



**WATERGRASS  
COMMUNITY  
DEVELOPMENT  
DISTRICT II**

**FINANCIAL STATEMENTS**

**Year Ended September 30, 2015**

WATERGRASS COMMUNITY DEVELOPMENT DISTRICT II

**TABLE OF CONTENTS**

Year Ended September 30, 2015

	<b><u>Page</u></b>
<b>I. Financial Section:</b>	
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet - Governmental Funds	9
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	10
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	11
Notes to Financial Statements	12
<b>II. Compliance Section:</b>	
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 <i>Government Auditing Standards</i>	19
Management Comments	21
Independent Auditor's Report on Compliance with the Requirements of Section 218.415, Florida Statutes	23

## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors  
*WaterGrass Community Development District II*

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of the *WaterGrass Community Development District II* (the "District"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

The District's 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 an opinion 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 principles 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.

**MCDIRMIT DAVIS & COMPANY, LLC**

934 NORTH MAGNOLIA AVENUE, SUITE 100 ORLANDO, FLORIDA 32803  
TELEPHONE: 407-843-5406 FAX: 407-649-9339 EMAIL: INFO@MCDIRMITDAVIS.COM

## 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, 2015, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis starting on page 3, 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 a report dated February 29, 2016, 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, 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* in considering the District's internal control over financial reporting and compliance.

*McDiernit Davis & Company, LLC*

Orlando, Florida  
February 29, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the *WaterGrass Community Development District II's*, (the "District") financial accomplishments provide an overview of the District's financial activities for the year ended September 30, 2015. Please read it in conjunction with the District's Independent Auditor's Report, financial statements and accompanying notes.

This information is being presented to provide additional information regarding the activities of the District and to meet the disclosure requirements of Government Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* issued June 1999.

### Financial Highlights

- The assets of the District exceeded its liabilities at September 30, 2015 by \$353,376, an increase of \$133,665 in comparison with the prior year.
- At September 30, 2015, the District's governmental funds reported a combined fund balance of \$353,376, an increase of \$133,665 in comparison with the prior year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the *WaterGrass Community Development District II's* financial statements. The District's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements.

### 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 of 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.

The government-wide financial statements include all governmental activities that are principally supported by special assessment revenues. The District does not have any business-type activities. The governmental activities of the District include general government, physical environment, roads and streets, and culture and recreation related functions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has one fund category: Governmental Funds.

**Governmental Funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and debt service fund which are considered to be major funds.

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

### Notes to 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

Statement of Net Position - The District's net position was \$353,376 at September 30, 2015. The following analysis focuses on the net position of the District's governmental activities.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Government-Wide Financial Analysis (Continued):**

WaterGrass Community Development District II  
Statement of Net Position

	<b>September 30, 2015</b>	<b>September 30, 2014</b>
Assets, excluding capital ssets	<u>\$ 372,724</u>	<u>\$ 298,581</u>
Total assets	<u>372,724</u>	<u>298,581</u>
Liabilities, excluding long-term liabilities	<u>19,348</u>	<u>78,870</u>
Total liabilities	<u>19,348</u>	<u>78,870</u>
Net Position:		
Restricted for:		
Debt service	236,355	241,805
Unrestricted	<u>117,021</u>	<u>(22,094)</u>
Total net position	<u><u>\$ 353,376</u></u>	<u><u>\$ 219,711</u></u>

The following is a summary of the District's Governmental activities for the fiscal years ended September 30, 2015 and 2014.

