

**PORTOFINO ISLES
COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2016**

**PORTOFINO ISLES COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, 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	13-23
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	24
Notes to Required Supplementary Information	25
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 <i>GOVERNMENT AUDITING STANDARDS</i>	26-27
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	28
MANAGEMENT LETTER REQUIRED BY CHAPTER 10.550 OF THE RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA	29-32



INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Portofino Isles Community Development District
City of Port St. Lucie, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Portofino Isles Community Development District, City of Port St. Lucie, Florida ("District") as of and for the fiscal year ended September 30, 2016, 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, 2016, 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 Matters

As discussed in Note 7 and other referenced notes to the financial statements the debt service fund had a deficit fund balance of (\$2,241,457) at September 30, 2016. The Developer stopped funding the District during a prior fiscal year resulting in significant delinquent assessments. As a result, the District did not have sufficient funds to make the May 1, 2010 – May 1, 2016 debt service payments due on the Series 2005 Bonds so the payments were not made. The failures by the District to pay its debt service are considered events of default.

The Developer is no longer involved in the District as all of the property owned by the Developer has been transferred to a Special Purpose Entity ("SPE"). The District's is dependent upon the continued involvement of the Bondholders who control the trust estate and the SPE. Please note the District's management response to this matter on page 30 of this Report.

Other Matters

Required Supplementary Information

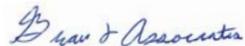
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required 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 May 15, 2017, 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 May 15, 2017, 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.



May 15, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Portofino Isles Community Development District, City of Port St. Lucie, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2016. 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 plus deferred outflows of resources at the close of the most recent fiscal year resulting in a net position deficit balance of (\$4,226,583).
- The change in the District's total net position in comparison with the prior fiscal year was (\$365,935), 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, 2016, the District's governmental funds reported combined ending fund balances of (\$816,942), a decrease of (\$403,729) in comparison with the prior fiscal year. Of the total fund balance, portions are non-spendable for prepaid items and SPE land held for resale, restricted for capital projects, assigned to subsequent year's expenditures, (\$2,241,457) is unassigned deficit debt service fund balance and the remainder is unassigned fund balance in the general fund. Please note the District's management response to this matter on page 30 of this Report.
- During fiscal year 2016, the District implemented Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Please see New Accounting Standards Adopted in Note 2 of the financial statements for additional information.

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 revenues. The District does not have any business-type activities. The governmental activities of the District include the general government (management) and maintenance functions.

The Special Purpose Entity ("SPE"), although legally separate from the District, functions for all practical purposes as a component unit of the government. The activities of the SPE are reflected in the special revenue fund.

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Fund Financial Statements

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

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the 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 four 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, capital projects fund, and special revenue 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 plus deferred outflows of resources at the close of the most recent fiscal year.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

NET POSITION		
SEPTEMBER 30,		
	2016	2015
Assets, excluding capital assets	\$ 2,083,131	\$ 1,169,784
Capital assets, net of depreciation	6,966,848	7,278,541
Total assets	<u>9,049,979</u>	<u>8,448,325</u>
Deferred outflow s of resources	225,329	238,497
Liabilities, excluding long-term liabilities	3,131,891	2,646,970
Long-term liabilities	10,370,000	10,730,000
Total liabilities	<u>13,501,891</u>	<u>13,376,970</u>
Net position		
Net investment in capital assets	(4,007,823)	(3,902,962)
Restricted	144,977	213,009
Unrestricted	(363,737)	(1,000,195)
Total net position	<u>\$ (4,226,583)</u>	<u>\$ (4,690,148)</u>

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.

