

**MADEIRA  
COMMUNITY DEVELOPMENT DISTRICT  
CITY OF ST. AUGUSTINE, FLORIDA  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2015**

**MADEIRA COMMUNITY DEVELOPMENT DISTRICT  
CITY OF ST. AUGUSTINE, FLORIDA**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors  
Madeira Community Development District  
City of St. Augustine, Florida

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

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

## Emphasis of Matters

As discussed in Note 6 and other referenced notes to the basic financial statements, the District's financial conditions are deteriorating. The Developer failed to pay its full share of the fiscal year 2010 and 2011 assessments. As a result, the District did not have sufficient funds to make certain scheduled debt service payments and as a result, the payments were not made, resulting in events of default. Furthermore, certain debt service assessments for fiscal year 2011 through 2015 were not billed. Additionally, as a result of the delinquent and unbilled assessments, the debt service fund reported a deficit fund balance of (\$6,156,711) at September 30, 2015. 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 23, 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 23, 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 23, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### FINANCIAL HIGHLIGHTS

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year resulting in a deficit net position balance of (\$10,246,945).
- The change in the District's total net position in comparison with the prior fiscal year was \$1,175,608, 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 (\$5,974,925), an increase of (\$2,192,724) in comparison with the prior fiscal year. Of the total fund balance, \$9,070 is non-spendable for prepaid items and deposits, \$51,585 is restricted for capital projects, (\$6,156,711) is deficit unassigned 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 assessments. 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

#### 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 for external reporting. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund and capital projects fund. All of the funds 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, liabilities exceeded assets at the close of the most recent fiscal year.

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

	NET POSITION	
	SEPTEMBER 30,	
	2015	2014
Current and other assets	\$ 492,348	\$ 484,588
Capital assets, net of depreciation	12,989,908	13,250,283
Total assets	<u>13,482,256</u>	<u>13,734,871</u>
Current liabilities	6,914,201	4,737,424
Long-term liabilities	16,815,000	20,420,000
Total liabilities	<u>23,729,201</u>	<u>25,157,424</u>
Net position		
Net investment in capital assets	(4,708,709)	(5,947,838)
Restricted for:		
Capital projects	51,585	51,588
Unrestricted	(5,589,821)	(5,526,303)
Total net position	<u>\$ (10,246,945)</u>	<u>\$ (11,422,553)</u>

## GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

A portion of the District's net position reflects 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 landowners; 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 by \$1,175,608 during the most recent fiscal year. As discussed in Note 8, there were significant delinquent 2010 and 2011 assessments due from the Developer. In addition, certain debt service assessments were not billed in the 2012 to 2015 fiscal years. The majority of the increase is the result of the collection of certain delinquent and unbilled assessments from fiscal year 2010 to 2015 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,		
	2015	2014
Revenues:		
Program revenues		
Charges for services	\$ 2,693,968	\$ 1,605,304
Operating grants and contributions	8,344	137,267
Capital grants and contributions	10	9
Total revenues	<u>2,702,322</u>	<u>1,742,580</u>
Expenses:		
General government	81,989	103,987
Maintenance and operations	321,553	336,537
Interest	1,123,172	1,171,149
Total expenses	<u>1,526,714</u>	<u>1,611,673</u>
Change in net position	1,175,608	130,907
Net position - beginning	(11,422,553)	(11,553,460)
Net position - ending	<u>\$ (10,246,945)</u>	<u>\$ (11,422,553)</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 \$1,526,714. The costs of the District's activities were paid by program revenues. Program revenues, comprised primarily of assessments, increased primarily as a result of an increase in the collection of certain delinquent and unbilled assessments from fiscal years 2010 to 2015 during the current fiscal year. The District also received funds from the Developer to fund operations. The majority of the change in expenses results from the decrease in interest due to prepayments on the Series 2007B 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 for the fiscal year ended September 30, 2015 did not exceed appropriations. Actual general fund expenditures for the fiscal year ended September 30, 2015 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, 2015, the District had \$13,901,220 invested in land, land improvements, roadways, water and sewer, stormwater, and other infrastructure for its governmental activities. In the government-wide financial statements depreciation of \$911,312 has been taken, which resulted in a net book value of \$12,989,908. 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 \$16,815,000 in Bonds outstanding for its governmental activities and owed \$6,442,281 to the Bondholders for amounts not paid. More detailed information about the District's capital debt is presented in the notes to the financial statements.

