

Waterlefe Community Development District

Financial Statements

September 30, 2011

Waterlefe Community Development District
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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
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We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Waterlefe Community Development District (hereinafter referred to as "District"), as of and for the year ended September 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of September 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 7 and 9, the District has approximately \$8.3 million of Golf Course Revenue Bonds outstanding at September 30, 2011. The indenture relating to those bonds requires that the former Developer fund any deficiency in the reserve fund through a debt service deficiency agreement. However, the former Developer has not funded any amounts during the year ended September 30, 2011. The golf course did not generate excess revenue; therefore, there were no funds to make the scheduled debt service payments on the Series 2001 Golf Course Revenue Bonds. The District may elect to make the scheduled debt service payments on the bonds from other funds but elected not to.

In addition, as discussed in Note 9, the District owes substantial amounts to the former Developer relating to the prior years' operation of the proprietary fund. The balance owed to the former Developer at September 30, 2011, which totals \$11,732,842, includes subsidies to fund debt service on the enterprise fund bonds, interest owed on former Developer loans, and advances provided for the operation of the golf course. Ultimate repayment of the \$11,732,842 is uncertain at this time. The repayment to the former Developer is limited to excess funds generated from the golf course operations only.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 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 on pages 3 through 8 and page 33, respectively, 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.

Caru, Riggs & Ingram, L.L.C.

Miramar Beach, Florida
March 31, 2012

Management's Discussion And Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Waterlefe Community Development District's financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2011. Please read it in conjunction with the District's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- At September 30, 2011, the assets of the District exceeded its liabilities by approximately \$8.1 million within the governmental activities.
- At September 30, 2011, the liabilities of the District exceeded its assets by approximately \$12.3 million (deficit) within the business-type activities.
- In the absence of available funds from the Golf Course, which secure the Recreational Revenue Bonds, the scheduled debt service payments due October 1, 2010 and April 1, 2011 have not been made. In addition, the full debt service payment due October 1, 2011 has not been made on the Recreational Revenue Bonds as of the date of this report.
- At September 30, 2011, the District owed the former Developer of the District, WCI Communities, Inc., a total of approximately \$11.7 million relating to the operation of the golf course and related recreational facilities in prior years. Repayment to WCI will be made from excess funds after funding debt service payments. If the Golf Course is sold, WCI will be paid from proceeds in excess of the bond debt and accrued interest.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities on pages 9 – 10 provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements start on page 11. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds.

Reporting the District as a Whole

Our analysis of the District as a whole begins on page 4. One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or financial position. Over time, increase or decrease in the District's net assets is one indicator of whether its financial health is improving or deteriorating. You will need to

consider other nonfinancial factors, however, such as changes in the District's assessment base and the condition of the District's infrastructure, to assess the overall health of the District.

In the Statement of Net Assets and the Statement of Activities, we divide the District into two kinds of activities:

- Governmental activities – Most of the District's basic services are reported here, including general administration, parks and recreation, security, and maintenance. Owner assessments finance most of these activities.
- Business-type activities – The District charges a fee to members and other users to help it cover the costs associated with operating a golf course and related facilities.

Reporting the District's Most Significant Funds

Our analysis of the District's major funds begins on page 6. The fund financial statements begin on page 11 and provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State law and by bond covenants. The District's two kinds of funds – governmental and proprietary – use different accounting approaches.

- *Governmental funds* – Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities and governmental funds in a reconciliation with the fund financial statements.
- *Proprietary funds* – When the District charges customers for the services it provides (golf course), these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

THE DISTRICT AS A WHOLE

The District's combined net assets decreased by approximately \$1.1 million. Looking at the net assets and net expenses of governmental and business-type activities separately, however, two very different stories emerge.

During the fiscal year ended September 30, 2011, net assets of the District's governmental activities remained substantially unchanged (approximately \$8.05 million compared to approximately \$8.27 million). Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements – increased to approximately \$775,000 from last year's balance of approximately \$378,000.

Net assets of the business-type activities decreased by 8.1% (approximately \$12.3 million deficit compared to approximately \$11.4 million deficit). Unrestricted net assets for business-type activities changed from a prior year deficit of approximately \$12 million to an approximately \$12.8 million deficit at September 30, 2011.

The following table reflects the condensed Statement of Net Assets and is compared to the prior year (in thousands).

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Assets						
Current and other assets	\$ 1,428	\$ 1,346	\$ 928	\$ 1,017	\$ 2,356	\$ 2,363
Capital assets, net	10,332	10,706	8,460	8,540	18,792	19,246
Total assets	\$ 11,760	\$ 12,052	\$ 9,388	\$ 9,557	\$ 21,148	\$ 21,609
Liabilities						
Current liabilities	\$ 256	\$ 234	\$ 2,421	\$ 1,465	\$ 2,677	\$ 1,699
Other liabilities	3,450	3,550	19,265	19,472	22,715	23,022
Total liabilities	3,706	3,784	21,686	20,937	25,392	24,721
Net assets						
Invested in capital assets, net of debt	7,097	7,381	474	594	7,571	7,975
Restricted	182	509	-	-	182	509
Unrestricted	775	378	(12,772)	(11,974)	(11,997)	(11,596)
Total net assets	8,054	8,268	(12,298)	(11,380)	(4,244)	(3,112)
Total liabilities and net assets	\$ 11,760	\$ 12,052	\$ 9,388	\$ 9,557	\$ 21,148	\$ 21,609

For more detailed information, see the accompanying Statement of Net Assets.

The following schedule compares the Statement of Activities for the current and previous fiscal years (in thousands).

