

| |
|---------------------------|
| Meeting Date |
| August 9, 2016 |



| | |
|----------|----------------|
| AGENDA | |
| Section | CONSENT |
| Item No. | <i>#1,0.2.</i> |

AGENDA REPORT
BREVARD COUNTY BOARD OF COUNTY COMMISSIONERS

| | |
|--------------|--|
| SUBJECT: | ACKNOWLEDGE RECEIPT OF ANNUAL AUDITED FINANCIAL STATEMENTS OF THE MONTECITO COMMUNITY DEVELOPMENT DISTRICT FOR FY 2014-2015 |
| DEPT/OFFICE: | BUDGET OFFICE |

Requested Action:

It is requested that the Board of County Commissioners acknowledge receipt of the Annual Audited Financial Statements for the Montecito Community Development District for FY 2014-2015.

Summary Explanation & Background:

In accordance with Florida Statute 218.32(1)(b), the Montecito Community Development District is providing to the Brevard County Board of County Commissioners a copy of their annual audit reflecting the financial status of the independent special district for FY 2014-2015.

Fiscal Impact: There is no financial impact.

Clerk to the Board instruction:

Exhibits Attached: Audited Financial Statements of the Montecito Community Development District for FY 2014-2015.

Contract /Agreement (If attached): Reviewed by County Attorney Yes No PR

County Manager

Stockton Whitten

Assistant County Manager

Department Director / Extension

Thomas Rosenberg/52854



Tammy Rowe, Clerk to the Board, 400 South Street • P.O. Box 999; Titusville, Florida 32781-0999

Telephone: (321) 637-2001
Fax: (321) 264-6972
Tammy.Rowe@brevardclerk.us

August 10, 2016

MEMORANDUM

TO: Tom Rosenberg, Budget Director

RE: Item II.D.2., Acknowledge Receipt of Annual Audited Financial Statements of the Montecito Community Development District for FY 2014-2015

The Board of County Commissioners, in regular session on August 9, 2016, acknowledged receipt of the annual audited Financial Statements of the Montecito Community Development District for FY 2014-2015.

Your continued cooperation is greatly appreciated.

Sincerely yours,

BOARD OF COUNTY COMMISSIONERS
SCOTT ELLIS, CLERK

for Donna Scott
Tammy Rowe, Deputy Clerk

/ds

cc: Finance



MONTECITO COMMUNITY DEVELOPMENT DISTRICT
3434 Colwell Avenue, Suite 200, Tampa, Florida 33614

July 1, 2016

Brevard County Clerk of Court
Scott Ellis
400 South Street
Titusville, FL 32780

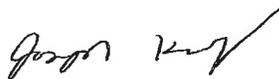
RE: Montecito Community Development District

To Whom It May Concern:

Pursuant to Section 11.45, Florida Statutes, and Section 189.418, Florida Statutes, an independent special district in one county must file its Annual Financial Audit Report with the Office of the Auditor General and the Clerk of the County governing within 45 days of audit completion and within 9 months of fiscal year end. One copy of the report must be submitted to the Clerk of the Board of County Commissioners.

Accordingly, enclosed is one copy of the Annual Financial Audit Report for the Fiscal Year Ended September 30, 2015 for the above referenced district. Please call me at (813) 933-5571 with any questions.

Sincerely,



Joseph Kennedy

Enclosures



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

**MONTECITO COMMUNITY DEVELOPMENT DISTRICT
SATELLITE BEACH, FLORIDA**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Montecito Community Development District
Satellite Beach, Florida

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. Except as discussed in the following paragraph, 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.

Basis for Adverse Opinion on Special Purpose Entity Fund and Qualified Opinion on Governmental Activities

Management has not included the special purpose entity fund, (a special revenue fund that accounts for the activities of the special purpose entity ("SPE")), a blended component unit of the District. Accounting principles generally accepted in the United States of America require the special revenue fund to be presented as a major fund and financial information about the special revenue fund to be part of the governmental activities, thus increasing that activity's assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses, and changing its net position. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses of the governmental activities and the omitted major fund has not been determined.

Basis for Qualified Opinion on the Capital Projects Fund

The District was unable to provide sufficient competent evidential matter for certain expenditures paid for by the Trustee from the capital projects fund. The financial information of the capital projects fund is part of the governmental activities and is considered a major fund.

Adverse Opinion

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Special Purpose Entity Fund and Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the special purpose entity fund of the District, as of September 30, 2015, or the changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Qualified Opinions

In our opinion, except for the possible effects of the matters discussed in the "Basis for Adverse Opinion on Special Purpose Entity Fund and Qualified Opinion on Governmental Activities" paragraph and the "Basis for Qualified Opinion on the Capital Projects Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and capital projects fund of the District, as of September 30, 2015, and the changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the general fund and the debt service fund of the District as of September 30, 2015, and the respective changes in financial position, thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 6 and other referenced notes to the financial statements, the District's financial conditions continue to deteriorate. The Developer and certain major landowners failed to pay a significant portion of the assessments in fiscal years 2009 – 2015 resulting in significant delinquent assessments. As a result, certain required debt service payments were not made during the prior, current, and subsequent fiscal years, resulting in events of default. Further, the debt service fund reported a deficit fund balance at the end of the fiscal year. The District is economically dependent on the Developer and major landowners. Our opinion is not modified with respect to this matter.

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 30, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

We have also issued our report dated June 30, 2016, on our consideration of the District's compliance with the requirements of Section 218.415, Florida Statutes, as required by Rule 10.556(10) of the Auditor General of the State of Florida. The purpose of that report is to provide an opinion based on our examination conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.



