

**MEDITERRANEA  
COMMUNITY DEVELOPMENT DISTRICT  
RIVIERA BEACH, FLORIDA  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2015**

**MEDITERRANEA COMMUNITY DEVELOPMENT DISTRICT  
RIVIERA BEACH, FLORIDA**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors  
Mediterranea Community Development District  
Riviera Beach, Florida

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2015, 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.

## **Emphasis of Matter**

As discussed in Note 7 and other referenced notes to the basic financial statements the prior Developer failed to pay its prior fiscal year assessments resulting in foreclosure and the eventual creation of an SPE which took possession of the lands with delinquent assessments. As a result, certain debt service payments for the prior years were not made. During the prior fiscal year the outstanding Bonds were bifurcated into two issues consisting of Area One Bonds and Area Two Bonds. In addition, the District used the remaining trust funds from the original Bonds along with certain amounts collected for current and delinquent assessments to pay amounts due for debt service which had not been paid and certain amounts owed were cancelled. During the current year, the District did not have sufficient funds to make certain scheduled debt service payments, therefore the District entered into an amended forbearance agreement which resulted in the abeyance of debt service assessments until it receives notice from the Bondholders to commence with assessments on the benefited property. In addition, the debt service fund reported a deficit fund balance of (\$595,075) at September 30, 2015. Subsequent to fiscal year end, the District did not have sufficient funds to make certain scheduled debt service payments. The District is economically dependent on the Majority Landowner.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

## **Report on Other Legal and Regulatory Requirements**

We have also issued our report dated June 9, 2016, on our consideration of the District's compliance with the requirements of Section 218.415, Florida Statutes, as required by Rule 10.556(10) of the Auditor General of the State of Florida. The purpose of that report is to provide an opinion based on our examination conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.



June 9, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Mediterranean Community Development District, Riviera Beach, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2015. 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 (\$5,661,007).
- The change in the District's total net position in comparison with the prior fiscal year was \$(817,794), a decrease. 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, 2015, the District's governmental funds reported combined ending fund balances of (\$513,396), a decrease of \$(768,835) in comparison with the prior fiscal year. The fund balance is restricted for capital projects, unassigned (deficit) fund balance in the debt service fund, assigned for subsequent year's expenditures and the remainder 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 special assessment. 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 outflow 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 three governmental funds for external reporting. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund and capital projects fund, all of which are considered major funds.

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

### Notes to the Financial Statements

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

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

	NET POSITION	
	SEPTEMBER 30,	
	2015	2014
Current and other assets	\$ 272,149	\$ 339,793
Capital assets, net of depreciation	5,862,449	6,099,467
Total assets	<u>6,134,598</u>	<u>6,439,260</u>
Current liabilities	1,041,605	287,473
Long-term liabilities	10,754,000	10,995,000
Total liabilities	<u>11,795,605</u>	<u>11,282,473</u>
Net position		
Net investment in capital assets	(4,891,551)	(4,895,533)
Restricted	1	1
Unrestricted	(769,457)	52,319
Total net position	<u>\$ (5,661,007)</u>	<u>\$ (4,843,213)</u>

## GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

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 END SEPTEMBER 30,		
	2015	2014
Revenues:		
Program revenues		
Charges for services	\$ 158,445	\$ 380,470
Operating grants and contributions	27	25,032
Capital grants and contributions	-	95,166
Total revenues	158,472	500,668
Expenses:		
General government	124,018	84,862
Maintenance and operations	237,018	237,018
Interest	615,230	378,863
Bond issuance costs	-	90,000
Total expenses	976,266	790,743
Special items	-	5,000
Change in net position	(817,794)	(285,075)
Net position - beginning	(4,843,213)	(4,558,138)
Net position - ending	\$ (5,661,007)	\$ (4,843,213)

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal ended September 30, 2015 was \$976,266. The costs of the District's activities were partially funded by program revenues. Program revenues are comprised primarily of assessments. The majority of the decrease in program revenues is the result of the receipts from the Majority Landowner to cover certain costs associated with the bifurcation of the District's Series 2006A Bonds in the prior year. The majority of the change in expenses results from the increase in interest. During the prior fiscal year, the Bondholder directed the trustee to waive a portion of the interest due.

