

**MOODY RIVER ESTATES
COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2012**

**MOODY RIVER ESTATES COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, FLORIDA**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Moody River Estates Community Development District
Lee County, Florida

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year resulting in a net asset deficit balance of (\$2,970,164).
- The change in the District's total net assets in comparison with the prior year was \$15,665, 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, 2012, the District's governmental funds reported combined ending fund balances of \$1,295,694, a decrease of (\$2,863) in comparison with the prior year. The total fund balance is restricted for debt service and capital projects, non-spendable for prepaid items, 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 assessments. 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 and debt service funds are considered to be major funds and the capital projects fund is considered to be 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, liabilities exceeded assets 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	\$ 1,502,080	\$ 1,511,171
Capital assets, net of depreciation	5,410,941	5,582,589
Total assets	6,913,021	7,093,760
Liabilities, excluding long-term liabilities	234,602	236,898
Long-term liabilities	9,648,583	9,842,691
Total liabilities	9,883,185	10,079,589
Net assets		
Invested in capital assets, net of related debt	(4,050,007)	(4,064,187)
Restricted for debt service	977,213	988,713
Unrestricted	102,630	89,645
Total net assets (deficit)	\$ (2,970,164)	\$ (2,985,829)

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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 represents the extent to which 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 END SEPTEMBER 30,		
	2012	2011
Revenues:		
Program revenues		
Charges for services	\$ 965,644	\$ 978,529
Operating grants and contributions	92	-
General revenues		
Unrestricted investment earnings	224	545
Total revenues	<u>965,960</u>	<u>979,074</u>
Expenses:		
General government	156,235	134,651
Infrastructure and maintenance costs	261,458	259,631
Interest	532,602	542,724
Total expenses	<u>950,295</u>	<u>937,006</u>
Change in net assets	15,665	42,068
Net assets (deficit) beginning	(2,985,829)	(3,027,897)
Net assets (deficit) ending	<u>\$ (2,970,164)</u>	<u>\$ (2,985,829)</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 \$950,295. The costs of the District's activities were primarily funded by program revenues. Program revenues, comprised primarily of assessments, decreased during the fiscal year as a result of the decreased assessment level. In total, expenses, including depreciation, increased in comparison with the prior fiscal year. The majority of the increase was the result of the increased legal cost associated with lawsuits against the District.

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.

The variance between budgeted and actual general fund revenues for the current fiscal year was not considered significant. 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 \$6,360,397 invested in land and infrastructure. In the government-wide financial statements, depreciation of \$949,456 has been taken, which resulted in a net book value of \$5,410,941. 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 \$9,670,000 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 NEXT YEAR'S BUDGETS AND OTHER EVENTS

The District does not anticipate any major projects or significant changes to its infrastructure maintenance program for the subsequent fiscal year. In addition, it is anticipated that the general operations 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 Moody River Estates Community Development District's Finance Department at 6131 Lyons Road, Suite 100, Coconut Creek, Florida, 33073.

**MOODY RIVER ESTATES COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 113,768
Assessments receivable	109
Prepays	7,875
Restricted assets:	
Investments	1,192,984
Deferred charges	187,344
Capital assets:	
Nondepreciable	1,801,489
Depreciable, net	<u>3,609,452</u>
Total assets	<u>6,913,021</u>
 LIABILITIES	
Accounts payable	19,042
Accrued interest payable	215,560
Non-current liabilities:	
Due within one year	205,000
Due in more than one year	<u>9,443,583</u>
Total liabilities	<u>9,883,185</u>
 NET ASSETS	
Invested in capital assets, net of related debt	(4,050,007)
Restricted for debt service	977,213
Unrestricted	102,630
Total net assets (deficit)	<u>\$ (2,970,164)</u>

