

Financial Statements

September 30, 2020

Watergrass II Community Development District

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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, 2020, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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, 2020, 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, March 26, 2021, 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 solely 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

Orlando, Florida
March 26, 2021

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, 2020. 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, 2020 by \$13,316,260 a decrease of \$816,099 in comparison with the prior year. Net position was also increased by \$10,618,378 due to a prior period adjustment recording infrastructure previously conveyed to the District.
- At September 30, 2020, the District's governmental funds reported a combined fund balance of \$996,370 an increase of \$9,875 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.

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

The District adopts an annual appropriated budget for its general fund. There were no budget amendments 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 \$13,316,260 at September 30, 2020. The following analysis focuses on the net position of the District's governmental activities.

	<u>2020</u>	<u>2019</u>
Assets, excluding capital assets	\$ 1,058,746	\$ 1,207,639
Capital Assets, net	<u>20,208,318</u>	<u>10,364,202</u>
Total assets	<u>21,267,064</u>	<u>11,571,841</u>
Liabilities, excluding long-term liabilities	225,804	212,860
Long-term liabilities	<u>7,725,000</u>	<u>7,845,000</u>
Total liabilities	<u>7,950,804</u>	<u>8,057,860</u>
Net Position:		
Net investment in capital assets	12,483,318	2,519,202
Restricted for debt service	293,515	294,061
Restricted for capital projects	329,495	323,580
Unrestricted	<u>209,932</u>	<u>377,138</u>
Total net position	<u>\$ 13,316,260</u>	<u>\$ 3,513,981</u>

Watergrass Community Development District II
Management's Discussion and Analysis

The following is a summary of the District's Governmental activities for the fiscal years ended September 30, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Revenues:		
Program revenues	\$ 4,432,601	\$ 4,677,422
General revenues	11,776	9,188
Total revenues	<u>4,444,377</u>	<u>4,686,610</u>
Expenses:		
General government	120,568	127,097
Physical environment	1,839,613	835,108
Roads and streets	12,182	12,926
Culture and recreation	229,513	183,210
Interest	395,027	394,822
Debt service transfers to WaterGrass I	2,663,573	1,134,587
Total expenses	<u>5,260,476</u>	<u>2,687,750</u>
Change in net position	(816,099)	1,998,860
Net position, beginning	3,513,981	1,515,121
Prior Period Adjustment	10,618,378	-
Net position, ending	<u>\$ 13,316,260</u>	<u>\$ 3,513,981</u>

As noted above and in the statement of activities, the cost of all governmental activities during the year ended September 30, 2020 was \$5,260,476. The majority of these costs are comprised of debt service transfers to WaterGrass I.

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, 2020, the District's governmental funds reported combined ending fund balances of \$996,370. Of this total, \$5,466 is nonspendable, \$50,938 is assigned, \$786,438 is restricted and the remainder of \$153,528 is unassigned.

For the year ended September 30, 2020, the fund balance of the general fund increased by \$6,506 due to expenditures being lower than anticipated budget. The debt service fund balance decreased by \$2,546 due to increases in debt service expenditures. The capital projects fund increased by \$5,915 due to interest earnings and transfers in from the debt service fund.

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 were no amendments to the September 30, 2020 general fund budget. The legal level of budgetary control is at the fund level.

Capital Asset and Debt Administration

Capital Assets

At September 30, 2020, the District had \$20,208,318 invested in assets, net of accumulated depreciation. More detailed information about the District's capital assets is presented in the notes to the financial statements.

Capital Debt

At September 30, 2020, the District had \$7,725,000 in bonds outstanding. More detailed information about the District's capital debt is presented in the notes to the financial statements.

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, 2020

	Governmental Activities
Assets:	
Cash	\$ 159,970
Due from other governments	6,831
Accounts Receivable	41
Due from the Developer	100,000
Prepaid costs and deposits	5,466
Restricted Assets:	
Temporarily restricted investments	786,438
Capital Assets:	
Capital assets not being depreciated	2,526,630
Capital assets being depreciated, net	17,681,688
Total assets	21,267,064
Liabilities:	
Accounts payable and accrued expenses	62,376
Accrued interest payable	163,428
Noncurrent Liabilities:	
Due within one year	125,000
Due in more than one year	7,600,000
Total liabilities	7,950,804
Net Position:	
Net investment in capital assets	12,483,318
Restricted for:	
Debt service	293,515
Capital projects	329,495
Unrestricted	209,932
Total net position	\$ 13,316,260

Watergrass Community Development District II
Statement of Activities
 Year Ended September 30, 2020

