

**RIVERS EDGE  
COMMUNITY DEVELOPMENT DISTRICT  
ST. JOHNS COUNTY, FLORIDA  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2010**

**RIVERS EDGE COMMUNITY DEVELOPMENT DISTRICT  
ST. JOHNS COUNTY, FLORIDA**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Supervisors  
Rivers Edge Community Development District  
St. Johns County, Florida

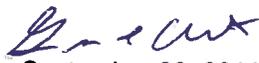
We have audited the accompanying financial statements of the governmental activities and each major fund of Rivers Edge Community Development District, St. Johns County, Florida (the "District") as of and for the fiscal year ended September 30, 2010, which collectively comprise the District's basic financial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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 of the District as of September 30, 2010, and the respective changes in financial position, thereof for the 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 September 30, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts 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.

  
September 30, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the fiscal year ended September 30, 2010 resulting in a net asset balance of \$14,880,524.
- The change in the District's total net assets in comparison with the prior year was (\$4,382,474), a decrease. The key components of the District's net assets and change in net assets are reflected in the table in the government-wide financial analysis section.
- At September 30, 2010, the District's governmental funds reported combined ending fund balances of \$14,016, an increase of \$4,685 in comparison with the prior fiscal year. A portion of fund balance is reserved for deposits, and the remainder is unreserved fund balance which is available for spending at the District's discretion.

### OVERVIEW OF FINANCIAL STATEMENTS

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

#### Government-Wide Financial Statements

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

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

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

The government-wide financial statements include all governmental activities that are principally supported by special assessments and Developer revenues. 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 and debt service funds. Both 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 of the District exceeded its liabilities at the close of the fiscal year ended September 30, 2010.

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

	NET ASSETS	
	SEPTEMBER 30,	
	2010	2009
Assets, excluding capital assets	\$ 234,905	\$ 235,173
Capital assets	14,866,508	19,253,667
Total assets	<u>15,101,413</u>	<u>19,488,840</u>
Liabilities, excluding long-term liabilities	220,889	225,842
Total liabilities	<u>220,889</u>	<u>225,842</u>
Net Assets		
Invested in capital assets	14,866,508	19,253,667
Unrestricted	14,016	9,331
Total net assets	<u>\$ 14,880,524</u>	<u>\$ 19,262,998</u>

A portion of the District's net assets represents 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.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The District's net assets decreased during the most recent fiscal year. The majority of the decrease is attributed to the conveyance of completed infrastructure to another entity for maintenance and ownership responsibilities.

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

	FOR THE FISCAL YEAR ENDED SEPTEMBER 30,	
	2010	2009
Revenues:		
Program revenues		
Charges for services	\$ 2,326,509	\$ 1,673,494
Operating grants and contributions	172,254	93,342
General revenues		
Unrestricted Interest earnings	322	37
Total revenues	<u>2,499,085</u>	<u>1,766,873</u>
Expenses:		
General government	87,820	90,175
Infrastructure and maintenance costs	4,467,230	607,423
Interest	2,326,509	1,673,494
Total expenses	<u>6,881,559</u>	<u>2,371,092</u>
Change in net assets	<u>(4,382,474)</u>	<u>(604,219)</u>
Net assets - beginning	19,262,998	19,867,217
Net assets - ending	<u>\$ 14,880,524</u>	<u>\$ 19,262,998</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2010 was \$6,881,559. The costs of the District's activities were primarily funded by program revenues. Program revenues, comprised primarily of assessments, increased from the prior fiscal year as additional revenue was needed to service the District's debt service payments. Program revenues were also comprised of Developer contributions which increased to finance the increased activity of the District's general operations. The increase in the District's expenses was primarily the result of the conveyance of completed infrastructure to other entities and the increase in the District's current fiscal year debt service expense.