See notes to the financial statements

**MOODY RIVER ESTATES COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, 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>
Primary government:				
Governmental activities:				
General government	\$ 156,235	\$ 156,235	\$ -	\$ -
Maintenance and operations	261,458	102,571	-	(158,887)
Interest on long-term debt	532,602	706,838	92	174,328
Total governmental activities	<u>950,295</u>	<u>965,644</u>	<u>92</u>	<u>15,441</u>
General revenues:				
Unrestricted investment earnings				<u>224</u>
Total general revenues				<u>224</u>
Change in net assets				15,665
Net assets (deficit) - beginning				<u>(2,985,829)</u>
Net assets (deficit) - ending				<u>\$ (2,970,164)</u>

See notes to the financial statements

**MOODY RIVER ESTATES COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

	Major Funds		Non-Major Fund	Total Governmental Funds
	General	Debt Service	Capital Projects	
ASSETS				
Cash	\$ 113,768	\$ -	\$ -	\$ 113,768
Investments	-	1,192,693	291	1,192,984
Assessments receivable	29	80	-	109
Prepays	7,875	-	-	7,875
Total assets	\$ 121,672	\$ 1,192,773	\$ 291	\$ 1,314,736
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 19,042	\$ -	\$ -	\$ 19,042
Total liabilities	19,042	-	-	19,042
Fund balances:				
Nonspendable:				
Prepays	7,875	-	-	7,875
Restricted for:				
Debt service	-	1,192,773	-	1,192,773
Capital projects	-	-	291	291
Unassigned	94,755	-	-	94,755
Total fund balances	102,630	1,192,773	291	1,295,694
Total liabilities and fund balances	\$ 121,672	\$ 1,192,773	\$ 291	\$ 1,314,736

See notes to the financial statements

**MOODY RIVER ESTATES COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

Fund balance - governmental funds		\$ 1,295,694
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>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, net of any accumulated depreciation, in the net assets of the government as a whole.</p>		
Cost of capital assets	6,360,397	
Accumulated depreciation	<u>(949,456)</u>	5,410,941
<p>Bond issuance 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 amortization.</p>		
Bond issuance costs	248,392	
Accumulated amortization	<u>(61,048)</u>	187,344
<p>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.</p>		
Accrued interest payable	(215,560)	
Bonds payable	(9,670,000)	
Bond discount, net of accumulated amortization	<u>21,417</u>	<u>(9,864,143)</u>
Net assets of governmental activities		<u>\$ (2,970,164)</u>

See notes to the financial statements

**MOODY RIVER ESTATES COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

	Major Funds		Non-Major Fund	Total Governmental Funds
	General	Debt Service	Capital Projects	
REVENUES				
Assessments	\$ 258,806	706,838	\$ -	\$ 965,644
Interest and other revenue	224	92	-	316
Total revenues	<u>259,030</u>	<u>706,930</u>	<u>-</u>	<u>965,960</u>
EXPENDITURES				
Current:				
General government	156,235	-	-	156,235
Maintenance and operations	89,810	-	-	89,810
Debt service:				
Principal	-	195,000	-	195,000
Interest	-	527,778	-	527,778
Total expenditures	<u>246,045</u>	<u>722,778</u>	<u>-</u>	<u>968,823</u>
Net change in fund balances	12,985	(15,848)	-	(2,863)
Fund balances - beginning	<u>89,645</u>	<u>1,208,621</u>	<u>291</u>	<u>1,298,557</u>
Fund balances - ending	<u>\$ 102,630</u>	<u>\$ 1,192,773</u>	<u>\$ 291</u>	<u>\$ 1,295,694</u>

See notes to the financial statements

**MOODY RIVER ESTATES COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

Net change in fund balances - total governmental funds	\$	(2,863)
Amounts reported for governmental activities in the statement of activities are different because:		
Depreciation of capital assets is not recognized in the governmental fund statements but is reported as an expense in the statement of activities.		(171,648)
Amortization of deferred charges is not recognized in the governmental fund statement but is reported as an expense in the statement of activities.		(9,172)
Repayments 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.		195,000
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.		<u>4,348</u>
Change in net assets of governmental activities	\$	<u><u>15,665</u></u>

