

**RIVERS EDGE
COMMUNITY DEVELOPMENT DISTRICT
ST. JOHNS COUNTY, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2011**

**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, 2011, 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, 2011, 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 June 26, 2012, 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.

June 26, 2012

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, 2011. 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.

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.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the fiscal year ended September 30, 2011 resulting in a net asset balance of \$36,548,276.
- The change in the District's total net assets in comparison with the prior year was \$21,667,752, 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, 2011, the District's governmental funds reported combined ending fund balances of \$2,870,452, an increase of \$2,856,436 in comparison with the prior fiscal year. A portion of fund balance is restricted for debt service and non-spendable for prepaid items, unassigned deficit capital projects fund balance of (\$114,221), and the remainder is unassigned general 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.

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

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.

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, debt service, and capital projects funds, all of which 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 most recent fiscal year.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

NET ASSETS		
SEPTEMBER 30,		
	2011	2010
Assets, excluding capital assets	\$ 4,777,197	\$ 234,905
Capital assets	66,563,984	14,866,508
Total assets	<u>71,341,181</u>	<u>15,101,413</u>
Liabilities, excluding long-term liabilities	1,748,614	220,889
Long-term liabilities	33,044,291	-
Total liabilities	<u>34,792,905</u>	<u>220,889</u>
Net assets		
Invested in capital assets	34,501,424	14,866,508
Restricted for debt service	2,020,292	-
Unrestricted	26,560	14,016
Total net assets	<u>\$ 36,548,276</u>	<u>\$ 14,880,524</u>

The District's net assets increased during the most recent fiscal year. The majority of the increase results from the transfer of net assets from Main Street pursuant to the merger agreement. The remaining increase represents the extent to which ongoing program revenues exceeded the cost of operations and depreciation expense.

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

CHANGES IN NET ASSETS		
FOR THE FISCAL YEAR ENDED SEPTEMBER 30,		
	2011	2010
Revenues:		
Program revenues		
Charges for services	\$ 2,344,528	\$ 2,326,509
Operating grants and contributions	235,519	172,254
Capital grants and contributions	745,673	-
General revenues		
Unrestricted Interest earnings	-	322
Total revenues	<u>3,325,720</u>	<u>2,499,085</u>
Expenses:		
General government	84,588	87,820
Infrastructure and maintenance costs	1,290,678	4,467,230
Interest	2,126,117	2,326,509
Total expenses	<u>3,501,383</u>	<u>6,881,559</u>
Special item:		
Transfer of net assets from Main Street CDD	21,843,415	-
Total special items	<u>21,843,415</u>	<u>-</u>
Change in net assets	<u>21,667,752</u>	<u>(4,382,474)</u>
Net assets - beginning	14,880,524	19,262,998
Net assets - ending	<u>\$ 36,548,276</u>	<u>\$ 14,880,524</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2011 was \$3,501,383. The costs of the District's activities were funded by program revenues. Program revenues, comprised primarily of assessments and Developer contributions, increased from the prior fiscal year as additional revenue was needed to fund the increase in activity related to the merger with Main Street. The decrease in the District's expenses is attributed to the conveyance of completed infrastructure to other entities in the prior fiscal year. As discussed in the notes to the financial statements, the District recorded a special item in the amount of \$21,843,415 for the transfer of all the assets and liabilities from Main Street pursuant to the merger agreement

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. The general fund budget for the fiscal year ended September 30, 2011 was amended to decrease revenues by \$33,308 and appropriations by \$28,590, and increase transfer of fund balance by \$16,343. Actual general fund expenditures for the fiscal year ended September 30, 2011 exceeded appropriations by \$16,679. The over expenditures were funded by available fund balance and additional contributions from the Developer.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2011, the District had \$67,743,161 invested in infrastructure under construction and drainage and road infrastructure for its governmental activities. In the government-wide financial statements, depreciation of \$1,179,177 has been taken, which resulted in a net book value of \$66,563,984. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Capital Debt

At September 30, 2011, the District had \$32,815,000 in Bonds outstanding and a liability due to the Developer of \$229,291 for its governmental activities which were transferred from Main Street. 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

As discussed in the notes to the financial statements, the District merged with Main Street during the current fiscal year. As a result, general operating, as well as infrastructure and maintenance, costs of the District are expected to increase in 2012.