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

The District's net position decreased during the most recent fiscal year. The majority of the decrease is the result of the District not levying or collecting assessments on the property that is owned by the SPE which resulted in the cost of operations and depreciation expense exceeding 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,		
	2016	2015
Revenues:		
Program revenues		
Charges for services	\$ 845,169	\$ 865,864
Operating grants and contributions	141	55
Capital grants and contributions	5,585	35,060
General revenues	39	-
Total revenues	<u>850,934</u>	<u>900,979</u>
Expenses:		
General government	216,529	296,986
Maintenance and operations	429,047	429,603
Interest	571,293	573,721
Total expenses	<u>1,216,869</u>	<u>1,300,310</u>
Change in net position	<u>(365,935)</u>	<u>(399,331)</u>
Net position - beginning, as restated	(3,860,648)	(4,290,817)
Net position - ending	<u>\$ (4,226,583)</u>	<u>\$ (4,690,148)</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2016 was \$1,216,869. The costs of the District's activities were primarily paid by program revenues. Program revenues are comprised primarily of assessments. The remainder of the current fiscal year revenue includes interest revenue. The change in expenses is mainly due to a decrease in default related expenditures from the prior 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 budgeted amounts, 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, 2016.

Actual general fund expenditures for the fiscal year ended September 30, 2016 were less than appropriations due primarily to anticipated costs which were not incurred in the current fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2016, the District had \$10,999,603 invested in capital assets for its governmental activities. In the government-wide financial statements, depreciation of \$4,032,755 has been taken which resulted in a net book value of \$6,966,848. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Capital Debt

At September 30, 2016, the District had \$11,200,000 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

As discussed in the notes to the basic financial statements the Developer stopped funding the District during a prior fiscal year resulting in significant delinquent assessments. As a result, the District did not have sufficient funds to make the May 1, 2010 – May 1, 2016 debt service payments due on the Series 2005 Bonds so the payments were not made. The failures by the District to pay its debt service are considered events of default. The Developer is no longer involved in the District as all of the property owned by the Developer has been transferred to a Special Purpose Entity ("SPE"). The District's is dependent upon the continued involvement of the Bondholders who control the trust estate and the SPE. Please note the District's management response to this matter on page 30 of this Report.

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

**PORTOFINO ISLES COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016**

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 460,991
Assessments receivable	4,291
Prepaid items	6,779
Restricted assets:	
Cash and cash equivalents	388,567
Investments	393,003
SPE land held for resale	829,500
Capital assets	
Nondepreciable	53,188
Depreciable, net	6,913,660
Total assets	<u>9,049,979</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding (debit)	<u>225,329</u>
Total deferred outflows of resources	<u>225,329</u>
 LIABILITIES	
Accounts payable	18,793
Due to Bondholders:	
Principal	830,000
Interest	2,051,280
Accrued interest payable	231,818
Non-current liabilities:	
Due within one year*	365,000
Due in more than one year	10,005,000
Total liabilities	<u>13,501,891</u>
 NET POSITION	
Net investment in capital assets	(4,007,823)
Restricted for capital projects	144,977
Unrestricted	(363,737)
Total net position	<u>\$ (4,226,583)</u>

* The missed debt service payments due for the Series 2005 Bonds are reflected in the due to Bondholders account balance.

See notes to the financial statements

**PORTOFINO ISLES COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Functions/Programs Primary government:	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 216,529	\$ 163,937	\$ -	\$ -	\$ (52,592)
Maintenance and operations	429,047	183,033	-	5,585	(240,429)
Interest on long-term debt	571,293	498,199	141	-	(72,953)
Total governmental activities	1,216,869	845,169	141	5,585	(365,974)

General revenues:	
Unrestricted investment earnings	39
Total general revenues	39
Change in net position	(365,935)
Net position - beginning, as previously stated	(4,690,148)
Prior period adjustment - Note 15	829,500
Net position - beginning, as restated	(3,860,648)
Net position - ending	\$ (4,226,583)

