

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

**PORTOFINO VISTA COMMUNITY DEVELOPMENT DISTRICT  
CITY OF ST. CLOUD, FLORIDA**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors  
Portofino Vista Community Development District  
City of St. Cloud, Florida

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Portofino Vista Community Development District, City of St. Cloud, 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 District's financial conditions continue to deteriorate. The Developer owns almost all of the benefitted property associated with the Series 2006 Bonds. The Developer has not paid its share of assessments for prior, current and subsequent fiscal years, and as result, the District did not have sufficient funds to make the Series 2006A and Series 2006B debt service payments due on May 1, 2010 or during fiscal years 2011 – 2016, as applicable; consequently, the payments were not made. The District's failures to make its scheduled debt service payments, when due, are considered events of default. Furthermore, the District reported deficit fund balances of (\$114,500) and (\$4,065,456) in the general fund and debt service fund, respectively. The District commenced foreclosure proceedings on all lands with delinquent assessments. Although the parties finalized a proposed settlement agreement, ultimately the proposed settlement agreement was not agreed to by all interested parties and, therefore, did not go forward. The District has filed its motion for summary judgment on its foreclosure claim and is coordinating a special set hearing date on the motion. The District is economically dependent on the Developer.

## **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 5, 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 June 5, 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.



June 5, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Portofino Vista Community Development District, City of St. Cloud, 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 at the close of the most recent fiscal year resulting in a net position deficit balance of (\$2,922,322).
- The change in the District's total net position in comparison with the prior fiscal year was \$31,761, an increase. 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 deficit fund balances of (\$3,567,762), a decrease of (\$29,117) in comparison with the prior fiscal year. Of the total fund balance, portions are non-spendable for deposits and prepaid items, restricted for capital projects, while the remainder is unassigned, deficit fund balance reported in the general fund and debt service fund.
- 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.

## 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 three individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund which are all considered to be 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 fiscal year ended September 30, 2016.

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

	NET POSITION	
	SEPTEMBER 30,	
	2016	2015
Assets, excluding capital assets	\$ 1,483,974	\$ 1,104,549
Capital assets, net of depreciation	3,766,250	3,785,372
Total assets	5,250,224	4,889,921
Liabilities, excluding long-term liabilities	5,177,546	4,769,004
Long-term liabilities	2,995,000	3,075,000
Total liabilities	8,172,546	7,844,004
Net position		
Net investment in capital assets	(2,168,750)	(2,149,628)
Restricted	612,194	611,894
Unrestricted	(1,365,766)	(1,416,349)
Total net position	\$ (2,922,322)	\$ (2,954,083)

## 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 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 increased during the most recent fiscal year. The majority of the increase represents the extent to which ongoing program revenues exceeded the cost of operations and depreciation expense.

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	\$ 428,785	\$ 222,826
Operating grants and contributions	365	83
Capital grants and contributions	300	113
General revenues		
Unrestricted investment earnings	5	6
Total revenues	<u>429,455</u>	<u>223,028</u>
Expenses:		
General government	76,124	122,701
Maintenance and operations	19,122	19,122
Interest	302,448	302,448
Total expenses	<u>397,694</u>	<u>444,271</u>
Change in net position	<u>31,761</u>	<u>(221,243)</u>
Net position - beginning	<u>(2,954,083)</u>	<u>(2,732,840)</u>
Net position - ending	<u>\$ (2,922,322)</u>	<u>\$ (2,954,083)</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2016 was \$397,694. A portion of the costs of the District's activities were paid by program revenues. Program revenues, comprised primarily of assessments, increased during the fiscal year as a result of an increase in prepayment revenue. The District also received interest income which is also included in program revenues. Expenses decreased from the prior year due to a decrease in default-related costs.

