

**CYPRESS SHADOWS  
COMMUNITY DEVELOPMENT DISTRICT  
LEE COUNTY, FLORIDA  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2013**

**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

### Report on the Financial Statements

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, 2013, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### 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, 2013, 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.

## **Emphasis of Matter**

As described in Note 2 to the financial statements, in fiscal year 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board ("GASB") Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*.

## **Other Matters**

### *Required Supplementary Information*

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.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2014, 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, grant 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



June 27, 2014

## 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, 2013. 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 position balance of \$5,122,407.
- The change in the District's total net position in comparison with the prior fiscal year was \$3,398,715, an increase. The key components of the District's net position and change in net position are reflected in the table in the government-wide financial analysis section.
- At September 30, 2013, the District's governmental funds reported combined ending fund balances of \$3,612,537 an increase of \$2,747,961 in comparison with the prior fiscal year. A portion of fund balance is restricted for debt service and capital projects, non-spendable for prepaid items, and the remainder is unassigned deficit general fund balance.
- During fiscal year 2013 the District issued Series 2012A and 2012 B Capital Improvement Revenue Bonds in order to continue the infrastructure project within the District. The Bond issuance in conjunction with large contributions from its major Developer, Cameratta Companies, has been the primary factors leading to the successes of the District in 2013. The Developer has been working with the management company diligently in order to ensure the sustained growth of the CDD.
- During fiscal year 2013, the District implemented Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board ("FASB") and American Institute of Certified Public Accountants ("AICPA") Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Please see New Accounting Standards Adopted in Note 2 of the financial statements for additional information.

### 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 position presents information on all the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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.

## OVERVIEW OF FINANCIAL STATEMENTS (Continued)

### Government-Wide Financial Statements (continued)

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.

### 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, 2011 and 2012 debt service funds and 2011 and 2012 capital projects funds, 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 position 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

NET POSITION SEPTEMBER 30,		
	2013	2012
Assets, excluding capital assets	\$ 4,558,867	\$ 1,527,673
Capital assets	12,164,246	5,119,700
Total assets	16,723,113	6,647,373
Liabilities, excluding long-term liabilities	1,250,706	456,094
Long-term liabilities	10,350,000	4,150,000
Total liabilities	11,600,706	4,606,094
Net position		
Net investment in capital assets	1,814,246	1,265,949
Restricted for:		
Debt service	372,848	775,330
Capital projects	789,984	-
Unrestricted	2,145,329	-
Total net position	\$ 5,122,407	\$ 2,041,279

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

The District's net position 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 position are reflected in the following table:

CHANGES IN NET POSITION FOR THE FISCAL YEAR ENDED SEPTEMBER 30,		
	2013	2012
Revenues:		
Program revenues		
Charges for services	\$ 4,260,879	\$ 625,972
Operating grants and contributions	41,320	64,032
Capital grants and contributions	215,739	1,709,439
Total revenues	4,517,938	2,399,443
Expenses:		
General government	57,161	55,319
Maintenance and operation	13,480	11,805
Interest	1,048,582	291,040
Total expenses	1,119,223	358,164
Change in net position	3,398,715	2,041,279
Net position - beginning, previously stated	2,041,279	2,041,279
Effect of adoption of GASB No. 65 (Note 2)	(317,587)	-
Net position - beginning, as restated	1,723,692	2,041,279
Net position - ending	\$ 5,122,407	\$ 2,041,279

## GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2013 was \$1,119,223. The costs of the District's activities were primarily funded by program revenues. Program revenues, comprised primarily of assessments, increased during the fiscal year as a result of an increase in prepayment revenue; however, the District also received funds from the Developer to fund operations and for the payment of interest on its long-term debt. Program revenues were comprised primarily of developer contributions in prior fiscal years. 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. Actual general fund expenditures for the fiscal year ended September 30, 2013 exceeded appropriations by \$5,047. The over expenditures were funded by available fund balance.