See notes to the financial statements

**PORTOFINO ISLES COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016**

	Major Funds				Total Governmental Funds
	General	Debt Service	Capital Projects	Special Revenue	
ASSETS					
Cash and cash equivalents	\$ 460,991	\$ 244,817	\$ 143,750	\$ -	\$ 849,558
Investments	-	391,776	1,227	-	393,003
Assessments receivable	1,061	3,230	-	-	4,291
Prepaid items	6,779	-	-	-	6,779
SPE land held for resale	-	-	-	829,500	829,500
Total assets	<u>\$ 468,831</u>	<u>\$ 639,823</u>	<u>\$ 144,977</u>	<u>\$ 829,500</u>	<u>\$ 2,083,131</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 18,793	\$ -	\$ -	\$ -	\$ 18,793
Due to Bondholders	-	2,881,280	-	-	2,881,280
Total liabilities	<u>18,793</u>	<u>2,881,280</u>	<u>-</u>	<u>-</u>	<u>2,900,073</u>
Fund balances:					
Nonspendable:					
Prepaid items	6,779	-	-	-	6,779
SPE land held for resale	-	-	-	829,500	829,500
Restricted for:					
Capital projects	-	-	144,977	-	144,977
Assigned to:					
Subsequent year's expenditures	96,413	-	-	-	96,413
Unassigned	346,846	(2,241,457)	-	-	(1,894,611)
Total fund balances	<u>450,038</u>	<u>(2,241,457)</u>	<u>144,977</u>	<u>829,500</u>	<u>(816,942)</u>
Total liabilities and fund balances	<u>\$ 468,831</u>	<u>\$ 639,823</u>	<u>\$ 144,977</u>	<u>\$ 829,500</u>	<u>\$ 2,083,131</u>

See notes to the financial statements

**PORTOFINO ISLES COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, FLORIDA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2016**

Total fund balances - governmental funds \$ (816,942)

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	10,999,603	
Accumulated depreciation	<u>(4,032,755)</u>	6,966,848

Deferred charges on refunding of long-term debt are shown as deferred outflows/inflows of resources in the government-wide financial statements; however, this amount is expensed in the governmental fund financial statements.

225,329

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	(231,818)	
Bonds payable*	<u>(10,370,000)</u>	(10,601,818)

Net position of governmental activities		<u><u>\$ (4,226,583)</u></u>
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* The missed debt service payments due for the Series 2005 Bonds is reflected in the due to Bondholders account balance.

See notes to the financial statements

**PORTOFINO ISLES COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

	Major Funds				Total Governmental Funds
	General	Debt Service	Capital Projects	Special Revenue	
REVENUES					
Assessments	\$ 163,937	\$ 498,199	\$ -	\$ -	\$ 662,136
Stormwater rebate	183,033	-	-	-	183,033
Interest income	39	141	85	-	265
Other revenues	5,500	-	-	-	5,500
Total revenues	<u>352,509</u>	<u>498,340</u>	<u>85</u>	<u>-</u>	<u>850,934</u>
EXPENDITURES					
Current:					
General government	137,860	10,552	68,117	-	216,529
Maintenance and operations	64,166	-	-	-	64,166
Debt service:					
Principal	-	360,000	-	-	360,000
Interest	-	560,780	-	-	560,780
Capital outlay	53,188	-	-	-	53,188
Total expenditures	<u>255,214</u>	<u>931,332</u>	<u>68,117</u>	<u>-</u>	<u>1,254,663</u>
Excess (deficiency) of revenues over (under) expenditures	97,295	(432,992)	(68,032)	-	(403,729)
Fund balances - beginning, as previously stated	352,743	(1,808,465)	213,009	-	(1,242,713)
Prior period adjustment - Note 15	-	-	-	829,500	829,500
Fund balance - beginning, as restated	<u>352,743</u>	<u>(1,808,465)</u>	<u>213,009</u>	<u>829,500</u>	<u>(413,213)</u>
Fund balances - ending	<u>\$ 450,038</u>	<u>\$(2,241,457)</u>	<u>\$ 144,977</u>	<u>\$ 829,500</u>	<u>\$ (816,942)</u>

See notes to the financial statements

**PORTOFINO ISLES COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, 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, 2016**

Net change in fund balances - total governmental funds	\$ (403,729)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures, however, the cost of capital assets is eliminated in the statement of activities and capitalized in the statement of net position.	53,188
Depreciation on capital assets is not recognized in the governmental fund financial statements but is reported as an expense in the statement of activities.	(364,881)
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.	210,000
Expenditures related to debt service payments must be recognized in governmental funds in the period in which they become due. However since the payment was not made the liability was not reduced in the statement of net position.	150,000
Amortization of the deferred charge on refunding is not recognized in the governmental fund financial statements, but is reported as an expense in the statement of activities.	(13,168)
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 governmental fund financial statements.	2,655
Change in net position of governmental activities	<u>\$ (365,935)</u>

