

**MEDITERRA NORTH
COMMUNITY DEVELOPMENT DISTRICT
BONITA SPRINGS, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2012**

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT
BONITA SPRINGS, FLORIDA**

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Grau & Associates
CERTIFIED PUBLIC ACCOUNTANTS

2700 North Military Trail • Suite 350
Boca Raton, Florida 33431
(561) 994-9299 • (800) 299-4728
Fax (561) 994-5823
www.graucpa.com

INDEPENDENT AUDITOR'S REPORT

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

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 and each major fund as of September 30, 2012, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Grau & Associates

March 28, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Mediterra North Community Development District, Bonita Springs, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2012. Please read it in conjunction with the District's Independent 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, 2012 resulting in a net asset balance of \$13,133,551.
- The District's total net assets increased by \$7,834,730 in comparison with the prior year. 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, 2012, the District's governmental funds reported combined ending fund balances of \$770,998, a decrease of (\$849,375) in comparison with the prior year. The total fund balance is restricted for debt service and the remainder is unassigned 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 two individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and debt service fund. The general and debt service funds are considered to be major funds.

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

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District assets exceeded liabilities 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,	
	2012	2011
Assets, excluding capital assets	\$ 964,458	\$ 1,860,309
Capital assets, net of depreciation	18,227,596	18,389,243
Total assets	19,192,054	20,249,552
Liabilities, excluding long-term liabilities	86,101	420,731
Long-term liabilities	5,972,402	14,530,000
Total liabilities	6,058,503	14,950,731
Net assets		
Invested in capital assets, net of related debt	12,413,881	4,090,131
Restricted for debt service	497,693	970,149
Unrestricted	221,977	238,541
Total net assets	\$ 13,133,551	\$ 5,298,821

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 majority of the increase is the result of an increase in prepaid assessments.

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,	
	2012	2011
Revenues:		
Program revenues		
Charges for services	\$ 9,043,710	\$ 1,536,751
Operating grants and contributions	252	168
General revenues		
Investment income	232	343
Total revenues	<u>9,044,194</u>	<u>1,537,262</u>
Expenses:		
General government	76,025	83,593
Maintenance and operations	272,135	240,239
Interest	861,304	1,019,276
Total expenses	<u>1,209,464</u>	<u>1,343,108</u>
Change in net assets	<u>7,834,730</u>	<u>194,154</u>
Net assets beginning	5,298,821	5,104,667
Net assets ending	<u>\$ 13,133,551</u>	<u>\$ 5,298,821</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2012 was \$1,209,464. The majority of the costs of the District's activities were paid by program revenues. Program revenues are comprised primarily of assessments. The majority of the increase in program revenues is the result of prepaid assessments of approximately \$8 million in the current fiscal year.

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, 2012.

Actual general fund expenditures for the fiscal year ended September 30, 2012 were less than appropriations due primarily to anticipated costs which were not incurred in the current fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2012, the District had \$19,741,153 invested in land and land improvements and infrastructure improvements. In the government-wide financial statements depreciation of \$1,513,557 has been taken, which resulted in a net book value of \$18,227,596. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Capital Debt

At September 30, 2012, the District had \$6,025,000 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.

ECONOMIC FACTORS AND OTHER EVENTS

The District does not anticipate any major projects or significant changes to its infrastructure maintenance program for the subsequent fiscal year. It is anticipated that the general operating expenses of the District will remain fairly constant.

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 North Community Development District's Finance Department at 6131 Lyons Road, Suite 100, Coconut Creek, Florida, 33073.

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT
 BONITA SPRINGS, FLORIDA
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2012**

	Governmental Activities
ASSETS	
Cash	\$ 148,164
Investments	131,032
Assessments receivable	944
Restricted assets:	
Investments	525,631
Deferred charges	158,687
Capital assets:	
Nondepreciable	15,117,410
Depreciable, net	3,110,186
Total assets	19,192,054
 LIABILITIES	
Accounts payable	34,773
Accrued interest payable	51,328
Non-current liabilities:	
Due within one year	215,000
Due in more than one year	5,757,402
Total liabilities	6,058,503
 NET ASSETS	
Invested in capital assets, net of related debt	12,413,881
Restricted for debt service	497,693
Unrestricted	221,977
Total net assets	\$ 13,133,551

See notes to the financial statements

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT
 BONITA SPRINGS, FLORIDA
 STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Changes in Net Assets</u>
				<u>Governmental Activities</u>
Primary government:				
Governmental activities:				
General government	\$ 76,025	\$ 76,025	\$ -	\$ -
Maintenance and operations	272,135	93,692	-	(178,443)
Interest on long-term debt	861,304	8,873,993	252	8,012,941
Total governmental activities	<u>1,209,464</u>	<u>9,043,710</u>	<u>252</u>	<u>7,834,498</u>
General revenues:				
Unrestricted investment earnings				<u>232</u>
Total general revenues				<u>232</u>
Change in net assets				7,834,730
Net assets - beginning				<u>5,298,821</u>
Net assets - ending				<u>\$ 13,133,551</u>

