

**WATERSTONE
COMMUNITY DEVELOPMENT DISTRICT
ST. LUCIE COUNTY, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2020**

**WATERSTONE COMMUNITY DEVELOPMENT DISTRICT
ST. LUCIE COUNTY, FLORIDA**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-6
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet – Governmental Funds	9
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	10
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Notes to the Financial Statements	13-20
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	21
Notes to Required Supplementary Information	22
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	23-24
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE REQUIREMENTS OF SECTION 218.415, FLORIDA STATUTES, REQUIRED BY RULE 10.556(10) OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA	25
MANAGEMENT LETTER REQUIRED BY CHAPTER 10.550 OF THE RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA	26-27



Grau & Associates

CERTIFIED PUBLIC ACCOUNTANTS

951 Yamato Road • Suite 280
Boca Raton, Florida 33431
(561) 994-9299 • (800) 299-4728
Fax (561) 994-5823
www.graucpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Waterstone Community Development District
St. Lucie County, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Waterstone Community Development District, St. Lucie County, Florida ("District") as of and for the fiscal 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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2020, and the respective changes in financial position thereof for the fiscal 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 and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is 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 effectiveness of the District's 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.

 & Associates

March 1, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Waterstone Community Development District, St. Lucie County, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2020. Please read it in conjunction with the District's Independent Auditor's Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year resulting in a net position deficit balance of (\$3,553,453).
- The District's total net position decreased by (\$875,507) in comparison with the prior fiscal year. The key components of the District's net position and change in net position are reflected in the table in the government-wide financial analysis section.
- At September 30, 2020, the District's governmental funds reported combined ending fund balances of \$500,139, an increase of \$49,141 in comparison with the prior fiscal year. The fund balance is restricted for debt service, assigned to subsequent year's expenditures, and the remainder is unassigned fund balance which is available for spending at the District's discretion.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as the introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual amount being 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 assessments. The District does not have any business-type activities. The governmental activities of the District include the general government (management) and maintenance functions.

Fund Financial Statements

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

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund 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, both of which are considered major funds.

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, liabilities exceeded assets at the close of the fiscal year ended September 30, 2020.

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

NET POSITION SEPTEMBER 30,		
	2020	2019
Assets, excluding capital assets	\$ 509,303	\$ 464,744
Capital assets, net of depreciation	10,126,866	10,431,971
Total assets	10,636,169	10,896,715
Liabilities, excluding long-term liabilities	266,185	127,314
Long-term liabilities	13,923,437	13,447,347
Total liabilities	14,189,622	13,574,661
Net position		
Net investment in capital assets	(3,796,571)	(3,015,376)
Restricted	143,694	281,661
Unrestricted	99,424	55,769
Total net position	\$ (3,553,453)	\$ (2,677,946)

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

The District's net position decreased during the most recent fiscal year. The majority of the decrease represents the extent to which the cost of operations and depreciation expense exceeded ongoing program revenues.

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

CHANGES IN NET POSITION FOR THE FISCAL YEAR ENDED SEPTEMBER 30,		
	2020	2019
Revenues:		
Program revenues		
Charges for services	\$ 355,599	\$ -
Operating grants and contributions	331	1,099
Capital grants and contributions	-	869,732
Total revenues	355,930	870,831
Expenses:		
General government	81,273	85,565
Maintenance and operations	457,851	33,088
Recreational	72,770	-
Interest	619,543	367,167
Bond issuance costs	-	301,837
Total expenses	1,231,437	787,657
Special item - Restructuring gain	-	13,083,365
Change in net position	(875,507)	13,166,539
Net position - beginning	(2,677,946)	(15,844,485)
Net position - ending	\$ (3,553,453)	\$ (2,677,946)

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2020 was \$1,231,437. Program revenues, which were comprised primarily of assessments in the current year, decreased from the prior fiscal year mainly as the result of a contribution from the Developer as part of the land sale agreement in the prior fiscal year. Expenditures increased from the prior fiscal year due to a significant increase in maintenance and operations expenses in the current fiscal year.