June 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Montecito Community Development District, Satellite Beach, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2015. Please read it in conjunction with the District's Independent Auditor's Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year resulting in a net position balance of \$1,487,634.
- The change in the District's total net position in comparison with the prior year was \$554,859, 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, 2015, the District's governmental funds reported combined ending deficit fund balances of (\$7,553,465), an increase of \$1,001,702 in comparison with the prior fiscal year. A portion of fund balance is restricted for capital projects and default expenditures and non-spendable for prepaid items and deposits, (\$13,782,493) is unassigned, deficit fund balance reported in the debt service fund, and the remainder is unassigned fund balance which is available for spending at the District's discretion.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is 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), maintenance and recreation functions.

Fund Financial Statements

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

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Governmental Funds

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

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

The District maintains three 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 project fund, all of which are 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, assets exceeded liabilities at the close of the most recent fiscal year.

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

| | NET POSITION SEPTEMBER 30, | |
|--|-------------------------------|--------------|
| | Governmental Activities | |
| | 2015 | 2014 |
| Current and other assets | \$ 8,098,622 | \$ 7,203,477 |
| Capital assets, net | 14,353,332 | 14,921,342 |
| Total assets | 22,451,954 | 22,124,819 |
| Liabilities, excluding long-term liabilities | 16,024,320 | 16,142,044 |
| Long-term liabilities | 4,940,000 | 5,050,000 |
| Total liabilities | 20,964,320 | 21,192,044 |
| Net position | | |
| Net investment in capital assets | 1,573,404 | 1,879,017 |
| Restricted for capital projects | 2,009,236 | 1,698,666 |
| Restricted for default expenditures | 326,983 | 43,481 |
| Unrestricted | (2,421,989) | (2,688,389) |
| Total net position | \$ 1,487,634 | \$ 932,775 |

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

A portion of 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. There were significant delinquent assessments for the current and prior fiscal years. In addition, certain debt service assessments were not billed in prior and current fiscal years. The majority of the increase is the result of the collection of certain delinquent and unbilled assessments from the current and prior fiscal years as a result of settlement agreements with the Developer and certain landowners which caused program revenues to exceed 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, | | |
|--|-------------------------|-------------------|
| | Governmental Activities | |
| | 2015 | 2014 |
| Revenues: | | |
| Program revenues | \$ 2,199,929 | \$ 1,477,966 |
| General revenues | 316,936 | 2,037 |
| Total revenues | <u>2,516,865</u> | <u>1,480,003</u> |
| Expenses: | | |
| General government | 339,915 | 363,306 |
| Physical environment | 576,112 | 580,643 |
| Culture and recreation | 144,751 | 140,013 |
| Interest on long-term debt | 901,228 | 931,642 |
| Total expenses | <u>1,962,006</u> | <u>2,015,604</u> |
| Change in net position | 554,859 | (535,601) |
| Net position - beginning | 932,775 | 1,468,376 |
| Net position - ending | <u>\$ 1,487,634</u> | <u>\$ 932,775</u> |

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2015, was \$1,962,006. The costs of the District's activities were paid by program revenues. Program revenues of the District are comprised primarily of assessments and a substantial portion of program revenues were comprised of prepaid assessments for both the current and prior fiscal years. As lots in the District are sold to homeowners, prepaid assessments and related debt paid from those assessments are expected to decrease over time. The increase in program revenues is mainly due to the collection of certain delinquent and unbilled assessments during the current fiscal year. In total, expenses decreased slightly from the prior fiscal year. The majority of the change in expenses results from the decrease in interest due to payments on the Series 2006B Bonds.

GENERAL BUDGETING HIGHLIGHTS

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

The variance between budgeted and actual general fund revenues for the 2015 fiscal year is the result of the collection of certain delinquent and unbilled assessments during the current fiscal year. The actual general fund expenditures for the current fiscal year were lower than budgeted amounts due primarily to anticipated costs which were not incurred in the current fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2015, the District had \$18,548,845 invested in land, infrastructure in progress, various infrastructure capital assets, recreational facilities and furniture, fixtures and equipment. In the government-wide financial statements depreciation of \$4,195,513 has been taken, which resulted in a net book value of \$14,353,332. More detailed information about the District's capital assets is presented in the notes to the financial statements.

Capital Debt

At September 30, 2015, the District had \$4,940,000 in Bonds outstanding for its governmental activities. In addition, \$12,143,521 and \$3,488,755 of past due principal and interest is included in Due to Bondholders, respectively. More detailed information about the District's capital debt is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEARS BUDGETS

As discussed in the notes to the financial statements, there are significant delinquent fiscal year 2009 - 2015 assessments that have not been collected from the Developer and certain major landowners. Consequently, certain debt service payments were not made or were made in part by draws from the reserve and construction accounts. The District initiated foreclosure proceedings in a prior fiscal year for the delinquent assessments which have been dismissed as a result of settlement agreements entered during the current fiscal year and subsequent to fiscal year end. The District is economically dependent on the Developer and major landowners.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide homeowners, 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 Montecito Community Development District's Finance Department at 3434 Colwell Avenue, Suite 200, Tampa, Florida 33614.