The variance between budgeted and actual general fund revenues is the result of the District collecting Developer contributions which were not anticipated per the budget.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At September 30, 2013, the District had \$12,021,782 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, 2013, the District had \$10,350,000 Bonds outstanding for its governmental activities. During the 2013 fiscal year, the District issued \$9,045,000 Series 2012 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 its infrastructure improvements in fiscal year 2014. In addition, it is anticipated that the general operations of the District will remain fairly constant.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, land owners, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages and the stewardship of the facilities it maintains. If you have questions about this report or need additional financial information, contact 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 POSITION  
SEPTEMBER 30, 2013**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash	\$ 69,223
Assessments receivable	1,830
Prepays	815
Restricted assets:	
Investments	4,486,999
Capital assets:	
Non-depreciable assets	<u>12,164,246</u>
Total assets	<u><u>16,723,113</u></u>
 <b>LIABILITIES</b>	
Accounts payable and accrued expenses	8,417
Contracts and retainage payable	755,850
Unearned revenue	182,063
Accrued interest payable	304,376
Non-current liabilities:	
Due within one year	50,000
Due in more than one year	<u>10,300,000</u>
Total liabilities	<u><u>11,600,706</u></u>
 <b>NET POSITION</b>	
Net investment in capital assets	1,814,246
Restricted for debt service	372,848
Restricted for capital projects	789,984
Unrestricted	<u>2,145,329</u>
Total net position	<u><u>\$ 5,122,407</u></u>

See notes to the financial statements

**CYPRESS SHADOWS COMMUNITY DEVELOPMENT DISTRICT  
LEE COUNTY, FLORIDA  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
Primary government:				
Governmental activities:				
General government	\$ 57,161	\$ 68,495	\$ 2,146	\$ -
Maintenance and operations	13,480	-	-	215,739
Interest on long-term debt	1,048,582	4,192,384	39,174	-
Total governmental activities	1,119,223	4,260,879	41,320	215,739
				3,398,715
				3,398,715
				2,041,279
				(317,587)
				1,723,692
				\$ 5,122,407
Change in net position				3,398,715
Net position - beginning , previously stated				2,041,279
Effect of adoption of GASB No. 65 (Note 2)				(317,587)
Net position - beginning, as restated				1,723,692
Net position - ending				\$ 5,122,407

See notes to the financial statements

**CYPRESS SHADOWS COMMUNITY DEVELOPMENT DISTRICT  
LEE COUNTY, FLORIDA  
BALANCE SHEET  
SEPTEMBER 30, 2013**

	Major Funds					Total Governmental Funds
	Series 2011 Debt Service	Series 2012 Debt Service	Series 2011 Capital Projects	Series 2012 Capital Projects	Series 2012 Capital Projects	
<b>ASSETS</b>						
Cash	\$ 69,223	\$ -	\$ -	\$ -	\$ -	\$ 69,223
Investments	-	2,145,329	17,490	-	1,646,983	4,486,999
Accounts receivable	1,830	-	-	-	-	1,830
Due from other funds	13,136	27	-	-	-	13,163
Prepays	815	-	-	-	-	815
<b>Total assets</b>	<b>\$ 85,004</b>	<b>\$ 2,145,329</b>	<b>\$ 17,490</b>	<b>\$ 1,646,983</b>	<b>\$ 1,646,983</b>	<b>\$ 4,572,030</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable and accrued expenses	\$ 8,417	\$ -	\$ -	\$ -	\$ -	\$ 8,417
Contracts and retainage payable	-	-	-	755,850	-	755,850
Unearned revenue	76,560	-	4,354	101,149	-	182,063
Due to other funds	27	-	13,136	-	-	13,163
<b>Total liabilities</b>	<b>\$ 85,004</b>	<b>\$ -</b>	<b>\$ 17,490</b>	<b>\$ 856,999</b>	<b>\$ 856,999</b>	<b>\$ 959,493</b>
<b>Fund balances:</b>						
Nonspendable:						
Prepaid items	815	-	-	-	-	815
Restricted for:						
Debt service	-	677,224	2,145,329	-	-	2,822,553
Capital projects	-	-	-	789,984	-	789,984
Unassigned	(815)	-	-	-	(815)	(815)
<b>Total fund balances (deficit)</b>	<b>\$ -</b>	<b>\$ 677,224</b>	<b>\$ 2,145,329</b>	<b>\$ 789,984</b>	<b>\$ 789,984</b>	<b>\$ 3,612,537</b>
<b>Total liabilities and fund balances</b>	<b>\$ 85,004</b>	<b>\$ 677,224</b>	<b>\$ 2,145,329</b>	<b>\$ 17,490</b>	<b>\$ 1,646,983</b>	<b>\$ 4,572,030</b>

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 POSITION  
SEPTEMBER 30, 2013**

Total fund balance - governmental funds \$ 3,612,537

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources, therefore, are not reported as assets in the governmental funds. The statement of net position includes those capital assets, net of any accumulated depreciation, in the net position of the government as a whole.

