

**PORTOFINO ISLES
COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2023**

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Portofino Isles Community Development District, City of Port St. Lucie, Florida ("District") as of and for the fiscal year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 on Governmental Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the Special Purpose Entity special revenue fund and the governmental activities of the District, as of September 30, 2023, 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 Qualified Opinions on the Debt Service" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the debt service fund of the District, as of September 30, 2023, 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 capital projects fund of the District as of September 30, 2023, 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.

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

As discussed in Note 1 to the financial statements, management has not recorded 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 that the SPE be recorded as a special revenue fund in the fund financial statements, thus increasing the assets, liabilities and net position of the governmental activities. The amount by which this departure would affect the assets, liabilities and fund balance of the SPE fund, and the assets and net position of the governmental activities has not been determined.

Basis for Qualified Opinions on the Debt Service Fund and Capital Project Fund

The District was unable to provide sufficient competent evidential matter for certain expenditures paid for by the Trustee from the debt service fund in the prior and current years. The financial information of the debt service fund is part of the governmental activities and is considered a major fund.

Emphasis of Matters

As discussed in Note 7 and other referenced notes to the financial statements, the District's financial conditions continue to deteriorate. The former Developer has abandoned the project so the future of the project remains uncertain. The shortfalls in the collection of special assessments caused there to be insufficient amounts available to fund certain debt service payments during prior fiscal years and the current fiscal year, and as a result, the payments were not made. The failures by the District to pay its debt service are considered events of default. Moreover, the District reported a deficit fund balance of (\$5,483,118) in its debt service fund at September 30, 2023. Furthermore, the District and the Trustee, on behalf of the Bondholders, formed a SPE which took title to the Developer's property. The District's activity is dependent upon the continued involvement of the SPE and the Bondholders.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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 Information Included in the Financial Report

Management is responsible for the other information included in the financial report. The other information comprises the information for compliance with FL Statute 218.39 (3) (c) but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2024, 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 solely 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 the effectiveness of the District's 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.

B. Shaw & Associates

February 15, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Portofino Isles Community Development District, City of Port St. Lucie, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2023. Please read it in conjunction with the District's Independent Auditor's Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The liabilities of the District exceeded its assets plus deferred outflows of resources at the close of the most recent fiscal year resulting in a net position deficit balance of (\$6,762,947).
- The change in the District's total net position in comparison with the prior fiscal year was (\$518,736), a decrease. The key components of the District's net position and change in net position are reflected in the table in the government-wide financial analysis section.
- At September 30, 2023, the District's governmental funds reported combined ending deficit fund balances of (\$4,373,088), a decrease of (\$559,201) in comparison with the prior fiscal year. Of the total fund balance, portions are restricted for capital projects, assigned to subsequent year's expenditures, while the remainder is unassigned, deficit fund balance reported in the debt service fund and unassigned fund balance in the general fund.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as the introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual amount being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements include all governmental activities that are principally supported by special assessment revenues and Bondholder contributions. The District does not have any business-type activities. The governmental activities of the District include the general government (management) and maintenance functions.

Fund Financial Statements

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

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Governmental Funds

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

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

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund which are all considered to be major funds.

The Special Purpose Entity ("SPE"), although legally separate from the District, functions for all practical purposes as a component unit of the government. The SPE should be reported as a special revenue fund. However, the District has no access to the financial records of the SPE; therefore, the SPE was omitted from the District's financial report.

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

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

NET POSITION SEPTEMBER 30,		
	2023	2022
Assets, excluding capital assets	\$ 2,127,509	\$ 2,150,611
Capital assets, net of depreciation	5,148,993	5,569,356
Total assets	7,276,502	7,719,967
Deferred outflows of resources	130,213	143,801
Liabilities, excluding long-term liabilities	6,709,662	6,177,979
Long-term liabilities	7,460,000	7,930,000
Total liabilities	14,169,662	14,107,979
Net position		
Net investment in capital assets	(4,234,317)	(4,065,422)
Unrestricted	(2,528,630)	(2,178,789)
Total net position	\$ (6,762,947)	\$ (6,244,211)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The District's net position reflects its investment in capital assets (e.g. land, land improvements, and infrastructure) less any related debt used to acquire those assets that is still outstanding. These assets are used to provide services to residents; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's net position decreased during the most recent fiscal year. The majority of the decrease represents the extent to which the cost of operations and depreciation expense exceeded ongoing program revenues.