## GENERAL BUDGETING HIGHLIGHTS

An operating budget was adopted and maintained by the governing board for the District pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2015.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At September 30, 2015, the District had \$7,521,575 invested in land, infrastructure, and improvements, for its governmental activities. In the government-wide financial statements depreciation of \$1,659,126 has been taken, which resulted in a net book value of \$5,862,449.

### Capital Debt

At September 30, 2015, the District had \$10,974,000 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

As discussed in Note 7 and other referenced notes to the basic financial statements the prior Developer failed to pay its prior fiscal year assessments resulting in foreclosure and the eventual creation of an SPE which took possession of the lands with delinquent assessments. As a result, certain debt service payments for the prior years were not made. During the prior fiscal year the outstanding Bonds were bifurcated into two issues consisting of Area One Bonds and Area Two Bonds. In addition, the District used the remaining trust funds from the original Bonds along with certain amounts collected for current and delinquent assessments to pay amounts due for debt service which had not been paid and certain amounts owed were cancelled. During the current year, the District did not have sufficient funds to make certain scheduled debt service payments, therefore the District entered into an amended forbearance agreement which resulted in the abeyance of debt service assessments until it receives notice from the Bondholders to commence with assessments on the benefited property. In addition, the debt service fund reported a deficit fund balance of (\$595,075) at September 30, 2015. Subsequent to fiscal year end, the District did not have sufficient funds to make certain scheduled debt service payments. The District is economically dependent on the Majority Landowner.

## 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 Mediterranean Community Development District's Finance Department at 5385 N. Nob Hill Road, Sunrise, Florida 33351.



**MEDITERRANEA COMMUNITY DEVELOPMENT DISTRICT  
RIVIERA BEACH, FLORIDA  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2015**

	Governmental Activities
<b>ASSETS</b>	
Cash	\$ 151,603
Assessments receivable	389
Restricted assets:	
Investments	120,157
Capital assets	
Nondepreciable	1,781,777
Depreciable, net	4,080,672
Total assets	6,134,598
<b>LIABILITIES</b>	
Accounts payable	4,145
Accrued interest payable	256,060
Due to Bondholders:	
Principal	220,000
Interest	561,400
Non-current liabilities:	
Due within one year*	256,000
Due in more than one year	10,498,000
Total liabilities	11,795,605
<b>NET POSITION</b>	
Net investment in capital assets	(4,891,551)
Restricted for capital projects	1
Unrestricted	(769,457)
Total net position	\$ (5,661,007)

\* The missed debt service payments due for the Series 2014 Area 2 Bonds is reflected in the due to Bondholders account balance

See notes to the financial statements

**MEDITERRANEA COMMUNITY DEVELOPMENT DISTRICT  
RIVIERA BEACH, FLORIDA  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Charges for Services	Operating Grants and Contributions	Governmental Activities	
<u>Functions/Programs</u>	Expenses	Services	Contributions	Activities
Primary government:				
Governmental activities:				
General government	\$ 124,018	\$ 15,425	\$ -	\$ (108,593)
Maintenance and operations	237,018	-	-	(237,018)
Interest on long-term debt	615,230	143,020	27	(472,183)
Total governmental activities	976,266	158,445	27	(817,794)
Change in net position				(817,794)
Net position - beginning				(4,843,213)
Net position - ending				\$ (5,661,007)