GENERAL BUDGETING HIGHLIGHTS

An operating budget was adopted and maintained by the governing board for the District pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. The general fund budget for the fiscal year ended September 30, 2020 was amended to decrease revenues by (\$55,717), increase appropriations by \$4,522, and increase the use of surplus fund balance by \$60,239. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2020.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2020, the District had \$10,431,971 invested in capital assets for its governmental activities. In the government-wide financial statements depreciation of \$305,105 has been taken, which resulted in a net book value of \$10,126,866.

Capital Debt

At September 30, 2020, the District had \$13,923,437 in Bonds outstanding for its governmental activities. More detailed information about the District's capital debt is presented in the notes of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND OTHER EVENTS

For the subsequent fiscal year the District is expecting an increase in maintenance expenses and an increase in assessment revenue to cover the expenses.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, land owners, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages and the stewardship of the facilities it maintains. If you have questions about this report or need additional financial information, contact the Waterstone Community Development District's Finance Department at 5385 N. Nob Hill Road Sunrise, Florida 33351.

**WATERSTONE COMMUNITY DEVELOPMENT DISTRICT
ST. LUCIE COUNTY, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2020**

	Governmental Activities
ASSETS	
Cash	\$ 45,344
Assessments receivable	66,434
Restricted assets:	
Investments	397,525
Capital assets:	
Nondepreciable	4,619,280
Depreciable, net	5,507,586
Total assets	<u>10,636,169</u>
LIABILITIES	
Accounts payable	9,164
Accrued interest payable	257,021
Non-current liabilities:	
Due in more than one year	13,923,437
Total liabilities	<u>14,189,622</u>
NET POSITION	
Net investment in capital assets	(3,796,571)
Restricted	143,694
Unrestricted	99,424
Total net position	<u>\$ (3,553,453)</u>

See notes to the financial statements

**WATERSTONE COMMUNITY DEVELOPMENT DISTRICT
ST. LUCIE COUNTY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2020**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental activities:				
General government	\$ 81,273	\$ 81,273	\$ -	\$ -
Maintenance and operations	457,851	196,401	-	(261,450)
Recreational	72,770	72,770	-	-
Interest on long-term debt	619,543	5,155	331	(614,057)
Total governmental activities	1,231,437	355,599	331	(875,507)
	Change in net position			(875,507)
	Net position - beginning			(2,677,946)
	Net position - ending			\$ (3,553,453)

See notes to the financial statements

**WATERSTONE COMMUNITY DEVELOPMENT DISTRICT
ST. LUCIE COUNTY, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020**

	Major Funds		Total Governmental Funds
	General	Debt Service	
ASSETS			
Cash	\$ 45,344	\$ -	\$ 45,344
Investments	-	397,525	397,525
Assessments receivable	63,244	3,190	66,434
Total assets	<u>\$ 108,588</u>	<u>\$ 400,715</u>	<u>\$ 509,303</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 9,164	\$ -	\$ 9,164
Total liabilities	<u>9,164</u>	<u>-</u>	<u>9,164</u>
Fund balances:			
Restricted for:			
Debt service		400,715	400,715
Assigned to:			
Subsequent year's expenditures	45,729	-	45,729
Unassigned			
General fund	53,695	-	53,695
Total fund balances	<u>99,424</u>	<u>400,715</u>	<u>500,139</u>
Total liabilities and fund balances	<u>\$ 108,588</u>	<u>\$ 400,715</u>	<u>\$ 509,303</u>

See notes to the financial statements

**WATERSTONE COMMUNITY DEVELOPMENT DISTRICT
ST. LUCIE COUNTY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2020**

Fund balance - governmental funds	\$	500,139
-----------------------------------	----	---------

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 as assets in the governmental funds. The statement of net position includes those capital assets, net of any accumulated depreciation, in the net position of the government as a whole.