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, 2011**

	Governmental Activities
ASSETS	
Cash	\$ 20,413
Due from Developer	809,393
Accrued interest receivable	
Assessments receivable	208,820
Due from other governments	360,879
Deposits	5,363
Restricted assets:	
Investments	2,833,528
Deferred charges	538,801
Capital assets	
Nondepreciable	48,980,295
Depreciable, net	17,583,689
Total assets	71,341,181
LIABILITIES	
Accounts payable	86,940
Deferred revenues	4,192
Contracts and retainage payable	719,661
Accrued interest payable	937,821
Non-current liabilities:	
Due within one year	180,000
Due in more than one year	32,864,291
Total liabilities	34,792,905
NET ASSETS	
Invested in capital assets, net of related debt	34,501,424
Restricted for debt service	2,020,292
Unrestricted	26,560
Total net assets	\$ 36,548,276

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, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 84,588	\$ -	\$ 235,519	\$ -	\$ 150,931
Infrastructure and maintenance costs	1,290,678	-	-	745,673	(545,005)
Interest on long-term debt	<u>2,126,117</u>	<u>2,344,528</u>	<u>-</u>	<u>-</u>	<u>218,411</u>
Total governmental activities	<u>3,501,383</u>	<u>2,344,528</u>	<u>235,519</u>	<u>745,673</u>	<u>(175,663)</u>
Special item:					
Transfer of net assets from Main Street CDD					<u>21,843,415</u>
Total special items					<u>21,843,415</u>
Change in net assets					21,667,752
Net assets - beginning					<u>14,880,524</u>
Net assets - ending					<u>\$ 36,548,276</u>

See notes to the financial statements

**RIVERS EDGE COMMUNITY DEVELOPMENT DISTRICT
ST. JOHNS COUNTY, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

	Major Funds			Total
	General	Debt Service	Capital Projects	Governmental Funds
ASSETS				
Cash	\$ 16,221	\$ 4,192	\$ -	\$ 20,413
Investments	-	2,749,293	84,235	2,833,528
Assessments receivable	-	208,820	-	208,820
Due from Developer	91,916	-	717,477	809,393
Due from other governments	-	-	360,879	360,879
Deposits	5,363	-	-	5,363
Total assets	<u>\$ 113,500</u>	<u>\$ 2,962,305</u>	<u>\$ 1,162,591</u>	<u>\$ 4,238,396</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 86,940	\$ -	\$ -	\$ 86,940
Deferred revenue	-	4,192	557,151	561,343
Contracts and retainage payable	-	-	719,661	719,661
Total liabilities	<u>86,940</u>	<u>4,192</u>	<u>1,276,812</u>	<u>1,367,944</u>
Fund balances:				
Nonspendable:				
Prepaid items	5,363	-	-	5,363
Restricted for:				
Debt service	-	2,958,113	-	2,958,113
Unassigned	21,197	-	(114,221)	(93,024)
Total fund balances	<u>26,560</u>	<u>2,958,113</u>	<u>(114,221)</u>	<u>2,870,452</u>
Total liabilities and fund balances	<u>\$ 113,500</u>	<u>\$ 2,962,305</u>	<u>\$ 1,162,591</u>	<u>\$ 4,238,396</u>

See notes to the financial statements

**RIVERS EDGE COMMUNITY DEVELOPMENT DISTRICT
ST. JOHNS COUNTY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011**

Fund balance - governmental funds \$ 2,870,452

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	67,743,161	
Accumulated depreciation	<u>(1,179,177)</u>	66,563,984

Debt issuance costs are not financial resources and, therefore, are not reported as assets in the governmental funds. The statements of net assets includes these costs, net of any amortization.