See notes to the financial statements

**MEDITERRANEA COMMUNITY DEVELOPMENT DISTRICT  
RIVIERA BEACH, FLORIDA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2015**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
<b>ASSETS</b>				
Cash	\$ 151,603	\$ -	\$ -	\$ 151,603
Investments	-	120,156	1	120,157
Due from other funds	-	66,169	-	66,169
Assessments receivable	389	-	-	389
Total assets	<u>\$ 151,992</u>	<u>\$ 186,325</u>	<u>\$ 1</u>	<u>\$ 338,318</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 4,145	\$ -	\$ -	\$ 4,145
Due to other funds	66,169	-	-	66,169
Due to Bondholders:				
Principal	-	220,000	-	220,000
Interest	-	561,400	-	561,400
Total liabilities	<u>70,314</u>	<u>781,400</u>	<u>-</u>	<u>851,714</u>
Fund balances:				
Restricted for:				
Capital projects	-	-	1	1
Assigned to:				
Subsequent year's expenditures	70,594	-	-	70,594
Unassigned	11,084	(595,075)	-	(583,991)
Total fund balances	<u>81,678</u>	<u>(595,075)</u>	<u>1</u>	<u>(513,396)</u>
Total liabilities and fund balances	<u>\$ 151,992</u>	<u>\$ 186,325</u>	<u>\$ 1</u>	<u>\$ 338,318</u>

See notes to the financial statements

**MEDITERRANEA COMMUNITY DEVELOPMENT DISTRICT  
RIVIERA BEACH, FLORIDA  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2015**

Total fund balances - governmental funds \$ (513,396)

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	7,521,575	
Accumulated depreciation	<u>(1,659,126)</u>	5,862,449

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	(256,060)	
Bonds payable*	<u>(10,754,000)</u>	<u>(11,010,060)</u>
Net position of governmental activities		<u><u>\$ (5,661,007)</u></u>

\* The missed debt service payments due for the Series 2014 Area 2 Bonds is reflected in the due to Bondholders account balance.

See notes to the financial statements

**MEDITERRANEA COMMUNITY DEVELOPMENT DISTRICT  
RIVIERA BEACH, FLORIDA  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
<b>REVENUES</b>				
Assessments	\$ 15,425	\$ 143,020	\$ -	\$ 158,445
Interest and other revenues	-	27	-	27
Total revenues	15,425	143,047	-	158,472
<b>EXPENDITURES</b>				
Current:				
General government	64,057	6,530	-	70,587
Debt Service:				
Principal	-	241,000	-	241,000
Interest	-	615,720	-	615,720
Total expenditures	64,057	863,250	-	927,307
Excess (deficiency) of revenues over (under) expenditures	(48,632)	(720,203)	-	(768,835)
Fund balances - beginning	130,310	125,128	1	255,439
Fund balances - ending	\$ 81,678	\$ (595,075)	\$ 1	\$ (513,396)

See notes to the financial statements

**MEDITERRANEA COMMUNITY DEVELOPMENT DISTRICT  
RIVIERA BEACH, 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, 2015**

Net change in fund balances - total governmental funds	\$ (768,835)
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation of capital assets is not recognized in the governmental fund financial statements, but is reported as an expense in the statement of activities.	(237,018)
Certain revenues were unavailable for the governmental fund financial statements in the prior fiscal year. In the current fiscal year, these unavailable revenues were written off and expensed as a bad debt in the statement of activities.	(53,431)
Repayment of long-term liabilities are reported as expenditures in the governmental fund financial statements, but such repayments reduce liabilities in the statement of net position and are eliminated in the statement of activities.	241,000
The change in accrued interest on long-term liabilities between the current and prior fiscal years is recorded in the statement of activities, but not in the governmental fund financial statements.	490
Change in net position of governmental activities	<u><u>\$ (817,794)</u></u>

See notes to the financial statements

**MEDITERRANEA COMMUNITY DEVELOPMENT DISTRICT  
RIVIERA BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY**

**Reporting Entity**

Mediterranea Community Development District ("District") was created on January 18, 2006 by Ordinance 3001 by the City Council of the City of Riviera Beach, Florida, 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, 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, 2015, all of the Board members are affiliated with Mediterranean Palm Properties, LLC, ("Majority Landowner") a special purpose entity ("SPE") established for the benefit of the Bondholders.