## ECONOMIC FACTORS AND NEXT YEARS BUDGET

As discussed in the notes to the basic financial statements, there are significant delinquent prior fiscal year assessments that have not been collected due to the Developer's failure to pay its assessments. Consequently, the District did not have sufficient funds to make certain debt service payments. As a result, certain scheduled debt service payments were made, in part, by draws on the Debt Service Reserve Account and the Construction Account. In addition, certain scheduled debt service payments were not made in the prior and current fiscal years, and subsequent to fiscal year end, resulting in events of default. The District is economically dependent on the Developer.

The District does not anticipate any major projects or significant changes to its infrastructure maintenance program for the subsequent fiscal year. In addition, it is anticipated that the general operations of the District will decrease slightly.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

## **FINANCIAL STATEMENTS**

**MADEIRA COMMUNITY DEVELOPMENT DISTRICT  
CITY OF ST. AUGUSTINE, FLORIDA  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2015**

	Governmental Activities
<b>ASSETS</b>	
Cash	\$ 108,208
Assessment receivable	59,896
Prepaid items and deposits	9,070
Restricted assets:	
Investments	315,174
Capital assets:	
Nondepreciable	6,090,000
Depreciable, net	6,899,908
Total assets	13,482,256
 <b>LIABILITIES</b>	
Accounts payable and accrued expenses	4,992
Unearned revenues	20,000
Accrued interest payable	446,928
Due to Bondholders:	
Principal	2,955,000
Interest	3,487,281
Non-current liabilities:	
Due within one year	350,000
Due in more than one year	16,465,000
Total liabilities	23,729,201
 <b>NET POSITION</b>	
Net investment in capital assets	(4,708,709)
Restricted for:	
Capital projects	51,585
Unrestricted	(5,589,821)
Total net position	\$ (10,246,945)

See notes to the financial statements

**MADEIRA COMMUNITY DEVELOPMENT DISTRICT  
CITY OF ST. AUGUSTINE, 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	
Primary government:				
Governmental activities:				
General government	\$ 81,989	\$ 81,989	\$ 8,245	\$ -
Maintenance and operations	321,553	133,342	-	10
Interest on long-term debt	1,123,172	2,478,637	99	-
Total governmental activities	1,526,714	2,693,968	8,344	10
				1,175,608
				(11,422,553)
				\$ (10,246,945)

See notes to the financial statements

**MADEIRA COMMUNITY DEVELOPMENT DISTRICT  
CITY OF ST. AUGUSTINE, FLORIDA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2015**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
<b>ASSETS</b>				
Cash	\$ 108,208	\$ -	\$ -	\$ 108,208
Investments	-	263,589	51,585	315,174
Assessment receivable	-	59,896	-	59,896
Due from other funds	17,915	-	-	17,915
Prepaid items and deposits	9,070	-	-	9,070
Total assets	<u>\$ 135,193</u>	<u>\$ 323,485</u>	<u>\$ 51,585</u>	<u>\$ 510,263</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 4,992	\$ -	\$ -	\$ 4,992
Due to other funds	-	17,915	-	17,915
Unearned revenues	-	20,000	-	20,000
Due to Bondholders	-	6,442,281	-	6,442,281
Total liabilities	<u>4,992</u>	<u>6,480,196</u>	<u>-</u>	<u>6,485,188</u>
Fund balances:				
Nonspendable:				
Prepaid items and deposits	9,070	-	-	9,070
Restricted for:				
Capital projects	-	-	51,585	51,585
Unassigned, reported in:				
General fund	121,131	-	-	121,131
Debt service fund	-	(6,156,711)	-	(6,156,711)
Total fund balances	<u>130,201</u>	<u>(6,156,711)</u>	<u>51,585</u>	<u>(5,974,925)</u>
Total liabilities and fund balances	<u>\$ 135,193</u>	<u>\$ 323,485</u>	<u>\$ 51,585</u>	<u>\$ 510,263</u>