Bond issuance costs	611,887	
Accumulated amortization	<u>(73,086)</u>	538,801

Assets that are not available to pay for current-period expenditures are deferred in the fund statements. 557,151

Liabilities not due and payable from current available resources are not reported as liabilities in the governmental fund statements. All liabilities, both current and long-term, are reported in the government-wide financial statements.

Accrued interest payable	(937,821)	
Developer advances	(229,291)	
Bonds payable	<u>(32,815,000)</u>	<u>(33,982,112)</u>
Net assets of governmental activities		<u>\$ 36,548,276</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, 2011**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
REVENUES				
Assessments	\$ -	\$ 2,344,528	\$ -	\$ 2,344,528
Developer contributions	235,519	-	399,566	635,085
Contribution from other governments	-	-	65,219	65,219
Total revenues	<u>235,519</u>	<u>2,344,528</u>	<u>464,785</u>	<u>3,044,832</u>
EXPENDITURES				
Current:				
General government	84,588	-	-	84,588
Maintenance and operations	143,219	-	-	143,219
Debt service:				
Main Street debt service payments	-	2,126,117	-	2,126,117
Capital outlay	-	-	443,407	443,407
Total expenditures	<u>227,807</u>	<u>2,126,117</u>	<u>443,407</u>	<u>2,797,331</u>
Excess (deficiency) of revenues over (under) expenditures	7,712	218,411	21,378	247,501
OTHER FINANCING SOURCES (USES)				
Transfer of fund balance from Main Street CDD	4,832	2,739,702	(135,599)	2,608,935
Total other financing sources (uses)	<u>4,832</u>	<u>2,739,702</u>	<u>(135,599)</u>	<u>2,608,935</u>
Net change in fund balances	12,544	2,958,113	(114,221)	2,856,436
Fund balances - beginning	<u>14,016</u>	<u>-</u>	<u>-</u>	<u>14,016</u>
Fund balances - ending	<u>\$ 26,560</u>	<u>\$ 2,958,113</u>	<u>\$ (114,221)</u>	<u>\$ 2,870,452</u>

See notes to the financial statements

**RIVERS EDGE COMMUNITY DEVELOPMENT DISTRICT
ST. JOHNS 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, 2011**

Net change in fund balances - total governmental funds	\$ 2,856,436
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)
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is eliminated and capitalized in the statement of net assets.	443,407
Conveyances of infrastructure improvements to other governments of previously capitalized capital assets is recorded as an expense in the statement of activities.	(850,934)
Transfers of capital related assets, long-term liabilities and related charges from other entities are reported in the statement of activities but do not affect the fund financial statements.	19,234,480
Revenues in the statement of activities that do not provide current financial resources are deferred and not reported as revenues in the fund financial statements.	280,888
Changes in net assets of governmental activities	<u>\$ 21,667,752</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.

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 between Rivers Edge and Main Street, and the Assumption Agreement entered into between Rivers Edge and US Bank, as Trustee.

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 exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes. At September 30, 2011, all of the Board members are affiliated with St. Joe Company ("Developer").

The Board has the responsibility for, among other things:

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Assessments

Assessments are non-ad valorem assessments on 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 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.

Capital Projects Fund

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Assets, Liabilities and Net Assets or Equity

Restricted Assets

These assets represent cash and investments set aside pursuant to Bond covenants or other contractual restrictions.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Capital Assets (Continued)

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

Deferred Charges

In a prior year, in connection with the issuance of certain debt, Main Street incurred cost of issuance (including underwriter's discount) totaling \$611,887. In the government-wide financial statements, that amount has been capitalized and will be amortized over the estimated life of the debt. Pursuant to the merger, this amount was transferred over to the District. At September 30, 2011, the District reported accumulated amortization of \$73,086.

