

**CYPRESS SHADOWS
COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2012**

**CYPRESS SHADOWS COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, FLORIDA**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Cypress Shadows Community Development District
Lee County, Florida

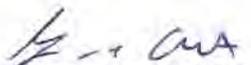
We have audited the accompanying financial statements of the governmental activities and each major fund of Cypress Shadows Community Development District, Lee County, Florida ("District") as of and for the fiscal year ended September 30, 2012, which collectively comprise the District's basic financial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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2012, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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


September 12, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year resulting in a net asset balance of \$2,041,279.
- The change in the District's total net assets in comparison with the prior fiscal year was \$2,041,279, an increase. The key components of the District's net assets and change in net assets are reflected in the table in the government-wide financial analysis section.
- At September 30, 2012, the District's governmental funds reported combined ending fund balances of \$864,575 an increase of \$887,871 in comparison with the prior fiscal year. A portion of fund balance is restricted for debt service, non-spendable for prepaid items, and the remainder is unassigned deficit general and capital projects fund balance.

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 assessments and Developer contributions. 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 balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

	NET ASSETS	
	SEPTEMBER 30,	
	2012	2011
Assets, excluding capital assets	\$ 1,527,673	\$ 11,167
Capital assets	5,119,700	20,692
Total assets	6,647,373	31,859
Liabilities, excluding long-term liabilities	456,094	31,859
Long-term liabilities	4,150,000	-
Total liabilities	4,606,094	31,859
Net assets		
Invested in capital assets, net of related debt	1,265,949	-
Restricted for:		
Debt service	775,330	-
Total net assets	\$ 2,041,279	\$ -

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

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

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

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

CHANGES IN NET ASSETS		
FOR THE FISCAL YEAR ENDED SEPTEMBER 30,		
Revenues:	2012	2011
Program revenues		
Charges for services	\$ 625,972	\$ -
Operating grants and contributions	64,032	34,564
Capital grants and contributions	1,709,439	
Total revenues	<u>2,399,443</u>	<u>34,564</u>
Expenses:		
General government	55,319	34,564
Maintenance and operation costs	11,805	-
Interest	291,040	-
Total expenses	<u>358,164</u>	<u>34,564</u>
Change in net assets	2,041,279	-
Net assets - beginning	-	-
Net assets - ending	<u>\$ 2,041,279</u>	<u>\$ -</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2012 was \$358,164. The costs of the District's activities were paid by program revenues. Program revenues are comprised primarily of Developer contributions. The remainder of the current fiscal year revenue (charges for services) is mainly comprised of prepaid assessments collected in the debt service fund. The majority of the increase in program revenues is the result of the District receiving more in Developer contributions for the acquisition of infrastructure assets. In the prior fiscal year, program revenues were comprised primarily of Developer contributions used to fund operations. The current year expenses increased from the prior fiscal year, mainly as a result of interest 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. The general fund budget for the fiscal year ended September 30, 2012 was amended to decrease revenues by \$59,475 and decrease appropriations by \$66,475. The decrease in revenues is primarily the result of less than anticipated Developer contributions being collected due to lower than anticipated operating expenditures. Actual general fund expenditures exceeded appropriations by an immaterial amount of \$974. The over expenditure was funded by Developer contributions.

The variance between budgeted and actual general fund revenues is the result of amounts collected from the Developer after the availability period being deferred in the fund financial statements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2012, the District had \$5,119,700 invested in improvements under construction for its governmental activities. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Capital Debt

At September 30, 2012, the District had \$4,150,000 Bonds outstanding for its governmental activities. During the 2012 fiscal year, the District issued \$4,400,000 Series 2011 Capital Improvement Revenue Bonds. More detailed information about the District's capital debt is presented in the notes of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND OTHER EVENTS

The District plans to continue building its infrastructure and financing the costs with Developer contributions. It is also expected for the cost of operations to increase during fiscal year 2013.