The Board has the responsibility for:

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

The financial statements were prepared in accordance with Governmental Accounting Standards Board ("GASB") Statements. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District is considered to be financially accountable and other organizations for which the nature and significance of their relationship with the District are such that, if excluded, the financial statements of the District would be considered incomplete or misleading. There are no entities considered to be component units of the District; therefore, the financial statements include only the operations of the District.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Government-Wide and Fund Financial Statements**

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

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

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

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

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

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

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

### **Assessments**

Assessments are non-ad valorem assessments on benefitted property within the District. Operating and Maintenance Assessments are based upon adopted budget and levied annually at a public hearing of the District. Debt Service Assessments are levied when Bonds are issued and assessed and collected on an annual basis. The District may collect assessments directly or utilize the uniform method of collection (Chapter 197.3632, Florida Statutes). Direct collected assessments are due as determined by annual assessment resolution adopted by the Board of Supervisors. 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 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 long-term debt.

### **Capital Projects Fund**

This 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 government's policy to use restricted resources first for qualifying expenditures, then unrestricted resources as they are needed.

### **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.



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

### Assets, Liabilities and Net Position or Equity (Continue)

#### 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 and reports investments at fair value.

#### Prepaid Items

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

#### Capital Assets

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

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

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>
Landscape and Decorative Features	15
Stormwater System	25

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

#### 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 (Continue)**

#### 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

Deferred outflows of resources represent a consumption of net position that applies to future reporting period(s). For example, the District would record deferred outflows of resources on the statement of net position related to debit amounts resulting from current and advance refundings resulting in the defeasance of debt (i.e. when there are differences between the reacquisition price and the net carrying amount of the old debt).

Deferred inflows of resources represent an acquisition of net position that applies to future reporting period(s). For example, when an asset is recorded in the governmental fund financial statements, but the revenue is unavailable, the District reports a deferred inflow of resources on the balance sheet until such times as the revenue becomes available.

#### 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 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 public 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, 2015:

	Fair Value	Credit Risk	Maturities
Morgan Stanley Institutional Liquidity Funds Government Portfolio	\$ 120,157	S&PAAAm	Weighted average of the fund portfolio: 12 days
Total Investments	<u>\$ 120,157</u>		

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

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

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

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

## NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at September 30, 2015 were as follows:

Fund	Receivable	Payable
General	\$ -	\$ 66,169
Debt service	66,169	-
Total	\$ 66,169	\$ 66,169

The outstanding balances between funds result primarily from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made. In the case of the District, the balances between the general fund and the debt service fund relate to assessments collected in the general fund that have not yet been transferred to the debt service fund.

## NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land and land improvements	\$ 1,781,777	\$ -	\$ -	\$ 1,781,777
Total capital assets, not being depreciated	1,781,777	-	-	1,781,777
Capital assets, being depreciated				
Landscape and decorative features	278,454	-	-	278,454
Stormwater system	5,461,344	-	-	5,461,344
Total capital assets, being depreciated	5,739,798	-	-	5,739,798
Less accumulated depreciation for:				
Landscape and decorative features	111,384	18,564	-	129,948
Stormwater system	1,310,724	218,454	-	1,529,178
Total accumulated depreciation	1,422,108	237,018	-	1,659,126
Total capital assets, being depreciated, net	4,317,690	(237,018)	-	4,080,672
Governmental activities capital assets, net	\$ 6,099,467	\$ (237,018)	\$ -	\$ 5,862,449

The total cost of the project was originally estimated at approximately \$14,500,000. Of that amount, a portion was to be funded from the Series 2006 Bonds and the remainder by the Developer. However, because of the economic downturn and the recession of 2007-08, the project was abandoned by the original Developer and has since been dormant. Only Phase 1 of the development has been completed. However, the Phase 1 improvements have deteriorated over the years due to a lack of maintenance. The District engineer estimates that costs to maintain the infrastructure at approximately \$87,000 per year. In addition, the original master planned project will not proceed as originally planned and therefore the original estimated costs for future infrastructure improvements are no longer valid and the costs to complete the master planned project is unknown. There are no funds available in the construction and acquisition account as of September 30, 2015. The remaining funds were used to pay off a portion of the prior years' debt service. See Note 7 for additional information.