See notes to the financial statements

**MADEIRA COMMUNITY DEVELOPMENT DISTRICT  
CITY OF ST. AUGUSTINE, FLORIDA  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2015**

Fund balance - governmental funds \$ (5,974,925)

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

Capital assets used in governmental activities are not financial resources; 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	13,901,220	
Accumulated depreciation	<u>(911,312)</u>	12,989,908

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	(446,928)	
Bonds payable, less matured principal	<u>(16,815,000)</u>	<u>(17,261,928)</u>
Net position of governmental activities		<u><u>\$ (10,246,945)</u></u>

See notes to the financial statements

**MADEIRA COMMUNITY DEVELOPMENT DISTRICT  
CITY OF ST. AUGUSTINE, FLORIDA  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
<b>REVENUES</b>				
Assessments	\$ 215,331	\$ 2,492,254	\$ -	\$ 2,707,585
Developer contributions	8,245	-	-	8,245
Interest revenue	-	99	10	109
Total revenues	<u>223,576</u>	<u>2,492,353</u>	<u>10</u>	<u>2,715,939</u>
<b>EXPENDITURES</b>				
Current:				
General government	72,036	9,953	-	81,989
Maintenance and operations	61,178	-	-	61,178
Debt Service:				
Principal	-	3,605,000	-	3,605,000
Interest	-	1,160,496	-	1,160,496
Total expenditures	<u>133,214</u>	<u>4,775,449</u>	<u>-</u>	<u>4,908,663</u>
Excess (deficiency) of revenues over (under) expenditures	90,362	(2,283,096)	10	(2,192,724)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in / (out)	-	13	(13)	-
Total other financing sources (uses)	<u>-</u>	<u>13</u>	<u>(13)</u>	<u>-</u>
Net change in fund balances	90,362	(2,283,083)	(3)	(2,192,724)
Fund balances - beginning	<u>39,839</u>	<u>(3,873,628)</u>	<u>51,588</u>	<u>(3,782,201)</u>
Fund balances - ending	<u>\$ 130,201</u>	<u>\$ (6,156,711)</u>	<u>\$ 51,585</u>	<u>\$ (5,974,925)</u>

See notes to the financial statements

**MADEIRA COMMUNITY DEVELOPMENT DISTRICT  
CITY OF ST. AUGUSTINE, 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	\$ (2,192,724)
Depreciation on capital assets is not recognized in the governmental fund statements but is reported as an expense in the statement of activities.	(260,375)
Certain revenues were unavailable for the governmental fund financial statements in the prior fiscal year. In the current fiscal year, these revenues were recorded in the governmental fund financial statements.	(13,617)
Repayment of long-term liabilities are reported as expenditures in the governmental fund statement but such repayments reduce liabilities in the statement of net position and are eliminated in the statement of activities.	3,605,000
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.	37,324
Change in net position of governmental activities	<u><u>\$ 1,175,608</u></u>

See notes to the financial statements

**MADEIRA COMMUNITY DEVELOPMENT DISTRICT  
CITY OF ST. AUGUSTINE, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS**

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

Madeira Community Development District ("District") was established on June 6, 2006, under the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The District was established by rule 42CCC-1, adopted under Chapter 120 by the Florida Land and Adjudicatory Commission. 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 Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes. The Supervisors are elected on an at large basis by landowners of the District. At September 30, 2015, four of the Board members are affiliated with Ponce Associates, LLC (the "Developer").

The Board has the final 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 benefited by the District's activities. Operations and maintenance assessments are levied by the District prior to the start of the fiscal year which begins October 1<sup>st</sup> and ends on September 30<sup>th</sup>. Operation and maintenance special assessments are imposed upon all benefitting lands in the District as set forth in the District's assessment methodology. Debt service special assessments are imposed upon certain lots and lands described in each resolution imposing the special assessment 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 Projects Fund**

This fund accounts for the financial resources to be used for the acquisition or construction of major infrastructure within the District.