FINANCIAL STATEMENTS

**MONTECITO COMMUNITY DEVELOPMENT DISTRICT
SATELLITE BEACH, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015**

| | Governmental Activities |
|---------------------------------------|----------------------------|
| ASSETS | |
| Cash | \$ 255,415 |
| Investments | 52 |
| Due from HOA | 6,417 |
| Assessments related receivables | 439,198 |
| Prepaid items and deposits | 15,448 |
| Restricted assets: | |
| Temporarily restricted | |
| Investments | 7,382,092 |
| Capital assets | |
| Non-depreciable assets | 6,877,652 |
| Depreciable assets, net | 7,475,680 |
| Total assets | 22,451,954 |
| LIABILITIES | |
| Accounts payable and accrued expenses | 7,867 |
| Deposits | 400 |
| Accrued interest payable | 372,233 |
| Due to Bondholders: | |
| Principal | 12,143,521 |
| Interest | 3,488,755 |
| Due to Developer | 11,544 |
| Non-current liabilities: | |
| Due within one year | 120,000 |
| Due in more than one year | 4,820,000 |
| Total liabilities | 20,964,320 |
| NET POSITION | |
| Net investment in capital assets | 1,573,404 |
| Restricted for capital projects | 2,009,236 |
| Restricted for default expenditures | 326,983 |
| Unrestricted | (2,421,989) |
| Total net position | \$ 1,487,634 |

See notes to the financial statements

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

| <u>Functions/Programs</u> | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | |
|--------------------------------------|------------------|----------------------------|--|--|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | | Capital Grants and Contributions |
| Primary government: | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 339,915 | \$ 606,603 | \$ 15,561 | \$ - | \$ 282,249 |
| Physical environment | 576,112 | - | - | 1,686 | (574,426) |
| Culture and recreation | 144,751 | - | - | - | (144,751) |
| Interest on long-term debt | 901,228 | 1,575,648 | 431 | - | 674,851 |
| Total governmental activities | 1,962,006 | 2,182,251 | 15,992 | 1,686 | 237,923 |
| General revenues: | | | | | |
| Unrestricted investment earnings | | | | | 52 |
| Other Revenue | | | | | 35,753 |
| Settlement | | | | | 281,131 |
| Total general revenues | | | | | 316,936 |
| Change in net position | | | | | 554,859 |
| Net position - beginning | | | | | 932,775 |
| Net position - ending | | | | | \$ 1,487,634 |

See notes to the financial statements

**MONTECITO COMMUNITY DEVELOPMENT DISTRICT
SATELLITE BEACH, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS – SEPTEMBER 30, 2015**

| | Major Funds | | | Total Governmental Funds |
|---------------------------------------|-------------------|---------------------|---------------------|--------------------------------|
| | General | Debt Service | Capital Project | |
| ASSETS | | | | |
| Cash | \$ 255,415 | \$ - | \$ - | \$ 255,415 |
| Investments | 52 | 1,412,153 | 5,969,939 | 7,382,144 |
| Due from HOA | 6,417 | - | - | 6,417 |
| Assessments receivable | 1,568 | 3,789 | - | 5,357 |
| Assessments - prepayments receivable | - | 66,745 | - | 66,745 |
| Assessments - settlement receivable | - | 367,096 | - | 367,096 |
| Prepaid items and deposits | 15,448 | - | - | 15,448 |
| Total assets | <u>\$ 278,900</u> | <u>\$ 1,849,783</u> | <u>\$ 5,969,939</u> | <u>\$ 8,098,622</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 7,867 | \$ - | \$ - | \$ 7,867 |
| Deposits | 400 | - | - | 400 |
| Due to Bondholders | - | 15,632,276 | - | 15,632,276 |
| Due to Developer | 11,544 | - | - | 11,544 |
| Total liabilities | <u>19,811</u> | <u>15,632,276</u> | <u>-</u> | <u>15,652,087</u> |
| Fund balances: | | | | |
| Nonspendable: | | | | |
| Prepaid items and deposits | 15,448 | - | - | 15,448 |
| Restricted for: | | | | |
| Default expenditures | - | - | 326,983 | 326,983 |
| Capital projects | - | - | 5,642,956 | 5,642,956 |
| Unassigned | 243,641 | (13,782,493) | - | (13,538,852) |
| Total fund balances | <u>259,089</u> | <u>(13,782,493)</u> | <u>5,969,939</u> | <u>(7,553,465)</u> |
| Total liabilities and fund balances | <u>\$ 278,900</u> | <u>\$ 1,849,783</u> | <u>\$ 5,969,939</u> | <u>\$ 8,098,622</u> |

See notes to the financial statements

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

Fund balance - governmental funds \$ (7,553,465)

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 in the net position of the government as a whole.

| | | |
|--------------------------|--------------------|------------|
| Cost of capital assets | 18,548,845 | |
| Accumulated depreciation | <u>(4,195,513)</u> | 14,353,332 |

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 | (372,233) | |
| Bonds payable | <u>(4,940,000)</u> | <u>(5,312,233)</u> |

| | | |
|---|--|---------------------|
| Net position of governmental activities | | <u>\$ 1,487,634</u> |
|---|--|---------------------|