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Program revenues	\$ 1,374	\$ 1,445	\$ 2,226	\$ 2,230	\$ 3,600	\$ 3,675
General revenues	7	6	2	4	9	10
Total revenues	1,381	1,451	2,228	2,234	3,609	3,685
Function/program expenses	1,595	1,573	3,146	3,188	4,741	4,761
Increase (decrease) in net assets	(214)	(122)	(918)	(954)	(1,132)	(1,076)
Net assets (deficit), beginning	8,268	8,390	(11,380)	(10,426)	(3,112)	(2,036)
Net assets (deficit), ending	\$ 8,054	\$ 8,268	\$ (12,298)	\$ (11,380)	\$ (4,244)	\$ (3,112)

For more detailed information, see the accompanying Statement of Activities.

The combined revenues and expenses remained substantially unchanged. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the District's governmental activities decreased approximately \$70,000 from prior year, while expenses remained substantially unchanged. The decrease in revenues is due to a decrease in the budgeted assessment rates for fiscal year 2011. The overall result was a \$214,000 decrease in net assets for fiscal year 2011.

Business-type Activities

Revenues and expenses for the District's business-type activities remained substantially unchanged from prior year. Expenses continue to outpace revenues from golf operations by a significant amount. The overall results were an approximately \$918,000 decrease in net assets for fiscal year 2011.

THE DISTRICT'S FUNDS

Governmental Funds

As the District completed the year, its governmental funds (as presented in the balance sheet on page 11) reported a combined fund balance of approximately \$1.4 million, which is an increase from last year's balance that totaled approximately \$1.3 million. Significant transactions are discussed below.

- During the year ended September 30, 2011, the District incurred approximately \$252,000 of interest expenditures and repaid principal of \$90,000.

The overall increase in fund balance for the year ended September 30, 2011 totaled approximately \$67,000.

Proprietary Fund

The District's proprietary fund provides the same type of information found in the business-type activities column of the government-wide financial statements, but in more detail. Net assets decreased from the prior year, and factors concerning that decrease and other items have already been discussed in a preceding section.

GOVERNMENTAL FUNDS BUDGETARY HIGHLIGHTS

An Operating budget was established by the governing board for the District pursuant to the requirements of Florida Statutes. The budget to actual comparison for the general fund, including the original budget and final adopted budget, is shown on page 33.

The District experienced favorable balances in revenues and expenditures as compared to the budget in the amount of \$28,258 and \$93,418, respectively. These differences occurred primarily due to anticipated budgeted operating expenditures that were not incurred during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2011, the District had approximately \$18.8 million invested in capital assets (net of depreciation). This amount represents a net decrease (including additions and deductions) of approximately \$454,000 from the fiscal year 2010 total.

A listing of capital assets by major category for the current and prior year follows (in thousands):

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Land	\$ 4,021	\$ 4,021	\$ 4,653	\$ 4,653	\$ 8,674	\$ 8,674
Infrastructure	9,805	9,805	-	-	9,805	9,805
Golf course improvements	15	-	3,534	3,537	3,549	3,537
Buildings	-	-	1,783	1,783	1,783	1,783
Machinery and equipment	36	28	416	307	452	335
Vehicle	-	-	11	-	11	-
	<u>13,877</u>	<u>13,854</u>	<u>10,397</u>	<u>10,280</u>	<u>24,274</u>	<u>24,134</u>
Accumulated depreciation	<u>(3,545)</u>	<u>(3,148)</u>	<u>(1,937)</u>	<u>(1,740)</u>	<u>(5,482)</u>	<u>(4,888)</u>
Totals	<u>\$ 10,332</u>	<u>\$ 10,706</u>	<u>\$ 8,460</u>	<u>\$ 8,540</u>	<u>\$ 18,792</u>	<u>\$ 19,246</u>

More information about the District's capital assets is presented in Note 6 to the financial statements.

Debt

At September 30, 2011, the District had approximately \$11.9 million of bonds outstanding. This amount represents a decrease of \$90,000 from the fiscal year 2010 total.

A listing of debt amounts outstanding for the current and prior year follows (in thousands):

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Revenue bonds	\$ 3,540	\$ 3,630	\$ 8,370	\$ 8,370	\$ 11,910	\$ 12,000
Totals	<u>\$ 3,540</u>	<u>\$ 3,630</u>	<u>\$ 8,370</u>	<u>\$ 8,370</u>	<u>\$ 11,910</u>	<u>\$ 12,000</u>

More information about the District's long-term debt is presented in Note 7 to the financial statements.

FUTURE FINANCIAL FACTORS

Waterlefe Community Development District is an independent special district that operates under the provisions of Chapter 190, Florida Statutes. The District operates under an elected Board of Supervisors, which establishes policy and sets assessment rates. Rates for fiscal year 2012 were established to provide for the operations of the District.

The former Developer of the Waterlefe project is WCI Communities, Inc. During 2008, the former Developer filed for Chapter 11 bankruptcy protection, and on September 3, 2009, it emerged from bankruptcy protection as a newly reorganized private company. This new organization is not currently funding shortages in the golf course fund for operations and debt service payments. It is unknown at this time what ultimate effect, if any, this will have on the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. If you have questions about this report or need additional financial information, contact the Waterlefe Community Development District's finance department at 3434 Colwell Avenue, Suite 200, Tampa, Florida 33614.