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
General government	\$ 120,568	\$ 62,165	\$ -	\$ (58,403)
Physical environment	1,839,613	948,513	100,000	(791,100)
Roads and streets	12,182	6,281	-	(5,901)
Culture and recreation	229,513	118,338	-	(111,175)
Interest	395,027	-	-	(395,027)
Intergovernmental transfer-WaterGrass I	2,663,573	3,197,304	-	533,731
Total governmental activities	\$ 5,260,476	\$ 4,332,601	\$ 100,000	(827,875)
General Revenues:				
				Investment and miscellaneous income
				11,776
				Total general revenues
				11,776
				Change in net position
				(816,099)
				Net position, beginning
				3,513,981
				Prior Period Adjustment
				10,618,378
				Net position, ending
				\$ 13,316,260

Watergrass Community Development District II
Balance Sheet
Governmental Funds
September 30, 2020

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets:				
Cash	\$ 159,970	\$ -	\$ -	\$ 159,970
Investments	-	456,943	329,495	786,438
Due from other governmental units	6,831	-	-	6,831
Accounts receivable	41	-	-	41
Due from developer	100,000	-	-	100,000
Prepaid costs and deposits	5,466	-	-	5,466
Total assets	<u>\$ 272,308</u>	<u>\$ 456,943</u>	<u>\$ 329,495</u>	<u>\$ 1,058,746</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenses	\$ 62,376	\$ -	\$ -	\$ 62,376
Total liabilities	<u>62,376</u>	<u>-</u>	<u>-</u>	<u>62,376</u>
Fund Balances:				
Nonspendable	5,466	-	-	5,466
Restricted for:				
Debt service	-	456,943	-	456,943
Capital projects	-	-	329,495	329,495
Assigned for capital reserves	50,000	-	-	50,000
Assigned for subsequent expenditures	938	-	-	938
Unassigned	153,528	-	-	153,528
Total fund balances	<u>209,932</u>	<u>456,943</u>	<u>329,495</u>	<u>996,370</u>
Total liabilities and fund balances	<u>\$ 272,308</u>	<u>\$ 456,943</u>	<u>\$ 329,495</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 20,208,318

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

Accrued interest payable	(163,428)	
Bonds payable	<u>(7,725,000)</u>	<u>(7,888,428)</u>

Net position of governmental activities (page 7) \$ 13,316,260

Watergrass Community Development District II
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2020

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues:				
Special assessments	\$ 1,135,297	\$ 1,126,337	\$ -	\$ 2,261,634
Special assessments - prepayments	-	2,070,967	-	2,070,967
Developer contributions	273,712	-	-	273,712
Investment and miscellaneous income	6,755	2,890	2,131	11,776
Total revenues	<u>1,415,764</u>	<u>3,200,194</u>	<u>2,131</u>	<u>4,618,089</u>
Expenditures:				
Current:				
General government	102,212	18,356	-	120,568
Physical environment	1,065,351	-	-	1,065,351
Roads and streets	12,182	-	-	12,182
Culture and recreation	229,513	-	-	229,513
Current:				
Interest	-	397,027	-	397,027
Principal Payment	-	120,000	-	120,000
Total expenditures	<u>1,409,258</u>	<u>535,383</u>	<u>-</u>	<u>1,944,641</u>
Excess (Deficit) of Revenues Over Expenditures	<u>6,506</u>	<u>2,664,811</u>	<u>2,131</u>	<u>2,673,448</u>
Other Financing Sources (Uses):				
Transfers in	-	-	3,784	3,784
Transfers out	-	(3,784)	-	(3,784)
Intergovernmental transfer-WaterGrass I	-	(2,663,573)	-	(2,663,573)
Total other financing sources (uses)	<u>-</u>	<u>(2,667,357)</u>	<u>3,784</u>	<u>(2,663,573)</u>
Net change in fund balances	6,506	(2,546)	5,915	9,875
Fund balances, beginning of year	203,426	459,489	323,580	986,495
Fund balances, end of year	<u>\$ 209,932</u>	<u>\$ 456,943</u>	<u>\$ 329,495</u>	<u>\$ 996,370</u>

Watergrass Community Development District II
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2020

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds (page 10)	\$ 9,875
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Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

Depreciation expense	(774,262)
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Revenue reported in the funds must be eliminated from the statement of activities since revenue was recognized in a prior year	(173,712)
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Repayments of long-term liabilities are reported as expenditures in governmental funds, while repayments reduce long-term liabilities in the statement of net position.