See notes to the financial statements

**PORTOFINO ISLES COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY

Portofino Isles Community Development District ("the District") was created on August 22, 2002 pursuant to Ordinance No. 02-80 enacted by the City Council of the City of Port St. Lucie, 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 on an at large basis by the owners of the property within the District. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes.

The Board has the final responsibility for:

1. Assessing and levying 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.

Blended Component Unit

The Special Purpose Entity ("SPE") accounts for the activities of Portofino Isles CDD Holdings, Inc. The Special Purpose Entity ("SPE") owns, manages, maintains, and will sell and/or dispose of the Property for the benefit of the District. The SPE has been reported as a special revenue fund. All expenditures related to the SPE have been paid out of the trust estate and are included as expenditures of the debt service fund.

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

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. 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 funds are used to account for the accumulation of resources for the annual payment of principal and interest on 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.

Special Revenue Fund

This fund accounts for the activities of the SPE.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

New Accounting Standards Adopted

During fiscal year 2016, the District adopted three new accounting standards as follows:

GASB 72, Fair Value Measurement and Application

The Statement improves financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature.

GASB 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

The Statement identifies—in the context of the current governmental financial reporting environment—the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles.

GASB 79 - Certain External Investment Pools and Pool Participants

This Statement establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement also establishes accounting and financial reporting standards for state and local governments that participate in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost.

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 Inter-local 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. In addition, surplus funds may be deposited into certificates of deposit which are insured and any unspent Bond proceeds are required to be held in investments as specified in the Bond Indenture.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

Deposits and Investments (Continued)

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.

Land held for resale

The land held for resale was acquired by the SPE and has been reported based on the value assigned by the property appraiser's office which management believes approximates fair market value.

Inventories and Prepaid Items

Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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>
Infrastructure – drainage system and other	40
Infrastructure – roadways	20

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.

Refundings of Debt

For current refundings and advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources/deferred inflow of resources and recognized ratably as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. In connection with the refunding, \$13,168 was recognized as a component of interest expense in the current fiscal year.

Unearned Revenue

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

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

Long-Term Obligations (Continued)

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 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, except for certain balances in the debt service and capital projects funds which are Trust Funds held separately and apart from any other funds of the bank subject to Office of the Comptroller of the Currency (OCC) regulations. 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, 2016:

	Amortized Cost	Credit Risk	Maturities
First American Government Obligation fund - Class Y	\$ 393,003	S&P AAAM	Weighted average of the fund portfolio: 25 days
Total Investments	<u>\$ 393,003</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.

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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 Indentures limit the type of investments held using unspent proceeds.

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, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Infrastructure under construction	\$ -	\$ 53,188	\$ -	\$ 53,188
Total capital assets, not being depreciated	-	53,188	-	53,188
Capital assets, being depreciated				
Infrastructure - stormwater and other	10,753,476	-	-	10,753,476
Infrastructure - roads	192,939	-	-	192,939
Total capital assets, being depreciated	10,946,415	-	-	10,946,415
Less accumulated depreciation for:				
Infrastructure - stormwater and other	3,667,874	364,881	-	4,032,755
Total accumulated depreciation	3,667,874	364,881	-	4,032,755
Total capital assets, being depreciated, net	7,278,541	(364,881)	-	6,913,660
Governmental activities capital assets, net	\$ 7,278,541	\$ (311,693)	\$ -	\$ 6,966,848

Depreciation was charged to maintenance and operations. As of the current year end, the project is substantially complete. The roads recorded above may be conveyed to another entity at some point. However, at this point the District is responsible for maintenance and upkeep of these roads.