Basic Financial Statements

Waterlefe Community Development District

Statement of Net Assets

September 30,

	2011		
	Governmental Activities	Business- type Activities	Total
Assets			
Cash and cash equivalents	\$ 768,914	\$ 175,878	\$ 944,792
Investments	590,590	-	590,590
Accounts receivable	-	111,669	111,669
Assessments receivable	21,857	-	21,857
Due from master association	41,106	-	41,106
Inventories	-	108,423	108,423
Prepaid expenses and deposits	4,687	49,282	53,969
Restricted assets:			
Cash and cash equivalents	-	340,162	340,162
Deferred charges, net	-	142,922	142,922
Capital assets:			
Non-depreciable	4,020,707	4,652,792	8,673,499
Depreciable, net	6,311,757	3,806,729	10,118,486
Total assets	11,759,618	9,387,857	21,147,475
Liabilities			
Accounts payable	17,338	111,137	128,475
Due to master association	45,734	-	45,734
Deferred revenue	-	139,437	139,437
Accrued interest payable	102,513	1,360,124	1,462,637
Non-current liabilities:			
Due to developer	-	11,732,842	11,732,842
Bonds payable - due within one year	90,000	795,000	885,000
Capital lease obligation - due within one year	-	15,051	15,051
Bonds payable - due in more than one year	3,450,000	7,503,943	10,953,943
Capital lease obligation - due in more than one year	-	28,594	28,594
Total liabilities	3,705,585	21,686,128	25,391,713
Net assets			
Invested in capital assets, net of related debt	7,097,107	473,709	7,570,816
Restricted for:			
Debt service	182,316	-	182,316
Unrestricted	774,610	(12,771,980)	(11,997,370)
Total net assets (deficit)	\$ 8,054,033	\$(12,298,271)	\$ (4,244,238)

See accompanying notes to financial statements.

Waterlefe Community Development District

Statement of Activities

Year ended September 30,

2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ (283,737)	\$ 311,586	\$ -	\$ -	\$ 27,849	\$ -	\$ 27,849
Maintenance and operations	(1,060,970)	729,519	-	-	(331,451)	-	(331,451)
Interest	(249,824)	332,735	10	-	82,921	-	82,921
Total governmental activities	(1,594,531)	1,373,840	10	-	(220,681)	-	(220,681)
Business-type activities:							
Golf course	(1,213,083)	1,798,206	-	-	-	585,123	585,123
Restaurant	(258,108)	230,203	-	-	-	(27,905)	(27,905)
Pro Shop	(620,192)	197,267	-	-	-	(422,925)	(422,925)
Administrative and other	(303,937)	-	-	-	-	(303,937)	(303,937)
Interest	(750,551)	-	-	-	-	(750,551)	(750,551)
Total business-type activities	(3,145,871)	2,225,676	-	-	-	(920,195)	(920,195)
Total primary government	\$ (4,740,402)	\$ 3,599,516	\$ 10	\$ -			

General revenues

Investment interest and other revenues	6,933	1,237	8,170
Total general revenues	6,933	1,237	8,170
Change in net assets	(213,748)	(918,958)	(1,132,706)
Net assets (deficit) - beginning of year	8,267,781	(11,379,313)	(3,111,532)
Net assets (deficit) - end of year	\$ 8,054,033	\$(12,298,271)	\$ (4,244,238)

See accompanying notes to financial statements.

Waterlefe Community Development District

Balance Sheet - Governmental Funds

September 30,

2011

	General	Debt Service	Non-major Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 768,914	\$ -	\$ -	\$ 768,914
Investments	5,239	585,351	-	590,590
Assessments receivable	17,736	4,121	-	21,857
Due from master association	41,106	-	-	41,106
Prepaid expenditures	4,687	-	-	4,687
Total assets	\$ 837,682	\$ 589,472	\$ -	\$ 1,427,154
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 17,338	\$ -	\$ -	\$ 17,338
Due to master association	45,734	-	-	45,734
Total liabilities	63,072	-	-	63,072
Fund balances				
Nonspendable	4,687	-	-	4,687
Restricted for debt service	-	589,472	-	589,472
Assigned for capital reserves	417,959	-	-	417,959
Unreserved, undesignated	351,964	-	-	351,964
Total fund balances	774,610	589,472	-	1,364,082
Total liabilities and fund balances	\$ 837,682	\$ 589,472	\$ -	\$ 1,427,154

See accompanying notes to financial statements.

Waterlefe Community Development District

Reconciliation of the Balance Sheet to the Statement of Net Assets

<i>September 30,</i>	2011
Total fund balances, governmental funds	\$ 1,364,082
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund level statements.	10,332,464
Liabilities not due and payable from current resources, including accrued interest, are not reported in the fund level statements.	(3,642,513)
Total net assets - governmental activities	\$ 8,054,033

See accompanying notes to financial statements.

Waterlefe Community Development District

Statement of Revenues, Expenditures and Changes in Fund Balances-
Governmental Funds

<i>Year ended September 30,</i>	2011			
	General	Debt Service	Non-major Fund	Total Governmental Funds
Revenues				
Assessments	\$ 1,041,105	\$ 332,735	\$ -	\$ 1,373,840
Interest and other revenues	6,933	10	-	6,943
Total revenues	1,048,038	332,745	-	1,380,783
Expenditures				
Current:				
General government	283,737	-	-	283,737
Maintenance and operations	664,315	-	-	664,315
Debt service:				
Principal	-	90,000	-	90,000
Interest	-	252,285	-	252,285
Capital outlay	23,310	-	-	23,310
Total expenditures	971,362	342,285	-	1,313,647
Excess (deficit) of revenues over expenditures	76,676	(9,540)	-	67,136
Other Financing Sources (Uses)				
Transfer in	319,764	-	-	319,764
Transfer out	-	-	(319,764)	(319,764)
Total other financing sources (uses)	319,764	-	(319,764)	-
Net change in fund balances	396,440	(9,540)	(319,764)	67,136
Fund balances, beginning of year	378,170	599,012	319,764	1,296,946
Fund balances, end of year	\$ 774,610	\$ 589,472	\$ -	\$ 1,364,082

See accompanying notes to financial statements.