See notes to the financial statements

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

| | Major Funds | | | Total Governmental Funds |
|--|-------------------|------------------------|---------------------|--------------------------------|
| | General | Debt Service | Capital Project | |
| REVENUES | | | | |
| Assessments | \$ 606,603 | \$ 666,034 | \$ - | \$ 1,272,637 |
| Assessments - prepayments | - | 909,614 | - | 909,614 |
| Developer contributions | 15,561 | - | - | 15,561 |
| Interest income | 52 | 431 | 1,686 | 2,169 |
| Settlement | - | - | 281,131 | 281,131 |
| Miscellaneous | 35,753 | - | - | 35,753 |
| Total revenues | <u>657,969</u> | <u>1,576,079</u> | <u>282,817</u> | <u>2,516,865</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 116,195 | - | 223,720 | 339,915 |
| Physical environment | 113,681 | - | - | 113,681 |
| Culture and recreation | 39,172 | - | - | 39,172 |
| Debt service: | | | | |
| Principal | - | 110,000 | - | 110,000 |
| Interest | - | 912,395 | - | 912,395 |
| Total expenditures | <u>269,048</u> | <u>1,022,395</u> | <u>223,720</u> | <u>1,515,163</u> |
| Excess (deficiency) of revenues over (under) expenditures | 388,921 | 553,684 | 59,097 | 1,001,702 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in (out) | - | (250,000) | 250,000 | - |
| Total other financing sources (uses) | <u>-</u> | <u>(250,000)</u> | <u>250,000</u> | <u>-</u> |
| Net change in fund balances | 388,921 | 303,684 | 309,097 | 1,001,702 |
| Fund balances - beginning | <u>(129,832)</u> | <u>(14,086,177)</u> | <u>5,660,842</u> | <u>(8,555,167)</u> |
| Fund balances - ending | <u>\$ 259,089</u> | <u>\$ (13,782,493)</u> | <u>\$ 5,969,939</u> | <u>\$ (7,553,465)</u> |

See notes to the financial statements

**MONTECITO COMMUNITY DEVELOPMENT DISTRICT
SATELLITE BEACH, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

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

| | |
|--|-------------------|
| Net change in fund balances - total governmental funds | \$ 1,001,702 |
| Depreciation of capital assets is not recognized in the governmental fund statements but is reported as an expense in the statement of activities. | (568,010) |
| Repayments 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. | 110,000 |
| The change in accrued interest on long-term liabilities between the current and prior fiscal year is recorded in the statement of activities but not in the fund financial statements. | 11,167 |
| Change in net position of governmental activities | <u>\$ 554,859</u> |

See notes to the financial statements

**MONTECITO COMMUNITY DEVELOPMENT DISTRICT
SATELLITE BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY

Montecito Community Development District ("District") was established on July 20, 2005 by Ordinance No. 904 of the City of Satellite Beach, Florida, pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The Act provides, among other things, the power to manage basic services for community development, power to borrow money and issue bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure.

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

The District is governed by the Board of Supervisors ("Board"), which is composed of five members. One of the Supervisors is elected on an at large basis by land owners of the District. Four of the Supervisors are elected on an at large basis by qualified electors that reside within the District. The Board of Supervisors of the District exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes. Phoenix Community Developers, Inc. ("Developer") owns land within the District; therefore, the District is economically dependent on the Developer.

The Board has the responsibility for:

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

The financial statements were prepared in accordance with 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, including debt service assessments and operation and maintenance assessments, are non-ad valorem assessments imposed on all lands located within the District and benefitted by the District's activities. Operation and maintenance assessments are levied by the District prior to the start of the fiscal year which begins October 1st and ends on September 30th. Operation and maintenance special assessments are imposed upon all benefitted lands in the District. Debt service assessments are imposed upon certain lots and lands as described in each resolution imposing the special assessments for each Series of Bonds issued by the District. Certain debt service assessments are collected upon the closing of those lots subject to short term debt and are used to prepay a portion of the Bonds outstanding.

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

The District reports the following major governmental funds:

General Fund

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

Debt Service Fund

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

Capital Project Fund

The capital project fund is used to account for financial resources to be used for the acquisition or construction of major infrastructure within the District.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity

Restricted Assets

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

Deposits and Investments

The District's cash on hand and demand deposits are considered to be cash and cash equivalents.

The District has adopted a written investment policy, which complies with the requirements of Section 218.415 Florida Statutes. All investments comply with the requirements of the written investment policy. 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;
- e) Short-term Bond Funds.

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

The District records all interest revenue related to investment activities in the respective funds and reports investments at fair value.

Inventories and Prepaid Items

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

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

Capital Assets

Capital assets which include property, plant and equipment, and infrastructure assets (e.g., roads, sidewalks and similar items) are reported in the governmental 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> |
|-----------------------------------|--------------|
| Roadways | 20 |
| Water & sewer facilities | 25 |
| Stormwater management | 25 |
| Recreational facilities | 15-30 |
| Landscape & streetscape | 15 |
| Furniture, fixtures and equipment | 5 |

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

Capital Assets (Continued)

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 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 time 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

Fund Equity/Net Position (Continued)

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) A public hearing is conducted to obtain comments.
- c) Prior to October 1, the budget is legally adopted by the District Board.
- d) All budget changes must be approved by the District Board.
- e) The budgets are adopted on a basis consistent with generally accepted accounting principles.
- f) Unused appropriation for annually budgeted funds lapse at the end of the year.

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

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

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Investments

The District's investments were held as follows at September 30, 2015:

| | Fair Value | Credit Risk | Weighted Average Maturity |
|--|---------------------|-------------|------------------------------|
| Fidelity Treasury Fund#2016 | \$ 7,382,092 | S&PAAAm | N/A |
| Investment in Local Government Surplus Funds Trust Fund (Florida PRIME) | 52 | S&PAAAm | 29 days |
| Total Investments | <u>\$ 7,382,144</u> | | |

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

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

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

The Bond Indenture limits the type of investments held for unspent bond proceeds.