## GENERAL BUDGETING HIGHLIGHTS

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

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

## CAPITAL ASSETS

At September 30, 2010, the District had \$15,163,033 invested in infrastructure under construction and drainage and road infrastructure for its governmental activities. In the government-wide financial statements, depreciation of \$296,525 has been taken, which resulted in a net book value of \$14,866,508. More detailed information about the District's capital assets is presented in the notes of the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND OTHER EVENTS

In July 2010, the District filed a merger petition with the Florida Land and Water Adjudicatory Commission ("FLWAC") to seek the merger of the Rivers Edge Community Development District ("Rivers Edge") and Main Street Community Development District ("Main Street") consistent with the terms of the Merger Agreement and Chapter 190, Florida Statutes. As of September 6, 2011, the merger became effective. The boundaries of Rivers Edge are enlarged to include the lands initially contained in Main Street. All obligations of Main Street are now obligations of Rivers Edge pursuant to the Merger Agreement and the Assumption Agreement entered into between Rivers Edge and US Bank, as Trustee.

## 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 Rivers Edge Community Development District's Finance Department at 475 West Town Place, Suite 114, St. Augustine, Florida 32092.

**RIVERS EDGE COMMUNITY DEVELOPMENT DISTRICT  
ST. JOHNS COUNTY, FLORIDA  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2010**

	Governmental Activities
<b>ASSETS</b>	
Cash	\$ 10,160
Due from Developer	26,875
Assessments receivable	197,220
Deposits	650
Capital assets	
Nondepreciable	6,267,286
Depreciable, net	8,599,222
Total assets	15,101,413
 <b>LIABILITIES</b>	
Accounts payable	23,669
Due to Main Street	197,220
Total liabilities	220,889
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	14,866,508
Unrestricted	14,016
Total net assets	\$ 14,880,524

See notes to the financial statements

**RIVERS EDGE COMMUNITY DEVELOPMENT DISTRICT  
ST. JOHNS COUNTY, FLORIDA  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Primary government:				
Governmental activities:				
General government	\$ 87,820	\$ -	\$ 172,254	\$ 84,434
Infrastructure and maintenance costs	4,467,230	-	-	(4,467,230)
Interest on long-term debt	2,326,509	2,326,509	-	-
Total governmental activities	<u>6,881,559</u>	<u>2,326,509</u>	<u>172,254</u>	<u>(4,382,796)</u>
General revenues:				
Unrestricted investment earnings				322
Total general revenues				<u>322</u>
Change in net assets				(4,382,474)
Net assets - beginning				19,262,998
Net assets - ending				<u>\$ 14,880,524</u>

See notes to the financial statements

**RIVERS EDGE COMMUNITY DEVELOPMENT DISTRICT  
ST. JOHNS COUNTY, FLORIDA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2010**

	Major Funds		Total
	General	Debt Service	Governmental Funds
<b>ASSETS</b>			
Cash	\$ 10,160	\$ -	\$ 10,160
Assessments receivable	-	197,220	197,220
Due from Developer	26,875	-	26,875
Deposits	650	-	650
Total assets	<u>\$ 37,685</u>	<u>\$ 197,220</u>	<u>\$ 234,905</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 23,669	\$ -	\$ 23,669
Due to Main Street	-	197,220	197,220
Total liabilities	<u>23,669</u>	<u>197,220</u>	<u>220,889</u>
Fund balances:			
Reserved for:			
Other	650	-	650
Unreserved, reported in:			
General fund	13,366	-	13,366
Total fund balances	<u>14,016</u>	<u>-</u>	<u>14,016</u>
Total liabilities and fund balances	<u>\$ 37,685</u>	<u>\$ 197,220</u>	<u>\$ 234,905</u>
Fund balance - governmental funds			\$ 14,016

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, net of applicable accumulated depreciation, in the net assets of the government as a whole.

Cost of capital assets	15,163,033	
Accumulated depreciation	(296,525)	14,866,508
Net assets of governmental activities		<u>\$ 14,880,524</u>

See notes to the financial statements

**RIVERS EDGE COMMUNITY DEVELOPMENT DISTRICT  
ST. JOHNS COUNTY, FLORIDA  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

	Major Funds		Total Governmental Funds
	General	Debt Service	
<b>REVENUES</b>			
Assessments	\$ -	\$ 2,326,509	\$ 2,326,509
Developer contributions	172,254	-	172,254
Interest	322	-	322
Total revenues	<u>172,576</u>	<u>2,326,509</u>	<u>2,499,085</u>
<b>EXPENDITURES</b>			
Current:			
General government	87,820	-	87,820
Maintenance and operations	80,071	-	80,071
Debt Service:			
Main Street debt service payments	-	2,326,509	2,326,509
Total expenditures	<u>167,891</u>	<u>2,326,509</u>	<u>2,494,400</u>
Excess (deficiency) of revenues over (under) expenditures	4,685	-	4,685
Fund balances - beginning	<u>9,331</u>	-	<u>9,331</u>
Fund balances - ending	<u>\$ 14,016</u>	<u>\$ -</u>	<u>\$ 14,016</u>
Net change in fund balances - total governmental funds			\$ 4,685