Waterlefe Community Development District

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities

<i>Year ended September 30,</i>	2011
Net change in fund balances - governmental funds	\$ 67,136
Capital outlay, reported as expenditures in the governmental funds, is shown as capital assets on the Statement of Net Assets.	23,310
Depreciation on capital assets is not recognized in the fund financial statements but is reported as an expense in the Statement of Activities	(396,655)
Governmental fund financial statements report principal payments on bonds when debt is paid, whereas these payments are eliminated in the Statement of Activities and recognized as a decrease in bonds payable in the Statement of Net Assets.	90,000
The change in accrued interest between the current and prior year is recorded in the Statement of Activities but not in the fund financial statements.	2,461
Change in net assets of governmental activities	\$ (213,748)

See accompanying notes to financial statements.

Waterlefe Community Development District

Balance Sheet - Proprietary Fund

<i>September 30,</i>	2011
	Enterprise Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 175,878
Accounts receivable	111,669
Inventories	108,423
Prepaid expenses and deposits	49,282
Total current assets	445,252
Restricted assets:	
Cash and cash equivalents	340,162
Total restricted assets	340,162
Bond issue costs (net of accumulated amortization)	142,922
Capital assets (net of accumulated depreciation)	8,459,521
Total assets	\$ 9,387,857
Liabilities and Net Assets	
Liabilities	
Current Liabilities:	
Accounts payable	\$ 111,137
Deferred revenue	139,437
Accrued interest payable	1,360,124
Capital lease obligation, current	15,051
Bonds payable, current	795,000
Total current liabilities	2,420,749
Non-current liabilities:	
Due to developer	11,732,842
Capital lease obligation, less current portion	28,594
Bonds payable, less current portion	7,503,943
Total liabilities	21,686,128
Net assets	
Invested in capital assets, net of related debt	473,709
Unrestricted	(12,771,980)
Total net assets (deficit)	(12,298,271)
Total liabilities and net assets	\$ 9,387,857

See accompanying notes to financial statements.

Waterlefe Community Development District

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

<i>Year ended September 30,</i>	2011
	Enterprise Fund
Revenues	
Charges for services:	
Golf course	\$ 1,798,206
Restaurant	230,203
Pro shop	197,267
Total revenues	2,225,676
Operating expenses	
Golf course	1,000,978
Restaurant	258,108
Pro shop	620,192
Administrative and other	303,937
Depreciation and amortization	212,105
Total operating expenses	2,395,320
Operating income (loss)	(169,644)
Non-operating revenues (expenses)	
Interest earnings	1,237
Interest expense	(750,551)
Total non-operating revenues (expenses)	(749,314)
Net income (loss)	(918,958)
Net assets (deficit), beginning of year	(11,379,313)
Net assets (deficit), end of year	\$ (12,298,271)

See accompanying notes to financial statements.

Waterlefe Community Development District
Statement of Cash Flows - Proprietary Fund

<i>Year ended September 30,</i>	2011
	Enterprise Fund
Cash flows from operating activities	
Receipts from customers	\$ 2,225,199
Payments to suppliers	(2,193,441)
Net cash provided by operating activities	31,758
Cash flows from capital and related financing activities	
Acquisition of capital assets	(122,807)
Disposal of capital assets	6,854
Interest paid on capital lease	(1,884)
Proceeds from capital lease	20,709
Principal payments on capital lease	(8,189)
Net cash used by capital and related financing activities	(105,317)
Cash flows from investing activities	
Decrease in investments, net	9,095
Interest income	1,237
Net cash provided by investing activities	10,332
Net decrease in cash and cash equivalents	(63,227)
Cash and cash equivalents, beginning of year	579,267
Cash and cash equivalents, end of year	\$ 516,040
Cash and cash equivalents	\$ 175,878
Restricted cash and cash equivalents	340,162
Total cash and cash equivalents	\$ 516,040

(continued)

See accompanying notes to financial statements.

Waterlefe Community Development District

Statement of Cash Flows - Proprietary Fund (Continued)

<i>Year ended September 30,</i>	2011
	Enterprise Fund
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (169,644)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	212,105
Change in operating assets and liabilities:	
Accounts receivable	8,169
Prepays	(211)
Inventories	(2,376)
Accounts payable	(7,639)
Deferred revenue	(8,646)
Net cash provided by operating activities	\$ 31,758

See accompanying notes to financial statements.

Waterlefe Community Development District

Notes to Financial Statements

NOTE 1 – NATURE OF ORGANIZATION

The Waterlefe Community Development District (the “District”) was established on October 24, 2000 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes, by Manatee County Ordinance 00-55. 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 a 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. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes.

The Board has the final responsibility for:

1. Assessing and levying special 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.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth by Generally Accepted Accounting Principles (GAAP). The primary criteria for including organizations within the District's reporting entity, as defined by the Governmental Accounting Standards Board (GASB) No. 14, is financial accountability. The District is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District. The District may be financially accountable if an organization is fiscally dependent on the District regardless of whether the organization has (a) a separately elected governing board, (b) a governing board appointed by a higher level of government, or a jointly appointed board. Based on the foregoing criteria, no potential component units were found.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to GAAP as applicable to governments in accordance with those promulgated by GASB. The following is a summary of the more significant policies:

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by non ad-valorem assessments, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Assessments and other items not properly included as program revenues are reported as general revenues.