NOTE 5 – CAPITAL ASSETS

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

| | Beginning Balance | Additions | Disposals | Ending Balance |
|---|----------------------|---------------------|-------------|----------------------|
| <u>Governmental activities</u> | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 6,788,410 | \$ - | \$ - | \$ 6,788,410 |
| Infrastructure under construction | 89,242 | - | - | 89,242 |
| Total capital assets, not being depreciated | <u>6,877,652</u> | - | - | <u>6,877,652</u> |
| Capital assets, being depreciated | | | | |
| Roadways | 1,719,432 | - | - | 1,719,432 |
| Water & sewer facilities | 1,936,187 | - | - | 1,936,187 |
| Stormwater management | 1,660,044 | - | - | 1,660,044 |
| Recreational facilities | 2,704,307 | - | - | 2,704,307 |
| Landscape & streetscape | 3,489,160 | - | - | 3,489,160 |
| Furniture, fixtures and equipment | 162,063 | - | - | 162,063 |
| Total capital assets, being depreciated | <u>11,671,193</u> | - | - | <u>11,671,193</u> |
| Less accumulated depreciation for: | | | | |
| Roadways | (515,456) | (85,972) | - | (601,428) |
| Water & sewer facilities | (464,682) | (77,447) | - | (542,129) |
| Stormwater management | (394,908) | (66,402) | - | (461,310) |
| Recreational facilities | (712,535) | (105,579) | - | (818,114) |
| Landscape & streetscape | (1,377,859) | (232,610) | - | (1,610,469) |
| Furniture, fixtures and equipment | (162,063) | - | - | (162,063) |
| Total accumulated depreciation | <u>(3,627,503)</u> | <u>(568,010)</u> | - | <u>(4,195,513)</u> |
| Total capital assets being depreciated, net | <u>8,043,690</u> | <u>(568,010)</u> | - | <u>7,475,680</u> |
| Governmental activities capital assets, net | <u>\$ 14,921,342</u> | <u>\$ (568,010)</u> | <u>\$ -</u> | <u>\$ 14,353,332</u> |

NOTE 5 – CAPITAL ASSETS (Continued)

The infrastructure intended to serve the District has been estimated at a total cost of approximately \$23,542,000. The infrastructure will include roadways, stormwater management, security and recreational facilities, and landscape/streetscape. The project costs will be funded with the proceeds from the issuance of the Series 2006 Bonds. Upon completion, certain infrastructure improvements will be conveyed to other entities. Phases 1A, 1B, 2A, and 2B were completed in a prior fiscal year. Bids are now being requested to start construction of Phases 2C and 2D which have been on hold. The estimated cost to complete the project is approximately \$2,467,000.

Depreciation expense was charged to the following functions:

| | |
|--------------------------|-------------------|
| Governmental activities: | |
| Physical environment | \$ 462,431 |
| Culture and recreation | 105,579 |
| Total | <u>\$ 568,010</u> |

NOTE 6 – LONG-TERM LIABILITIES

On February 1, 2006, the District issued \$27,565,000 of Special Assessment Bonds, Series 2006 consisting of \$5,690,000 of Term Bonds Series 2006A due on May 1, 2037 with a fixed interest rate of 5.50% and \$21,875,000 of Term Bonds, Series 2006B due on May 1, 2013 with a fixed interest rate of 5.10%. 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. Principal on the Bonds is to be paid serially commencing May 1, 2008 through May 1, 2037.

The Series 2006A Bonds are subject to redemption at the option of the issuer prior to their maturity. The Bonds are subject to extraordinary mandatory redemption prior to their selected maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture. During the current fiscal year, the District collected assessments from lot closings and paid \$525,477 of the outstanding balance of the Series 2006B Bonds. See Note 15 – Subsequent Events for additional call amounts subsequent to fiscal year end.

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 1) levy special assessments in annual amounts adequate to provide payment of debt service and 2) to meet the reserve requirements. The District was not in compliance with the reserve requirements of the Bond Indenture at September 30, 2015.

The Developer and certain major landowners failed to pay a significant portion of the assessments in fiscal years 2009 - 2015. As a result, reserve funds were used to partially pay certain required debt service payments during the prior fiscal years. In addition, during the prior fiscal year, \$31,846 was paid from the Series 2006A Reserve Account to fund certain default related expenses. As a result, there was a deficit in the Series 2006A and Series 2006B reserve accounts of approximately \$226,000 and \$167,000, respectively. Also, certain required debt service payments were not made during the prior, current, and subsequent fiscal years, resulting in events of default. The amount due has been reported in the financial statements as Due to Bondholders and reflects \$12,143,521 due for principal and \$3,488,755 due for interest. See Note 15 for additional information subsequent to fiscal year end.

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

| <u>Governmental activities</u> | Beginning Balance | Additions | Reductions* | Ending Balance | Due Within One Year |
|--------------------------------|----------------------|-------------|-------------------|---------------------|------------------------|
| Bonds payable: | | | | | |
| Series 2006 | \$ 5,050,000 | \$ - | \$ 110,000 | \$ 4,940,000 | \$ 120,000 |
| Total | <u>\$ 5,050,000</u> | <u>\$ -</u> | <u>\$ 110,000</u> | <u>\$ 4,940,000</u> | <u>\$ 120,000</u> |

* Includes \$110,000 for the Series 2006A Bonds due on May 1, 2015 that has not been paid.