Cost of capital assets	10,431,971	
Accumulated depreciation	<u>(305,105)</u>	10,126,866

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

Accrued interest payable		(257,021)
Bonds payable		<u>(13,923,437)</u>
Net position of governmental activities	\$	<u><u>(3,553,453)</u></u>

See notes to the financial statements

**WATERSTONE COMMUNITY DEVELOPMENT DISTRICT
ST. LUCIE COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2020**

	<u>Major Funds</u>		<u>Total Governmental Funds</u>
	<u>General</u>	<u>Debt Service</u>	
REVENUES			
Assessments	\$ 350,444	\$ 5,155	\$ 355,599
Interest	-	331	331
Total revenues	350,444	5,486	355,930
EXPENDITURES			
Current:			
General government	81,273	-	81,273
Maintenance and operations	216,292	-	216,292
Recreational	9,224	-	9,224
Total expenditures	306,789	-	306,789
Excess (deficiency) of revenues over (under) expenditures	43,655	5,486	49,141
Fund balances - beginning	55,769	395,229	450,998
Fund balances - ending	\$ 99,424	\$ 400,715	\$ 500,139

See notes to the financial statements

**WATERSTONE COMMUNITY DEVELOPMENT DISTRICT
ST. LUCIE COUNTY, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2020**

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

Net change in fund balances - total governmental funds	\$ 49,141
Depreciation on capital assets is not recognized in the governmental fund statement but is reported as an expense in the statement of activities.	(305,105)
Accreted interest on Bonds are recognized as a component of interest expense in the statement of activities.	(476,090)
The change in accrued interest on long-term liabilities between the current and prior fiscal year is recorded in the statement of activities but not in the fund financial statements.	<u>(143,453)</u>
Change in net position of governmental activities	<u>\$ (875,507)</u>

See notes to the financial statements

**WATERSTONE COMMUNITY DEVELOPMENT DISTRICT
ST. LUCIE COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY

Waterstone Community Development District ("the District") was created on May 16, 2006 pursuant to Ordinance No. 06-016 enacted by the Board of County Commissioners of St. Lucie County, Florida, under 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, power to borrow money and issue Bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure.

The District was established for the purposes of financing and managing the acquisition, construction, maintenance and operation of a portion of the infrastructure necessary for community development within the District.

The District is governed by the Board of Supervisors ("Board"), which is composed of five members. The Supervisors are elected by the owners of the property within the District. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes. At September 30, 2020, four of the Board Members are affiliated with Waterstone Builders, LLC (The Developer).

The Board has the final responsibility for:

1. Assessing and levying assessments.
2. Approving budgets.
3. Exercising control over facilities and properties.
4. Controlling the use of funds generated by the District.
5. Approving the hiring and firing of key personnel.
6. Financing improvements.

The financial statements were prepared in accordance with Governmental Accounting Standards Board ("GASB") Statements. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District 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. A blended component unit includes entities that provide services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefit the primary government even though it does not provide services directly to it. Blended component units, although legally separate entities, are, in substance, part of the government's operations and therefore should be included as an integral part of the primary government.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment. (Operating-type special assessments for maintenance and debt service are treated as charges for services.); and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not included among program revenues are reported instead as *general revenues*.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments are recognized as revenues in the year for which they are levied. Grants and similar items are to be recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Assessments

Assessments are non-ad valorem assessments on benefitted property within the District. Debt Service Assessments will be collected directly by the District on a semi-annual basis when interest payments are due. Operating and Maintenance Assessments are based upon adopted budget and levied annually at a public hearing of the District. The District may collect assessments directly or utilize the uniform method of collection (Chapter 197.3632, Florida Statutes). Assessments collected under the uniform method are mailed by County Tax Collector on November 1 and due on or before March 31 of each year. Property owners may prepay a portion or all of the Debt Service Assessments on their property subject to various provisions in the Bond documents.

Assessments and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. The portion of assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period.

The District did not levy Operating and Maintenance assessments for the fiscal year ended September 30, 2020. In lieu of Operating and Maintenance assessments, the Developer provided Operating & Maintenance funding for the fiscal year ended September 30, 2020.

The District reports the following major governmental funds:

General Fund

The general fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund

The debt service fund is used to account for the accumulation of resources for the annual payment of principal and interest on debt.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first for qualifying expenditures, then unrestricted resources as they are needed.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity

Restricted Assets

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

Deposits and Investments

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

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

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

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

The District records all interest revenue related to investment activities in the respective funds. Investments are measured at amortized cost or reported at fair value as required by generally accepted accounting principles.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets which include property, plant and equipment, and infrastructure assets (e.g., roads, sidewalks and similar items) are reported in the government activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at 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>
Stormwater management	20
Entrance features	15
Roads	20
Amenity center	20

Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

Long-Term Obligations

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

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

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.