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. 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 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. Under GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balances are required to be reported according to the following classifications:

Non-spendable fund balance – Amounts that are (a) not in spendable form or (b) legally or contractually required to be maintained intact. "Not in spendable form" includes items that are not expected to be converted to cash (such as inventories and prepaid amounts) and items such as long-term amount of loans and notes receivable, as well as property acquired for resale. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.

Restricted fund balance – Amounts that can be spent only for specific purposes stipulated by (a) external resource providers such as creditors (by debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Fund Equity/Net Assets (Continued)

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.

Unassigned fund balance – Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

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

Net assets in the government-wide financial statements are categorized as invested in capital assets, net of related debt, restricted or unrestricted. Invested in capital assets, net of related debt represents net assets related to infrastructure and property, plant and equipment, net of any related debt. Restricted net assets represent the assets restricted by the District's 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) A public hearing is 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, subject to the terms of the District's annual appropriation resolution.
- e) The budgets are adopted on a basis consistent with generally accepted accounting principles.
- f) Unused appropriation for annually budgeted funds lapse at the end of the year.

NOTE 4 - DEPOSITS AND INVESTMENTS

Deposits

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

Investments

The District's investments were held as follows at September 30, 2011:

	<u>Fair Value</u>	<u>Credit Risk</u>	<u>Weighted Average Maturities</u>
First American Govt Oblig Fund - CI Z	2,833,528	S&P AAAM	Weighted average of the fund portfolio: 50 days
	<u>\$ 2,833,528</u>		

Custodial credit 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, 2011 was as follows:

	Beginning Balance	Additions	Transfer from Main Street CDD	Reductions	Ending Balance
<u>Governmental activities</u>					
Capital assets, not being depreciated					
Land and land improvements	\$ -	\$ -	\$ 17,841,080	\$ -	\$ 17,841,080
Infrastructure under construction	6,267,286	443,407	26,354,349	(1,925,827)	31,139,215
Total capital assets, not being depreciated	6,267,286	443,407	44,195,429	(1,925,827)	48,980,295
Capital assets, being depreciated					
Infrastructure - drainage	3,469,342	246,524	3,428,968	-	7,144,834
Infrastructure - roads	5,426,405	614,428	5,363,258	-	11,404,091
Infrastructure - streetlights	-	165,047	-	-	165,047
Infrastructure - other	-	48,894	-	-	48,894
Total capital assets, being depreciated	8,895,747	1,074,893	8,792,226	-	18,762,866
Less accumulated depreciation for:					
Infrastructure - drainage	115,645	115,645	227,327	-	458,617
Infrastructure - roads	180,880	180,880	358,800	-	720,560
Infrastructure - streetlights	-	-	-	-	-
Infrastructure - other	-	-	-	-	-
Total accumulated depreciation	296,525	296,525	586,127	-	1,179,177
Total capital assets, being depreciated, net	8,599,222	778,368	8,206,099	-	17,583,689
Governmental activities capital assets	\$ 14,866,508	\$ 1,221,775	\$ 52,401,528	\$ (1,925,827)	\$ 66,563,984

In a prior year, the District entered into an interlocal agreement with Main Street Community Development District ("Main Street") to have joint construction for both Districts. During the current fiscal year, Main Street merged into the District, and the District has assumed all previous commitments of Main Street. 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 infrastructure improvements totaling \$850,934 were conveyed from the Districts to Jacksonville Electric Authority ("JEA"). 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 JEA and St. Johns County in prior fiscal years. Furthermore, pursuant to the merger agreement, net capital assets of \$52,401,528 were transferred from Main Street to the District during the current fiscal year.

Both the Rivers Edge and Main Street capital improvements will be funded by the issuance of debt and the Developer. More detailed information about capital debt is discussed in Note 6 – Long Term Liabilities.