The preparation of government-wide financial statements includes the application of both GASB pronouncements and those of the Financial Accounting Standards Board (FASB) issued before November 30, 1989.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation

In March 2009, GASB issued Statement No. 54 - Fund Balance Reporting and Government Fund Type Definitions. This Statement establishes fund balance classifications based primarily on the extent to which the District is bound to honor constraints on the use of the resources reported in each governmental fund as well as establishes additional note disclosures regarding fund balance classification policies and procedures.

The District made the decision to implement this standard effective October 1, 2010.

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 the related cash flows. Assessments are recognized as revenues in the year for which they are levied. Grants and other 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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Assessments, including debt service assessments along with operation and maintenance assessments, are non-ad valorem special assessments imposed on all lands located within the District and benefited by the District's activities, operation and maintenance. Assessments are levied and certified for collection by the District prior to the start of the fiscal year which begins October 1st and ends on September 30th. Operation and maintenance special assessments are imposed upon all benefited lands located in the District. Debt service special assessments are imposed upon certain lots and lands as described in each resolution imposing the special assessment for each series of bonds issued by the District.

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

The District reports the following governmental funds:

General Fund – The General Fund is the primary operating fund of the District. It is used to account for all financial resources except those required to be accounted for in other funds.

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

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The District applies all applicable GASB pronouncements as well as Financial Accounting Standards Board ("FASB") statements and interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for golf, golf merchandise, and restaurant operations. Operating expenses for enterprise funds include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary funds include the following fund types:

Golf Course Fund – The Golf Course fund is used to account for the operations that provide recreational facilities within the District. Receipts are restricted by the bond indenture and may only be used for costs associated with the operation of the golf course and for debt service on the bonds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash, Deposits and Investments

The District maintains deposits with "Qualified Public Depositories" as defined in Chapter 280, Florida Statutes. All Qualified Public Depositories must place with the Treasurer of the State of Florida securities in accordance with the collateral requirements determined by the State's Chief Financial Officer. In the event of default by a Qualified Public Depository, the State Treasurer will pay public depositors all losses. Losses in excess of insurance and collateral will be paid through assessments between all Qualified Public Depositories.

Under this method, all the District's deposits are fully insured or collateralized at the highest level of security as defined by *Governmental Accounting Standards Board, Statement Number 40, Deposits and Investment Disclosures (An Amendment of Governmental Accounting Standards Board, Statement Number 3)*.

The District is authorized to invest in financial instruments as established by Section 218.415, Florida Statutes. The authorized investments include among others negotiable direct or indirect obligations which are secured by the United States Government; the Local Government Surplus Funds Trust as created by Section 218.415, Florida Statutes; and interest-bearing time deposits or savings accounts in authorized financial institutions. Investments in the State Board of Administration Investment Pool are secured by investments owned by the Pool, as allowed by Florida Statutes.

Capital Assets

In the government-wide financial statements, capital assets, which include primarily land and infrastructure assets (e.g., roads, sidewalks, water management systems and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial/individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost and estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value at the date of donation. Proprietary fund capital assets are capitalized and depreciated over the useful lives of the assets. The District's proprietary fund capital assets include buildings and infrastructure for the golf course and recreational facilities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Infrastructure - roadways, parks, courts, fields	25
Buildings	40
Golf course improvements	30 - 35
Furniture, fixtures and equipment	3 - 10

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

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

Inventories

Inventories in the proprietary fund consist primarily of golf equipment, apparel and accessories located in the golf pro shop. The District values its inventories at the lower of cost or market on a first-in, first-out basis.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of premiums or discounts. Bond issuance costs are shown as deferred charges and are presented net of \$107,185 of accumulated amortization.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the 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.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Equity

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the District board through approval of resolutions. Assigned fund balances is a limitation imposed by a designee of the District board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes.

Net assets in the government-wide and proprietary fund 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.

Budgets

The District is required to establish a budgetary system and an approved annual budget. Annual budgets are legally adopted on a basis consistent with generally accepted accounting principles for the general fund. Any revision to the budget must be approved by the District Board. The budgets are compared to actual expenditures. In instances where budget appropriations and estimated revenues have been revised during the year, budget data presented in the financial statements represent final authorization amounts.

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

- A. Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
- B. A public hearing is conducted to obtain comments prior to adoption.
- 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. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

NOTE 3 – INVESTMENTS

All investments held at September 30, 2011, are reported at fair value, which approximates amortized cost. Values for most of the District's investments are based on quoted market prices or amounts determined by the issuer. The SBA Investment Pool Fund B is accounted for as a fluctuating NAV pool. Fair value is based on the District's account balance and a fair value factor provided by the State Board of Administration of Florida.

Waterlefe Community Development District

Notes to Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

The following is a summary of the District's investments:

<u>September 30,</u>	<u>2011</u>	<u>Credit Risk</u>	<u>Weighted Average Maturities</u>
State Board of Administration Investment Florida PRIME	\$ 3,024	S&P AAAM	38 days
State Board of Administration Investment Pool Fund B	2,215	not rated	4.82 years
Short-term Money Market Funds	585,351	S&P AAAM	52 days
Total investments	\$ 590,590		

The District has reflected a total of \$340,162 of cash as restricted assets within the business-type activities on the accompanying Statement of Net Assets.

Concentration risk – The District's investment policy requires diversification, but does not specify limits on types of investments.

Custodial credit risk – For an investment, custodial credit risk is the risk that 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. At September 30, 2011, none of the investments listed above are exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Interest rate risk – The District does not have a formal policy for addressing interest rate risk; however, investments are made with discretion, to seek reasonable returns, preserve capital, and, in general, avoid speculative investments. The District manages its exposure to declines in fair values from interest rate changes by reviewing the portfolio on an ongoing basis for changes in effective yield amounts.