NOTE 6 – INTERLOCAL AGREEMENTS

In consideration of the District providing stormwater maintenance services to the residents of the District, the City of Port St. Lucie (“City”) agrees to pay the District a sum equal to 75% of the stormwater fees collected by the City from within the District boundaries and the adjacent lands. Payments will be made annually on or before the 16th day of each March of those fees collected by the City by March 15th. After March 15th, payment shall be made monthly as fees are collected by the City. Pursuant to this agreement, the District collected \$183,033 during the current fiscal year.

NOTE 7 – LONG-TERM LIABILITIES

At September 30, 2016, the District had long-term liabilities as follows:

Series	Issue Date	Original Face Amount	Interest Rate	Maturity
Special Assessment Bonds:				
Series 2005	October 31, 2005	\$ 6,375,000	5.60%	May 1, 2036
Series 2013	March 26, 2013	5,730,000	1.375% to 4.75%	May 1, 2033

The Special Assessments Revenue Bonds, Series 2005 were issued to finance the acquisition and construction of certain improvements for the benefit of the District. The Series 2003A Bonds were refunded with the issuance of Special Assessment Revenue Refunding Bonds Series 2013 during a prior fiscal year.

Interest is to be paid semiannually for each Bond series on each May 1 and November 1. Principal is to be paid serially for each Bond series on each May 1.

All Bond Series are subject to redemption at the option of the District prior to their maturity. All Bond Series are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in their respective Bond Indentures.

The Bond Indentures established debt service reserve requirements 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 District was in compliance with the requirements of the Series 2013 Bond Indenture as of September 30, 2016. The District was not in compliance with the requirements of the Series 2005 Bond Indenture.

The Developer owned almost all of the benefitted property associated with the Series 2005 Bonds. The Developer stopped funding the District during a prior fiscal year resulting in significant delinquent assessments. As a result, the District did not have sufficient funds to make the May 1, 2010 – May 1, 2016 debt service payments due on the Series 2005 Bonds so the payments were not made resulting in events of default. The amounts have been accrued on the fund financial statements as due to Bondholders and reflect \$830,000 due for principal and \$2,051,280 due for interest. The occurrence of an event of default creates certain remedial rights and remedies in favor of the Trustee. During prior and current fiscal years, significant expenditures were paid out of the trust accounts for services performed related to the foreclosure, the events of default, and costs related to forming and managing the SPE. Consequently, as a result of the expenditures that were paid from the debt service Reserve Account, and the draws made to finance portions of prior fiscal year debt service payments, there was a deficit in the Series 2005 Debt Service Reserve Account of approximately \$420,800. See Note 14 - Subsequent Events for additional information subsequent to fiscal year end. Please note the District’s management response to this matter on page 30 of this Report.

NOTE 7 – LONG-TERM LIABILITIES (Continued)

First Amendment to the Trust Indenture

During a prior fiscal year, the Series 2005 Bond Indenture was amended which directed the Trustee to withdraw \$138,000 from the Acquisition and Construction Account and deposit into the Default Expenditures Account to be used to pay certain expenses (i.e. Default Expenditures). Pursuant to the provisions of the Bond Indenture, at least a majority of the Bond owners' consent was obtained. During the prior and current fiscal years, significant expenditures were paid out of the trust accounts for services performed related to the foreclosure, the events of default, and the formation and management of an SPE. All amounts on deposit in the Default Expenditures Account were spent as of September 30, 2012 so some of these costs were also paid out of the Reserve, Revenue, and Acquisition and Construction Accounts as there were insufficient amounts available in the Default Expenditures Account to finance all of these expenditures. The District paid approximately \$655,700 in prior fiscal years and approximately \$68,000 in the current fiscal year from its trust accounts for costs related to the SPE.

Long-term Debt Activity

Changes in long-term liability activity for the fiscal year ended September 30, 2016 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 2005	\$ 6,105,000	\$ -	\$ -	\$ 6,105,000	\$ 975,000 *
Series 2013	5,315,000	-	220,000	5,095,000	220,000
Total	<u>\$ 11,420,000</u>	<u>\$ -</u>	<u>\$ 220,000</u>	<u>\$ 11,200,000</u>	<u>\$ 1,195,000</u>

* Includes the missed debt service payments due for the Series 2005 Bonds which were not paid.