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.	(296,525)
Conveyances of infrastructure improvements to other governments of previously capitalized capital assets is recorded as an expense in the statement of activities.	<u>(4,090,634)</u>
Changes in net assets of governmental activities	<u>\$ (4,382,474)</u>

See notes to the financial statements

**RIVERS EDGE COMMUNITY DEVELOPMENT DISTRICT  
ST. JOHNS COUNTY, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - NATURE OF ORGANIZATION AND REPORTING ENTITY**

Rivers Edge Community Development District ("District") was created on November 1, 2006 by Rule 42FFF-1.001, Florida Administrative Code, adopted by the Florida Land & Water Adjudicatory Commission, pursuant to the Uniform Community Development District Act of 1980, and 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. At September 30, 2010, all of the Board members are affiliated with St. Joe Company ("Developer").

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 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 benefitted 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.

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, 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 debt 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 Inter-local 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.

#### Prepaid Items

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 – drainage	30
Infrastructure – roads	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.

#### 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.

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

### **Assets, Liabilities and Net Assets or Equity (Continued)**

#### 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. Premiums and discounts, as well as issuance costs, are deferred and amortized ratably over the life of the related debt. Long-term obligations payable are reported net of applicable premiums or discounts.

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

#### Fund Equity/Net Assets

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

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

### **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

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 5 - CAPITAL ASSETS

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

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Infrastructure under construction	\$ 19,253,667	\$ -	\$ 12,986,381	\$ 6,267,286
Total capital assets, not being depreciated	<u>19,253,667</u>	<u>-</u>	<u>12,986,381</u>	<u>6,267,286</u>
Capital assets, being depreciated				
Infrastructure - drainage		3,469,342		3,469,342
Infrastructure - roads		5,426,405		5,426,405
Total capital assets, being depreciated	<u>-</u>	<u>8,895,747</u>	<u>-</u>	<u>8,895,747</u>
Less accumulated depreciation for:				
Infrastructure - drainage		115,645		115,645
Infrastructure - roads	-	180,880	-	180,880
Total accumulated depreciation	<u>-</u>	<u>296,525</u>	<u>-</u>	<u>296,525</u>
Total capital assets, being depreciated, net	<u>-</u>	<u>8,599,222</u>	<u>-</u>	<u>8,599,222</u>
Governmental activities capital assets	<u>\$ 19,253,667</u>	<u>\$ 8,599,222</u>	<u>\$ 12,986,381</u>	<u>\$ 14,866,508</u>

The District has entered into an interlocal agreement with Main Street Community Development District ("Main Street") to have joint construction for both Districts. The total estimated combined cost for the capital improvements is approximately \$379,181,000. The improvements will include drainage and stormwater systems, roadways, utilities, landscape, and recreational facilities. In the current fiscal year, the construction of certain water and wastewater improvements was completed; and the infrastructure improvements totaling \$4,090,634 were conveyed from the Districts to Jacksonville Electric Authority ("JEA"). Rivers Edge's allocated cost of the infrastructure is reflected as a reduction in the preceding schedule. The improvements will be owned and maintained by JEA and are reflected in the statement of activities as infrastructure and maintenance costs. Additionally, other improvements were conveyed to St. Johns County in the prior fiscal year.

According to the interlocal agreement, Rivers Edge issues debt only when necessary with Main Street to be the primary issuer of debt. Both Districts have agreed that Rivers Edge landowners will be assessed their fair share of the Main Street debt for benefits received. The Districts have also agreed that costs will be paid by each District based on a pro-rata share as outlined in the assessment methodology. When construction is completed, each District will accept ownership and maintenance of the improvements that fall within its respective boundary and certain other assets will be conveyed to other entities. Certain costs have been incurred by Main Street that relate to Rivers Edge and have been recorded by Main Street pending the completion of the project.