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

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

## 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 completed.

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>
Roadway improvements	30
Stormwater management	30
Water and sewer	30
Landscape and other improvements	30

## **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 times as the revenue becomes available.

#### Fund Equity/Net Position

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

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

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

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

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

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

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

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) 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	Maturities
US Bank Money Market Account- Managed	\$ 315,174	N/A	N/A
Total Investments	\$ 315,174		

*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 and land improvements	\$ 6,090,000	\$ -	\$ -	\$ 6,090,000
Total capital assets, not being depreciated	6,090,000	-	-	6,090,000
Capital assets, being depreciated				
Roadway improvements	4,340,149	-	-	4,340,149
Stormwater Management	157,875	-	-	157,875
Water and sewer	1,027,141	-	-	1,027,141
Landscape and other improvements	2,286,055	-	-	2,286,055
Total capital assets, being depreciated	7,811,220	-	-	7,811,220
Less accumulated depreciation for:				
Roadway improvements	361,680	144,672	-	506,352
Stormwater Management	13,157	5,263	-	18,420
Water and sewer	85,595	34,238	-	119,833
Landscape and other improvements	190,505	76,202	-	266,707
Total accumulated depreciation	650,937	260,375	-	911,312
Total capital assets, being depreciated, net	7,160,283	(260,375)	-	6,899,908
Governmental activities capital assets, net	\$ 13,250,283	\$ (260,375)	\$ -	\$ 12,989,908

The project was originally estimated to cost \$36,077,020. However, during a prior fiscal year, the project was amended to eliminate certain components and the District engineer certified the Series 2007 project complete for an amount totaling \$15,528,168. A majority of the infrastructure improvements were acquired from the Developer. In the prior fiscal year, certain infrastructure improvements were conveyed to the City of St. Augustine. It is expected that additional infrastructure will be conveyed to other entities in a subsequent fiscal year for ownership and maintenance responsibilities.

Depreciation expense was charged to the maintenance and operations function.

## NOTE 6 – LONG-TERM LIABILITIES

On May 4, 2007, the District issued Special Assessment Revenue Bonds, Series 2007, consisting of \$18,545,000 Term Bonds Series 2007A due on May 1, 2039 with a fixed interest rate of 5.45% and \$26,455,000 Term Bonds Series 2007B due on November 1, 2014 with a fixed interest rate of 5.25%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is paid semiannually on each May 1 and November 1. Principal on the Series 2007A Bonds is paid serially commencing May 1, 2010 through May 1, 2039. The Series 2007B Bonds matured on November 1, 2014.

The Series 2007A Bonds are subject to redemption at the option of the District prior to their maturity. The Series 2007B 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. During the current fiscal year, the District collected assessments from lot closings and paid \$855,000 of the outstanding balance of the Series 2007B Bonds. See Note 11 - 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 related principally to the use of proceeds to pay for infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agrees 1) to levy special assessments in annual amounts adequate to provide payment of debt service and 2) to meet the reserve requirements.

During the current and prior fiscal years, the Developer and a major landowner failed to make payment on the special assessments which ultimately secure the Bonds. As a result, certain scheduled debt service payments in prior fiscal years were made, in part, by draws on the Debt Service Reserve Accounts. In addition, certain scheduled debt service payments due in the current and prior fiscal years were not made. In a prior fiscal year, the District certified the construction project complete and excess construction funds were used to prepay a portion of the Series 2007B Bonds. Also, the amounts on deposit in the remainder of the Trust Accounts for the Series 2007A and 2007B Bonds were used to pay a portion of the accrued and delinquent interest on both Series. The remaining delinquent amounts due have been accrued on the fund financial statements as due to Bondholders and reflects \$2,955,000 due for principal and \$3,487,281 due for interest. The inability of the District to pay its debt service is considered an event of default. Furthermore, the occurrence of an event of default creates certain remedial rights and remedies in favor of the Trustee. In accordance with this provision, funds from the Debt Service Reserve Account were used to pay legal and other fees associated with the default on the Series 2007 Bonds. Additionally, during a prior fiscal year, transfers were made from the Debt Service Reserve Accounts to fund general operations of the District. As a result of these payments and draws made in prior fiscal years to finance debt service payments, the District reported deficits of approximately \$1,172,000 and \$167,000 in the Series 2007A and 2007B Debt Service Reserve Accounts, respectively, at September 30, 2015. During the current fiscal year partial interest and principal payments were made on balances due to the Bondholders amounting to \$1,607,461. See Note 11 – Subsequent Events for additional information.