NOTE 6 – LONG-TERM LIABILITIES (Continued)

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

| Year ending September 30: | Governmental Activities | | |
|------------------------------|-------------------------|--------------|---------------|
| | Principal | Interest* | Total |
| 2016 | \$ 120,000 | \$ 4,381,985 | \$ 4,501,985 |
| 2017 | 125,000 | 297,275 | 422,275 |
| 2018 | 135,000 | 290,400 | 425,400 |
| 2019 | 140,000 | 282,975 | 422,975 |
| 2020 | 150,000 | 275,275 | 425,275 |
| 2021-2025 | 875,000 | 1,244,375 | 2,119,375 |
| 2026-2030 | 1,155,000 | 974,325 | 2,129,325 |
| 2031-2035 | 1,520,000 | 619,300 | 2,139,300 |
| 2036-2037 | 720,000 | 124,025 | 844,025 |
| Total | \$ 4,940,000 | \$ 8,489,935 | \$ 13,429,935 |

* The interest for 2016 includes \$3,488,755 of past due interest recorded as Due to Bondholders.

NOTE 7 – DEFICIT FUND BALANCE

The debt service fund reported a deficit fund balance of (\$13,782,493) at September 30, 2015. It is unclear how the deficit will be covered in the near term as the District has not collected most of its delinquent and unbilled debt service assessments to-date.

NOTE 8 – RELATED PARTY TRANSACTIONS

The District has a Developer, Phoenix Community Developers, Inc. ("Developer"), and three major landowners (Satellite Beach Partners, LLC, Towns of Montecito Community Developers, LLC, and Mercedes Homes, Inc.) within the District. The Towns of Montecito Community Developers and Mercedes Homes, Inc. are related to the Developer. Revenues for the fiscal year ended September 30, 2015 include applicable amounts from the Developer and landowners.

The Developer agreed to fund the general operations of the District which could not be funded as a result of the delinquent assessments. In connection with that agreement, Developer contributions to the general fund were \$15,561 for the current fiscal year.

In addition, the Developer and two of the major landowners (Satellite Beach Partners, LLC, and Towns of Montecito Community Developers, LLC,) failed to pay their share of assessments for the current and prior fiscal years, resulting in significant delinquent assessments. The District initiated foreclosure proceedings for the delinquent assessments. As a result, certain debt service assessments on land owned by Satellite Beach Partners, LLC, and Towns of Montecito Community Developers, LLC were not billed in the prior or current fiscal years.

During the fiscal year ended September 30, 2009, a lawsuit was filed against the District by Satellite Beach Partners, LLC (landowner). An un-platted parcel owned by the landowner is the subject of a pending foreclosure suit brought against the District. The lawsuit brought by Satellite Beach Partners, LLC asserts fraud, breach of fiduciary duties and numerous other grounds related to the District's foreclosure suit. The Satellite Beach Partners case and the District's foreclosure case were consolidated for discovery and trial. National City Bank filed a counterclaim against the District in relation to the suit alleging that the District's interest is subordinate to that of the bank and the bank sought to foreclose on its mortgage with Satellite Beach Partners. See Note 10 – Settlement Agreement and Note 15 – Subsequent Events for additional information.

The District's activity is dependent on the continued involvement of the Developer and major landowners. As such, the nonpayment of assessments by the Developer and certain major landowners has resulted in the deterioration of the District's financial condition.

NOTE 9 – TRI-PARTY AGREEMENTS AND SPECIAL PURPOSE ENTITY

As a result of non-collection of assessments from the Developer and major landowners, the District did not make certain debt service payments when due, which constitutes an event of default under the applicable trust indenture. During a prior fiscal year, the District entered into an agreement with the Trustee and Montecito CDD Holding, LLC (SPE). The Trustee, on behalf of the Bondholder, created or caused to be created a SPE to own, manage, and dispose of the Property subject to delinquent Series 2006 assessments. The SPE shall acquire the rights to the delinquent property enforced through tax certificate and tax deed procedures. Under the terms of the agreement, the District will bill the SPE for operations and maintenance (O&M) assessments. However, the debt service assessments will be held in abeyance and continue to constitute a lien on the property. During the current fiscal year, \$12,955 was provided by the SPE to the District. This amount has been included in the general fund operation and maintenance assessments. See Note 10 – Settlement Agreement for additional information pertaining to the SPE.

A second Tri-Party Agreement was entered into between the District, SPE and Trustee related to completion of Phases 2C and 2D of the infrastructure project, described in Note 5. Completion of the improvements will be made using the available funds in the Acquisition and Construction account (from the District's trust estate) and there will be no additional obligation to the District in the event that available proceeds are insufficient to pay for the construction. The construction, supervision and project management of all improvements shall be handled by the SPE. The completion of the improvements shall be determined when the District engineer issues a certificate of completion. Upon completion of the improvements, the SPE will convey the completed infrastructure to the District.

NOTE 10 – SETTLEMENT AGREEMENT

During the current fiscal year, the District entered into a release and settlement agreement with multiple parties, including Satellite Beach Partners, LLC (SBP), Montecito CDD Holding, LLC (SPE), and PCA-Satellite Beach Partners, LLC (PCA). PCA is the mortgage holder which mortgage constitutes a lien upon two parcels in the District – Parcel 2 and Parcel 3 which are owned by SBP. The terms of the agreement include the following SBP obligations: 1) release of all claims against the District, 2) a payment of \$500,000 to the SPE by SBP, 3) conveyance of Parcel 2 to the SPE with assignment of development rights, and 4) payment of certain closing costs. The terms of the agreement include the following PCA obligations: 1) partial release of mortgage which shall fully release Parcel 2 from the lien of the PCA mortgage, 2) release of all claims against the District, and 3) obtaining and filing a dismissal, without prejudice, of the case filed styled National City Bank vs. Satellite Beach Partners, LLC. The terms of the agreement include the following SPE obligations: 1) assignment of all of its approvals, entitlement and development rights applicable to Parcel 3 to SBP, and 2) payment of certain closing costs. The terms of the agreement include the following District obligations: 1) release of all claims against SBP, 2) release of all claims against PCA, 3) execution and delivery of joint motion to dismiss with prejudice cases against SBP, PCA and other named parties in the agreement thereby resolving certain litigation as to the imposition of special assessments and foreclosure of special assessment liens (discussed in further detail in Note 8).