## 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 \$3,996,535 invested in capital assets for its governmental activities. In the government-wide financial statements depreciation of \$230,285 has been taken, which resulted in a net book value of \$3,766,250. 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 \$5,935,000 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 Note 7 and other referenced notes to the financial statements, the District's financial conditions continue to deteriorate. The Developer owns almost all of the benefitted property associated with the Series 2006 Bonds. The Developer has not paid its share of assessments for prior, current and subsequent fiscal years, and as result, the District did not have sufficient funds to make the Series 2006A and Series 2006B debt service payments due on May 1, 2010 or during fiscal years 2011 – 2016, as applicable; consequently, the payments were not made. The District's failures to make its scheduled debt service payments, when due, are considered events of default. The District commenced foreclosure proceedings on all lands with delinquent assessments. Although the parties finalized a proposed settlement agreement, ultimately the proposed settlement agreement was not agreed to by all interested parties and, therefore, did not go forward. The District has filed its motion for summary judgment on its foreclosure claim and is coordinating a special set hearing date on the motion. The District is economically dependent on the Developer.

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



**PORTOFINO VISTA COMMUNITY DEVELOPMENT DISTRICT  
CITY OF ST. CLOUD, FLORIDA  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2016**

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 9,775
Assessments receivable	4,967
Deposits	200
Prepaid items	6,042
Restricted assets:	
Cash and cash equivalents	1,462,990
Capital assets:	
Nondepreciable	3,422,864
Depreciable, net	343,386
Total assets	5,250,224
<b>LIABILITIES</b>	
Accounts payable	148,909
Accrued interest payable	125,810
Due to Bondholders:	
Principal	2,940,000
Interest	1,962,827
Non-current liabilities:	
Due within one year*	85,000
Due in more than one year	2,910,000
Total liabilities	8,172,546
<b>NET POSITION</b>	
Net investment in capital assets	(2,168,750)
Restricted for capital projects	612,194
Unrestricted	(1,365,766)
Total net position	\$ (2,922,322)

\*The missed debt service payments due for the Series 2006 Bonds are reflected in the due to Bondholders account balance.

See notes to the financial statements

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

Functions/Programs	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	\$ 76,124	\$ 46,513	\$ -	\$ -	\$ (29,611)
Maintenance and operations	19,122	-	-	300	(18,822)
Interest on long-term debt	302,448	382,272	365	-	80,189
Total governmental activities	397,694	428,785	365	300	31,756
General revenues:					
Unrestricted investment earnings					5
Total general revenues					5
Change in net position					31,761
Net position - beginning					(2,954,083)
Net position - ending					\$ (2,922,322)

See notes to the financial statements

**PORTOFINO VISTA COMMUNITY DEVELOPMENT DISTRICT  
CITY OF ST. CLOUD, FLORIDA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2016**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 9,775	\$ 850,796	\$ 612,194	\$ 1,472,765
Assessments receivable	1,216	3,751	-	4,967
Due from other funds	22,013	5,132	-	27,145
Deposits	200	-	-	200
Prepaid items	6,042	-	-	6,042
Total assets	<u>\$ 39,246</u>	<u>\$ 859,679</u>	<u>\$ 612,194</u>	<u>\$ 1,511,119</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 148,909	\$ -	\$ -	\$ 148,909
Due to Bondholders	-	4,902,827	-	4,902,827
Due to other funds	4,837	22,308	-	27,145
Total liabilities	<u>153,746</u>	<u>4,925,135</u>	<u>-</u>	<u>5,078,881</u>
Fund balances:				
Nonspendable:				
Deposits and prepaid items	6,242	-	-	6,242
Restricted for:				
Capital projects	-	-	612,194	612,194
Unassigned, reported in:				
Debt service fund	-	(4,065,456)	-	(4,065,456)
General fund	(120,742)	-	-	(120,742)
Total fund balances	<u>(114,500)</u>	<u>(4,065,456)</u>	<u>612,194</u>	<u>(3,567,762)</u>
Total liabilities and fund balances	<u>\$ 39,246</u>	<u>\$ 859,679</u>	<u>\$ 612,194</u>	<u>\$ 1,511,119</u>

See notes to the financial statements

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

Fund balance - governmental funds \$ (3,567,762)

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 for the government as a whole.

Cost of capital assets	3,996,535	
Accumulated depreciation	<u>(230,285)</u>	3,766,250

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	(125,810)	
Bonds payable*	<u>(2,995,000)</u>	(3,120,810)

Net position of governmental activities		<u>\$ (2,922,322)</u>
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\*The missed debt service payments due for the Series 2006 Bonds are reflected in the due to Bondholders account balance.