Key elements of the change in net position are reflected in the following table:

CHANGES IN NET POSITION FOR THE FISCAL YEAR ENDED SEPTEMBER 30,		
	2023	2022
Revenues:		
Program revenues		
Charges for services	\$ 717,583	\$ 685,670
Operating grants and contributions	217,138	341,640
Capital grants and contributions	56	5
General revenues		
Intergovernmental revenues	216,695	396,803
Unrestricted investment earnings	33,186	5,951
Total revenues	1,184,658	1,430,069
Expenses:		
General government	618,961	249,786
Maintenance and operations	562,906	539,231
Interest	521,527	531,521
Total expenses	1,703,394	1,320,538
Change in net position	(518,736)	109,531
Net position - beginning	(6,244,211)	(6,353,742)
Net position - ending	\$ (6,762,947)	\$ (6,244,211)

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2023 was \$1,703,394. A portion of the costs of the District's activities were paid by program revenues. Program revenues are comprised primarily of assessments and Bondholder contributions. Program revenues increased in the current fiscal year is a result of the increase in Bondholder contributions to pay for default-related costs. The majority of the increase in expenses is due to an increase in SPE related costs.

GENERAL BUDGETING HIGHLIGHTS

An operating budget was adopted and maintained by the governing board for the District pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. The legal level of budgetary control, the level at which expenditures may not exceed budgeted amounts, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2023.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2023, the District had \$12,016,400 invested in capital assets. In the government-wide financial statements depreciation of \$6,867,407 has been taken, which resulted in a net book value of \$5,148,993. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Capital Debt

At September 30, 2023, the District had \$9,515,000 in Bonds outstanding for its governmental activities. More detailed information about the District's capital debt is presented in the notes of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND OTHER EVENTS

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, land owners, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages and the stewardship of the facilities it maintains. If you have questions about this report or need additional financial information, contact the Portofino Isles Community Development District's Finance Department at 5385 N. Nob Hill Road Sunrise, Florida 33351.

**PORTOFINO ISLES COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2023**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 197,413
Investments	906,615
Prepaid items	7,195
Restricted assets:	
Investments	1,016,286
Capital assets:	
Depreciable, net	5,148,993
Total assets	<u>7,276,502</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding (debit)	130,213
Total deferred outflows of resources	<u>130,213</u>
LIABILITIES	
Accounts payable	1,157
Accrued interest payable	209,065
Due to Bondholders:	
Principal	2,055,000
Interest	4,444,440
Non-current liabilities:	
Due within one year*	495,000
Due in more than one year	6,965,000
Total liabilities	<u>14,169,662</u>
NET POSITION	
Net investment in capital assets	(4,234,317)
Unrestricted	(2,528,630)
Total net position	<u>\$ (6,762,947)</u>

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

See notes to the financial statements

**PORTOFINO ISLES COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2023**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:	Expenses				
General government	\$ 618,961	\$ 142,045	\$ -	\$ -	(476,916)
Maintenance and operations	562,906	-	-	56	(562,850)
Interest on long-term debt	521,527	575,538	217,138	-	271,149
Total governmental activities	1,703,394	717,583	217,138	56	(768,617)
General revenues:					
Unrestricted investment earnings					33,186
Intergovernmental and miscellaneous revenues					216,695
Total general revenues					249,881
Change in net position					(518,736)
Net position - beginning					(6,244,211)
Net position - ending					\$ (6,762,947)