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.

Fund Equity/Net Position

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Disclosures

Use of Estimates

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

NOTE 3 – BUDGETARY INFORMATION

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

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

- a) Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
- b) Public hearings are conducted to obtain comments.
- c) Prior to October 1, the budget is legally adopted by the District Board.
- d) All budget changes must be approved by the District Board.
- e) The budgets are adopted on a basis consistent with generally accepted accounting principles.
- f) Unused appropriation for annually budgeted funds lapse at the end of the year.

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

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

Investments

The District's investments were held as follows at September 30, 2020:

Investment	Maturities	Amortized Cost	Credit Risk
US Bank Money Market	N/A	<u>\$ 397,525</u>	N/A

Credit risk – For investments, credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investment ratings by investment type are included in the preceding summary of investments.

Concentration risk – The District places no limit on the amount the District may invest in any one issuer.

Interest rate risk – The District does not have a formal policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

However, the Bond Indenture limits the type of investments held using unspent proceeds.

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Fair Value Measurement – When applicable, the District measures and records its investments using fair value measurement guidelines established in accordance with GASB Statements. The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques.

These guidelines recognize a three-tiered fair value hierarchy, in order of highest priority, as follows:

- *Level 1:* Investments whose values are based on unadjusted quoted prices for identical investments in active markets that the District has the ability to access;
- *Level 2:* Investments whose inputs - other than quoted market prices - are observable either directly or indirectly; and,
- *Level 3:* Investments whose inputs are unobservable.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the entire fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

Money market investments that have a maturity at the time of purchase of one year or less and are held by governments other than external investment pools should be measured at amortized cost. Accordingly, the District's investments have been reported at amortized cost above.

NOTE 5 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land and land improvements	\$ 4,619,280	\$ -	\$ -	\$ 4,619,280
CIP - Stormwater	2,592,360	-	2,592,360	-
CIP - Entrance Features	868,200	-	868,200	-
CIP - Roads	1,081,211	-	1,081,211	-
CIP - Amenity Center	1,270,920	-	1,270,920	-
Total capital assets, not being depreciated	10,431,971	-	5,812,691	4,619,280
Capital assets, being depreciated				
Stormwater management	-	2,592,360	-	2,592,360
Entrance features	-	868,200	-	868,200
Roads	-	1,081,211	-	1,081,211
Amenity center	-	1,270,920	-	1,270,920
Total capital assets, being depreciated	-	5,812,691	-	5,812,691
Less accumulated depreciation for:				
Stormwater management	-	129,618	-	129,618
Entrance features	-	57,880	-	57,880
Roads	-	54,061	-	54,061
Amenity center	-	63,546	-	63,546
Total accumulated depreciation	-	305,105	-	305,105
Total capital assets, being depreciated, net	-	5,507,586	-	5,507,586
Governmental activities capital assets	\$ 10,431,971	\$ 5,507,586	\$ 5,812,691	\$ 10,126,866

The project has been revised from its original intent. The total cost of the revised project has been estimated at approximately \$13,662,881 and will include, stormwater systems, roads, amenity improvements, and other improvements. The Developer contributed certain improvements as part of the bond restructuring during the prior years. The project was declared complete during the current fiscal year.

NOTE 5 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to function/programs as follows:

Maintenance and operations	\$ 241,559
Recreational	63,546
Total depreciation expense	<u>\$ 305,105</u>

NOTE 6 – LONG TERM LIABILITIES

Series 2007

On April 12, 2007, the District issued \$17,000,000 of Capital Improvement Revenue Bonds, Series 2007B. The Bonds were originally due May 1, 2018 with a fixed interest rate of 5.5%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is to be paid semiannually on each May 1 and November 1 and the principal was to be paid in one lump sum on May 1, 2018, however the amount was not paid as described below.

The former Developer stopped making the annual payments on the special assessments which ultimately secure the Bonds during a prior fiscal year. Furthermore, the District did not have sufficient funds to make any of the interest payments subsequent to November 1, 2008 and the lump sum principal payment of \$16,585,000 due on May 1, 2018, resulting in events of default. The events of default were remedied as a result of the prior year bond bifurcation as described in the paragraph below.