See notes to the financial statements

**MOODY RIVER ESTATES COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY

Reporting Entity

Moody River Estates Community Development District ("District") was created on November 15, 2004 by Ordinance 04-20 of the Lee County, 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. Allocating 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 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)

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 benefited property within the District. Operating and maintenance assessments are based upon the adopted budget and levied annually at a public hearing of the District. Debt service assessments are levied when Bonds are issued and assessed and collected on an annual basis. The District may collect assessments directly or utilize the uniform method of collection under Florida Statutes. Direct collected assessments are due as determined by annual assessment resolution adopted by the Board of Supervisors. Assessments collected under the uniform method are mailed by the County Tax Collector on November 1 and due on or before March 31 of each year. Property owners may prepay a portion or all of the debt service assessments on their property subject to various provisions in the Bond documents.

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.

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 non-major 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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. In addition, surplus funds may be deposited into certificates of deposit which are insured and any unspent Bond proceeds are required to be held in investments as specified in the Bond Indenture.

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 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 two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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	20 - 40

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 a prior year, in connection with the issuance of certain debt, the District incurred costs totaling \$248,392. In the government-wide financial statements, that amount has been capitalized and amortized over the estimated life of the Bonds. At September 30, 2012, the District reported accumulated amortization of \$61,048. In addition, the discount of \$32,130 is being amortized of the estimated life of the Bonds. Accumulated amortization was \$10,713 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 over the life of the Bonds using the straight-line method, which does not result in a material difference from the effective interest method. 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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Fund Equity/Net Assets (Continued)

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

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 Obligations	\$ 1,192,984	S&P AAAM	Weighted average of the fund portfolio: 53 days
Total Investments	\$ 1,192,984		

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	\$ 1,801,489	\$ -	\$ -	\$ 1,801,489
Total capital assets, not being depreciated	1,801,489	-	-	1,801,489
Capital assets, being depreciated				
Infrastructure - water control and other	4,558,908	-	-	4,558,908
Total capital assets, being depreciated	4,558,908	-	-	4,558,908
Less accumulated depreciation for:				
Infrastructure - water control and other	777,808	171,648	-	949,456
Total accumulated depreciation	777,808	171,648	-	949,456
Total capital assets, being depreciated, net	3,781,100	(171,648)	-	3,609,452
Governmental activities capital assets	\$ 5,582,589	\$ (171,648)	\$ -	\$ 5,410,941

The total cost of infrastructure intended to serve the District was originally estimated at approximately \$13,400,000. Of that amount, approximately \$8,600,000 was funded from Series 2005 Bonds and the remainder was to be funded by future bond proceeds and the Developer. In the prior year, it was determined that future debt will not be issued; and, as a result, the project was modified. The infrastructure includes stormwater management, sanitary sewer, water distribution systems, and land improvements. In prior years, water and sewer infrastructure was completed and conveyed to the Lee County Utilities Department.

NOTE 5 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to maintenance and operations.

In connection with the 2005 project, the District established a deferred cost investment account reported in the capital projects fund. In the event there are excess 2005 reserves, they are to be transferred from the debt service to the capital projects fund and used to repay funds advanced for the project or for the purchase of additional components. However, if funds in the account are not needed for that purpose they are to be transferred to the debt service fund and used to redeem outstanding related debt. At September 30, 2012, there is a balance of \$53,135 in the deferred cost account. The District has not yet determined if a liability exists for deferred costs.

NOTE 6 – LONG-TERM LIABILITIES

On July 1, 2005, the District issued \$10,710,000 of Capital Improvement Revenue Bonds, Series 2005 due on May 1, 2036 with a fixed interest rate of 5.350%. 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 Bonds is to be paid serially commencing May 1, 2007 through May 1, 2036.

The Series 2005 Bonds are 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.