See notes to the financial statements

**PORTOFINO ISLES COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2023**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
ASSETS				
Cash and cash equivalents	\$ 197,413	\$ -	\$ -	\$ 197,413
Investments	906,615	1,014,809	1,477	1,922,901
Due from other funds	-	1,513	-	1,513
Prepaid items	7,195	-	-	7,195
Total assets	<u>\$ 1,111,223</u>	<u>\$ 1,016,322</u>	<u>\$ 1,477</u>	<u>\$ 2,129,022</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,157	\$ -	\$ -	\$ 1,157
Due to Bondholders	-	6,499,440	-	6,499,440
Due to other funds	1,513	-	-	1,513
Total liabilities	<u>2,670</u>	<u>6,499,440</u>	<u>-</u>	<u>6,502,110</u>
Fund balances:				
Nonspendable:				
Deposits and prepaid items	7,195	-	-	7,195
Restricted for:				
Capital projects	-	-	1,477	1,477
Assigned:				
Subsequent years' expenditures	223,976	-	-	223,976
Unassigned, reported in:				
Debt service fund	-	(5,483,118)	-	(5,483,118)
General fund	877,382	-	-	877,382
Total fund balances	<u>1,108,553</u>	<u>(5,483,118)</u>	<u>1,477</u>	<u>(4,373,088)</u>
Total liabilities and fund balances	<u>\$ 1,111,223</u>	<u>\$ 1,016,322</u>	<u>\$ 1,477</u>	<u>\$ 2,129,022</u>

See notes to the financial statements

**PORTOFINO ISLES COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, FLORIDA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2023**

Fund balance - governmental funds \$ (4,373,088)

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The statement of net position includes those capital assets, net of any accumulated depreciation, in the net position for the government as a whole.

Cost of capital assets	12,016,400	
Accumulated depreciation	<u>(6,867,407)</u>	5,148,993

Deferred charges on refunding of long-term debt are shown as deferred outflows/inflows of resources in the government-wide financial statements; however, this amount is expensed in the governmental fund financial statements.		130,213
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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	(209,065)	
Bonds payable*	<u>(7,460,000)</u>	<u>(7,669,065)</u>
Net position of governmental activities		<u>\$ (6,762,947)</u>

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

See notes to the financial statements

**PORTOFINO ISLES COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2023**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
REVENUES				
Assessments	\$ 142,045	\$ 575,538	\$ -	\$ 717,583
Bondholder contributions	-	175,000	-	175,000
Intergovernmental revenues	216,695	-	-	216,695
Interest	33,186	42,138	56	75,380
Total revenues	391,926	792,676	56	1,184,658
EXPENDITURES				
Current:				
General government	87,456	531,505	-	618,961
Maintenance and operations	142,328	-	-	142,328
Debt service:				
Principal	-	470,000	-	470,000
Interest	-	512,355	-	512,355
Capital outlay	215	-	-	215
Total expenditures	229,999	1,513,860	-	1,743,859
Excess (deficiency) of revenues over (under) expenditures	161,927	(721,184)	56	(559,201)
Fund balances - beginning	946,626	(4,761,934)	1,421	(3,813,887)
Fund balances - ending	\$ 1,108,553	\$ (5,483,118)	\$ 1,477	\$ (4,373,088)

See notes to the financial statements

**PORTOFINO ISLES COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2023**

Net change in fund balances - total governmental funds	\$ (559,201)
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation on capital assets is not recognized in the governmental fund financial statements but is reported as an expense in the statement of activities.	(420,363)
Repayment of long-term liabilities are reported as expenditures in the governmental fund financial statement but such repayments reduce liabilities in the statement of net position and are eliminated in the statement of activities.	470,000
Amortization of deferred charges is not recognized in the governmental fund statement but is reported as an expense in the statement of activities.	(13,588)
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.	<u>4,416</u>
Change in net position of governmental activities	<u><u>\$ (518,736)</u></u>

See notes to the financial statements

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

NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY

Portofino Isles Community Development District ("District") was created on August 22, 2022 by Ordinance No. 02-80 of the City Council of the City of Port St. Lucie, Florida, pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The Act provides among other things, the power to manage basic services for community development, power to borrow money and issue Bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure.