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

	Beginning Balance	Additions	Reductions*	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 2007	\$ 20,420,000	\$ -	\$ 3,605,000	\$ 16,815,000	\$ 350,000
Total	<u>\$ 20,420,000</u>	<u>\$ -</u>	<u>\$ 3,605,000</u>	<u>\$ 16,815,000</u>	<u>\$ 350,000</u>

\* Includes \$2,420,000 due on November 1, 2014 for the Series 2007B Bonds and \$330,000 due on May 1, 2015 for the Series 2007A Bonds which was not 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	\$ 350,000	\$ 4,559,065	\$ 4,909,065
2017	370,000	1,024,393	1,394,393
2018	390,000	1,004,228	1,394,228
2019	410,000	982,973	1,392,973
2020	435,000	897,103	1,332,103
2021-2025	2,565,000	3,784,753	6,349,753
2026-2030	3,365,000	3,004,040	6,369,040
2031-2035	4,420,000	1,978,078	6,398,078
2036-2039	4,510,000	630,838	5,140,838
Total	<u>\$ 16,815,000</u>	<u>\$ 17,865,471</u>	<u>\$ 34,680,471</u>

\* The interest for 2016 includes \$3,487,281 of past due interest recorded as Due to Bondholders.

## NOTE 7 – DEFICIT FUND EQUITY

The debt service fund had a deficit fund balance of (\$6,156,711) 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 fiscal year 2013 - 2015 Debt Service Assessments to-date, and a majority of the fiscal years 2012, 2011 and 2010 Debt Service Assessments remain delinquent as well. In addition, the District has a government-wide net asset deficit of (\$10,246,945) as of September 30, 2015. The deficit primarily relates to capital outlay which has been financed through the issuance of long-term debt but will not be owned or maintained by the District as discussed in Note 5 – Capital Assets.

## NOTE 8 – DEVELOPER TRANSACTIONS & CONCENTRATION

In previous years, the Developer funded the District operations. \$8,245 were contributions made in a prior year for current year expenses.

The Developer owns a majority 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 and also include certain delinquent and unbilled assessments from fiscal year 2010 to 2015 that were paid in the current fiscal year. The District's activity is dependent upon the continued involvement of the Developer. As such, the nonpayment of a significant portion of the assessments by the Developer in the prior and current fiscal years has resulted in the deterioration of the District's financial conditions.

At September 30, 2015, the amount receivable from the Developer for delinquent assessment totaled \$2,601,891 (\$199,031 for the general fund and \$2,402,860 for the debt service fund). Due to uncertainty as to the timing of collection of the remaining balance, an allowance of \$2,601,891 was created to offset the receivable. As such, the amount is not recorded as revenue in the financial statements. Furthermore, no debt service assessment was billed on certain lots owned by the Developer for fiscal years 2012 - 2015. However, debt assessments on such lots remain outstanding and are subject to collection pursuant to Florida law.

