000</u>	<u>\$ 18,211,624</u>	<u>\$ 37,751,624</u>

NOTE 7 – DEVELOPER TRANSACTIONS

For the fiscal year ended September 30, 2010, Developer assessment revenues in the general and debt service funds were \$121,334 and \$1,567,655, respectively.

In December 2009, Bonita Bay Group, the old Developer, sold the golf course to Mediterra Club members. As such, assessments associated with the golf course will be paid by the Mediterra Club members, which are entirely composed of the District residents. The old Developer also sold a majority of the remaining undeveloped lots to London Bay Homes, which makes London Bay Homes the new Developer.

NOTE 8 – CONCENTRATION

A significant portion majority of the District's activity is dependent upon the continued involvement of the Developer Landowner, the loss of which could have a material adverse effect on the District's operations.

NOTE 9 – MANAGEMENT COMPANY

The District has contracted with Wrathell, Hunt and Associates 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, financial reporting, computer and other administrative costs.

NOTE 10 – RISK MANAGEMENT

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

NOTE 11 – SUBSEQUENT EVENTS

Subsequent to September 30, 2010 the District prepaid a total of \$20,000 of the Series 1999A Bonds, \$5,000 of the Series 2001 Bonds, \$5,000 of the Series 2003A. The prepayments were considered extraordinary mandatory redemptions as outlined in the Bond Indenture.

Subsequent to September 30, 2010, the Developer paid assessments of \$18,065 related to the debt service on the Bonds.

**MEDITERRA SOUTH COMMUNITY DEVELOPMENT DISTRICT
COLLIER COUNTY, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

	Budgeted Amounts <u>Original & Final</u>	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Assessments	\$ 329,282	\$ 290,043	\$ (39,239)
Developer assessments	100,842	121,334	20,492
Interest	13,999	738	(13,261)
Total revenues	444,123	412,115	(32,008)
EXPENDITURES			
Current:			
General government	217,043	211,401	5,642
Maintenance and operations	237,580	214,791	22,789
Total expenditures	454,623	426,192	28,431
Excess (deficiency) of revenues over (under) expenditures	(10,500)	(14,077)	(3,577)
OTHER FINANCING SOURCES			
Use of funds	10,500	-	(10,500)
Net change in fund balance	\$ -	(14,077)	\$ (14,077)
Fund balance - beginning		324,212	
Fund balance - ending		\$ 310,135	

See notes to required supplementary information

**MEDITERRA SOUTH COMMUNITY DEVELOPMENT DISTRICT
COLLIER COUNTY, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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

The legal level of budgetary control, the level at which expenditures may not exceed budget is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. Actual expenditures did not exceed appropriations in the general fund for the fiscal year ended September 30, 2010.

Actual general fund expenditures for the fiscal year ended September 30, 2010 were less than appropriations due primarily to anticipated costs which were not incurred in the current fiscal year. Accordingly, total assessments were less than budgeted amounts.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, each major fund and the remaining non major fund of Mediterra South Community Development District, Collier County, Florida ("District") as of and for the fiscal year ended September 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use 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.

Grau & Associates
February 3, 2011

**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 basic financial statements of Mediterra South Community Development District ("District") as of and for the fiscal year ended September 30, 2010, and have issued our report thereon dated February 3, 2011.

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

In addition, we have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters dated February 3, 2011. Disclosures in that report should be considered in conjunction with this management letter.

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

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

This report is intended for the information 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 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.


February 3, 2011

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

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

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

There were no significant findings and recommendations made in the preceding annual financial audit report for the fiscal year ended September 30, 2009.

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

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

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

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported for the fiscal year ended September 30, 2010.

4. Violations of provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported, for the fiscal year ended September 30, 2010.

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

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

There were no such matters discovered by, or that came to the attention of, the auditor, that, in our judgment, are required to be reported, for the fiscal year ended September 30, 2010.

REPORT TO MANAGEMENT (Continued)

6. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.
7. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2010 financial audit report.
8. The District has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
9. We applied financial condition assessment procedures pursuant to Rule 10.556(7) 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.