## NOTE 7 – LONG TERM LIABILITIES

### Series 2006

On May 19, 2006, the District issued \$11,700,000 of Special Assessment Bonds, Series 2006A. The Bonds are due May 1, 2037 with a fixed interest rate of 5.60%. 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, commencing November 1, 2006 and the principal is to be paid serially on each May 1, commencing May 1, 2008.

## NOTE 7 – LONG TERM LIABILITIES (Continued)

### Amended and Restated Master Trust Indenture

On August 11, 2014 the District and the Trustee entered into the Amended and Restated Master Trust Indenture and Restated First Supplemental Trust Indenture (collectively, the “Amended Indenture”), and exchanged the Series 2006A Bonds (the “Original Bonds”) for \$970,000 Special Assessment Areas One Bonds, Series 2006A, and \$10,025,000 Special Assessment Area Two Bonds, Series 2006B (the “Bifurcated Bonds”). As the Original Bonds, the Bifurcated Bonds are due May 1, 2037 with a fixed interest rate of 5.60%. The Amended Indenture, among other things, reduced the Reserve Requirement for the Bifurcated Bonds and established separate and distinct assessment areas securing each Series. The restructuring, bifurcation and exchange were completed at the direction of the sole Beneficial Holder of the Bonds. The maturity date and the interest rate of the Bifurcated Bonds are the same as the Original Bonds. Interest on the bifurcated Bonds is to be paid semiannually on each May 1 and November 1, commencing November 1, 2014 and the principal is to be paid serially on each May 1, commencing May 1, 2015. The indenture also required that the Majority Landowner fund \$25,000 for the debt service reserve requirement for the Area One Bonds and to pay \$85,000 towards the cost of issuance related to the restructuring of the Bonds.

During the prior year, the District paid the prior years’ unpaid interest in the amount of \$941,640, the 2014 scheduled principal payment of \$210,000, and interest for 2014 in the amount of \$383,880, the Bondholders waived interest of \$239,143 and principal of \$5,000. The unpaid principal recorded in prior years’ of \$585,000 was rolled into the bifurcated bonds which resulted in a gain on restructuring of debt on the fund financial statements. The funds were obtained from the previous trust accounts for the Series 2006A Bonds which consisted of the reserve, revenue and construction and acquisition accounts.

The Series 2006A and 2006B Bonds are subject to redemption at the option of the District prior to their maturity. The Bonds are subject to extraordinary mandatory redemption prior to their selected maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Amended and Restated Master Trust Indenture. See Note 9 for further information regarding missed debt service payments in the current year.

The Amended 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 was not in compliance with the requirements for the Area Two Bonds at September 30, 2015 as there was a shortfall of \$6,515 due to certain default expenditures being paid out of it.

### Long-term Debt Activity

Changes in long-term liability activity for the fiscal year ended September 30, 2015 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 2006 Area 1	\$ 970,000	\$ -	\$ 21,000	\$ 949,000	\$ 23,000
Series 2006 Area 2	10,025,000	-	-	10,025,000	453,000
Total	<u>\$ 10,995,000</u>	<u>\$ -</u>	<u>\$ 21,000</u>	<u>\$ 10,974,000</u>	<u>\$ 476,000</u>

\* Includes the missed debt service payments due for the Series 2014 Area 2 Bonds which were not paid.