In a prior year, Main Street entered into an interlocal agreement with St. John's County and JEA for cost sharing of certain intersection improvements. Pursuant to the agreement, the County and JEA will reimburse Main Street as the project progresses. This agreement was assumed by the District pursuant to the merger agreement. As of September 30, 2011, Main Street and the District has received a total of \$5,822,195 from the County, of which \$86,072 and \$65,219 is recorded as revenue in the current fiscal year by Main Street and the District, respectively, of which included a receivable of \$121,640 at September 30, 2011. As of September 30, 2011, Main Street has received a total of \$12,279,115 from JEA, of which \$2,540 is recorded as revenue in the current fiscal year. Furthermore, The District has a receivable of \$239,239 from JEA at September 30, 2011 for which the related revenue was deferred in the fund financial statements.

At September 30, 2011, there is a balance of \$23,890 in the deferred cost account. The District has not yet determined if a liability exists for deferred obligations.

NOTE 6 - LONG TERM LIABILITIES

As discussed in Note 8, pursuant to the merger agreement, the District assumed the following liabilities from Main Street.

Series 2008

On or about March 1, 2008, the Main Street issued \$13,980,000 of Capital Improvement Revenue Bonds, Series 2008A and \$19,350,000 Series 2008B. The Series 2008A Bonds are due May 1, 2038 with a fixed interest rate of 6.8% and the Series 2008B Bonds are due May 1, 2017 with a fixed interest rate of 6.9%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the Districts. Interest is to be paid semiannually on each May 1 and November 1. The principal on the Series 2008A Bonds is to be paid serially on each May 1, 2009 through May 1, 2038 and the principal on the Series 2008B Bonds is to be paid in one lump sum on May 1, 2017. The Series 2008 project will benefit both Main Street and Rivers Edge; therefore, non-ad valorem special assessments were levied on the land within Main Street and Rivers Edge Community Development District. The assessments imposed within the boundaries of Rivers Edge are collected and remitted to the Main Street within 14 days of receipt.

The Series 2008A Bonds are subject to redemption at the option of the District prior to their maturity. The Series 2008B Bonds are not subject to optional redemption. 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. This occurred during the current fiscal year as Main Street collected prepaid assessments and prepaid \$25,000 of the Series 2008A Bonds. See Note 16-Subsequent Events for additional call amount subsequent to the fiscal year end.

The Bond Indenture established a debt service reserve requirement as well as other restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agrees to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The District is in compliance with those requirements of the Bond Indenture at September 30, 2011.

Developer Advances for Debt Service and Construction

The District has entered into an agreement with the Developer whereby the Developer will advance funds to the District, with no interest accruing on the amounts, for required debt service payments and construction. As part of the agreement, the District will repay the Developer from subsequent issues of debt or special assessments imposed by the District. In a prior year, the Developer provided advances totaling \$2,551,037, of which \$2,321,746 was reimbursed to the Developer. The balance due to the Developer at September 30, 2011 of \$229,291 is not included in the maturity schedule below.

Long-term debt activity

Changes in long-term liability activity for the fiscal year ended September 30, 2011 were as follows:

	Beginning Balance	Transfer from Main Street CDD	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 2008A	\$ -	\$ 13,465,000	\$ -	\$ 13,465,000	180,000
Series 2008B	-	19,350,000	-	19,350,000	-
Due to Developer		229,291	-	229,291	-
Total	\$ -	\$ 33,044,291	\$ -	\$ 33,044,291	\$ 180,000

NOTE 6 - LONG TERM LIABILITIES (Continued)

At September 30, 2011, the scheduled debt service requirements on the long-term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2012	\$ 180,000	\$ 2,250,770	\$ 2,430,770
2013	195,000	2,238,530	2,433,530
2014	205,000	2,225,270	2,430,270
2015	220,000	2,211,330	2,431,330
2016	235,000	2,196,370	2,431,370
2016 - 2020	20,805,000	5,376,390	26,181,390
2021 - 2025	2,040,000	3,472,760	5,512,760
2026 - 2030	2,870,000	2,673,760	5,543,760
2031 - 2035	4,040,000	1,550,740	5,590,740
2036 - 2038	2,025,000	208,420	2,233,420
Total	<u>\$ 32,815,000</u>	<u>\$ 24,404,340</u>	<u>\$ 57,219,340</u>

NOTE 7 - 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.