Changes in Net Position  
Year Ended September 30,

	<b>2015</b>	<b>2014</b>
Revenues:		
Program revenues	\$ 2,471,967	\$ 1,829,032
General revenues	<u>1,484</u>	<u>1,018</u>
Total revenues	<u>2,473,451</u>	<u>1,830,050</u>
Expenses:		
General government	45,556	24,415
Physical environment	440,421	318,428
Roads and streets	9,075	14,861
Culture and recreation	84,642	85,249
Debt service transfers to WaterGrass I	<u>1,760,092</u>	<u>1,167,386</u>
Total expenses	<u>2,339,786</u>	<u>1,610,339</u>
Change in net position	133,665	219,711
Net position - beginning	<u>219,711</u>	<u>-</u>
Net position - ending	<u><u>\$ 353,376</u></u>	<u><u>\$ 219,711</u></u>

As noted above and in the statement of activities, the cost of all governmental activities during the year ended September 30, 2015 was \$2,339,786. The majority of these costs are comprised of debt service transfers to WaterGrass I.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Financial Analysis of the Government's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At September 30, 2015, the District's governmental funds reported combined ending fund balances of \$353,376. Of this total, \$23,664 is nonspendable, \$236,355 is restricted for debt service and the remainder of \$93,357 is unassigned.

For the year ended September 30, 2015, the fund balance of the general fund increased by \$139,115 due to an increase in assessment revenue. The debt service fund balance decreased by \$5,450.

### General Fund Budgetary 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. There was one amendment to the September 30, 2015 general fund budget. The legal level of budgetary control is at the fund level.

### Requests for Information

If you have questions about this report or need additional financial information, contact the *WaterGrass Community Development District II's* Finance Department at 210 N. University Drive, Suite 702, Coral Springs, Florida 33071.



## **FINANCIAL STATEMENTS**

WATERGRASS COMMUNITY DEVELOPMENT DISTRICT II

**STATEMENT OF NET POSITION**

September 30, 2015

	<b>Governmental Activities</b>
<b>Assets:</b>	
Cash	\$ 110,592
Due from other governmental units	2,113
Assessments receivable	236,355
Prepaid costs and deposits	<u>23,664</u>
Total assets	<u>372,724</u>
<b>Liabilities:</b>	
Accounts payable and accrued expenses	<u>19,348</u>
Total liabilities	<u>19,348</u>
<b>Net Position:</b>	
Restricted for debt service	236,355
Unrestricted	<u>117,021</u>
Total net position	<u><u>\$ 353,376</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

WATERGRASS COMMUNITY DEVELOPMENT DISTRICT II

**STATEMENT OF ACTIVITIES**

Year Ended September 30, 2015

<b><u>Functions/Programs</u></b>	<b><u>Expenses</u></b>	<b><u>Program Revenue</u></b>		<b><u>Net (Expense) Revenue and Changes in Net Position</u></b>
		<b><u>Charges for Services</u></b>	<b><u>Operating Grants and Contributions</u></b>	
Governmental activities:				
General government	\$ 45,556	\$ 60,725	\$ 2,169	\$ 17,338
Physical environment	440,421	587,077	20,968	167,624
Roads and streets	9,075	12,097	432	3,454
Culture and recreation	84,642	112,827	4,030	32,215
Intergovernmental transfer-WaterGrass I	1,760,092	1,671,642	-	(88,450)
Total governmental activities	<u>\$ 2,339,786</u>	<u>\$ 2,444,368</u>	<u>\$ 27,599</u>	<u>132,181</u>
		General Revenues:		
			Investment and miscellaneous income	<u>1,484</u>
			Change in net position	133,665
			Net position - beginning	<u>219,711</u>
			Net Position - ending	<u>\$ 353,376</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

WATERGRASS COMMUNITY DEVELOPMENT DISTRICT II

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

September 30, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Cash	\$ 110,592	\$ -	\$ 110,592
Investments	-	-	-
Due from other governmental units	2,113	-	2,113
Assessments receivable	-	236,355	236,355
Prepaid costs and deposits	23,664	-	23,664
Total assets	<u>\$ 136,369</u>	<u>\$ 236,355</u>	<u>\$ 372,724</u>
<b>Liabilities and Fund Balances:</b>			
Liabilities:			
Accounts payable and accrued expenses	<u>\$ 19,348</u>	<u>\$ -</u>	<u>\$ 19,348</u>
Total liabilities	<u>19,348</u>	<u>-</u>	<u>19,348</u>
Fund Balances:			
Nonspendable	23,664	-	23,664
Restricted for:			
Debt service	-	236,355	236,355
Unassigned	93,357	-	93,357
Total fund balances	<u>117,021</u>	<u>236,355</u>	<u>353,376</u>
Total liabilities and fund balances	<u>\$ 136,369</u>	<u>\$ 236,355</u>	<u>372,724</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