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 was in compliance with the requirements of the Bond Indenture at 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 2005	\$ 9,865,000	\$ -	\$ (195,000)	\$ 9,670,000	\$ 205,000
Less: Original Issue Discount	(22,309)	-	892	(21,417)	-
Total	<u>\$ 9,842,691</u>	<u>\$ -</u>	<u>\$ (194,108)</u>	<u>\$ 9,648,583</u>	<u>\$ 205,000</u>

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	\$ 205,000	\$ 517,345	\$ 722,345
2014	215,000	506,377	721,377
2015	225,000	494,875	719,875
2016	240,000	482,838	722,838
2017	250,000	469,997	719,997
2018-2022	1,480,000	2,133,313	3,613,313
2023-2027	1,940,000	1,690,600	3,630,600
2028-2032	2,540,000	1,111,195	3,651,195
2033-2036	2,575,000	353,367	2,928,367
Total	<u>\$ 9,670,000</u>	<u>\$ 7,759,907</u>	<u>\$ 17,429,907</u>

NOTE 7 – NET ASSET (DEFICIT)

The District has a government-wide net asset deficit of (\$2,970,164) as of September 30, 2012. There is no such deficit reflected in the governmental fund financial statements. The deficit primarily relates to the excess of the amount of long-term debt outstanding over the amount of capital assets, net of accumulated depreciation. In prior years, various infrastructure improvements necessary to complete the District were financed through the issuance of long-term debt and conveyed to other entities for maintenance. Those capital assets are not included in the assets of the District; however, the long-term debt associated with those assets remains a liability of the District.

NOTE 8 – CONCENTRATION

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

NOTE 9 – LITIGATIONS AND CLAIMS

On October 22, 2009, Mood Development Corp. filed a complaint against the District in circuit court. The complaint sought a determination of declaratory judgment and supplemental relief. In addition, the complaint challenged: 1) whether land owned by Mood Development Corp. was properly included in the District, 2) the sufficiency of the Notice of Establishment, and 3) the appropriateness of the District's assessments levied against property owned by Mood Development Corp. The District disputed the allegations contained in the complaint.

A second complaint was filed by Mood Development Corp against the District in December 2010. The complaint seeks: 1) a declaration that the District assessments against property owned by Mood are invalid, 2) a court order for the elimination or correction of assessments against Mood's property, 3) a court order directing the Lee County Tax Collector to correct the tax bills for Mood's property. On December 9, 2011, a third complaint was filed by Mood Development Corp for the same.

The parties mediated all three cases in March 2012. Subsequent to the fiscal year end, all three cases were dismissed.

NOTE 10 – MANAGEMENT COMPANY

The District has contracted with Wrathell, Hunt and Associates to perform management advisory services, which include financial 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, computer and other administrative costs.

NOTE 11 – 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. There have been no settled claims from these risks over the past three years.

**MOODY RIVER ESTATES COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, 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	\$ 263,406	\$ 258,806	\$ (4,600)
Interest	-	224	224
Total revenues	263,406	259,030	(4,376)
EXPENDITURES			
Current:			
General government	148,406	156,235	(7,829)
Maintenance and operations	115,000	89,810	25,190
Total expenditures	263,406	246,045	17,361
Excess (deficiency) of revenues over (under) expenditures	\$ -	12,985	\$ 12,985
Fund balance - beginning		89,645	
Fund balance - ending		\$ 102,630	

See notes to required supplementary information

**MOODY RIVER ESTATES COMMUNITY DEVELOPMENT DISTRICT
LEE 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 general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2012.

The variance between budgeted and actual general fund revenues for the current fiscal year was not considered significant. 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.



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**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
Moody River Estates Community Development District
Lee County, Florida

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Moody River Estates Community Development District, Lee County, Florida ("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 5, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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, 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 Moody River Estates Community Development District, Lee 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
March 5, 2013



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

To the Board of Supervisors
Moody River Estates Community Development District
Lee County, Florida

We have audited the accompanying basic financial statements of Moody River Estates Community Development District, Lee County, Florida ("District") as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated March 5, 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 State; 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 5, 2013. Disclosures in that report should be considered in conjunction with this management letter.

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

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

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 the management, Board of Supervisors of Moody River Estates Community Development District, Lee 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 Moody River Estates Community Development District, Lee 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.

Grau & Associates

March 5, 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.