NOTE 4 – 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 maintains commercial insurance coverage to mitigate the risks of loss. Coverage may not extend to all situations. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. There were two claims totaling approximately \$13,000 filed against this commercial coverage during the last three years.

Waterlefe Community Development District

Notes to Financial Statements

NOTE 5 – 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 6 – CAPITAL ASSETS

The following is a summary of changes in the capital assets for the year ended September 30, 2011:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 4,020,707	\$ -	\$ -	\$ 4,020,707
Total capital assets not being depreciated	4,020,707	-	-	4,020,707
<i>Capital assets being depreciated:</i>				
Infrastructure	9,805,461	-	-	9,805,461
Golf course improvements	-	14,812	-	14,812
Equipment	28,098	8,498	-	36,596
Total capital assets being depreciated	9,833,559	23,310	-	9,856,869
<i>Less accumulated depreciation for:</i>				
Infrastructure	(3,138,561)	(392,218)	-	(3,530,779)
Golf course improvements	-	(494)	-	(494)
Equipment	(9,896)	(3,943)	-	(13,839)
Total accumulated depreciation	(3,148,457)	(396,655)	-	(3,545,112)
Total capital assets being depreciated, net	6,685,102	(373,345)	-	6,311,757
Governmental activities capital assets, net	\$ 10,705,809	\$ (373,345)	\$ -	\$ 10,332,464

Waterlefe Community Development District

Notes to Financial Statements

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 4,652,792	\$ -	\$ -	\$ 4,652,792
Total capital assets not being depreciated	4,652,792	-	-	4,652,792
<i>Capital assets being depreciated:</i>				
Golf course improvements	3,537,797	2,853	(6,854)	3,533,796
Buildings	1,782,857	-	-	1,782,857
Furniture, fixtures and equipment	307,018	109,454	-	416,472
Vehicle	-	10,500	-	10,500
Total capital assets being depreciated	5,627,672	122,807	(6,854)	5,743,625
<i>Less accumulated depreciation for:</i>				
Golf course improvements	(1,117,827)	(103,935)	-	(1,221,762)
Buildings	(398,361)	(52,437)	-	(450,798)
Furniture, fixtures and equipment	(223,887)	(40,352)	-	(264,239)
Vehicle	-	(97)	-	(97)
Total accumulated depreciation	(1,740,075)	(196,821)	-	(1,936,896)
Total capital assets being depreciated, net	3,887,597	(74,014)	(6,854)	3,806,729
Business-type activities capital assets, net	\$ 8,540,389	\$ (74,014)	\$ (6,854)	\$ 8,459,521

Depreciation expense relating to governmental activities of \$396,655 was allocated to maintenance and operations. Depreciation expense relating to business-type activities of \$196,821 was allocated to golf course operations.

NOTE 7 – LONG TERM LIABILITIES

Capital Improvement Revenue Bonds, Series 2001 – On March 22, 2001, the District issued \$17,185,000 of Capital Improvement Revenue Bonds, Series 2001 for the purpose of financing the acquisition and construction of certain improvements for the benefit of the District. The bonds consist of \$4,265,000 of Series 2001A Bonds maturing in May 2031 and bearing interest at 6.95% and \$12,920,000 of Series 2001B Bonds maturing in May 1, 2010 and bearing interest of 6.25%. Interest is paid semiannually on the first day of each May and November. The balance of the principal on the Series 2001B Bonds was paid in full during the year ended September 30, 2008. Principal on the Series 2001A Bonds is payable on an annual basis commencing on May 1, 2002 through May 1, 2031.

Waterlefe Community Development District

Notes to Financial Statements

NOTE 7 – LONG TERM LIABILITIES (CONTINUED)

The bonds are subject to extraordinary mandatory redemption prior to May 2031, the maturity date, in the manner determined by the Bond Registrar if certain events occur as outlined in the Bond Indenture. The bonds are subject to redemption at the option of the District, in whole or in part at any time on or after May 1, 2011 at a redemption price as set forth in the bond indenture.

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

Year Ending September 30	Principal	Interest	Total Debt Service
2012	\$ 90,000	\$ 246,030	\$ 336,030
2013	95,000	239,775	334,775
2014	100,000	233,173	333,173
2015	110,000	226,223	336,223
2016	115,000	218,578	333,578
2017 - 2021	715,000	960,143	1,675,143
2022 - 2026	1,005,000	674,498	1,679,498
2027 - 2031	1,310,000	273,135	1,583,135
	\$ 3,540,000	\$ 3,071,555	\$ 6,611,555

The Bond Indenture has certain 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 agreed to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The District is in compliance with the requirements of the Bond Indenture.

The Bond Indenture requires that the District maintain adequate funds in a reserve account to meet the debt service reserve requirement as defined in the Indenture. The requirement has been met for the fiscal year ended September 30, 2011.

Recreational Revenue Bonds, Series 2001 – On March 27, 2001, the District issued \$9,500,000 in Golf Course Revenue Bonds, Series 2001 for the purpose of financing the acquisition of the recreational facilities of the District. The bonds bear interest at 8.125% and mature in October 2025. Interest is payable semiannually on the first day of each April and October. Principal is payable on an annual basis commencing on October 1, 2003 through October 1, 2025. The bonds are payable from pledged revenue which includes, without limitation, net revenue received by the District from the users of the recreational facilities. The bonds are secured by the pledged revenue as defined in the master trust indenture. The repayment source for the interest and principal is limited to the revenue from the operations of the golf course. The District may elect to make the scheduled debt service payments on the bonds from other funds but elected not to.