Subsequent to year end, the District issued Series 2012A and 2012B Capital Improvement Revenue Bonds, to continue the infrastructure project within the District.

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 Cypress Shadows Community Development District's Finance Department at 5680 W. Cypress Street, Suite A, Tampa, Florida 33607.

**CYPRESS SHADOWS COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

	Governmental Activities
ASSETS	
Cash	\$ 23,920
Assessments receivable - prepayments	118,236
Due from Developer	259,217
Deferred charges	317,587
Prepays	775
Restricted assets:	
Temporarily restricted	
Investments	807,938
Capital assets:	
Non-depreciable assets	5,119,700
Total assets	6,647,373
 LIABILITIES	
Accounts payable and accrued expenses	\$ 44,861
Contracts and retainage payable	283,635
Accrued interest payable	127,598
Non-current liabilities:	
Due in more than one year	4,150,000
Total liabilities	4,606,094
 NET ASSETS	
Invested in capital assets, net of related debt	1,265,949
Restricted for debt service	775,330
Total net assets	\$ 2,041,279

See notes to the financial statements

**CYPRESS SHADOWS COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Primary government:					
Governmental activities:					
General government	\$ 55,319	\$ -	\$ 63,974	\$ -	8,655
Maintenance and operations	11,805	3,150	-	1,709,439	1,700,784
Interest on long-term debt	291,040	622,822	58	-	331,840
Total governmental activities	<u>358,164</u>	<u>625,972</u>	<u>64,032</u>	<u>1,709,439</u>	<u>2,041,279</u>
Change in net assets					2,041,279
Net assets - beginning					-
Net assets - ending					<u>\$ 2,041,279</u>

See notes to the financial statements

**CYPRESS SHADOWS COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, FLORIDA
BALANCE SHEET
SEPTEMBER 30, 2012**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
ASSETS				
Cash	\$ 23,920	\$ -	\$ -	\$ 23,920
Investments	-	786,792	21,146	807,938
Assessments receivable - prepayments	-	118,236		118,236
Due from Developer	17,015	-	242,202	259,217
Due from other funds	2,100	-	-	2,100
Prepays	775	-	-	775
Total assets	<u>\$ 43,810</u>	<u>\$ 905,028</u>	<u>\$ 263,348</u>	<u>\$ 1,212,186</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenses	\$ 43,810	\$ -	\$ 1,051	\$ 44,861
Contracts and retainage payable	-	-	283,635	283,635
Deferred revenue	17,015	-	-	17,015
Due to other funds	-	2,100	-	2,100
Total liabilities	<u>60,825</u>	<u>2,100</u>	<u>284,686</u>	<u>347,611</u>
Fund balances:				
Nonspendable:				
Prepaid items	775	-	-	775
Restricted for:				
Debt service	-	902,928	-	902,928
Unassigned	(17,790)	-	(21,338)	(39,128)
Total fund balances (deficit)	<u>(17,015)</u>	<u>902,928</u>	<u>(21,338)</u>	<u>864,575</u>
Total liabilities and fund balances	<u>\$ 43,810</u>	<u>\$ 905,028</u>	<u>\$ 263,348</u>	<u>\$ 1,212,186</u>

See notes to the financial statements

**CYPRESS SHADOWS COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

Fund balance - governmental funds	\$	864,575
Amounts reported for governmental activities in the statement of net assets are different because:		
Assets that are not available to pay for current-period expenditures are deferred in the fund financial statements.		
		17,015
Capital assets used in governmental activities are not financial resources, therefore, are not reported as assets in the governmental funds. The statement of net assets includes those capital assets, net of any accumulated depreciation, in the net assets of the government as a whole.		
Cost of capital assets		5,119,700
Bond issuance costs are not financial resources and, therefore are not reported as assets in the governmental funds. The statement of net assets includes these costs, net of amortization.		
Bond issuance costs	327,597	
Accumulated amortization	<u>(10,010)</u>	317,587
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	(127,598)	
Bonds payable	<u>(4,150,000)</u>	<u>(4,277,598)</u>
Net assets of governmental activities		<u><u>\$ 2,041,279</u></u>