Cost of capital assets 12,164,246

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

Accrued interest payable (304,376)

Bonds payable (10,350,000) (10,654,376)

Net position of governmental activities \$ 5,122,407

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, 2013**

	Major Funds					Total Governmental Funds
	Series 2011 Debt Service	Series 2012 Debt Service	Series 2011 Capital Projects	Series 2012 Capital Projects	Series 2012 Capital Projects	
<b>REVENUES</b>						
Assessments	\$ 68,495	\$ 212,574	\$ 29,624	\$ -	\$ -	\$ 310,693
Assessments - prepayments	-	1,926,592	2,023,594	-	-	3,950,186
Developer contributions	19,161	35,740	3,142	193,781	21,292	273,116
Interest income	-	156	136	3	663	958
<b>Total revenues</b>	<b>87,656</b>	<b>2,175,062</b>	<b>2,056,496</b>	<b>193,784</b>	<b>21,955</b>	<b>4,534,953</b>
<b>EXPENDITURES</b>						
Current:						
General government	57,161	-	-	-	-	57,161
Maintenance and operations	12,560	-	-	-	-	12,560
Debt Service:						
Principal	-	2,100,000	745,000	-	-	2,845,000
Interest	-	293,048	217,507	-	-	510,555
Bond issuance costs	-	-	361,250	-	-	361,250
Capital outlay	920	-	-	364,521	6,680,025	7,045,466
<b>Total expenditures</b>	<b>70,641</b>	<b>2,393,048</b>	<b>1,323,757</b>	<b>364,521</b>	<b>6,680,025</b>	<b>10,831,992</b>
Excess (deficiency) of revenues over (under) expenditures	17,015	(217,986)	732,739	(170,737)	(6,658,070)	(6,297,039)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	-	254,682	192,075	133,096	579,853
Transfers out	-	(7,719)	(247,963)	-	(324,171)	(579,853)
Bond proceeds	-	-	1,405,871	-	7,639,129	9,045,000
Total other financing sources (uses)	-	(7,719)	1,412,590	192,075	7,448,054	9,045,000
Net change in fund balances	17,015	(225,705)	2,145,329	21,338	789,984	2,747,961
Fund balances (deficit) - beginning	(17,015)	902,929	-	(21,338)	-	864,576
Fund balances - ending	\$ -	\$ 677,224	\$ 2,145,329	\$ -	\$ 789,984	\$ 3,612,537

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, 2013**

Net change in fund balances - total governmental funds	\$ 2,747,961
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures, however, the cost capital assets is elimintaed in the statement of activities and capitalized in the statement of net position.	7,044,546
Repayment of long-term liabilities are reported as expenditures in the governmental fund financial statements, but such repayments reduce liabilities in the statement of net position and are eliminated in the statement of activities.	2,845,000
Certain revenues were unearned for the governmental fund financial statements in the prior fiscal year. In the current fiscal year, these revenues were recorded in the governmental fund financial statements.	(17,015)
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 position.	(9,045,000)
The change in accrued interest on long-term liabilities between the current and prior fiscal year is recorded in the statement of activities, but not in the governmental fund financial statements.	<u>(176,777)</u>
Change in net position of governmental activities	<u><u>\$ 3,398,715</u></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, 2013.

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") Statements. 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 position 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.

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 funds are used to account for the accumulation of resources for the annual payment of principal and interest on long-term debt.

### Capital Projects Fund

These funds account 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)**

### **New Accounting Standards Adopted**

During fiscal year 2013, the District adopted three new accounting standards as follows:

*GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

This Statement incorporates into the GASB's authoritative literature certain guidance that previously could only be found in certain FASB and AICPA pronouncements issued on or before November 30, 1989 and eliminates the selection to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

*GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources (previously reported as assets and liabilities) into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

*GASB Statement No. 65, Items Previously Reported as Assets and Liabilities*

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

The implementation of GASB 65 resulted in the write off of Bond issuance costs and the effect of adoption of GASB 65 is the reduction of beginning net position by \$317,587 of the governmental activities. The effect on fiscal year 2012 had the implementation of GASB 65 occurred earlier would have resulted in a decrease in expenses of the governmental activities by \$10,010.