See notes to the financial statements

**PORTOFINO VISTA COMMUNITY DEVELOPMENT DISTRICT  
CITY OF ST. CLOUD, 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	
<b>REVENUES</b>				
Assessments	\$ 46,513	\$ 382,272	\$ -	\$ 428,785
Interest	5	365	300	670
Total revenues	<u>46,518</u>	<u>382,637</u>	<u>300</u>	<u>429,455</u>
<b>EXPENDITURES</b>				
Current:				
General government	52,046	24,078	-	76,124
Debt service:				
Principal	-	80,000	-	80,000
Interest	-	302,448	-	302,448
Total expenditures	<u>52,046</u>	<u>406,526</u>	<u>-</u>	<u>458,572</u>
Excess (deficiency) of revenues over (under) expenditures	(5,528)	(23,889)	300	(29,117)
Fund balances - beginning	<u>(108,972)</u>	<u>(4,041,567)</u>	<u>611,894</u>	<u>(3,538,645)</u>
Fund balances - ending	<u>\$ (114,500)</u>	<u>\$ (4,065,456)</u>	<u>\$ 612,194</u>	<u>\$ (3,567,762)</u>

See notes to the financial statements

**PORTOFINO VISTA COMMUNITY DEVELOPMENT DISTRICT  
CITY OF ST. CLOUD, 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	\$	(29,117)
Amounts reported for governmental activities in the statement of activities are different because:		
Depreciation on capital assets is not recognized in the governmental fund financial statements but is reported as an expense in the statement of activities.		(19,122)
Repayment of long-term liabilities are reported as expenditures in the governmental fund financial statement but such repayments reduce liabilities in the statement of net position and are eliminated in the statement of activities.		80,000
		80,000
Change in net position of governmental activities	\$	31,761

See notes to the financial statements

**PORTOFINO VISTA COMMUNITY DEVELOPMENT DISTRICT  
CITY OF ST. CLOUD, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

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

Portofino Vista Community Development District ("the District") was created on August 17, 2006 pursuant to Ordinance No. 2006-130 enacted by the City Council of the City of St. Cloud, Florida, under the "Uniform Community Development District Act of 1980", otherwise known as Chapter 190, Florida Statutes. The Act provides among other things, the power to manage basic services for community development, power to borrow money and issue Bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure.

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

The District is governed by the Board of Supervisors ("Board"), which is composed of five members. The Supervisors are elected by the owners of the property within the District. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes. At September 30, 2016, some of the Board members are affiliated with Prime Homes at Portofino Vista, Ltd. ("Developer"). In addition, the Developer owns the majority of the land; therefore, the District is economically dependent on the Developer.

The Board has the final responsibility for:

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

The financial statements were prepared in accordance with Governmental Accounting Standards Board ("GASB") Statements. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District is considered to be financially accountable and other organizations for which the nature and significance of their relationship with the District are such that, if excluded, the financial statements of the District would be considered incomplete or misleading. 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 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.

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

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



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

### **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 Interlocal Cooperation Act;
- b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
- c) Interest bearing time deposits or savings accounts in qualified public depositories;
- d) Direct obligations of the U.S. Treasury.

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

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

#### Prepaid Items

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

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

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

#### 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>
Stormwater management system	30

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.

#### 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.

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

### **Assets, Liabilities and Net Position or Equity (Continued)**

#### Fund Equity/Net Position (Continued)

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.

### **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

The District's cash balances were entirely covered by federal depository insurance or by a collateral pool pledged to the State Treasurer, except for the 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.

#### NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables at September 30, 2016 were as follows:

Fund	Receivable	Payable
General	\$ 22,013	\$ 4,837
Debt service	5,132	22,308
Total	<u>\$ 27,145</u>	<u>\$ 27,145</u>

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 debt service fund that have not yet been transferred to the general fund.