At September 30, 2016, the scheduled debt service requirements on the long-term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2017	\$ 1,195,000 *	\$ 2,599,876 *	\$ 3,794,876
2018	380,000	535,450	915,450
2019	395,000	520,854	915,854
2020	410,000	504,778	914,778
2021	430,000	487,291	917,291
2022-2026	2,480,000	2,119,416	4,599,416
2027-2031	3,185,000	1,429,028	4,614,028
2032-2036	2,725,000	589,533	3,314,533
Total	<u>\$ 11,200,000</u>	<u>\$ 8,786,226</u>	<u>\$ 19,986,226</u>

* Includes the missed debt service payments due for the Series 2005 Bonds which were not paid.

NOTE 8 – CONCENTRATION

The District's activity is dependent upon the continued involvement of the Bondholders who control the trust estate and the SPE.

NOTE 9 – SPECIAL PURPOSE ENTITY AND FORECLOSURE

During a prior fiscal year, the Trustee, on Behalf of the Bondholders, created or caused to be created an SPE to own, manage, maintain, and dispose of the Property comprising the delinquent Series 2005 Assessments (“Property”) in an orderly and efficient manner for the benefit of the Trust Estate.

The Parties acknowledge and agree that the Capital Assessments encumbering the Property owned by the SPE shall not be certified for collection using the Uniform Method or otherwise billed to the SPE but shall be held in abeyance and continue to constitute a lien in accordance with Florida law on the property co-equal with the lien of State, County and municipal taxes and superior to all other liens. The Capital Assessments (or Debt Service Assessments) with respect to such Property shall be held in abeyance until such time as the District receives notice from the majority owner of the Bonds to the contrary. The Operating and Maintenance (“O&M”) Assessments were originally supposed to be directly billed to the SPE and invoiced to the SPE quarterly as District expenses accrue. However, the lots were placed on the roll in the current year and were collected through the County Tax Collector.

NOTE 10 – POA AGREEMENT

During the prior fiscal year, the District and the Newport Isles Property Owners Association (“Parties”) entered into the Joint Participation Agreement whereby the parties agreed to share in equally the funding necessary to complete the design of certain improvements within the District which will benefit the owners and residents of Newport Isles. The total cost of the design has been determined at \$70,000. Pursuant to this agreement, the POA paid the District \$35,000 in the prior fiscal year and \$5,500 in the current fiscal year.

NOTE 11 – DEFICIT FUND BALANCE

The Debt Service Fund had a deficit fund balance of (\$2,241,457) at September 30, 2016. It is unclear how the deficit will be covered in the near term as it is unlikely that the deficit will be covered until the Property owned by the SPE is sold. Please note the District’s management response to this matter on page 30 of this Report.

NOTE 12 – MANAGEMENT AGREEMENT

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 13 – 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 14 – SUBSEQUENT EVENTS

Shortfalls in the collection of special assessments caused there to be insufficient funds available in the accounts held by the Trustee to fund the Series 2005 fiscal year 2017 debt service payments. Consequently, the payments were not made resulting in additional events of default. Please note the District’s management response to this matter on page 30 of this Report.

NOTE 15 – PRIOR PERIOD ADJUSTMENT

The District has recorded a prior period adjustment in order to record the value of the land held for resale by the SPE which was not previously recorded.

	Special Revenue	Governmental Activities
Fund balance/Net position - beginning, as previously stated	\$ -	\$ (4,690,148)
Prior period adjustment: to record value of SPE land	829,500	829,500
Fund balance/Net position - beginning, as restated	<u>\$ 829,500</u>	<u>\$ (3,860,648)</u>