Principal payments	120,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Change in accrued interest	<u>2,000</u>
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Change in net position of governmental activities (page 8)	<u><u>\$ (816,099)</u></u>
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Watergrass Community Development District II
Statement of Revenues, Expenditures and Changes in Fund
Balance Budget and Actual - General Fund
Year Ended September 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Special assessments	\$ 1,131,253	\$ 1,131,253	\$ 1,135,297	\$ 4,044
Developer contributions	340,000	340,000	273,712	(66,288)
Investment and miscellaneous income	6,503	6,503	6,755	252
Total revenues	1,477,756	1,477,756	1,415,764	(61,992)
Expenditures:				
Current:				
General government	98,651	98,651	102,212	(3,561)
Physical environment	1,157,305	1,157,305	1,065,351	91,954
Roads and streets	20,000	20,000	12,182	7,818
Culture and recreation	201,800	201,800	229,513	(27,713)
Total expenditures	1,477,756	1,477,756	1,409,258	68,498
Net change in fund balances	\$ -	\$ -	\$ 6,506	\$ 6,506
Fund balance, beginning of year			\$ 203,426	
Fund balance, end of year			\$ 209,932	

NOTES TO FINANCIAL STATEMENTS

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. Three of the Board members are associated with CKB Development, LLC, (the "Developer") at September 30, 2020. 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.

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*.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments are recognized as revenues in the year for which they are levied. Grants and similar items are 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 1st and ends on September 30th. 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.

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 7).

Capital Projects Fund - accounts for the financial resources to be used for the acquisition or construction of major infrastructure within the District.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and are categorized within the fair value hierarchy established in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. The District's investments consist of investments authorized 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.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Infrastructure	10-30
Recreational facilities	30

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, 2020.

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, 2020.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

New Accounting Standards

In fiscal year 2020, the District implemented Government Accounting Standards Board (GASB) Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This statement provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of provisions in certain other statements. There was no effect on beginning balances of the District for implementation of this Statement.

NOTE 2 PRIOR PERIOD RESTATEMENT

Beginning net position of the Government Activities have been adjusted for the correction of an error in omission from the statements of fixed assets that should have been reported.

	Governmental Activities
Net Position, October 1, 2019, previously stated	\$ 3,513,981
Correction -Fixed Assets previously conveyed to District	10,618,378
Net Position, October 1, 2019, as restated	<u>\$ 14,132,359</u>

NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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.

NOTE 4 DEPOSITS AND INVESTMENTS

Deposits

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

Investments

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

Under GASB 72, assets or liabilities are classified into one of three levels. Level 1 is the most reliable and is based on quoted prices for identical assets, or liabilities, in an active market. Level 2 uses significant other observable inputs when obtaining quoted prices for identical or similar assets, or liabilities, in markets that are not active. Level 3 is the least reliable, and uses significant unobservable inputs that uses the best information available under the circumstances, which includes the District's own data in measuring unobservable inputs.

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Instead of establishing a written investment policy, the District elected to limit investments to those approved by Florida Statutes and the District Trust Indenture. Authorized District investments include, but are not limited to:

1. The Local Government Surplus Funds Trust Fund (SBA);
2. Securities and Exchange Commission Registered Money Market Funds with the highest credit quality rating from nationally recognized rating agency;
3. Interest-bearing time deposits or savings accounts in qualified public depositories;
4. Direct obligations of the U.S. Treasury;

Investments made by the District at September 30, 2020 are summarized below. In accordance with GASB 31, investments are reported at fair value.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity</u>
U.S. Bank Commercial Paper Sweep	\$ 786,438	NA	NA

Credit Risk:

The District's limits credit risk by restricting authorized investments to those described which are either backed by the full faith and credit of the United States Government or maintain the highest credit quality ratings of Moody's or S&P.

Custodial Credit Risk:

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's requires that bank deposits be secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida, and creates the Public Deposits Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2020, all of the District's bank deposits were in qualified public depositories.

For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At September 30, 2020, none of the investments listed are exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk:

There is no limit on the amount the District may invest in any one issuer.

Interest Rate Risk:

The District does not specifically address interest rate risk; however, their practice is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and in general, avoid speculative investments. The District invests to provide sufficient liquidity to pay obligations as they come due.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2020 was as follows:

	Beginning Balance, as restated	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 2,526,630	\$ -	\$ -	\$ 2,526,630
Total capital assets, not being depreciated	<u>2,526,630</u>	<u>-</u>	<u>-</u>	<u>2,526,630</u>
Capital assets, being depreciated:				
Recreational Facilities	1,500,000	-	-	1,500,000
Infrastructure	21,698,576	-	-	21,698,576
Total capital assets, being depreciated	<u>23,198,576</u>	<u>-</u>	<u>-</u>	<u>23,198,576</u>
Less accumulated depreciation for:				
Recreational facilities	(187,500)	(50,000)	-	(237,500)
Infrastructure	(4,555,126)	(724,262)	-	(5,279,388)
Total accumulated depreciation	<u>(4,742,626)</u>	<u>(774,262)</u>	<u>-</u>	<u>(5,516,888)</u>
Total capital assets, being depreciated, net	<u>18,455,950</u>	<u>(774,262)</u>	<u>-</u>	<u>17,681,688</u>
Governmental activities capital assets, net	<u>\$ 20,982,580</u>	<u>\$ (774,262)</u>	<u>\$ -</u>	<u>\$ 20,208,318</u>

Depreciation was charged to physical environment for the current year.