#### NOTE 6 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended September 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land & land improvements	\$ 2,024,852	\$ -	\$ -	\$ 2,024,852
Infrastructure in progress	1,398,012	-	-	1,398,012
Total capital assets, not being depreciated	<u>3,422,864</u>	<u>-</u>	<u>-</u>	<u>3,422,864</u>
Capital assets, being depreciated				
Infrastructure - stormwater management system	573,671	-	-	573,671
Total capital assets, being depreciated	<u>573,671</u>	<u>-</u>	<u>-</u>	<u>573,671</u>
Less accumulated depreciation for:				
Infrastructure - stormwater management system	211,163	19,122	-	230,285
Total accumulated depreciation	<u>211,163</u>	<u>19,122</u>	<u>-</u>	<u>230,285</u>
Total capital assets, being depreciated, net	<u>362,508</u>	<u>(19,122)</u>	<u>-</u>	<u>343,386</u>
Governmental activities capital assets, net	<u>\$ 3,785,372</u>	<u>\$ (19,122)</u>	<u>\$ -</u>	<u>\$ 3,766,250</u>

## **NOTE 6 – CAPITAL ASSETS (Continued)**

The total cost of the project has been estimated at approximately \$5,450,000. Additionally, the District has entered into an Assignment and Acquisition Agreement with the Developer, whereby the District agrees to pay the Developer, as total payment for all Developer's rights and interest in the improvements, the property, and contract rights, including the payment of any and all reimbursement to the Developer by the District for performance under contract rights prior to assignment, an amount not to exceed \$5,448,157. Any costs in excess of amounts available from the Series 2006 Bonds are supposed to be provided by the Developer. Additionally, during a prior fiscal year, assets totaling \$563,491 were conveyed to other entities. During a prior fiscal year, the Series 2006 project was certified complete. Upon completion of the project, offsite roads and the water and sewer system were to be conveyed to Osceola County ("County") and the City of St. Cloud ("City"), respectively. However, before the County will accept the offsite roads, the final layer of asphalt will need to be placed on the roads and before the City will accept the water and sewer system, certain water valves will have to be repaired. Furthermore, after the necessary funds needed to complete the infrastructure, make necessary repairs, and finance the foreclosure have been budgeted for or expended, the District intends to use the funds remaining in the Acquisition and Construction account to pay down portions of the Series 2006A and 2006B Bonds.

In connection with the 2006 project, if the amount by which the cost of the project or portion thereof to be conveyed by the Developer to the District pursuant to an Acquisition Agreement exceeds the amount paid by the District for the project or portion thereof from the proceeds of the Series 2006 Bonds, it may be determined that deferred obligations exist. Upon completion of the project, certain funds available from the Bonds may be used to pay deferred obligations, as outlined in the Bond Indenture. Although the 2006 project has been certified complete, the District has not determined if a liability exists for deferred obligations.

Depreciation expense was charged to maintenance and operations.

## **NOTE 7 – LONG TERM LIABILITIES**

### **Series 2006**

On December 8, 2006, the District issued \$3,570,000 of Special Assessment Bonds, Series 2006A and \$2,585,000 of Special Assessment Bonds, Series 2006B. The Series 2006A Bonds are due May 1, 2037 with a fixed interest rate of 5.15% and Series 2006B Bonds matured on May 1, 2013 with a fixed interest rate of 5%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is to be paid semiannually on each May 1 and November 1 and the principal is to be paid serially on each May 1, commencing May 1, 2008.

The Series 2006A Bonds are subject to redemption at the option of the District prior to their maturity. The Series 2006B Bonds are not subject to optional redemption. The Bonds are subject to extraordinary mandatory redemption prior to their selected maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture.

The Bond Indenture established a debt service reserve requirement as well as other restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agrees to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The District was not in compliance with the requirements of the Series 2006 Bond Indenture.

## NOTE 7 – LONG TERM LIABILITIES (Continued)

### Series 2006 (Continued)

The Developer owns almost all of the benefitted property associated with the Series 2006 Bonds. The Developer has not paid its share of assessments for the prior, current and subsequent fiscal years. As a result of the delinquent assessments, the District did not have sufficient funds to make the Series 2006A and Series 2006B debt service payments due on May 1, 2010 or during fiscal years 2011 - 2016. The District's failures to make its scheduled debt service payments, when due, are considered events of default. The amounts due have been accrued in the financial statements as due to Bondholders and reflects \$2,940,000 due for principal and \$1,962,827 due for interest. Additionally, due to the use of the District's Series 2006A and Series 2006B Debt Service Reserve Accounts to finance portions of the debt service payments due in prior fiscal years, and amounts used to finance certain costs related to the events of default and the foreclosure, which is described further in Note 11, the District reported deficits of approximately \$212,000 and \$91,000 in the Series 2006A and Series 2006B Debt Service Reserve Accounts, respectively. See Note 15 – Subsequent Events for additional information subsequent to fiscal year end.