Both the Rivers Edge and Main Street capital improvements will be funded by the issuance of debt and the Developer. More detailed information about Main Street's capital debt is discussed in Note 7 – Other Matters.

## **NOTE 5 - CAPITAL ASSETS (Continued)**

Main Street has entered into an interlocal agreement with St. John's County and Jacksonville Electric Authority ("JEA") for cost sharing of certain intersection improvements. Pursuant to the agreement, the County and JEA will reimburse the Main Street as the project progresses. As of September 30, 2010, Main Street has received a total of \$5,670,904 from the County, of which the entire amount was recorded as revenue in prior fiscal years, and \$12,276,575 from JEA, of which \$1,202,629 is recorded as revenue in the current fiscal year.

## **NOTE 6 - DEVELOPER TRANSACTIONS**

The Developer owns a portion of land within the District; therefore, assessment revenues in the debt service fund include the assessments levied on those lots owned by the Developer.

Additionally, the Developer has agreed to fund the general operations of the District. In connection with that agreement, Developer contributions to the general fund were \$172,254, which includes a receivable of \$26,875 at September 30, 2010.

## **NOTE 7 - OTHER MATTERS**

### **Main Street Bonds**

During a prior fiscal year, Main Street issued Series 2008 Bonds to continue infrastructure improvements. The Series 2008 project will benefit both Main Street and Rivers Edge; therefore, non-ad valorem debt special assessments were levied on the land within Rivers Edge and Main Street Community Development Districts. The assessments imposed within the boundaries of Rivers Edge are collected and remitted to Main Street within 14 days of receipt. For the fiscal year ended September 30, 2010, the District remitted assessments of \$2,326,509 to Main Street, which includes a liability of \$197,220 due to Main Street at September 30, 2010.

### **Promissory Note**

In a prior fiscal year, a non-interest bearing promissory note with the Developer was executed in an amount not to exceed \$3,449,754 for the benefit of Rivers Edge and Main Street. During the current fiscal year, Main Street accepted the conveyance of infrastructure from the Developer as release and satisfaction of the promissory note.

### **Merger Agreement**

As a result of changes to the District's development plan, the Developer and the Boards of Supervisors of Rivers Edge and Main Street agreed that it is in the best interests of both Districts to merge in order to facilitate the revised development plan and provide increased benefit to landowners within the Districts.

In June 2010, Rivers Edge and Main Street entered into a Merger Agreement specifying the merger of Main Street into Rivers Edge and the survival of Rivers Edge under Rivers Edge's existing name. As the surviving district, Rivers Edge is to assume all indebtedness of, and receive title to, all property owned by Main Street.

In July 2010, the District filed a merger petition with the Florida Land and Water Adjudicatory Commission ("FLWAC") to seek the merger of Rivers Edge and Main Street consistent with the terms of the Merger Agreement and Chapter 190, Florida Statutes. As of September 6, 2011, the merger became effective. The boundaries of Rivers Edge are enlarged to include the lands initially contained in Main Street. All obligations of Main Street are now obligations of Rivers Edge pursuant to the Merger Agreement and the Assumption Agreement entered into between Rivers Edge and US Bank, as Trustee.

## **NOTE 8 - COMMITMENTS**

During the prior fiscal year, one of Main Street's major construction contracts was suspended and has not resumed as of the report date. The total commitment on the contract is approximately \$3.2 Million. Conditions have changed such that Main Street no longer desires to move forward with the improvements set forth in the contract. Consequently, subsequent to fiscal year end, Main Street provided the contractor with notice of termination of the agreement.

#### **NOTE 9 - MANAGEMENT COMPANY**

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

#### **NOTE 10 - RISK MANAGEMENT**

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

#### **NOTE 11 - LITIGATION, FINES & CLAIMS**

The St. Johns River Water Management District ("SJRWMD") issued three consent orders against the Developer based on turbidity violations in the St. Johns River caused by three contractors performing work on the project on behalf of Main Street. The fines issued under each of the three consent orders were approximately \$38,504, \$10,532, and \$16,105 respectively. The Developer has made a claim against Main Street seeking payment for the entire amount of these fines; Main Street, in turn, has asked the three contractors to reimburse it for any amounts that it may pay to the Developer. The negotiations are ongoing and it is unclear as of the report date how much of these fines, if any, will ultimately be paid by Main Street. As such, these items have not been reflected on the financial statements herein.