See notes to the financial statements

**CYPRESS SHADOWS COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
REVENUES				
Assessments - prepayments	\$ -	\$ 622,822	\$ -	\$ 622,822
Developer contributions	49,563	-	1,709,397	1,758,960
Miscellaneous	3,150	-	-	3,150
Interest income	-	58	42	100
Total revenues	<u>52,713</u>	<u>622,880</u>	<u>1,709,439</u>	<u>2,385,032</u>
EXPENDITURES				
Current:				
General government	55,319	-	-	55,319
Maintenance and operations	11,805	-	-	11,805
Debt Service:				
Principal	-	250,000	-	250,000
Interest	-	153,432	-	153,432
Bond issuance costs	-	327,597	-	327,597
Capital outlay	-	-	5,099,008	5,099,008
Total expenditures	<u>67,124</u>	<u>731,029</u>	<u>5,099,008</u>	<u>5,897,161</u>
Excess (deficiency) of revenues over (under) expenditures	(14,411)	(108,149)	(3,389,569)	(3,512,129)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	404	404
Transfers out	-	(404)	-	(404)
Bond proceeds	-	1,011,481	3,388,519	4,400,000
Total other financing sources (uses)	<u>-</u>	<u>1,011,077</u>	<u>3,388,923</u>	<u>4,400,000</u>
Net change in fund balances	(14,411)	902,928	(646)	887,871
Fund balances (deficit) - beginning	<u>(2,604)</u>	<u>-</u>	<u>(20,692)</u>	<u>(23,296)</u>
Fund balances (deficit) - ending	<u>\$ (17,015)</u>	<u>\$ 902,928</u>	<u>\$ (21,338)</u>	<u>\$ 864,575</u>

See notes to the financial statements

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

Net change in fund balances - total governmental funds	\$ 887,871
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is eliminated and capitalized as capital assets.	5,099,008
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.	17,015
Repayment of long-term liabilities are reported as expenditures in the governmental fund statement but such repayments reduce liabilities in the statement of net assets and are eliminated in the statement of activities.	250,000
Certain revenues were deferred for the fund financial statements in the prior fiscal year. In the current fiscal year, these revenues were recorded in the fund financial statements.	(2,604)
Governmental funds report the face amount of Bonds issued as financial resources when debt is first issued, whereas these amounts are eliminated in the statement of activities and recognized as long-term liabilities in the statement of net assets.	(4,400,000)
Governmental funds report the effect of Bond issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	327,597
The change in accrued interest on long-term liabilities between the current and prior fiscal year is recorded in the statement of activities but not in the fund financial statements.	(127,598)
Amortization of deferred charges is not recognized in the governmental fund statement, but is reported as an expense in the statement of activities.	(10,010)
Change in net assets of governmental activities	<u>\$ 2,041,279</u>

See notes to the financial statements

**CYPRESS SHADOWS COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY

Cypress Shadows Community Development District ("District") was created effective September 21, 2006 by the Lee County Board of County Commissioners pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes, under Lee County Ordinance 06-15. 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 comprised of five members. The Supervisors are elected on an at large basis by the owners of the property within the District. Ownership of land within the District entitles the owner to one vote per acre. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes. All of the Supervisors are affiliated with RCS Corkscrew Land LLC, Inc. ("Developer") at September 30, 2012.

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

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

The general operations of the District were funded from Developer contributions in the current fiscal year.

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.

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 District's policy to use restricted resources first for qualifying expenditures, then unrestricted resources as they are needed.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity

Restricted Assets

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

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and demand deposits (interest and non-interest bearing).

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

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

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

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

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.

No depreciation has been taken on the government-wide financial statements as the capital assets are under construction.