## NOTE 7 – LONG TERM LIABILITIES (Continued)

### Long-term Debt Activity (Continued)

At September 30, 2015, the scheduled debt service requirements on the long-term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2016	\$ 476,000 *	\$ 1,163,624 *	\$ 1,639,624
2017	270,000	587,888	857,888
2018	285,000	572,768	857,768
2019	302,000	556,808	858,808
2020	319,000	539,896	858,896
2021-2025	1,893,000	2,409,904	4,302,904
2026-2030	2,505,000	1,815,240	4,320,240
2031-2035	3,315,000	1,028,160	4,343,160
2036-2037	1,609,000	136,416	1,745,416
Total	<u>\$ 10,974,000</u>	<u>\$ 8,810,704</u>	<u>\$ 19,784,704</u>

\* Includes the missed debt service payments due for the Series 2014 Area 2 Bonds which were not paid.

## NOTE 8 - ASSESSMENTS

During fiscal year 2011, the District filed a complaint for Foreclosure of Special Assessment Lien, however, in order to settle the dispute between the District and the receiver, the District entered into a settlement agreement with the Receiver whereby the District agreed to release the Receiver from its obligations to pay its share of the assessments if the Receiver agree to convey the land to another party. Consequently, in August 2011, the Receiver conveyed a bulk parcel of raw unplatted land and all unimproved platted lots to Mediterranean Palm Property, LLC (the "SPE") and sold certain improved lots to a third party purchaser. As a result, the SPE became the Majority Landowner within the District.

## NOTE 9 – FOREBEARANCE AGREEMENT

As noted in Note 8 above, the SPE became the majority Landowner within the District. In August 2011, The District, the SPE, and the Bondholder entered into an agreement whereby the District agreed to defer collection of the assessments encumbering the related property until further direction from the Bondholder. However, the SPE agreed to pay the operations and maintenance assessments (the "O&M") during the forbearance period. The SPE has not been in compliance as it did not pay the O&M when due and began to send payments in the prior fiscal year. Since the effective date of the agreement, the total O&M levied for fiscal years 2012 to 2014 on SPE-owned lots was \$194,224. As of current year end, \$137,798 was received. As of the report date, the SPE has not paid the remaining past due balance which has been accordingly written off as it is not expected to be received.

During the current year, the District, the SPE, and the Bondholder entered into the Amended and Restated Forbearance Agreement whereby the District agreed to defer collection of the Capital Assessments encumbering Assessment Area Two, however, the District will continue to collect the related O&M Assessments. The Parties agreed that the O&M will be directly billed to the SPE. The O&M must be paid within thirty (30) days of receiving a quarterly invoice from the District. As of the report date, the SPE has not paid any of O&M for fiscal year ending September 30, 2015. The abeyance of the Capital Assessments encumbering Assessment Area Two caused there to be insufficient amounts available to fund the scheduled debt service payments for the Area Two Bonds. As a result, the scheduled debt service payments were not made. The failure by the District to pay its debt service is considered an event of default.

#### **NOTE 10 – CONCENTRATION**

The District's activity is dependent upon the continued involvement of the Majority Landowner, the loss of which could have a material adverse effect on the District's operations.

#### **NOTE 11 – MANAGEMENT COMPANY**

The District has contracted with a management company to perform management advisory services, which include financial and accounting advisory services. Certain employees of the management company also serve as officers (Board appointed non-voting positions) of the District. Under the agreement, the District compensates the management company for management, accounting, financial reporting, and other administrative costs.

#### **NOTE 12 – RISK MANAGEMENT**

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

#### **NOTE 13 – SUBSEQUENT EVENTS**

##### **Scheduled Debt Service Payments**

Subsequent to fiscal year end, certain scheduled debt service payments were due on the 2006B Bonds. However, shortfalls in the collection of special assessments caused there to be insufficient amounts available to fund the scheduled debt service payments. As a result, the scheduled debt service payments were not made. The failure by the District to pay its debt service is considered an event of default.