See notes to the financial statements

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT
 BONITA SPRINGS, FLORIDA
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2012**

	Major Funds		Total Governmental Funds
	General	Debt Service	
ASSETS			
Cash	\$ 148,164	\$ -	\$ 148,164
Investments	131,032	525,631	656,663
Due from other funds	-	23,324	23,324
Assessments receivable	878	66	944
Total assets	<u>\$ 280,074</u>	<u>\$ 549,021</u>	<u>\$ 829,095</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 34,773	\$ -	\$ 34,773
Due to other funds	23,324	-	23,324
Total liabilities	<u>58,097</u>	<u>-</u>	<u>58,097</u>
Fund balances:			
Restricted for:			
Debt service	-	549,021	549,021
Subsequent year's expenditures	29,011	-	29,011
Unassigned	192,966	-	192,966
Total fund balances	<u>221,977</u>	<u>549,021</u>	<u>770,998</u>
Total liabilities and fund balances	<u>\$ 280,074</u>	<u>\$ 549,021</u>	<u>\$ 829,095</u>

See notes to the financial statements

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT
 BONITA SPRINGS, FLORIDA
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2012**

Fund balance - governmental funds \$ 770,998

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	19,741,153	
Accumulated depreciation	<u>(1,513,557)</u>	18,227,596

Bond issue costs are not financial resources and, therefore are not reported as assets in the governmental funds. The statement of net assets includes these costs, net of

Bond issue costs	161,377	
Accumulated amortization	<u>(2,690)</u>	158,687

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	(51,328)	
Deferred amount on refunding	52,598	
Bonds payable	<u>(6,025,000)</u>	<u>(6,023,730)</u>

Net assets of governmental activities		<u>\$ 13,133,551</u>
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See notes to the financial statements

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT
 BONITA SPRINGS, FLORIDA
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

	Major Funds		Total Governmental Funds
	General	Debt Service	
REVENUES			
Assessments	\$ 169,717	8,873,993	\$ 9,043,710
Interest and other	232	252	484
Total revenues	<u>169,949</u>	<u>8,874,245</u>	<u>9,044,194</u>
EXPENDITURES			
Current:			
General government	76,025	-	76,025
Maintenance and operations	110,488	-	110,488
Debt service:			
Principal	-	8,505,000	8,505,000
Interest	-	987,190	987,190
Bond issue costs	-	161,377	161,377
Total expenditures	<u>186,513</u>	<u>9,653,567</u>	<u>9,840,080</u>
Excess (deficiency) of revenues over (under) expenditures	(16,564)	(779,322)	(795,886)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	6,025,000	6,025,000
Payment to refunded bond escrow agent	-	(6,078,489)	(6,078,489)
Total other financing sources (uses)	<u>-</u>	<u>(53,489)</u>	<u>(53,489)</u>
Net change in fund balances	(16,564)	(832,811)	(849,375)
Fund balances - beginning	<u>238,541</u>	<u>1,381,832</u>	<u>1,620,373</u>
Fund balances - ending	<u>\$ 221,977</u>	<u>\$ 549,021</u>	<u>\$ 770,998</u>

See notes to the financial statements

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT
 BONITA SPRINGS, FLORIDA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

Net change in fund balances - total governmental funds	\$ (849,375)
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.	(161,647)
Governmental funds report bond proceeds when debt is first issued, whereas these proceeds are eliminated in the statement of activities and recognized as long-term liabilities in the statement of net assets.	(6,025,000)
In connection with the issuance of refunding Bonds certain amounts transferred to the escrow agent are reported as a financing use when debt is first issued, whereas these amounts are eliminated in the statement of activities and reduce long-term liabilities in the statement of net assets.	6,078,489
Governmental funds report the effects of bond issuance costs, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
Bond issuance costs	161,377
Amortization on issuance costs	(233,578)
Amortization on deferred amount on refunding	(891)
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.	8,505,000
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.	360,355
Change in net assets of governmental activities	\$ 7,834,730

See notes to the financial statements

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT
BONITA SPRINGS, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY

Mediterra North Community Development District ("District") was created on February 21, 2001 by Ordinance 01-04 of the City of Bonita Springs, Florida, 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 the owners of the property within the District. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes.

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 South 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.

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*.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Assessments

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

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

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.

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

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

Assets, Liabilities and Net Assets or Equity

Restricted Assets

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

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 \$750 (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 following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	30

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Deferred Charges

In connection with the issuance of certain debt, the District incurred costs totaling \$161,377. In the government-wide financial statements that amount has been capitalized and amortized over the estimated life of the Bonds using the straight line method. At September 30, 2012 the District reported accumulated amortization of \$2,690.