WATERGRASS COMMUNITY DEVELOPMENT DISTRICT II

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

Year Ended September 30, 2015

	<b>General</b>	<b>Debt Service</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>			
Special assessments	\$ 772,726	\$ 1,023,284	\$ 1,796,010
Special assessments - prepayments	-	648,358	648,358
Developer contributions	27,599	-	27,599
Investment and miscellaneous income	1,484	-	1,484
Total revenues	801,809	1,671,642	2,473,451
<b>Expenditures:</b>			
Current:			
General government	45,556	-	45,556
Physical environment	440,421	-	440,421
Roads and streets	9,075	-	9,075
Culture and recreation	84,642	-	84,642
Total expenditures	579,694	-	579,694
<b>Excess (Deficit) of Revenues Over Expenditures</b>	222,115	1,671,642	1,893,757
<b>Other Financing Sources (Uses):</b>			
Intergovernmental transfer-WaterGrass I	(83,000)	(1,677,092)	(1,760,092)
Net change in fund balances	139,115	(5,450)	133,665
<b>Fund Balances (deficit) - beginning of year</b>	(22,094)	241,805	219,711
<b>Fund Balances - end of year</b>	\$ 117,021	\$ 236,355	\$ 353,376

The accompanying Notes to Financial Statements are an integral part of this statement.

WATERGRASS COMMUNITY DEVELOPMENT DISTRICT II

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**

Year Ended September 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Special assessments	\$ 669,635	\$ 752,635	\$ 772,726	\$ 20,091
Developer contributions	-	-	27,599	27,599
Investment and miscellaneous income	-	-	1,484	1,484
Total revenues	<u>669,635</u>	<u>752,635</u>	<u>801,809</u>	<u>49,174</u>
<b>Expenditures:</b>				
Current:				
General government	26,567	26,567	45,556	(18,989)
Physical environment	500,520	500,520	440,421	60,099
Roads and streets	21,000	21,000	9,075	11,925
Culture and recreation	121,548	121,548	84,642	36,906
Total expenditures	<u>669,635</u>	<u>669,635</u>	<u>579,694</u>	<u>89,941</u>
<b>Other Financing Sources (Uses):</b>				
Transfers out	-	(83,000)	(83,000)	-
Total other financing sources (uses)	<u>-</u>	<u>(83,000)</u>	<u>(83,000)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	139,115	<u>\$ 139,115</u>
<b>Fund Balance (deficit) - beginning of year</b>			<u>(22,094)</u>	
<b>Fund Balance - end of year</b>			<u>\$ 117,021</u>	

The accompanying Notes to Financial Statements are an integral part of this statement.

**NOTES TO FINANCIAL STATEMENTS**

**NOTES TO FINANCIAL STATEMENTS**

Year Ended September 30, 2015

**Note 1 - Summary of Significant Accounting Policies:**

**Reporting Entity**

The *WaterGrass Community Development District II* (the "District") was established by County Ordinance 13-05 enacted on March 5, 2013 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The Act provides, among other things, the power to manage basic services for community development, the power to borrow money and issue bonds, and the power to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure. The District was established for the purpose 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 was established through a petition for contraction from WaterGrass Community Development District I. WaterGrass II basically encompasses the eastern portion of the Original District land area, at a size of approximately 771 acres. Concurrently with, or immediately following the establishment of WaterGrass II, WaterGrass I was contracted to form the Contracted District (WaterGrass CDD I). Collectively, WaterGrass II and the Contracted District, WaterGrass I, comprise the total land area of the Original District. The District and WaterGrass I entered into an interlocal agreement regarding the payment of the assessments.

The District is governed by the Board of Supervisors (the "Board"), which is composed 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 exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes. All of the Board members are associated with CKB Development, LLC, (the "Developer") at September 30, 2015. The District is economically dependent on the Developer.