Waterlefe Community Development District

Notes to Financial Statements

NOTE 7 – LONG TERM LIABILITIES (CONTINUED)

The balance of the Series 2001 Bonds at September 30, 2011 is summarized as follows:

		2011
Bond principal balance	\$	8,370,000
Less unamortized bond discount		(71,057)
Net balance, Series 2001 Bonds	\$	8,298,943

The bonds may, at the option of the District, be called for redemption as a whole or in part on any interest payment date on or after October 1, 2010 at a redemption price as set forth in the bond indenture. The bonds are also subject to extraordinary mandatory redemption prior to their selected maturity in the manner determined by the bond registrar if certain events occurred as outlined in the Bond Indenture.

The Bond Indenture has certain restrictions and requirements relating principally to the procedures to be followed in the collection of pledged revenues and the application of the revenues to the various restricted accounts.

The Bond Indenture requires that the former Developer fund any deficiency in the reserve fund through a debt service deficiency agreement. The former Developer has not funded the reserves in accordance with the agreement for debt service on the bonds during the year ended September 30, 2011 (see Note 9).

The Bond Indenture requires that the District maintain adequate funds in a reserve account to meet the debt service reserve requirement as defined in the Indenture. The requirement has not been met for the fiscal year ended September 30, 2011. In the absence of available funds, the scheduled debt service principal payment due October 1, 2009 and the scheduled debt service principal and interest payments due April 1, 2010 through April 1, 2011 have not been made. In addition, the October 2011 debt service payment has not been paid as of the date of this report.

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

Year Ending September 30	Principal	Interest	Total Debt Service
2012	\$ 795,000	\$ 1,667,859	\$ 2,462,859
2013	310,000	602,875	912,875
2014	335,000	576,672	911,672
2015	365,000	548,234	913,234
2016	390,000	517,563	907,563
2017 - 2021	2,495,000	2,033,078	4,528,078
2022 - 2026	3,680,000	794,219	4,474,219
	\$ 8,370,000	\$ 6,740,500	\$ 15,110,500

Waterlefe Community Development District

Notes to Financial Statements

NOTE 7 – LONG TERM LIABILITIES (CONTINUED)

Because of the uncertainty in future cash flows from the project, and the relatively small balance in the debt reserve fund, the District and bond trustee do not expect to make any further payments on the Bonds from the debt reserve fund. This significant event as defined in the Continuing Disclosure agreement has been communicated to the dissemination agent and bondholders.

Long-term liability activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year
<i>Governmental Activities</i>					
Bonds Payable:					
Series 2001	\$ 3,630,000	\$ -	\$ (90,000)	\$ 3,540,000	\$ 90,000
	\$ 3,630,000	\$ -	\$ (90,000)	\$ 3,540,000	\$ 90,000

	Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year
<i>Business-type activities</i>					
Bonds Payable:					
Series 2001	\$ 8,370,000	\$ -	\$ -	\$ 8,370,000	\$ 795,000
Capital lease obligations	31,125	20,709	(8,189)	43,645	15,051
	\$ 8,401,125	\$ 20,709	\$ (8,189)	\$ 8,413,645	\$ 810,051

NOTE 8 – INTERFUND TRANSFERS

During the year ended September 30, 2011, net transfers totaling \$319,764 were made from the Capital Projects Fund to the General Fund. These transfers were made to move the board designated capital reserve funds to the general fund.

NOTE 9 – TRANSACTIONS WITH THE FORMER DEVELOPER

The former Developer of the Waterlefe project is WCI Communities, Inc. During 2008, the former Developer filed for Chapter 11 bankruptcy protection, and on September 3, 2009, it emerged from bankruptcy protection as a newly reorganized private company.

As discussed in Note 7, the District is dependent on the former Developer to fund shortages in the golf course fund for operations and required debt service payments. This new organization is not currently funding shortages in the golf course fund for operations and debt service payments. It is unknown at this time what ultimate effect, if any, this will have on the District.

Waterlefe Community Development District

Notes to Financial Statements

NOTE 9 – TRANSACTIONS WITH THE FORMER DEVELOPER (CONTINUED)

The following is a summary of the amounts advanced by and owed to the former Developer in the Golf Course fund as of September 30, 2011:

	2011
Surplus golf revenue note	\$ 2,365,230
Developer advances for operations	8,084,740
Debt service reserve fund deficiency note and accrued interest	1,282,872
	<hr/>
	\$ 11,732,842

The former Developer operated the golf course and invoiced the District for expenses incurred in running the course through October 2008. Subsequent to October 2008, the District contracted to have all golf course operations performed by a third-party provider. At September 30, 2011, the District owed the former Developer \$8,084,740 for advances to operate the golf course in previous years.

At September 30, 2011, the District has an outstanding Surplus Golf Revenue Note in the amount of \$2,365,230. The note is owned by the former Developer, carries an interest rate of 8.52%, interest is payable semi-annually on April 15 and October 15, and matures April 1, 2031. Principal and interest under this note are only payable when the District releases amounts from the surplus fund established under the Golf Course Revenue Bond Indenture. It is not anticipated that any interest charges or any principal repayments under the surplus golf revenue note are likely to occur in the near future. No interest has been accrued on this note. The note is a limited obligation of the District secured solely by amounts, when, as and if withdrawn by the District from the surplus fund. The note is not an obligation of Manatee County, the State of Florida or any other political subdivision or public body of the State of Florida, within the meaning of any Florida Statute or the Florida Constitution.