Series 2018 Bifurcation

During the fiscal year ended September 30, 2019, the District bifurcated the \$16,585,000 Series 2007B Bonds into the \$2,608,243 Unexchanged Series 2007B Bonds, \$3,391,252 Cancelled Series 2007B Bonds which were cancelled, and \$10,585,505 Exchanged Series 2007B Bonds. The Exchanged Series 2007B Bonds were exchanged for the \$1,360,734 Series 2018A Convertible Capital Appreciation Bonds and \$9,224,771 Series 2018B Capital Appreciation Bonds. The Series 2018A and 2018B Bonds are being issued at initial principal amounts of \$1,360,734 and \$9,224,771, respectively, but will accrete in value to \$3,040,000 and \$11,230,000, respectively, in accordance with the Bond indenture. The Unexchanged Series 2007B Bonds of \$2,608,243 are to be paid from any Excess Series 2018A Special Assessments which are to be held in the Series 2018A Excess Revenue account in accordance with the terms of the Bond indenture. The District did not collect sufficient excess Series 2018A Special Assessments in the current fiscal year. As a result, no payments were made on the Series 2007B Bonds. The accrued interest on the Series 2007B Bonds have not been recorded at the fund level but the accrued interest has been recorded at the government wide level. The non-payment is not considered an event of default. The terms related to the Capital Appreciation Bonds are as follows:

Series	Initial Principal Amount	Conversion Date Accreted Value	Interest Rate	Principal Payments Commencing	Interest Payments Commencing
2018A	\$ 1,360,734	\$ 3,040,000	6.88%	May 1, 2031	May 1, 2031
2018B	9,224,771	11,230,000	2.00%	November 1, 2028*	N/A
	<u>\$ 10,585,505</u>	<u>\$ 14,270,000</u>			

*Full accreted amount of \$11,230,000 due on November 1, 2028.

The Series 2018A and 2018B Bonds are not subject to optional redemption. The Bonds are subject to extraordinary mandatory redemption prior to their selected maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture.

The Bond Indenture established a debt service reserve requirement as well as other restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agrees to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The debt service Reserve Requirement was met at September 30, 2020.

NOTE 6 – LONG TERM LIABILITIES (Continued)

Long-term Debt Activity

Changes in long-term liability activity for the fiscal year ended September 30, 2020 were as follows:

	Beginning Balance	Increases	Bond Accretion	Decreases	Ending Balance	Due Within One Year
<u>Governmental activities</u>						
Bonds payable:						
Series 2007B (Unexchanged)	\$ 2,608,243	\$ -	\$ -	\$ -	\$ 2,608,243	\$ -
Series 2018A	1,466,303	-	287,538	-	1,753,841	-
Series 2018B	9,372,801	-	188,552	-	9,561,353	-
Total	<u>\$ 13,447,347</u>	<u>\$ -</u>	<u>\$ 476,090</u>	<u>\$ -</u>	<u>\$ 13,923,437</u>	<u>\$ -</u>

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

Year ending September 30:	Governmental Activities		
	Principal*	Interest	Total
2021	\$ -	\$ -	\$ -
2022	-	-	-
2023	-	-	-
2024	-	-	-
2025	-	-	-
2026-2030	11,230,000	-	11,230,000
2031-2035	1,555,000	317,681	1,872,681
2036-2037	1,485,000	93,618	1,578,618
Total	<u>\$ 14,270,000</u>	<u>\$ 411,299</u>	<u>\$ 14,681,299</u>

* Includes accreted interest

The Unexchanged bonds are not included in the amortization schedule.

NOTE 7 – MANAGEMENT AGREEMENTS

The District has contracted with a management company to perform management advisory services, which include financial and accounting advisory services. Certain employees of the management company also serve as officers of the District. Under the agreement, the District compensates the management company for management, accounting, financial reporting, computer and other administrative costs.

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has obtained commercial insurance from independent third parties to mitigate the costs of these risks; coverage may not extend to all situations. There were no settled claims during the past three years.