### Long-term Debt Activity

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 2006	\$ 5,935,000	\$ -	\$ -	\$ 5,935,000	\$ 3,025,000
Total	\$ 5,935,000	\$ -	\$ -	\$ 5,935,000	\$ 3,025,000

\* Includes the debt service payments due for the Series 2006 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	\$ 3,025,000 *	\$ 2,141,275 *	\$ 5,166,275
2018	85,000	149,865	234,865
2019	90,000	145,488	235,488
2020	95,000	140,853	235,853
2021	100,000	135,960	235,960
2022-2026	585,000	597,143	1,182,143
2027-2031	755,000	429,510	1,184,510
2032-2036	975,000	219,519	1,194,519
2037	225,000	11,588	236,588
Total	\$ 5,935,000	\$ 3,971,201	\$ 9,906,201

\* Includes the debt service payments due for the Series 2006 Bonds which were not paid

## NOTE 8 – DEFICIT FUND EQUITY

The general fund and debt service fund reported deficit fund balances of (\$114,500) and (\$4,065,456), respectively, at September 30, 2016. The District has filed a foreclosure lawsuit on the land owned by the Developer with delinquent assessments. Although the parties finalized a proposed settlement agreement, ultimately the proposed settlement agreement was not agreed to by all interested parties and, therefore, did not go forward. The District has filed its motion for summary judgment on its foreclosure claim and is coordinating a special set hearing date on the motion. However, it is unclear how events will unfold.



## **NOTE 9 – DEVELOPER TRANSACTIONS**

The Developer owns a significant portion of land within the District; therefore, assessment revenues in the general and debt service funds include the assessments levied on those lots owned by the Developer. The Developer essentially stopped funding the District during fiscal year 2010 and has not paid its full share of assessments for prior, current, and subsequent fiscal years resulting in significant delinquent assessments. Since collectability of delinquent assessments was deemed both uncertain and unlikely, these amounts have not been recorded on the District's financial statements. Furthermore, assessments liens on certain lands with delinquent assessments have been accelerated and were considered due at September 30, 2016. These amounts have also not been recognized in the financial statements as collection is both uncertain and unlikely.

## **NOTE 10 – CONCENTRATION**

The District's activity is dependent upon the continued involvement of the Developer. As such, the nonpayment of assessments by the Developer in the prior and current fiscal years has resulted in the deterioration of the District's financial conditions.

## **NOTE 11 – EVENT OF DEFAULT**

As a result of the delinquent assessments and missed Series 2006 Bond payments, the District declared the occurrence of an event of default in accordance with the Bond Indenture. The occurrence of an event of default creates certain remedial rights and remedies in favor of the Trustee. Pursuant to the Indenture, the owners of a majority in aggregate principal amount of the Bonds then outstanding may direct the Trustee with regard to such rights and remedies following an event of default and upon provision of indemnity satisfactory to the Trustee and in accordance with provisions of the Indenture. During prior fiscal years, approximately \$386,000 of expenditures was paid out of the debt service and capital projects funds for services performed in connection to the events of default, foreclosure, and related matters and an additional approximately \$24,000 was paid in the current fiscal year.

## **NOTE 12 – FORECLOSURE**

During a prior fiscal year, the Board approved the commencement of foreclosure proceedings on all lands with delinquent assessments. Consequently, the District has filed a lawsuit seeking to foreclose on all of the land in the District, including the land owned by the Developer, for which there are delinquent assessments.

Although the parties finalized a proposed settlement agreement, ultimately the proposed settlement agreement was not agreed to by all interested parties and, therefore, did not go forward. The District has filed its motion for summary judgment on its foreclosure claim and is coordinating a special set hearing date on the motion. No adjustment has been made to the financial statements as the impact on the District cannot be determined at this time since it is unclear how events will unfold.

## **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 – 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 of the District. Under the agreement, the District compensates the management company for management, accounting, financial reporting, computer and other administrative costs.