Deferred Amount on Refunding

For current refundings and advance refundings of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount is offset against the new liability.

In connection with the current refunding, the deferred amount on the refunding was \$53,489 and is being amortized over the life of the Bonds using the straight line method. Accumulated amortization of the deferred amount is \$891 at September 30, 2012.

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 non spendable and restricted fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Assignments of fund balance represent tentative management plans that are subject to change.

The District can establish limitations on the use of fund balance as follows:

Committed fund balance – Amounts that can be used only for the specific purposes determined by a formal action (resolution) of the Board of Supervisors. Commitments may be changed or lifted only by the Board of Supervisors taking the same formal action (resolution) that imposed the constraint originally. Resources accumulated pursuant to stabilization arrangements sometimes are reported in this category.

Assigned fund balance – Includes spendable fund balance amounts established by the Board of Supervisors that are intended to be used for specific purposes that are neither considered restricted nor committed. The Board may also assign fund balance as it does when appropriating fund balance to cover differences in estimated revenue and appropriations in the subsequent year's appropriated budget. Assignments are generally temporary and normally the same formal action need not be taken to remove the assignment.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Fund Equity/Net Assets (Continued)

The District first uses committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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 or other contractual restrictions.

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

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.

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Investments

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

	Fair Value	Credit Risk	Maturities
Money Market Mutual Funds - First American Government Obligation	\$ 525,631	S&P AAAm	Weighted average of the fund portfolio: 53 days
Treasury Obligations Fund SS	131,032	S&P AAAm	Weighted average of the fund portfolio: 48 days
Total Investments	<u>\$ 656,663</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, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land and improvements	\$ 15,117,410	\$ -	\$ -	\$ 15,117,410
Total capital assets, not being depreciated	<u>15,117,410</u>	<u>-</u>	<u>-</u>	<u>15,117,410</u>
Capital assets, being depreciated				
Infrastructure - water control and other	4,623,743	-	-	4,623,743
Total capital assets, being depreciated	<u>4,623,743</u>	<u>-</u>	<u>-</u>	<u>4,623,743</u>
Less accumulated depreciation for:				
Infrastructure - water control and other	1,351,910	161,647	-	1,513,557
Total accumulated depreciation	<u>1,351,910</u>	<u>161,647</u>	<u>-</u>	<u>1,513,557</u>
Total capital assets, being depreciated, net	<u>3,271,833</u>	<u>(161,647)</u>	<u>-</u>	<u>3,110,186</u>
Governmental activities capital assets	<u>\$ 18,389,243</u>	<u>\$ (161,647)</u>	<u>\$ -</u>	<u>\$ 18,227,596</u>

Depreciation expense was charged to the maintenance and operations function.

NOTE 6 – LONG-TERM LIABILITIES

On July 1, 2001 the District issued \$20,030,000 of Capital Improvement Revenue Bonds, Series 2001, consisting of \$18,200,000 Term Bonds Series 2001A due on May 1, 2031 with a fixed interest rate of 6.8% and \$1,830,000 Term Bonds Series 2001 B due in May 1, 2008 with a fixed interest rate of 6.05%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is to be paid semiannually on each May 1 and November 1. Principal on the Series 2001A Bonds is to be paid serially commencing May 1, 2002 through May 1, 2031. The final principal payment on the Series 2001B was paid in May 1, 2007.

The Series 2001A 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. This occurred during the fiscal year ended September 30, 2012 as the District collected assessments and prepaid \$8,150,000 of the Bonds.

On May 17 2012, Mediterra South CDD issued conduit debt of \$6,025,000 of Capital Improvement Revenue Refunding Bonds, Series 2012 (the "Series 2012 Bonds"). In connection with the issuance of the Bonds, an agreement was established whereby Mediterra South loaned the Series 2012 Bonds funds of \$6,025,000 to the District. The Series 2012 Bonds were applied together with other legally available funds to refund the Series 2001A Bonds. The Series 2012 Bonds bear interest at rates from 2.4% to 5.10%. Interest is paid semiannually on each May 1 and November 1, commencing November 1, 2012. Principal on the Series 2012 Bonds is paid serially and commences on May 1, 2013 and ending May 1, 2031.

Some or all of the Series 2012 Bonds are subject to optional, mandatory and extraordinary mandatory redemption at the times, in the amounts and at the redemption prices.

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 requirement. The District was in compliance with the requirements at September 30, 2012.

In connection with the refunding, the District transferred \$6,078,489 to the Trustee to refund the remaining outstanding Series 2001A Bonds. The outstanding balance of the Series 2001A Bonds was \$6,025,000 at the time. The refunding resulted in a difference in cash flows required to pay the respective debt service of \$1,036,964 and resulted in an economic gain of \$820,563. The refunded Bonds were paid in full as of September 30, 2012.