SBP shall retain title to Parcel 3 and be entitled to all development rights for construction of up to 419 residential units on Parcel 3. The SPE shall obtain ownership of Parcel 2 and shall be entitled to all development rights for construction of up to 145 residential units on Parcel 2.

All District general government expenditures assessed against Parcel 3 for the period prior to October 1, 2015 are extinguished and released. Beginning on October 1, 2015, Parcel 3 will be assessed only for its pro-rata share of District's administrative expenses up to an annual maximum of \$60,000. The annual \$60,000 cap for general government expenditures shall expire upon the earlier of (i) the issuance of a certificate of occupancy for the last residential unit to be constructed on Parcel 3 as shown on the owner approved site plan for Parcel 3, or (ii) eight (8) years from the effective date.

In connection with the agreement, the District received \$479,087 from SBP for past due assessments and \$281,131 for closing costs during the current fiscal year.

NOTE 11 – MANAGEMENT COMPANY

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

NOTE 12 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended September 30, 2015 were as follows:

| Fund | Transfers in | Transfers out |
|------------------|--------------|---------------|
| Debt service | \$ - | \$ 250,000 |
| Capital projects | 250,000 | - |
| Total | \$ 250,000 | \$ 250,000 |

Transfers are used to move revenues from the fund where collection occurs to the fund where funds have been reallocated for use. During prior years, as a result of non-payment of operation and maintenance assessments, the District amended the Master Indenture to provide funds for default related expenditures and costs related to the SPE. During the current fiscal year, the District transferred \$250,000 from the revenue account to the default expenditures account. The transfer was approved by the majority bondholder to fund default expenditures for fiscal year 2015. During the current fiscal year, approximately \$164,000 in additional default expenditures and \$60,000 of SPE costs were paid. See Note 15 – Subsequent Events for additional information subsequent to fiscal year end.

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. The District has not filed any claims under this commercial insurance coverage during the last three years.

NOTE 14 – COST SHARE AGREEMENT

On June 1, 2015, the Board approved a maintenance and funding agreement between the District and Montecito Master Community Association ("Association"). The agreement provides for maintenance and funding by the Association of the clubhouse amenity center and pool, as well as certain common areas. Maintenance items covered under the terms of the agreement include: aquatic maintenance of lakes, landscaping replacement, and irrigation pumps repair and maintenance. Certain service contracts will be contracted for by the Association and others by the District. In connection with the agreement, the District received \$32,410, which includes a receivable of \$6,417 at September 30, 2015

NOTE 15 – SUBSEQUENT EVENTS

Bond payments

Subsequent to fiscal year end, the District paid \$736,874 of the principal due for the Series 2006B Bonds from prepayments collected from lot closings. An interest payment of \$211,552 was also made in November 2015, but no other debt service payments were made for the Series 2006B Bonds subsequent to fiscal year end (including the May 2016 payment due).

Subsequent to fiscal year end, the District did not collect sufficient assessments in the revenue account to make the November 2015 Series 2006A interest payment (and pay the delinquent May 2015 interest). Accordingly, \$105,455 was transferred from the Acquisition and Construction account to pay the delinquent May 2015 interest payment and make the November 2015 interest payment. Additionally, a principal payment of \$2,915,000 was made on the Series 2006A Bonds in November 2015, of which \$2,914,995 was transferred from the Acquisition and Construction account.

NOTE 15 – SUBSEQUENT EVENTS (Continued)

Default expenditures

Subsequent to fiscal year end, approximately \$278,000 in additional default related expenditures, including expenditures relating to the operation of the SPE, have been paid by the District from the default expenditures account.

Settlement Agreement

Subsequent to fiscal year end, the District entered into a settlement agreement with the Trustee, Towns of Montecito Community Developers, LLC (“Towns”) and the Developer. In accordance with the agreement, Towns will transfer its rights, title and interest in certain unplatted parcels of land within the District to the SPE. Additionally, Towns and the Developer will pay certain past due Series 2006B assessments. Once payment is fully made, the B Bond special assessments on the property still owned by the Developer will be extinguished and cancelled. Additionally, the District, Towns and the Developer will execute a joint motion to dismiss and agreed order thereby resolving the litigation as to the imposition of special assessments and foreclosure of special assessment liens (discussed in further detail in Note 8). In connection with the settlement agreement, the District collected \$367,096 subsequent to fiscal year end.

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

| | Original and Final Budget | Actual Amounts | Variance with Budget - Positive (Negative) |
|--|------------------------------|-------------------|--|
| REVENUES | | | |
| Assessments | \$ 367,530 | \$ 606,603 | \$ 239,073 |
| Developer contributions | - | 15,561 | 15,561 |
| Interest and other revenues | - | 35,805 | 35,805 |
| Total revenues | <u>367,530</u> | <u>657,969</u> | <u>290,439</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 125,625 | 116,195 | 9,430 |
| Physical environment | 177,430 | 113,681 | 63,749 |
| Culture and recreation | 64,475 | 39,172 | 25,303 |
| Total expenditures | <u>367,530</u> | <u>269,048</u> | <u>98,482</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ -</u> | <u>388,921</u> | <u>\$ 388,921</u> |
| Fund balance - beginning | | <u>(129,832)</u> | |
| Fund balance - ending | | <u>\$ 259,089</u> | |