The District has outstanding at September 30, 2011 an amount due to the former Developer under the Debt Service Reserve Fund Deficiency Agreement totaling \$844,067. The note is owned by the former Developer and carries an interest rate of 8.125%. Accrued interest related to this note totaled \$438,805, at September 30, 2011. The principal and interest are a continuous obligation of the District but are limited in that reimbursements are only to be made from available monies in the golf course fund. The reimbursement obligation is subordinate to the District's obligations under the bond indenture to make timely payment of principal, redemption premium if any, and interest on the 2001 Golf Course Revenue Bonds or any obligation which is secured by gross revenues. It is not anticipated that any interest charges or principal repayments under this note are likely to occur in the near future. The note is not an obligation of Manatee County, the State of Florida or any other political subdivision or public body of the State of Florida, within the meaning of any Florida Statute or the Florida Constitution.

NOTE 9 – TRANSACTIONS WITH THE FORMER DEVELOPER (CONTINUED)

Included in the golf course purchase agreement is a clause granting the former Developer a right of repurchase commencing on March 21, 2006 and lasting for a period of five years or for as long as the District is indebted to the former Developer under the line of credit and/or the surplus golf revenue note. The price under the purchase agreement is the greater of the fair market value of the golf course and supporting clubhouse, pro shop and maintenance facilities or the outstanding principal of the golf course revenue bonds plus three percent of the principal plus any other outstanding debt of the golf course. The above amounts are not necessarily indicative of the amounts that would have been earned, received, incurred or paid had a comparable transaction been entered into with independent parties.

The amount advanced by and owed to the former developer, other than accrued interest, did not change during the fiscal year ending September 30, 2011. The only sources of funds for repayment of this liability are either from excess funds generated by the golf course above the required debt service payments or by sale of the land for an amount in excess of the bond debt obligations. The ultimate repayment of the above amounts is uncertain at this time.

Required Supplemental Information
(Other Than MD&A)

Waterlefe Community Development District

Budget to Actual Comparison Schedule - General Fund

<i>Year ended September 30,</i>	2011		
	Original and Final Budget	Actual Amounts	Variance with Final Budget
Revenues			
Assessments	\$ 1,018,280	\$ 1,041,105	\$ 22,825
Interest and other revenues	1,500	6,933	5,433
Total revenues	1,019,780	1,048,038	28,258
Expenditures			
General government	241,750	283,737	(41,987)
Maintenance and operations	823,030	664,315	158,715
Capital outlay	-	23,310	(23,310)
Total expenditures	1,064,780	971,362	93,418
Excess (deficit) of revenues over expenditures	(45,000)	76,676	121,676
Other Financing Sources (Uses)			
Transfer in	-	319,764	319,764
Total other financing sources (uses)	-	319,764	319,764
Net change in fund balances	(45,000)	396,440	441,440
Fund balances, beginning of year	45,000	378,170	333,170
Fund balances, end of year	\$ -	\$ 774,610	\$ 774,610

**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
Waterlefe Community Development District
Manatee County, Florida

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Waterlefe Community Development District (hereinafter referred to as the "District"), as of and for the year ended September 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 grant 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described below:

- The District is not in compliance with certain provisions of its Golf Course Revenue Bond indenture including those relating to 1) collecting amounts to provide payment of debt service, 2) maintaining adequate funds in debt service reserve accounts, and 3) making its semi-annual debt service principal and interest payments.

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

- The District is continuing to work diligently to increase the profitability of the Golf Course in order to meet the requirements of the bond indenture for the Golf Course Revenue Bonds, including the replenishment of the debt service reserve fund and payment of the debt service principal and interest.

This report is intended for the information of management, the Board of Supervisors, others within the District, and the Auditor General of the State of Florida, and is not intended to be and should not be used by anyone other than those specified parties. However, we understand and recognize the District and all of its records are subject to Florida's public records law, Chapter 119, Florida Statutes.

Carly Riggs & Ingram, L.L.C.

Miramar Beach, Florida
March 31, 2012

MANAGEMENT LETTER

To the Board of Supervisors
Waterlefe Community Development District
Manatee County, Florida

(850) 837-3141
(850) 654-4619 (fax)
CRlcpa.com

We have audited the financial statements of Waterlefe Community Development District ("District") as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated March 31, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our 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*. Disclosures in this report which is dated March 31, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's report:

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken but were not successful in addressing the findings and recommendations made in the preceding annual financial audit report.

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the District complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The required information is disclosed in the notes to the financial statements.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District met the conditions described in Section 218.503(1)(a) and 218.503(1)(e), Florida Statutes. In the absence of available funds, the scheduled debt service principal payment due October 1, 2009 and the scheduled debt service principal and interest payments due April 1, 2010 through April 1, 2011 have not been made. Subsequent to the year ended September 30, 2011, the District failed to make its October 2011 debt service payment. In addition, at September 30, 2011, the District reported an accumulated deficit in its Enterprise Fund of \$(12,298,271). We applied financial condition assessment procedures pursuant to Rule 10.566(7) and deteriorating financial conditions were noted. See the District's response to the findings on page 35.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the District for the fiscal year ended September 30, 2011, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2011. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures, and as a result, it was determined that a deteriorating financial condition exists with respect to the District's enterprise fund operations. For the fiscal year ended September 30, 2011, the District reported an accumulated deficit of \$(12,298,271) and amounts Due to former Developer totaling \$11,732,842. The balance owed to the former Developer includes the Developer Reserve Deficiency Requirement and related accrued interest payable, and funds advanced for the operation of the golf course.

The enterprise fund is used to account for the operations of the District's golf course facilities. The District has been dependent on the former Developer to fund shortages in the golf course fund for operations and required debt service payments. However, after emerging from bankruptcy as a newly formed organization, the former Developer ceased funding shortages in the golf course fund for operations and debt service payments. In the absence of available funds, as noted above, the District did not make certain debt service payments. It is management's responsibility to monitor the entity's 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.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the District and management, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C.

Miramar Beach, Florida
March 31, 2012