## **NOTE 15 – SUBSEQUENT EVENTS**

### **Debt Service Payments**

Subsequent to September 30, 2016, due to the Developer's failure to pay its assessments, the District had insufficient funds to make the November 1, 2016 and May 1, 2017 scheduled debt service payments due on the Series 2006 Bonds. Consequently, the payments were not made which is considered an event of default under the Bond Indenture.

### **Payment of Delinquent Interest**

On January 30, 2017, the District paid delinquent interest owed on the Series 2006A and Series 2006B Bonds at the direction of the Bondholder in the amounts of \$633,133 and \$451,325 respectively.



**PORTOFINO VISTA COMMUNITY DEVELOPMENT DISTRICT  
CITY OF ST. CLOUD, 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		Variance with Final Budget -
	Original & Final	Actual Amounts	Positive (Negative)
REVENUES			
Assessments	\$ 76,613	\$ 46,513	\$ (30,100)
Interest	-	5	5
Total revenues	76,613	46,518	(30,095)
EXPENDITURES			
Current:			
General government	71,613	52,046	19,567
Maintenance and operations	5,000	-	5,000
Total expenditures	76,613	52,046	24,567
Excess (deficiency) of revenues over (under) expenditures	\$ -	(5,528)	\$ (5,528)
Fund balance - beginning		(108,972)	
Fund balance - ending		\$ (114,500)	

See notes to required supplementary information

**PORTOFINO VISTA COMMUNITY DEVELOPMENT DISTRICT  
CITY OF ST. CLOUD, 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 Vista Community Development District  
City of St. Cloud, 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 Vista Community Development District, City of St. Cloud, 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 June 5, 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 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**

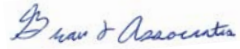
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect 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 5, 2017.

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 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.

 Brian J. Asencio

June 5, 2017



**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 Vista Community Development District  
City of St. Cloud, Florida

We have examined Portofino Vista Community Development District, City of St. Cloud, 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 Vista Community Development District, City of St. Cloud, Florida and is not intended to be and should not be used by anyone other than these specified parties.

*Grau & Associates*

June 5, 2017



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

To the Board of Supervisors  
Portofino Vista Community Development District  
City of St. Cloud, Florida

We have audited the accompanying basic financial statements of Portofino Vista Community Development District, City of St. Cloud, Florida ("District") as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated June 5, 2017, which includes an emphasis of matter paragraph.

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

In addition, 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 Chapter 10.550, Rules of the Florida Auditor General dated June 5, 2017. Disclosures in that report should be considered in conjunction with this management 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 Vista Community Development District, City of St. Cloud, 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 Vista Community Development District, City of St. Cloud, 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*

June 5, 2017

## REPORT TO MANAGEMENT

### I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

#### **2016-01: Financial Condition Assessment**

Observation: The District's financial conditions continue to deteriorate. The Developer owns almost all of the benefitted property associated with the Series 2006 Bonds. The Developer has not paid its share of assessments for prior, current and subsequent fiscal years, and as result, the District did not have sufficient funds to make the Series 2006A and Series 2006B debt service payments due on May 1, 2010 or during fiscal years 2011 – 2016, as applicable; consequently, the payments were not made. The District's failures to make its scheduled debt service payments, when due, are considered events of default. The District also has deficits in the debt service reserve funds. Furthermore, the District reported deficit fund balances of (\$114,500) and (\$4,065,456) in the general fund and debt service fund, respectively. The District commenced foreclosure proceedings on all lands with delinquent assessments. Although the parties finalized a proposed settlement agreement, ultimately the proposed settlement agreement was not agreed to by all interested parties and, therefore, did not go forward. The District has filed its motion for summary judgment on its foreclosure claim and is coordinating a special set hearing date on the motion. The District is economically dependent on the Developer.

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

Management Response: The District has taken all actions afforded under the bond indenture and statutory law to ensure funds are available to make debt service payments including filing for foreclosure on property within the District that has delinquent assessments.

### II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

#### **2015-01: Financial Condition Assessment, 2014-01: Financial Condition Assessment, 2013-02: Financial Condition Assessment, 2012-03: Financial Condition Assessment, 2011-02: Financial Condition Assessment, 2010-02: Financial Condition Assessment, 2009-02: 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.

## REPORT TO MANAGEMENT (Continued)

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 2006 Bonds, 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.