Developer Funding

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 \$235,519 and \$148,309 for the District and Main Street, respectively, which includes a total receivable of \$91,916 at September 30, 2011. The Developer has also agreed to finance a portion of the District's capital improvement costs. In connection with that agreement, Developer contributions to the capital projects fund were \$399,566 and \$1,308,202 for the District and Main Street, respectively, which includes a receivable of \$399,566 at September 30, 2011. Furthermore, at September 30, 2011, an additional \$317,911 is due from the Developer to fund accrued contracts and retainage payable that is deferred on the fund financial statements. In addition, subsequent to year end the Developer provided \$1,546,639 of funding for the debt service on the Bonds.

Impact Fee Agreement

In April 2008, the District entered into an impact fee agreement with the Developer. Under the terms of the agreement, the Developer will remit funds to the District for the credits received from the County. As of September 30, 2011, no impact fees have been received.

NOTE 8 - 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 entered into between Rivers Edge and Main Street and the Assumption Agreement entered into between Rivers Edge and US Bank, as Trustee.

NOTE 8 - MERGER AGREEMENT (Continued)

As a result of the merger, the following transfer of assets and liabilities from Main Street were recorded in the fund financial statements.

	Major Funds			Total
	General	Debt Service	Capital Projects	Governmental Funds
ASSETS				
Cash	\$ 17,814	\$ -	\$ -	\$ 17,814
Investments	-	2,739,702	84,243	2,823,945
Due from Developer	11,919	-	276,263	288,182
Due from other governments	-	-	56,421	56,421
Prepays	4,713	-	-	4,713
Total assets	<u>\$ 34,446</u>	<u>\$ 2,739,702</u>	<u>\$ 416,927</u>	<u>\$ 3,191,075</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 29,614	\$ -	\$ -	\$ 29,614
Deferred revenue	-	-	276,263	276,263
Contracts and retainage payable	-	-	276,263	276,263
Total liabilities	<u>29,614</u>	<u>-</u>	<u>552,526</u>	<u>582,140</u>
Fund balances:				
Nonspendable:				
Prepaid items	4,713	-	-	4,713
Restricted for:				
Debt service	-	2,739,702	-	2,739,702
Unassigned:	119	-	(135,599)	(135,480)
Total fund balances	<u>4,832</u>	<u>2,739,702</u>	<u>(135,599)</u>	<u>2,608,935</u>
Total liabilities and fund balances	<u>\$ 34,446</u>	<u>\$ 2,739,702</u>	<u>\$ 416,927</u>	<u>\$ 3,191,075</u>

NOTE 8 - MERGER AGREEMENT (Continued)

In addition, the following transfer of assets and liabilities from Main Street were recorded in the government-wide financial statements.

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 17,814
Due from Developer	288,182
Due from other governments	56,421
Prepays	4,713
Restricted assets:	
Investments	2,823,945
Deferred charges	538,801
Capital assets	
Nondepreciable	44,195,429
Depreciable, net	8,206,099
Total assets	<u>56,131,404</u>
LIABILITIES	
Accounts payable	29,614
Contracts and retainage payable	276,263
Accrued interest payable	937,821
Non-current liabilities:	
Due within one year	180,000
Due in more than one year	32,864,291
Total liabilities	<u>34,287,989</u>
NET ASSETS	
Invested in capital assets, net of related debt	20,036,702
Restricted for debt service	1,801,881
Unrestricted	4,832
Total net assets	<u>\$ 21,843,415</u>

NOTE 9 - DEFICIT FUND EQUITY

The capital projects fund had a deficit fund balance of (\$114,221) at September 30, 2011. The deficit will be covered by Developer contributions collected in the subsequent period.