Deferred Charges

In the current fiscal year, in connection with the issuance of certain debt, the District incurred costs totaling \$327,597. In the government-wide financial statements that amount has been capitalized and amortized over the estimated life of the Bonds. At September 30, 2012, the District reported accumulated amortization of \$10,010.

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)

Long-Term Obligations

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

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

Fund Equity/Net Assets

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

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

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

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

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

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

Other Disclosures

Use of Estimates

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

NOTE 3 – BUDGETARY INFORMATION

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

NOTE 3 – BUDGETARY INFORMATION (Continued)

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 comments.
- c) Prior to October 1, the budget is legally adopted by the District Board.
- d) All budget changes must be approved by the District Board.
- e) The budgets are adopted on a basis consistent with generally accepted accounting principles.
- f) Unused appropriation for annually budgeted funds lapse at the end of the year.

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

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

Investments

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

	<u>Fair Value</u>	<u>Credit Risk</u>	<u>Maturities</u>
First American Government Obligation Fund Class Y	\$ 807,938	AAAm	Weighted average of the fund portfolio: 53 Days
Total Investments	<u>\$ 807,938</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, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Improvements in progress	\$ 20,692	\$ 5,099,008	\$ -	\$ 5,119,700
Total capital assets, not being depreciated	20,692	5,099,008	-	5,119,700
Governmental activities capital assets, net	\$ 20,692	\$ 5,099,008	\$ -	\$ 5,119,700

The infrastructure intended to serve the District has been estimated at a total cost of \$13,274,100. The infrastructure will include roadways, irrigation, stormwater management, water and wastewater utilities, and land improvements, including wetland mitigation areas. The project is expected to be financed with proceeds from the issuance of Bonds and Developer contributions. Upon completion certain assets will be conveyed to other entities for ownership and maintenance.

The District and the Preserve at Corkscrew Master Association, Inc. ("Association") have entered into an agreement, effective September 11, 2012, whereby the Association has assumed financial responsibility for the maintenance and management of certain infrastructure assets within the District.

NOTE 6 – LONG-TERM LIABILITIES

Series 2011

On November 16, 2011, the District issued \$4,400,000 of Capital Improvement Revenue Bonds, Series 2011 consisting of \$635,000 Term Bonds Series 2011 due on November 1, 2022 with a fixed interest rate of 6.95%, \$1,240,000 Term Bonds Series 2011 due on November 1, 2032 with a fixed interest rate of 7.15%, and \$2,525,000 Term Bonds Series 2011 due on November 1, 2042 with a fixed interest rate of 7.6%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District.

Interest is to be paid semiannually on each May 1 and November 1. Principal on the Bonds is to be paid serially commencing November 1, 2013 through November 1, 2042.

The Series 2011 Bonds are subject to redemption at the option of the District prior to their maturity. The Bonds are subject to extraordinary mandatory redemption prior to their selected maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture. This occurred during the current fiscal year as the District collected assessments from lot closings and prepaid \$250,000 of the Series 2011 Bonds. See Note 13 - Subsequent Events for additional call amounts 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 was in compliance with the requirements at September 30, 2012.

Long-term debt activity

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 2011	\$ -	\$ 4,400,000	\$ 250,000	\$ 4,150,000	\$ -
Total	\$ -	\$ 4,400,000	\$ 250,000	\$ 4,150,000	\$ -

NOTE 6 – LONG-TERM LIABILITIES (Continued)

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

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2013	\$ -	\$ 306,235	\$ 306,235
2014	45,000	304,671	349,671
2015	50,000	301,370	351,370
2016	50,000	297,895	347,895
2017	50,000	294,420	344,420
2018-2022	325,000	1,410,419	1,735,419
2023-2027	465,000	1,271,651	1,736,651
2028-2032	630,000	1,078,860	1,708,860
2033-2037	905,000	800,501	1,705,501
2038-2042	1,305,000	385,890	1,690,890
2043	325,000	12,350	337,350
Total	<u>\$ 4,150,000</u>	<u>\$ 6,464,262</u>	<u>\$ 10,614,262</u>

NOTE 7 – DEFICIT FUND BALANCE

The general fund and the capital projects fund had deficit fund balances of (\$17,015) and (\$21,338), respectively, at September 30, 2012. The general fund and capital project fund deficits will be covered by contributions from the Developer in the subsequent fiscal year.