### **Assets, Liabilities and Net Position 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.

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

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

#### Deposits and Investments (Continued)

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.

#### Unearned Revenue

Governmental funds report unearned revenue 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 position. Bond premiums and discounts are deferred and amortized over the life of the Bonds. Bonds payable are reported net of applicable premiums or discounts. Bond issuance costs are expensed when incurred.

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 Position

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.

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

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

#### Fund Equity/Net Position (Continued)

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 position is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position in the government-wide financial statements are categorized as net investment in capital assets, restricted or unrestricted. Net investment in capital assets represents net position related to infrastructure and property, plant and equipment. Restricted net position represents the assets restricted by the District's Bond covenants or other contractual restrictions. Unrestricted net position consists of the net position not meeting the definition of either of the other two components.

### **Other Disclosures**

#### Use of Estimates

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

## **NOTE 3 – BUDGETARY INFORMATION**

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

The District follows these procedures in establishing the budgetary data reflected in the financial statements.

- a) Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
- b) Public hearings are conducted to obtain 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, 2013:

	<u>Fair Value</u>	<u>Credit Risk</u>	<u>Maturities</u>
First American Government Obligation Fund Class Y	\$ 4,486,999	S&P's AAAM	Weighted average of the fund portfolio: 51 Days
Total Investments	<u>\$ 4,486,999</u>		

*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 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund receivables and payables at September 30, 2013 were as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 13,136	\$ 27
Debt Service 2011	27	-
Capital Projects	-	13,136
Total	<u>\$ 13,163</u>	<u>\$ 13,163</u>

The outstanding balances between funds result primarily from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made. In the case of the District, the balances between the general fund and the capital projects fund relates to a reimbursement to the general fund for an expenditure incorrectly paid by the general fund that has not yet been reimbursed by the capital projects fund.

## NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

Net interfund transfers for the fiscal year ended September 30, 2013 were as follows:

Fund	Transfers in	Transfers out
Debt Service 2011	\$ -	\$ 7,719
Debt Service 2012	6,719	-
Capital Projects 2011	192,075	-
Capital Projects 2012	-	191,075
Total	<u>\$ 198,794</u>	<u>\$ 198,794</u>

Transfers are used to move revenues from the fund where collection occurs to the fund where funds have been reallocated for use. In the case of the District, the transfer from the Series 2012 Capital Projects Fund to the Series 2011 Capital Projects Fund was for the purpose of reimbursing the 2011 fund for 2012 project costs paid by that fund on behalf of the 2012 fund. The remaining transfers are not significant.

## NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Improvements in progress	\$ 5,119,700	7,044,546	\$ -	\$ 12,164,246
Total capital assets, not being depreciated	<u>5,119,700</u>	<u>7,044,546</u>	<u>-</u>	<u>12,164,246</u>
Governmental activities capital assets, net	<u>\$ 5,119,700</u>	<u>\$ 7,044,546</u>	<u>\$ -</u>	<u>\$ 12,164,246</u>

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 7 – 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 \$2,100,000 of the Series 2011 Bonds. See Note 13 - Subsequent Events for additional call amounts subsequent to the fiscal year end.

## NOTE 7 – LONG-TERM LIABILITIES (Continued)

### Series 2011 (Continued)

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, 2013.

### Series 2012

On December 21, 2012, the District issued \$9,045,000 of Capital Improvement Revenue Bonds, Series 2012 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 6.375%, and \$6,225,000 Term Bonds Series 2012B due on November 1, 2020 with a fixed interest rate of 6.35%. 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, 2014 through November 1, 2043.

The Series 2012A Bonds are subject to redemption at the option of the District prior to their maturity. The Series 2012B 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 the District collected assessments from lot closings and prepaid \$745,000 of the Series 2012B 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, 2013.