See notes to required supplementary information

**MONTECITO COMMUNITY DEVELOPMENT DISTRICT
SATELLITE BEACH, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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

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

The variance between budgeted and actual general fund revenues for the 2015 fiscal year is the result of the collection of certain delinquent and unbilled assessments during the current fiscal year. The actual general fund expenditures for the current fiscal year were lower than budgeted amounts 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
Montecito Community Development District
Satellite Beach, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Montecito Community Development District, Satellite Beach, Florida ("District") as of and for the fiscal year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our opinion thereon dated June 30, 2016, which includes explanatory paragraphs regarding the adverse opinion on the special purpose entity fund and the qualified opinion for the governmental activities as to the departure from generally accepted accounting principles and the qualified opinion for the capital projects fund due to the lack of sufficient competent evidential matter and emphasis of matters 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 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 involving the internal control over financial reporting and compliance that we have reported to management of the District in a separate letter dated June 30, 2016.

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

Purpose of this Report

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

Brew & Associates

June 30, 2016



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**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
Montecito Community Development District
Satellite Beach, Florida

We have examined Montecito Community Development District, Satellite Beach, Florida's ("District") compliance with the requirements of Section 218.415, Florida Statutes, in accordance with Rule 10.556(10) of the Auditor General of the State of Florida during the fiscal year ended September 30, 2015. Management is responsible for District's compliance with those requirements. Our responsibility is to express an opinion on District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the fiscal year ended September 30, 2015, except that the individual assigned to make investment decisions did not have the required hours of continuing education for the year. The District should adopt the alternative guidelines for investments according to Florida Statute 218.415 or ensure the investment officer obtains the required hours.

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

Grau & Associates

June 30, 2016



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

To the Board of Supervisors
Montecito Community Development District
Satellite Beach, Florida

Report on the Financial Statements

We have audited the accompanying basic financial statements of Montecito Community Development District, Satellite Beach, Florida (the "District") as of and for the fiscal year ended September 30, 2015, and have issued our report thereon dated June 30, 2016, which includes explanatory paragraphs regarding the adverse opinion on the special purpose entity fund and the qualified opinion for the governmental activities as to the departure from generally accepted accounting principles and the qualified opinion for the capital projects fund due to the lack of sufficient competent evidential matter and emphasis of matters paragraph.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Florida Auditor General.

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*; and Independent Auditor's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated June 30, 2016, should be considered in conjunction with this management letter.

Purpose of this Letter

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

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

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

We wish to thank the District 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 30, 2016

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2015-01 Financial Condition Assessment:

Observation: The District's financial conditions continue to deteriorate. The Developer and certain major landowners failed to pay a significant portion of the assessments in fiscal years 2009 – 2015 resulting in significant delinquent assessments. As a result, reserve funds were used to partially pay certain required debt service payments during prior fiscal years. In addition, certain required debt service payments were not made during the prior, current, and subsequent fiscal years, resulting in events of default. The reserve requirements have not been met as a result of the financial condition of the District. Further, the debt service fund reported a deficit fund balance at the end of the fiscal year.

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

Management Response: The District and Bondholders are working to alleviate this issue through efforts to collect delinquent assessments. The District, Trustee and SPE entered into a Tri-Party agreement. The Trustee, on behalf of the Bondholder, created or caused to be created a SPE to own, manage and dispose of the property subject to the delinquent Series 2006 assessments. Under the terms of the agreement the District will bill the SPE for operations and maintenance assessments. However the debt service assessments will be held in abeyance and continue to constitute a lien on the property. The operations of the SPE will be funded from amounts on deposit in the funds and accounts comprising the Series 2006 Trust Estate and proceeds from the sale of the delinquent property. If the SPE is successful in selling the land the amount of debt service assessments to be collected by the district is uncertain at this time. During the current fiscal year, the District entered into a release and settlement agreement with multiple parties, including Satellite Beach Partners, LLC (SBP), Montecito CDD Holding, LLC (SPE), and PCA Satellite Beach Partners, LLC (PCA). See Note 10- Settlement agreement for more information. Subsequent to fiscal year end, the District entered into a settlement agreement with the Trustee, Towns of Montecito Community Developers, LLC ("Towns") and the Developer. In accordance with the agreement, Towns will transfer its rights, title and interest in certain unplatted parcels of land within the District to the SPE. Additionally, Towns and the Developer will pay certain past due Series 2006B assessments. Once payment is fully made, the B Bond special assessments on the property still owned by the Developer will be extinguished and cancelled. Additionally, the District, Towns and the Developer will execute a joint motion to dismiss and agreed order thereby resolving the litigation as to the imposition of special assessments and foreclosure of special assessment liens (discussed in further detail in Note 8). In connection with the settlement agreement, the District collected \$367,096 subsequent to fiscal year end. In addition the District did not receive supporting documents for some of the default expenditures paid by the Trustee out of the Trust accounts.

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2009-02, 2010-02, 2011-02, 2012-03, 2013-04, 2014-01 Financial Condition Assessment

Current Status: See finding 2015-01 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, 2014, except as noted above.

REPORT TO MANAGEMENT (Continued)

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

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported for the fiscal year ended September 30, 2015, except as noted above.

3. Noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported, for the fiscal year ended September 30, 2015, except as noted above.

4. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.
5. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2015 financial audit report.
6. In connection with our audit, we determined that the District has 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 when due during the current and prior fiscal years, as a result of a lack of funds, due to the Developer and certain major landowners' failure to pay a significant portion of assessments. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and determined that deteriorating financial conditions were 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.