NOTE 8 – DEVELOPER TRANSACTIONS AND RELATED INFORMATION

The Developer owns all of the land within the District and has agreed to fund the general operations of the District. In connection with that agreement, Developer contributions to the general fund were \$49,563. In addition, the District is owed \$17,015 from the Developer at September 30, 2012.

In addition to funding the general operations of the District, the Developer has agreed to advance fund all costs associated with the District's infrastructure and development until Bonds are issued. Pursuant to that agreement, the Developer provided monies to the capital projects fund in the amount of \$1,709,397 which includes a receivable of \$242,202 at September 30, 2012. The amounts have been recorded as Developer contribution in the statements. As of the report date, the Developer has not been repaid.

NOTE 9 – CONCENTRATION

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 10 - MANAGEMENT COMPANY

The District has contracted with a management company to perform management advisory services, which include financial and accounting advisory services. Certain employees of the management company also serve as officers (Board appointed non-voting positions) of the District. Under the agreement, the District compensates the management company for management, accounting, financial reporting, and other administrative costs.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

As of September 30, 2012, the District had open contracts for various construction projects. The District's commitment on construction contracts was approximately \$128,000 at September 30, 2012.

NOTE 12 - 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 13 – SUBSEQUENT EVENTS

Bond Issuance

Subsequent to fiscal year end, the District issued Series 2012 Capital Improvement Revenue Bonds, consisting of \$420,000 Term Bonds Series 2012A due on November 1, 2022 with a fixed interest rate of 5.25%, \$785,000 Term Bonds Series 2012A due on November 1, 2032 with a fixed interest rate of 5.875%, \$1,615,000 Term Bonds Series 2012A due on November 1, 2043 with a fixed interest rate of 6.35%, and \$6,225,000 Term Bonds Series 2012B due on November 1, 2020 with a variable interest rate between of 6.375% and 6.75%. The Bonds were issued to finance the ongoing infrastructure project within the District.

Bond Payments

Subsequent to fiscal year end, the District prepaid \$2,100,000 of the Series 2011 Bonds and \$745,000 of the Series 2012B Bonds. The prepayments were extraordinary mandatory redemptions as outlined in the Bond Indentures.

**CYPRESS SHADOWS COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Developer contributions	\$ 125,625	\$ 66,150	\$ 49,563	\$ (16,587)
Miscellaneous	-	-	3,150	3,150
Total revenues	<u>125,625</u>	<u>66,150</u>	<u>52,713</u>	<u>(13,437)</u>
EXPENDITURES				
Current:				
General government	65,125	65,625	55,319	10,306
Maintenance and operations	67,500	525	11,805	(11,280)
Total expenditures	<u>132,625</u>	<u>66,150</u>	<u>67,124</u>	<u>(974)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (7,000)</u>	<u>\$ -</u>	(14,411)	<u>\$ (14,411)</u>
Fund balance (deficit) - beginning			<u>(2,604)</u>	
Fund balance (deficit) - ending			<u>\$ (17,015)</u>	

See notes to required supplementary information

**CYPRESS SHADOWS COMMUNITY DEVELOPMENT DISTRICT
LEE COUNTY, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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

The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. The general fund budget for the fiscal year ended September 30, 2012 was amended to decrease revenues by \$59,475 and decrease appropriations by \$66,475. The decrease in revenues is primarily the result of less than anticipated Developer contributions being collected due to lower anticipated operating expenditures. Actual general fund expenditures exceeded appropriations by an immaterial amount of \$974. The over expenditure was funded by Developer contributions.

The variance between budgeted and actual general fund revenues is the result of amounts collected from the Developer after the availability period being deferred in the fund financial statements.