Beginning balances have been adjusted for infrastructure previously conveyed to the District as part of the contraction discussed in Note 2.

NOTE 6 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, 2020 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 \$10,950,000 as of September 30, 2020 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 a prior year ended (September 30, 2014). Debt service assessments transferred to WaterGrass I for the year ended September 30, 2020 was \$2,663,573.

Conveyance of Infrastructure

Due to the contraction of WaterGrass I (as discussed in Note 1), WaterGrass I, conveyed to WaterGrass II \$15,169,112 infrastructure improvements that are located in the boundaries of WaterGrass II in a previous fiscal year.

NOTE 7 LONG-TERM LIABILITIES

Series 2018 Special Assessment Revenue Bonds- Public Offering

In September 2018, the District issued \$7,845,000 of Special Assessment Revenue Bonds Series 2018 consisting of \$510,000 Term Bonds due May 1, 2023 with a fixed interest rate of 4.0%, \$775,000 Term Bonds due May 1, 2028 with an interest rate of 4.45%, \$2,260,000 Term Bonds due May 1, 2038 with an interest rate of 5.15%, and \$4,300,000 Term Bonds due May 1, 2049 with an interest rate of 5.25%. Interest is due semiannually on each May 1 and November 1. The Bonds were issued to finance the construction, acquisition, equipping and/or improvement of a portion of the 2018 capital project, pay capitalized interest, fund the 2018 Reserve Account established for such 2018 Bonds in an amount equal to the 2018 Reserve Account Requirement, and pay certain costs associated with the issuance of such 2018 Bonds. Principal on the Series 2018 Bonds is due annually commencing May 1, 2020 through May 1, 2049.

The Series 2018 Bonds are subject to redemption at the option of the District prior to their maturity on or after May 1, 2028 and extraordinary mandatory redemption prior to their maturity in the manner determined by the Bond Indenture. In the event of default, all principal and interest of the Bonds will become immediately due and payable.

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 was met at September 30, 2020.

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 principal and interest on the Series 2018 Special Assessment Revenue Bonds issued under the Indenture are secured by all revenues received by the District from Series 2018 assessments levied and collected on the District lands benefited by the 2018 Project. The District is in compliance with the requirements of the Bond Indenture.

As of September 30, 2020, total principal and interest remaining on the Series 2018 Special Assessment Revenue Bonds totaled \$15,121,900. For the year ended September 30, 2020, \$120,000 principal was paid as well as interest of \$397,027 and special assessment revenue of \$531,967 was pledged.

NOTE 7 LONG-TERM LIABILITIES (CONTINUED)

Long-term debt activity for the year ended September 30, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds payable:					
Series 2018	\$ 7,845,000	\$ -	\$ (120,000)	\$ 7,725,000	\$ 125,000
Governmental activity long-term liabilities	<u>\$ 7,845,000</u>	<u>\$ -</u>	<u>\$ (120,000)</u>	<u>\$ 7,725,000</u>	<u>\$ 125,000</u>

At September 30, 2020, the scheduled debt service requirements on the bonds payable were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 125,000	\$ 392,227
2022	130,000	387,227
2023	135,000	382,028
2024	140,000	376,628
2025	150,000	370,398
2026 - 2030	850,000	1,745,263
2031 - 2035	1,090,000	1,510,365
2036 - 2040	1,415,000	1,197,465
2041 - 2045	1,835,000	785,662
2046 - 2049	1,855,000	249,637
	<u>\$ 7,725,000</u>	<u>\$ 7,396,900</u>

NOTE 8 DEVELOPER TRANSACTIONS

A significant portion of the current year assessments was received from the Developer. The Developer's portion of special assessment revenue for the year ended September 30, 2020 totaled \$1,646,982 which is 36% of total special assessment revenue. The District is economically dependent on the Developer.

NOTE 9 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 10 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.

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, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 26, 2021.

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) as a basis for designing 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

McDermitt Davis

Orlando, Florida
March 26, 2021

MANAGEMENT LETTER

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, 2020, and have issued our report thereon dated March 26, 2021.

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.

Reporting Requirements

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 Accountant’s Report on an examination conducted in accordance with AICPA Professional Standards, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated March 26, 2021, 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.

Financial Condition and Management

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate 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 to identify 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.b. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the District. 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.

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.

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate 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 note 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.

McDiarmid Davis

Orlando, Florida
March 26, 2021



934 North Magnolia Avenue, Suite 100
Orlando, Florida 32803
407-843-5406
www.mcdermittdavis.com

**INDEPENDENT ACCOUNTANT'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, 2020. 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, 2020.

McDermitt Davis

Orlando, Florida
March 26, 2021