The Board has the final responsibility for:

1. Allocating 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 GASB Statements 14, 39 and 61. 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.



**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 1 - Summary of Significant Accounting Policies (Continued):**

**Government-Wide and Fund Financial Statements**

The 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 and 2) grants, contributions and investment income that are restricted to meeting the operational or capital requirements of a particular function or segment and 3) operating-type special assessments that are treated as charges for services (including assessments for maintenance and debt service). Other items not included among program revenues are reported instead as *general revenues*.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues 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 District 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, including debt service assessments and operation and maintenance assessments, are non-ad valorem assessments imposed on all lands located within the District and benefited by the District's activities. Operations and maintenance assessments are levied by the District prior to the start of the fiscal year which begins October 1<sup>st</sup> and ends on September 30<sup>th</sup>. These 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. Certain debt service assessments are collected upon the closing of those lots subject to short term debt and are used to prepay a portion of the bonds outstanding.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 1 - Summary of Significant Accounting Policies (Continued):**

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

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

The District reports the following major governmental funds:

**General Fund** - is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Debt Service Fund** - accounts for the accumulation of resources for the payment of debt assessments on long-term debt (See Note 4).

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, then unrestricted resources as they are needed.

**Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance**

**Restricted Assets** - These assets represent cash and investments set aside pursuant to bond covenants.

**Deposits and Investments** - The District's cash and cash equivalents are considered to be cash on hand and demand deposits.

Investments of the District are reported at fair value. The District's investments consist of investments authorized per their investment policy adopted in accordance with Section 218.415, Florida Statutes.

**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.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 1 - Summary of Significant Accounting Policies (Continued):**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance (Continued):**

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any item that qualifies for reporting in this category for the year ended September 30, 2015.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District does not have any item that qualifies for reporting in this category for the year ended September 30, 2015.

**Net Position Flow Assumption** - Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted-net position is applied.

**Fund Balance Flow Assumptions** - Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**Fund Balance Policies** - Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes fund balance amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Board of Supervisors is the highest level of decision-making authority for the government that can, by adoption of an ordinance or resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance or resolution remains in place until a similar action is taken to remove or revise the limitation.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 1 - Summary of Significant Accounting Policies (Continued):**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance (Continued):**

**Fund Balance Policies (Continued)** - Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Board of Supervisors has authorized the District Manager to assign amounts for specific purposes. The Board of Supervisors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above an additional action is essential to either remove or revise a commitment.

**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 2 - Stewardship, Compliance and Accountability:**

**A. Budgetary Information**

The District is required to establish a budgetary system and an approved annual budget for the General Fund. Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at the fiscal year end. The legal level of budgetary control is at the fund level. Any budget amendments that increase the aggregate budgeted appropriations, at the fund level, must be approved by the Board of Supervisors.

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

1. Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
2. A public hearing is conducted to obtain comments.
3. Prior to October 1, the budget is legally adopted by the District Board.
4. All budget changes must be approved by the District Board.
5. The budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 2 - Stewardship, Compliance and Accountability (Continued):**

**B. Appropriations in Excess of Available Funds**

In the current year, appropriations exceeded budgeted revenue and available funds from the prior year general fund balance, since there was a carryover deficit.

**Note 3 - 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.

**Note 4 - Related Districts:**

**Common Area Expenses** - The District entered into an Inter-Local Agreement which allocates costs between WaterGrass Community Development District II ("WaterGrass II") and WaterGrass Community Development District I ("WaterGrass I"). At September 30, 2015 there was no balance due between the Districts.

**Debt Service Assessments** - Due to the contraction of WaterGrass I District's boundaries (as discussed in Note 1), the District entered into an Inter-Local Agreement between WaterGrass II and WaterGrass I. WaterGrass I has outstanding Special Assessment Revenue Bonds totaling \$21,575,000 as of September 30, 2015 and continues to be responsible to make debt service payments on the outstanding debt. Since some of the land transferred to the boundaries of WaterGrass II from WaterGrass I continues to be subject to special assessments for debt service, WaterGrass II ratifies and confirms its obligation under the Bond indentures to assess and collect special assessments necessary to pay the portion of the Bonds benefiting the lands with WaterGrass II. These assessments and collections began in the prior year ended September 30, 2014. Assessments transferred to WaterGrass I for the year ended September 30, 2015 was \$1,760,092.