**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
Cypress Shadows Community Development District
Lee County, Florida

We have audited the financial statements of the governmental activities and each major fund of Cypress Shadows Community Development District, Lee County, Florida ("District") as of and for the fiscal year ended September 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 12, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the District in a separate letter dated September 12, 2013.

The District's responses to the findings identified in our audit are described in the accompanying Management Letter. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of the management, Board of Supervisors of Cypress Shadows Community Development District, Lee County, Florida and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.



September 12, 2013



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

To the Board of Supervisors
Cypress Shadows Community Development District
Lee County, Florida

We have audited the accompanying basic financial statements of Cypress Shadows Community Development District ("District") as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated September 12, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Florida Auditor General. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In addition, we have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards* dated September 12, 2013. Disclosures in that report should be considered in conjunction with this management letter.

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

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

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. This letter is intended for the information and use of management, Board of Supervisors of Cypress Shadows Community Development District, Lee County, Florida and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank Cypress Shadows Community Development District, Lee County, Florida and the personnel associated with it, for the opportunity to be of service to them in this endeavor as well as future engagements, and the courtesies extended to us.

September 12, 2013

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2011-02 Deficit Fund Balances

Observation: At the end of the fiscal year, the District reported negative unassigned fund balances of (\$17,015) and (\$21,338) respectively in both the general and capital projects fund.

Recommendation: The District should take the necessary steps to alleviate the deficits reported.

Management Response: Management is working with the developer in order to maintain appropriate levels of funding at Cypress Shadows CDD. During FY12 the District was able to re-finance their debt by issuing the Series 2012 Capital Improvement Revenue Bonds; the Developer was instrumental in the success by contributing \$1,709,397 in funds to continue infrastructure development while the bond deal was finalized. Over the course of FY13 and beyond the Developer has made the commitment to provide O&M funding to supplement any shortfalls in tax assessment collections.

2012-01 Audit report filing

Observation: Pursuant to FL. Statute 218.39, the District should have an audit completed within 9 months of fiscal year end. The District did not comply with the Statute for the fiscal year 2012 audit.

Recommendation: The District should take the necessary steps to have an audit completed within the statutory deadline.

Management Response: In prior years the District did not have the funds to engage an auditor to complete the required audit report filing. Cypress Shadows CDD's financial situation has begun to turn for the better and outstanding audits are now completed. For the FY13 audit funds will be available in order to engage an auditor and complete the audit by the statutory deadline.

2012-02 Delinquent accounts payable

Observation: Pursuant to FL. Statute 218.503, the District has met a condition of financial emergency as a result of the District's failure to pay vendors within 90 days due to a lack of funds.

Recommendation: The District should take the necessary steps to receive sufficient funding to pay vendors on a timelier basis.

Management Response: The District had aged payables in FY12 and years prior due to lack of O&M funding. The management company is working with the Developer in order to ensure that this is sufficient funding for operations at Cypress Shadows CDD. In the future ample funding will allow for payables to be paid within a reasonable amount of time.

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2011-01 Budget

Current Status: Recommendation has been implemented.

2011-02 Deficit Fund Balances

Current Status: Matter was not resolved and will be repeated.

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

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

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

There were no significant findings and recommendations made in the preceding annual financial audit report for the fiscal year ended September 30, 2011, 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 year ended September 30, 2012, except as noted above.

4. Violations of provisions of contracts and 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 year ended September 30, 2012.

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

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

There were no such matters discovered by, or that came to the attention of, the auditor, that, in our judgment, are required to be reported, for the fiscal year ended September 30, 2012, 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, 2012 financial audit report.
8. In connection with our audit, we determined that the District has met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes. The District failed to pay vendors of uncontested claims within 90 days of claims being received by the District. Although the District met a condition described in Section 218.503 (1), Florida Statutes, we applied financial condition assessment procedures pursuant to Rule 10.556(7), and no deteriorating financial conditions were noted as of September 30, 2012. 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.