NOTE 10 - 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, 2011, the District remitted assessments of \$2,126,117 to Main Street.

NOTE 11 - 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 contract totaled approximately \$9.08 million, of which approximately \$4.6 million was uncompleted at September 30, 2011.

NOTE 12 - CONCENTRATION

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

NOTE 13 - 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 14 - 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 15 - 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. Negotiations took place and subsequent to fiscal year end, these matters were settled as funds received by the contractors related hereto were subsequently remitted to the Developer and releases provided to the District by the Developer.

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. On November 16, 2011, the Developer filed a motion for default against Hill Boring for failure to file a responsive pleading. The District will join in the Developer's motion for default. 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.

NOTE 16 - SUBSEQUENT EVENTS

Bond Payments

Subsequent to fiscal year end, the District prepaid \$55,000 of the Series 2008A Bonds. The prepayment was an extraordinary mandatory redemption as outlined in the Bond Indenture.

**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, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Developer contributions	\$ 239,718	\$ 206,410	\$ 235,519	\$ 29,109
Total revenues	<u>239,718</u>	<u>206,410</u>	<u>235,519</u>	<u>29,109</u>
EXPENDITURES				
Current:				
General government	64,893	86,712	84,588	2,124
Maintenance and operations	174,825	124,416	143,219	(18,803)
Total expenditures	<u>239,718</u>	<u>211,128</u>	<u>227,807</u>	<u>(16,679)</u>
Excess (deficiency) of revenues over (under) expenditures	-	(4,718)	7,712	12,430
OTHER FINANCING SOURCES				
Transfer of fund balance from Main Street CDD		16,343	4,832	(11,511)
Total other financing sources (uses)		<u>16,343</u>	<u>4,832</u>	<u>(11,511)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 11,625</u>	12,544	<u>\$ 919</u>
Fund balance - beginning			<u>14,016</u>	
Fund balance - ending			<u>\$ 26,560</u>	

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. The general fund budget for the fiscal year ended September 30, 2011 was amended to decrease revenues by \$33,308 and appropriations by \$28,590, and increase transfer of fund balance by \$16,343. Actual general fund expenditures for the fiscal year ended September 30, 2011 exceeded appropriations by \$16,679. The over expenditures were funded by available fund balance and additional contributions from the Developer.



**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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

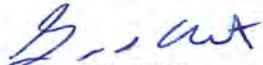
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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*.

We noted a compliance matter that we reported to management of the District in a separate letter dated June 26, 2012.

The District's response to the finding identified in our audit is described in the accompanying Management Letter. We did not audit the District's response and, accordingly, we express no opinion on it.

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.


June 26, 2012



**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, 2011, and have issued our report thereon dated June 26, 2012.

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.

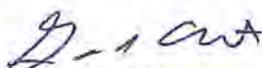
In addition, we have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters dated June 26, 2012. Disclosures in that report should be considered in conjunction with this management letter.

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

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

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


June 26, 2012

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2011-01 Budget:

Observation: Actual expenditures exceeded appropriations in the general fund for the current fiscal year.

Recommendation: The District should amend the budget within 60 days after fiscal year end to ensure that all expenditures are properly budgeted.

Management Response: The District will amend the general fund budget within 60 days after fiscal year end, in accordance with auditor's recommendation.

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2010-01 Not Maintaining Fixed Assets Schedule

Current Status: Recommendation has been implemented.

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, 2010, except as noted above.

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, 2011, 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, 2011, 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, 2011, 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, 2011 financial audit report.
8. In connection with our audit, we determined that the District met a condition described in Section 218.503(1), Florida Statutes. At September 30, 2011, the District reported a deficit unassigned capital projects fund balance of (\$114,221). The financial emergency condition met was not a result of deteriorating financial conditions. We applied financial condition assessment procedures pursuant to Rule 10.566(7) and no deteriorating financial conditions were noted as of September 30, 2011. 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.