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 2001A	\$ 14,530,000	\$ -	\$ 14,530,000	\$ -	\$ -
Series 2012	-	6,025,000		6,025,000	215,000
Less: Deferred amount on refunding	-	(53,489)	(891)	(52,596)	-
Total	\$ 14,530,000	\$ 5,971,511	\$ 14,529,109	\$ 5,972,402	\$ 215,000

NOTE 6 – LONG-TERM LIABILITIES (Continued)

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

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2013	\$ 215,000	\$ 258,389	\$ 473,389
2014	220,000	265,247	485,247
2015	230,000	258,868	488,868
2016	235,000	251,737	486,737
2017	245,000	243,748	488,748
2018-2022	1,385,000	1,068,217	2,453,217
2023-2027	1,745,000	720,743	2,465,743
2028-2031	1,750,000	228,735	1,978,735
Total	\$ 6,025,000	\$ 3,295,684	\$ 9,320,684

NOTE 7 – INTERLOCAL AGREEMENT

In April 2012, the District entered an interlocal agreement with the Mediterra South District regarding mutual cooperation for the financing of improvements. In the agreement, the Mediterra South District agree to issue bonds on behalf of itself and loan a portion of proceeds of the Bonds to the Mediterra North District to refund and redeem its Bonds, and may also provide for certain covenants and agreements with respect to the collection, deposit, enforcement and disposition of the Assessments of each District in order to pay debt service on the refunding bonds

NOTE 8 – OTHER TRANSACTIONS

In a prior fiscal year, the Developer sold the golf course to Mediterra Golf Club. As such, assessments associated with the golf course for the fiscal year ended September 30, 2012 were paid by Mediterra Golf Club in amount of \$284,103. In addition, Mediterra Golf Club remitted \$7,973,347 to the District during the current fiscal year and paid off the golf course debt service portion of the Series 2001A Bonds.

NOTE 9 – MANAGEMENT COMPANY

The District has contracted with Wrathell, Hunt and Associates, LLC to perform management and accounting 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 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, 2012 the District prepaid a total of \$35,000 of the Series 2012 Bonds. The prepayment was an extraordinary mandatory redemption as outlined in the Bond Indenture.

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT
 BONITA SPRINGS, FLORIDA
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

	Budgeted Amounts <u>Original & Final</u>	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Assessments	\$ 165,268	\$ 169,717	\$ 4,449
Interest	456	232	(224)
Total revenues	<u>165,724</u>	<u>169,949</u>	<u>4,225</u>
EXPENDITURES			
Current:			
General government	84,039	76,025	8,014
Maintenance and operations	112,063	110,488	1,575
Total expenditures	<u>196,102</u>	<u>186,513</u>	<u>9,589</u>
Excess (deficiency) of revenues over (under) expenditures	(30,378)	(16,564)	13,814
OTHER FINANCING SOURCES			
Use of sources	30,378	-	(30,378)
Total other financing sources	<u>30,378</u>	<u>-</u>	<u>(30,378)</u>
Net change in fund balances	<u>\$ -</u>	(16,564)	<u>\$ (16,564)</u>
Fund balance - beginning		<u>238,541</u>	
Fund balance - ending		<u>\$ 221,977</u>	

See notes to required supplementary information

**MEDITERRA NORTH COMMUNITY DEVELOPMENT DISTRICT
BONITA SPRINGS, 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 general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2012.

Actual general fund expenditures for the fiscal year ended September 30, 2012 were less than appropriations due primarily to anticipated costs which were not incurred in the current fiscal year.



Grau & Associates
CERTIFIED PUBLIC ACCOUNTANTS

2700 North Military Trail • Suite 350
Boca Raton, Florida 33431
(561) 994-9299 • (800) 299-4728
Fax (561) 994-5823
www.graucpa.com

**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 North Community Development District
Bonita Springs, Florida

We have audited the financial statements of the governmental activities and each major fund of Mediterra North Community Development District, Bonita Springs, Florida (the "District") as of and for the fiscal year ended September 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 28, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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 of the management, Board of Supervisors of Mediterra North Community Development District, Bonita Springs, 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

March 28, 2013



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

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

We have audited the accompanying basic financial statements of Mediterra North Community Development District ("District") as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated March 28, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Florida Auditor General. 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 based on an audit of the financial statements performed in accordance with *Government Auditing Standards* dated March 28, 2013. Disclosures in that report should be considered in conjunction with this management letter.

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

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

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. This letter is intended for the information and use of management, Board of Supervisors of Mediterra North Community Development District, Bonita Springs, 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 North Community Development District, Bonita Springs, 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.

Grau & Associates

March 28, 2013

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, 2011.

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, 2012.

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, 2012.

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, 2012.

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, 2012 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.