**MEDITERRANEA COMMUNITY DEVELOPMENT DISTRICT  
RIVIERA BEACH, FLORIDA  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

	<u>Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original &amp; Final</u>	<u>                    </u>	<u>                    </u>
<b>REVENUES</b>			
Assessments	\$ 74,448	\$ 15,425	\$ (59,023)
Total revenues	<u>74,448</u>	<u>15,425</u>	<u>(59,023)</u>
<b>EXPENDITURES</b>			
Current:			
General government	74,448	64,057	10,391
Total expenditures	<u>74,448</u>	<u>64,057</u>	<u>10,391</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>(48,632)</u>	<u>\$ (48,632)</u>
Fund balance - beginning		<u>130,310</u>	
Fund balance - ending		<u>\$ 81,678</u>	

See notes to required supplementary information



**MEDITERRANEA COMMUNITY DEVELOPMENT DISTRICT  
RIVIERA BEACH, FLORIDA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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

The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2015.



**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  
Mediterranea Community Development District  
Riviera Beach, 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 Mediterranea Community Development District, Riviera Beach, Florida ("District") as of and for the fiscal year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our opinion thereon dated June 9, 2016, which includes an emphasis of matter paragraph.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

We noted certain matters that we reported to management of the District in a separate letter dated June 9, 2016.

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

### **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.

*B... & Associates*

June 9, 2016



**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  
Mediterranea Community Development District  
Riviera Beach, Florida

We have examined Mediterranea Community Development District, Riviera Beach, 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, 2015. 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 and, accordingly, included examining, on a test basis, evidence about 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 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, 2015.

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 Mediterranea Community Development District, Riviera Beach, Florida and is not intended to be and should not be used by anyone other than these specified parties.

*Grau & Associates*

June 9, 2016



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

To the Board of Supervisors  
Mediterranea Community Development District  
Riviera Beach, Florida

**Report on the Financial Statements**

We have audited the accompanying basic financial statements of Mediterranea Community Development District, Riviera Beach, Florida ("District") as of and for the fiscal year ended September 30, 2015, and have issued our report thereon dated June 9, 2016, which includes an emphasis of matter paragraph.

**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 Florida Auditor General.

**Other Reports and Schedule**

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*; and Independent Auditor's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated June 9, 2016, 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 Mediterranea Community Development District, Riviera Beach, Florida and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank Mediterranea Community Development District, Riviera Beach, 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.



June 9, 2016

## REPORT TO MANAGEMENT

### I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

#### 2015-01 Financial Condition Assessment:

Observation: The District's financial conditions are deteriorating. During the current year, the District did not have sufficient funds to make certain scheduled debt service payments, therefore the District entered into an amended forbearance agreement which resulted in the abeyance of debt service assessments until it receives notice from the Bondholders to commence with assessments on the benefited property. There was a shortfall in the Reserve for the Area Two Bonds due to certain default expenditures being paid out of it. In addition, the debt service fund reported a deficit fund balance of (\$595,075) at September 30, 2015.

Recommendation: The District should take the necessary steps to alleviate the deteriorating financial condition.

Reference Numbers for Prior Year Findings: N/A

Management Response: The District is currently not collecting certain debt service assessments at the request of the bondholders in accordance with the amended Forbearance Agreement between the District and Bondholders. The delay in collection of the debt service assessments has caused the deteriorating financial condition. However, the deteriorating financial condition is related to the Series 2006B Debt Service Fund. and effects only those Bondholders whose bonds are secured by these debt service assessments. The General Fund and Series 2006A Debt Service Fund do not have deteriorating financial conditions. Once the Bondholders notify the District to begin collection of the debt service assessments, the District's deteriorating financial condition will be eliminated.

### 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, 2014.

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, 2015, except as noted above.

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, 2015, except as noted above.

4. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.

## REPORT TO MANAGEMENT (Continued)

5. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2015 financial audit report.
6. In connection with our audit, we determined that the District has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
7. In connection with our audit, we determined that the District has met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes. The District failed to make certain scheduled debt service payments due on the Area Two Bond during the current and subsequent years as a result of the abeyance of debt service assessments for Assessment Area Two. There was also a shortfall in the Reserve for the Area Two Bonds. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and determined that a deteriorating financial condition was noted. See Findings section above for additional information. 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.