**PORTOFINO ISLES COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

	Budgeted Amounts Original & Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Assessments	\$ 175,152	\$ 163,937	\$ (11,215)
Stormwater rebate	186,678	183,033	(3,645)
Interest and other revenues	-	5,539	5,539
Total revenues	361,830	352,509	(9,321)
EXPENDITURES			
Current:			
General government	118,124	137,860	(19,736)
Maintenance and operations	184,420	64,166	120,254
Capital outlay	250,000	53,188	196,812
Total expenditures	552,544	255,214	297,330
Excess (deficiency) of revenues over (under) expenditures	(190,714)	97,295	288,009
OTHER FINANCING SOURCES			
Use of fund balance	190,714	-	(190,714)
Total other financing sources	190,714	-	(190,714)
Net change in fund balance	\$ -	97,295	\$ 97,295
Fund balance - beginning		352,743	
Fund balance - ending		\$ 450,038	

See notes to required supplementary information

**PORTOFINO ISLES COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, 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, 2016.

Actual general fund expenditures for the fiscal year ended September 30, 2016 were less than appropriations due primarily to anticipated costs which were not incurred in the current fiscal year.



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
Portofino Isles Community Development District
City of Port St. Lucie, 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 Portofino Isles Community Development District, City of Port St. Lucie, Florida ("District") as of and for the fiscal year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our opinion thereon dated May 15, 2017, 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 and deficiencies in internal control that we considered 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 May 15, 2017.

The District's responses to the findings identified in our audit are described in the accompanying Management Letter. We did not audit the District's responses and, accordingly, we express no opinion on them.

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 *Law & Associates*

May 15, 2017



Grau & Associates
CERTIFIED PUBLIC ACCOUNTANTS

2700 North Military Trail • Suite 350
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
Portofino Isles Community Development District
City of Port St. Lucie, Florida

We have examined Portofino Isles Community Development District, City of Port St. Lucie, Florida, 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, 2016. 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, 2016.

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 Portofino Isles Community Development District, City of Port St. Lucie, Florida, Florida and is not intended to be and should not be used by anyone other than these specified parties.

Grau & Associates

May 15, 2017



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

To the Board of Supervisors
Portofino Isles Community Development District
City of Port St. Lucie, Florida

Report on the Financial Statements

We have audited the accompanying basic financial statements of Portofino Isles Community Development District ("District") as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated May 15, 2017, 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 May 15, 2017, 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 Portofino Isles Community Development District, City of Port St. Lucie, Florida 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 Portofino Isles Community Development District, City of Port St. Lucie, 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

May 15, 2017

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2016-01: Financial Condition Assessment

Observation: The debt service fund had a deficit fund balance of (\$2,241,457) at September 30, 2016. The Developer stopped funding the District during a prior fiscal year resulting in significant delinquent assessments and unfunded contributions in prior fiscal years. As a result, the payments were made, in part, by draws on the debt service Reserve Account. Therefore the reserve requirement has not been met. Furthermore, the District did not have sufficient funds to make the May 1, 2010 – May 1, 2016 debt service payments due on the Series 2005 Bonds so the payments were not made. The failures by the District to pay its debt service are considered events of default. As a result of the delinquent assessments, and in lieu of foreclosure, during the prior fiscal year, a SPE was created to own, manage, maintain, and dispose of the Property comprised by the delinquent Series 2005 Assessments (“Property”) for the benefit of the Trust Estate. Consequently, during a prior fiscal year, the title to the Property was conveyed to the SPE with all rights and privileges pertaining to or accruing to the benefit of the Property.

Recommendation: The District should continue taking the necessary steps to alleviate the situation.

Management Response: The deteriorating financial condition of the District is due to annual assessments not being paid by certain property owner(s) within the District. The property has been conveyed to a SPE in lieu of foreclosure to own, manage, maintain and dispose of the property in an orderly and efficient manner. The SPE has agreed to provide the necessary funding to pay the operating expenditures of the District and the District has agreed to defer the collection of Capital Assessments encumbering the Property. The District has determined this course of action is the most appropriate way to alleviate the deteriorating financial condition. In addition, the “deteriorating financial condition of the District” should be limited solely to the special assessment bonds issued by the District in 2005 to fund infrastructure improvements for the Portofino Court Project (the “Series 2005 Bonds”), and not to the District as a whole. This position is based, in part, on the provisions of the Master Trust Indenture relating to the Series 2005 Bonds (the “Master Trust Indenture”) and the SPE Agreement entered into between the District and the SPE (described below).