NOTE 9 – SUBSEQUENT EVENTS

Subsequent to fiscal year end, the District did not collect sufficient excess Series 2018A Special Assessments. As a result, no payments were made on the Series 2007B Bonds. The non-payment is not considered an event of default.

**WATERSTONE COMMUNITY DEVELOPMENT DISTRICT
ST. LUCIE COUNTY, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Assessments	\$ 407,757	\$ 352,040	\$ 350,444	\$ (1,596)
Total revenues	407,757	352,040	350,444	(1,596)
EXPENDITURES				
Current:				
General government	82,342	86,864	81,273	5,591
Maintenance and operations	239,115	239,115	216,292	22,823
Recreational	86,300	86,300	9,224	77,076
Total expenditures	407,757	412,279	306,789	105,490
Excess (deficiency) of revenues over (under) expenditures	-	(60,239)	43,655	103,894
OTHER FINANCING SOURCES				
Carry forward surplus	-	60,239	-	(60,239)
Total other financing sources	-	60,239	-	(60,239)
Net change in fund balances	\$ -	\$ -	43,655	\$ 43,655
Fund balance - beginning			55,769	
Fund balance - ending			\$ 99,424	

See notes to required supplementary information

**WATERSTONE COMMUNITY DEVELOPMENT DISTRICT
ST. LUCIE COUNTY, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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

The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. The general fund budget for the fiscal year ended September 30, 2020 was amended to decrease revenues by (\$55,717), increase appropriations by \$4,522, and increase the use of surplus fund balance by \$60,239. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2020.



**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
Waterstone Community Development District
St. Lucie County, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Waterstone Community Development District, St. Lucie County, Florida ("District") as of and for the fiscal 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 opinion thereon dated March 1, 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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in blue ink, appearing to read "Brian J. Asencio".

March 1, 2021



Grau & Associates
CERTIFIED PUBLIC ACCOUNTANTS

951 Yamato Road • Suite 280
Boca Raton, Florida 33431
(561) 994-9299 • (800) 299-4728
Fax (561) 994-5823
www.graucpa.com

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE
REQUIREMENTS OF SECTION 218.415, FLORIDA STATUTES, REQUIRED BY
RULE 10.556(10) OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

To the Board of Supervisors
Waterstone Community Development District
St. Lucie County, Florida

We have examined Waterstone Community Development District, St. Lucie County, Florida's ("District") compliance with the requirements of Section 218.415, Florida Statutes, in accordance with Rule 10.556(10) of the Auditor General of the State of Florida during the fiscal year ended September 30, 2020. Management is responsible for 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the District complied, in all material respects, with the specified requirements referenced in Section 218.415, Florida Statutes. An examination involves performing procedures to obtain evidence about whether the District complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide 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 fiscal year ended September 30, 2020.

This report 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, management, and the Board of Supervisors of Waterstone Community Development District, St. Lucie County, Florida and is not intended to be and should not be used by anyone other than these specified parties.

Grau & Associates

March 1, 2021



Grau & Associates

CERTIFIED PUBLIC ACCOUNTANTS

951 Yamato Road • Suite 280
Boca Raton, Florida 33431
(561) 994-9299 • (800) 299-4728
Fax (561) 994-5823
www.graucpa.com

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

To the Board of Supervisors
Waterstone Community Development District
St. Lucie County, Florida

Report on the Financial Statements

We have audited the accompanying basic financial statements of Waterstone Community Development District ("District") as of and for the fiscal year ended September 30, 2020, and have issued our report thereon dated March 1, 2021.

Auditor's Responsibility

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

Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Auditor'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 1, 2021, should be considered in conjunction with this management letter.

Purpose of this letter

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

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

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, as applicable, management, and the Board of Supervisors of the District and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

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

Grau & Associates

March 1, 2021

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

None

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

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

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

There were no significant findings and recommendations made in the preceding annual financial audit report for the fiscal year ended September 30, 2019.

2. Any recommendations to improve the local governmental entity's financial management.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported for the fiscal year ended September 30, 2020.

3. 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.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported, for the fiscal year ended September 30, 2020.

4. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.
5. The District has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
6. We applied financial condition assessment procedures and no deteriorating financial conditions were noted as of September 30, 2020. It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.