**Conveyance of Infrastructure** - Due to the contraction of WaterGrass I (as discussed in Note 1), WaterGrass I will at some future date, convey to WaterGrass II certain infrastructure improvements that are located in the boundaries of WaterGrass II.

WATERGRASS COMMUNITY DEVELOPMENT DISTRICT II

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 5 - Developer Transactions:**

The Developer's portion of special assessment revenue for the year ended September 30, 2015 totaled \$1,430,567 which is 59% of total special assessment revenue. In addition, the District received Developer contributions of \$27,599 during the fiscal year. At September 30, 2015, the Developer owed the District \$236,355 for debt assessments.

**Note 6 - Management Company:**

The District has contracted with a management company to perform management advisory services, which include financial advisory and accounting 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 7 - 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. These risks are covered by commercial insurance from independent third parties. The District has not filed any claims under this commercial coverage during the last three years.

**Note 8 - Subsequent Events**

Subsequent to September 30, 2015, the District received a clubhouse with a value of \$1,500,000 as contributed property from the Developer.

## **COMPLIANCE SECTION**

**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  
*WaterGrass Community Development District II*

We have audited, 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, the financial statements of the governmental activities and each major fund of the *WaterGrass Community Development District II* (the "District") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 29, 2016.

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 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 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 material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**MCDIRMIT DAVIS & COMPANY, LLC**

934 NORTH MAGNOLIA AVENUE, SUITE 100 ORLANDO, FLORIDA 32803  
TELEPHONE: 407-843-5406 FAX: 407-649-9339 EMAIL: INFO@MCDIRMITDAVIS.COM



### 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, 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*.

See management comments in a separate letter dated February 29, 2016.

### 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*McDiernit Davis & Company, LLC*

Orlando, Florida  
February 29, 2016

## MANAGEMENT COMMENTS

Board of Supervisors  
*WaterGrass Community Development District II*

### Report on the Financial Statements

We have audited the financial statements of the *WaterGrass Community Development District II*, (the "District") as of and for the fiscal year ended September 30, 2015, and have issued our report thereon dated February 29, 2016.

### Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.550, Rules of the Auditor General.

### Other Reports

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Auditor's Report on an examination conducted in accordance with AICPA Professional Standards, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated February 29, 2016, should be considered in conjunction with this management letter.

### Prior Audit Findings

Section 10.554(1)(i).1., Rules of the Auditor General, require that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no such findings in the preceding annual financial audit report.

### Official Title and Legal Authority

Section 10.554(1)(i).4., 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. This information has been disclosed in the notes to the financial statements.

**MCDIRMIT DAVIS & COMPANY, LLC**

934 NORTH MAGNOLIA AVENUE, SUITE 100 ORLANDO, FLORIDA 32803  
TELEPHONE: 407-843-5406 FAX: 407-649-9339 EMAIL: INFO@MCDIRMITDAVIS.COM

## **Financial Condition**

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, requires that we report the results of our determination as to whether or not the District 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 did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the District'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.

## **Annual Financial Report**

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, requires that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 2015, 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, 2015. In connection with our audit, we determined that these two reports were in agreement.

## **Other Matters**

Section 10.554(1)(i)2., 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)3., Rules of the Auditor General, requires that we address noncompliance with 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 which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

## **Purpose of this Letter**

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, the Board of Supervisors, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

*McDiernit Davis & Company, LLC*

Orlando, Florida  
February 29, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE  
REQUIREMENTS OF SECTION 218.415, FLORIDA STATUTES**

To the Board of Supervisors  
WaterGrass Community Development District II

We have examined WaterGrass Community Development District II's (the "District") compliance with the requirements of Section 218.415, Florida Statutes, during the year ended September 30, 2015. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States, and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2015.

*MCDIRMIT DAVIS & COMPANY, LLC*

Orlando, Florida  
February 29, 2016