In this regard, it may be helpful to point out to the Auditor the following provisions of the Master Trust Indenture:

1. The Series 2005 Bonds are secured solely by a lien upon and pledge of Series 2005 "Pledged Revenues." (*Page 1, third clause*)
2. The term "Pledged Revenues" is defined as interest of the District in the Special Assessment Revenues and moneys and investments from time to time on deposit in the Funds and Accounts established hereunder and conveyed to trust to the Trustee for benefit of owner. (*Page 12, Article I, Definitions*)
3. The term "Special Assessment Revenues" is defined as net proceeds derived from levy and collection of special assessments, including amounts received as prepayments, interest and penalties on special assessments under Chapters 170 and 197, any amounts received in foreclosure proceeding or issuance and sale of tax certificates less costs and fees of collection. (*Page 15, Article I, Definitions*). The special assessments are levied on property located in the area of the District containing the Portofino Court Project.
4. None of the Pledged Revenues shall be used for any purpose other than provided in the Master Trust Indenture and no contract or contracts shall be entered into or action taken by the Trustee which will be inconsistent with the provisions of the Indenture. (*Page 52, Section 11.17*)

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS (Continued)

5. Owners of majority in aggregate principal amount of the Outstanding Bonds shall have the right to direct the method and place of conducting all remedial proceedings by the Trustee under the Indenture, provided that such directions shall not be otherwise in accordance with law or provisions of the Indenture. *(Page 62, Section 12.06)*

6. If District defaults with its obligations to the Trustee for the Trustees services, the Trustee shall be entitled to a first lien upon all Pledged Revenues Funds, and shall be entitled to be paid from Pledged Revenues Funds before any other use of such funds. *(Page 65, Section 13.04)*

Also, in July, 2012, the District entered into an agreement with Portofino Isles CDD Holdings, Inc., the special purpose entity (the "SPE") established by the holders of the Series 2005 Bonds to take ownership of the assessed property that was being foreclosed by the District. This agreement (the "SPE Agreement"), which was also executed by the Trustee of the Series 2005 Bonds, provides, among other things, that:

1. The District will defer collection of capital assessments and suspend the foreclosure action until Majority Owner (beneficial owners of a majority of the Series 2005 Bonds) directs the CDD to do otherwise. *(Page 2, 7th paragraph)*

2. The District will not pursue rights under Trust Indenture against the SPE unless directed to do so in writing by the Majority Owner. *(Page 3, numbered paragraph 2)*

3. The SPE agrees to pay delinquent Capital Assessments once forbearance is terminated and will assume true-up and completion agreements. *(Page 4, numbered paragraph 4)*

4. The SPE Agreement will be terminated upon mutual written agreement of parties or sale or transfer by SPE of all of the Property. *(Page 4, numbered paragraph 6)*

It is important to emphasize that the Series 2005 Bonds are not general obligation bonds of the District. They are special assessment bonds secured solely by the special assessments levied against the property in the Portofino Court Project where the District assessments were in default and being foreclosed. Thus, no other revenue or assets of the District are pledged toward the payment of debt service on the Series 2005 Bonds. The 2013 Refunding Bonds issued by the District, which are not in default, relate to the Newport Isles portion of the District and are totally unrelated to the Series 2005 Bonds.

Moreover, the District is bound by the SPE Agreement not to pursue the collection of special assessments on the Portofino Court property (the only source of pledged revenues to pay debt service on the Series 2005 Bonds) until further direction of the Majority Owner of the Series 2005 Bonds. Thus, the District has been effectively precluded by the bondholders themselves from pursuing any attempt to collect funds from the only source of revenue legally available to pay debt service on the Series 2005 Bonds.

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2014-01, 2015-01: Financial Condition Assessment

Current Status: See finding no. 2016-01 above

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, 2015, except as noted above.

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, 2016, 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, 2016, 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.

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, 2016 financial audit report.

6. 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 Series 2005 Bonds in the current and prior fiscal years, as a result of a lack of funds. 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.