### Long-term Debt Activity

Changes in long-term liability activity for the fiscal year ended September 30, 2013 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 2011	\$ 4,150,000	\$ -	\$ 2,100,000	\$ 2,050,000	\$ 50,000
Series 2012:					
2012A	-	2,820,000	-	2,820,000	-
2012B	-	6,225,000	745,000	5,480,000	-
Total	<u>\$ 4,150,000</u>	<u>\$ 9,045,000</u>	<u>\$ 2,845,000</u>	<u>\$ 10,350,000</u>	<u>\$ 50,000</u>

**NOTE 7 – LONG-TERM LIABILITIES (Continued)****Long-term Debt Activity (Continued)**

At September 30, 2013, the scheduled debt service requirements on the long-term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2014	\$ 50,000	\$ 639,528	\$ 689,528
2015	65,000	637,261	702,261
2016	65,000	633,424	698,424
2017	70,000	629,586	699,586
2018	75,000	625,444	700,444
2019-2023	5,920,000	2,192,034	8,112,034
2024-2028	595,000	1,248,443	1,843,443
2029-2033	815,000	1,036,854	1,851,854
2034-2038	1,120,000	786,159	1,906,159
2039-2043	1,380,000	339,831	1,719,831
2044	195,000	6,191	201,191
Total	\$ 10,350,000	\$ 8,774,755	\$ 19,124,755

**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, Series 2011 debt service fund, and Series 2012 debt service fund were \$19,161, \$35,740, and \$3,142 respectively.

In addition to funding the general operations of the District, the Developer had 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 Series 2011 and 2012 capital projects funds in the amounts of \$193,781 and \$21,292. 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, 2013, the District had open contracts for various construction projects. The District's commitment on construction contracts was approximately \$1.5 million at September 30, 2013.

## **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 Payments**

Subsequent to fiscal year end, the District prepaid \$400,000 of the Series 2011 Bonds and \$2,305,000 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, 2013**

	Budgeted Amounts <u>Original and Final</u>	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>			
Assessments	\$ 65,594	\$ 68,495	\$ 2,901
Developer contributions	-	19,161	19,161
Total revenues	<u>65,594</u>	<u>87,656</u>	<u>22,062</u>
<b>EXPENDITURES</b>			
Current:			
General government	53,529	57,161	(3,632)
Maintenance and operations	12,065	12,560	(495)
Capital outlay	-	920	(920)
Total expenditures	<u>65,594</u>	<u>70,641</u>	<u>(5,047)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	17,015	<u>\$ 17,015</u>
Fund balance (deficit) - beginning		<u>(17,015)</u>	
Fund balance - ending		<u>\$ -</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. Actual general fund expenditures for the fiscal year ended September 30, 2013 exceeded appropriations by \$5,047. The over expenditures were funded by available fund balance.

The variance between budgeted and actual general fund revenues is the result of the District collecting Developer contributions which were not anticipated per the budget.



**INDEPENDENT AUDITOR'S 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, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 27, 2014, which includes an emphasis of matter paragraph.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 June 27, 2014.

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.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "B. Han & Associates". The signature is written in a cursive style.

June 27, 2014



**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, 2013, and have issued our report thereon June 27, 2014, which includes an emphasis of matter paragraph.

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 Independent Auditor's 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* and Chapter 10.550, Rules of the Florida Auditor General dated June 27, 2014. 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.**

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, as applicable, management, and the 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.

*Grau & Associates*

June 27, 2014

## REPORT TO MANAGEMENT

### I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

#### **2013-01 Budget:**

Observation: Actual expenditures exceeded appropriations in the general fund for the fiscal year ended September 30, 2013.

Recommendation: The District should amend the budget during the fiscal year or within statutory guidelines to ensure that all expenditures are properly budgeted.

Management Response: The management company will work with the Board to ensure budgets are amended within 60 days of year end in the future

### II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

#### **2011-02 Deficit Fund Balances**

Current Status: Matter has been resolved.

#### **2012-01 Audit report filing**

Current Status: Recommendation has been implemented.

#### **2012-02 Delinquent accounts payable**

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, 2012, 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, 2013, except as noted above.

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

4. Noncompliance with 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 which warrants the attention of those charged with governance.

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, 2013.

5. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.
6. 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, 2013 financial audit report.
7. The District has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
8. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and no deteriorating financial conditions were noted as of September 30, 2013. 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.