## NOTE 9 – 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, and other administrative costs.

## **NOTE 10 – 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; natural disasters; and environmental remediation. 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 11 – SUBSEQUENT EVENTS**

### **Debt Service Payments**

On November 1, 2015, an interest payment was due on the Series 2007A/B Bonds and, in addition on May 1, 2016 interest and principal payments were also due. However, shortfalls in the collection of special assessments caused there to be insufficient funds available in the District's trust accounts to fund the Series 2007A/B scheduled payments. In November 2015, the District made a partial redemption of \$80,000 on the Series 2007A Bonds plus accrued interest of \$13,532 and paid \$80,000 of the Series 2007B Bonds plus accrued interest of \$7,898. In April 2016, the District made a partial redemption of \$115,000 on the Series 2007A Bonds plus accrued interest of \$19,160 and paid \$75,000 of the Series 2007B Bonds plus accrued interest of \$7,197. Furthermore, in November 2015 and April 2016, at the direction of the Bondholders, the Trustee made payments of \$43,759 and \$194,881 on the Series 2007A Bonds, respectively, representing a portion on the delinquent interest on the Bonds since November 1, 2011. Also, in November 2015 and April 2016, at the direction of the Bondholders, the Trustee made payments of \$6,490 and \$10,963 on the Series 2007B Bonds, respectively, representing a portion of the delinquent interest on the Bonds since November 1, 2011.

**MADEIRA COMMUNITY DEVELOPMENT DISTRICT  
CITY OF ST. AUGUSTINE, FLORIDA  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

	Budgeted Amounts <u>Original &amp; Final</u>	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
<b>REVENUES</b>			
Assessments	\$ 194,400	\$ 215,331	\$ 20,931
Developer contributions	-	8,245	8,245
Total revenues	194,400	223,576	29,176
<b>EXPENDITURES</b>			
Current:			
General government	96,285	72,036	24,249
Maintenance and operations	98,115	61,178	36,937
Total expenditures	194,400	133,214	61,186
Excess (deficiency) of revenues over (under) expenditures	\$ -	90,362	\$ 90,362
Fund balance - beginning		39,839	
Fund balance - ending		\$ 130,201	

See notes to required supplementary information

**MADEIRA COMMUNITY DEVELOPMENT DISTRICT  
CITY OF ST. AUGUSTINE, 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 for the fiscal year ended September 30, 2015 did not exceed appropriations. Actual general fund expenditures for the fiscal year ended September 30, 2015 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  
Madeira Community Development District  
City of St. Augustine, 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 Madeira Community Development District, City of St. Augustine, 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 23, 2016, which includes an emphasis of matter paragraph.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

We noted certain matters that we have reported to management of the District in a separate letter dated June 23, 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.



June 23, 2016



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

To the Board of Supervisors  
Madeira Community Development District  
City of St. Augustine, Florida

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

*Grau & Associates*

June 23, 2016



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

To the Board of Supervisors  
Madeira Community Development District  
City of St. Augustine, Florida

**Report on the Financial Statements**

We have audited the accompanying basic financial statements of Madeira Community Development District ("District") as of and for the fiscal year ended September 30, 2015, and have issued our report thereon dated June 23, 2016, which includes an emphasis of matter paragraph.

**Auditor's Responsibility**

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

**Other Reports and Schedule**

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*; and Independent Auditor's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated June 23, 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 Madeira Community Development District, City of St. Augustine, 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 23, 2016

## REPORT TO MANAGEMENT

### I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

#### **2015-01 Financial Condition Assessment**

Observation: The District's financial conditions are deteriorating. The Developer failed to pay a significant portion of its assessments during the 2010 and 2011 fiscal years. As a result, certain scheduled debt service payments on the Series 2007A and 2007B Bonds due in fiscal years 2011 - 2015 and subsequent to fiscal year end were not made, resulting in events of default. Furthermore, certain debt service assessments were not billed for the 2012 - 2015 fiscal years as a result of the defaults. In addition, the debt service fund reported a deficit fund balance of (\$6,156,711) at September 30, 2015. In addition the debt service reserve requirements have not been met.

Recommendation: The District should continue to take the necessary steps available to collect outstanding assessments.

Management Response: The District has filed a foreclosure suit, however at the direction of the Bondholders, the District dismissed the suit. The District will resume collection efforts when so directed by the Bondholders.

### II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

#### **2010-02, 2011-02, 2012-02, 2013-02, 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 due on the Series 2007A and 2007B Bonds, as a result of a lack of funds. Such conditions are further discussed in the Findings section within this report. 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.