In December 2009, Main Street entered into a settlement agreement with Barco-Duval Engineering, Inc. ("the contractor"). Main Street paid the contractor \$90,000 as compensation for the significant delays in construction experienced during unexpected negotiations between Main Street and St. Johns County.

In April 2010, the District filed a twelve count complaint in the Seventh Judicial Circuit against Hill, Boring and Associate, Inc. ("Hill Boring"), and Susan West for breach of contract, negligent design and professional negligence. The Main Street Community Development District and the Developer are co-plaintiffs in the case.

The lawsuit generally involves Hill Boring and Susan West's engineering work with respect to the design and construction supervision of infrastructure improvement related to County Road 223. On May 4, 2010, Hill Boring filed a Motion to Stay Pending Mediation pursuant to its agreement with the Developer. The parties engaged in mediation on January 13, 2011, which did not result in a settlement. While the District feels that it has a strong likelihood of success on the merits of its lawsuit against the defendants, there are questions regarding the availability of insurance coverage to pay a judgment. The issue is currently subject of discovery.

No adjustment has been made to the financial statements as the impact on the District cannot be determined at this time since it is unclear how events will unfold.

**RIVERS EDGE COMMUNITY DEVELOPMENT DISTRICT  
ST. JOHNS COUNTY, FLORIDA  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original & Final			
<b>REVENUES</b>				
Developer contributions	\$ 192,131		\$ 172,254	\$ (19,877)
Interest	-		322	322
Total revenues	192,131		172,576	(19,555)
<b>EXPENDITURES</b>				
Current:				
General government	62,631		87,820	(25,189)
Maintenance and operations	129,500		80,071	49,429
Total expenditures	192,131		167,891	24,240
Excess (deficiency) of revenues over (under) expenditures	\$ -		4,685	\$ 4,685
Fund balance - beginning			9,331	
Fund balance - ending			\$ 14,016	

See notes to required supplementary information

**RIVERS EDGE COMMUNITY DEVELOPMENT DISTRICT  
ST. JOHNS 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 for the fiscal year ended September 30, 2010 did not exceed appropriations.

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



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

To the Board of Supervisors  
Rivers Edge Community Development District  
St. Johns County, Florida

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

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as discussed in the accompanying report to management dated September 30, 2011, we consider deficiency 2010-01 to be a significant deficiency in internal control over financial reporting.

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, 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 Rivers Edge Community Development District, St. Johns 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.

September 30, 2011



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

To the Board of Supervisors  
Rivers Edge Community Development District  
St. Johns County, Florida

We have audited the accompanying basic financial statements of Rivers Edge Community Development District ("District") as of and for the fiscal year ended September 30, 2010, and have issued our report thereon dated September 30, 2011.

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

In addition, we have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters dated September 30, 2011. Disclosures in that report should be considered in conjunction with this management letter.

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

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

This report is intended for the information of the management, Board of Supervisors of Rivers Edge Community Development District, St. Johns 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 Rivers Edge Community Development District, St. Johns 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.

  
September 30, 2011

## REPORT TO MANAGEMENT

### I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

#### *Significant Deficiency*

##### **2010-01 Not Maintaining Fixed Assets Schedule**

Finding: During the course of conducting procedures for the audit of the fiscal year ended September 30, 2010, it came to our attention that the District has not been maintaining its fixed asset schedule. Documentation for certain current year conveyances could not be provided.

Recommendation: The District should be maintaining its capital asset schedules throughout the course of the fiscal year. The District's policies for accounting for capital assets and generally accepted accounting principles should be taken into consideration in doing so.

Management Response: The District has updated capital asset schedules and will maintain throughout the fiscal year in accordance with the auditor's recommendations.

### II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

None

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

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

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

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

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

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

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

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

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

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

## **REPORT TO MANAGEMENT (Continued)**

5. For matters that have an inconsequential effect on the financial statements, considering both quantitative and qualitative factors, the following may be reported based on professional judgment:
  - a. Violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse.
  - b. Deficiencies in internal control that are not significant deficiencies.

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

6. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.
7. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2010 financial audit report.
8. The District has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
9. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and no deteriorating financial conditions were noted for the fiscal year ended September 30, 2010. 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.