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

The District is governed by the Board of Supervisors ("Board"), which is composed of five members. The Supervisors are elected by owners of the property within the District. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes.

The Board has the final responsibility for:

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

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

Blended Component Unit

The Special Purpose Entity ("SPE") accounts for the activities of Portofino Isles CDD Holdings, Inc. The Special Purpose Entity ("SPE") owns, manages, maintains, and will sell and/or dispose of the Property for the benefit of the District. The SPE should be reported as a special revenue fund. However, the District has no access to the financial records of the SPE; therefore, the SPE was omitted from the District's financial report.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Assessments

Assessments are non-ad valorem assessments on benefitted property within the District. Operating and Maintenance Assessments are based upon adopted budget and levied annually at a public hearing of the District. Debt Service Assessments are levied when Bonds are issued and assessed and collected on an annual basis. The District may collect assessments directly or utilize the uniform method of collection (Chapter 197.3632, Florida Statutes). Direct collected assessments are due as determined by annual assessment resolution adopted by the Board of Supervisors. Assessments collected under the uniform method are mailed by County Tax Collector on November 1 and due on or before March 31 of each year. Property owners may prepay a portion or all of the Debt Service Assessments on their property subject to various provisions in the Bond documents.

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

The District reports the following major governmental funds:

General Fund

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

Debt Service Fund

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

Capital Projects Fund

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity

Restricted Assets

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

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and demand deposits (interest and non-interest bearing).

The District has elected to proceed under the Alternative Investment Guidelines as set forth in Section 218.415 (17) Florida Statutes. The District may invest any surplus public funds in the following:

- a) The Local Government Surplus Trust Funds, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act;
- b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
- c) Interest bearing time deposits or savings accounts in qualified public depositories;
- d) Direct obligations of the U.S. Treasury.

The State Board of Administration's ("SBA") Local Government Surplus Funds Trust Fund ("Florida PRIME") is a "2a-7 like" pool. A "2a-7 like" pool is an external investment pool that is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940, which comprises the rules governing money market funds. Thus, the pool operates essentially as a money market fund. The District has reported its investment in Florida PRIME at amortized cost for financial reporting purposes.

Securities listed in paragraph c and d shall be invested to provide sufficient liquidity to pay obligations as they come due. In addition, surplus funds may be deposited into certificates of deposit which are insured and any unspent Bond proceeds are required to be held in investments as specified in the Bond Indenture.

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

Prepaid Items

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

Capital Assets

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

Capital Assets (Continued)

Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	10 – 40
Furniture, fixtures, & equipment	5 – 10

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

Refundings of Debt

For current refundings and advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources and recognized ratably as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. In connection with the refunding, \$13,588 was recognized as a component of interest expense in the current fiscal year.

Unearned Revenue

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

Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized ratably over the life of the Bonds. Bonds payable are reported net of applicable premiums or discounts. Bond issuance costs are expensed when incurred.

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

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Fund Equity/Net Position

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

Fund Equity/Net Position (Continued)

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

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

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

The District first uses committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Net position is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position in the government-wide financial statements are categorized as net investment in capital assets, restricted or unrestricted. Net investment in capital assets represents net position related to infrastructure and property, plant and equipment. Restricted net position represents the assets restricted by the District's Bond covenants or other contractual restrictions. Unrestricted net position consists of the net position not meeting the definition of either of the other two components.

Other Disclosures

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3 – BUDGETARY INFORMATION

The District is required to establish a budgetary system and an approved Annual Budget. Annual Budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year-end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements.

- a) Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
- b) Public hearings are conducted to obtain comments.
- c) Prior to October 1, the budget is legally adopted by the District Board.
- d) All budget changes must be approved by the District Board.
- e) The budgets are adopted on a basis consistent with generally accepted accounting principles.
- f) Unused appropriation for annually budgeted funds lapse at the end of the year.

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

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

Investments

The District's investments were held as follows at September 30, 2023:

	Amortized Cost	Credit Risk	Maturities
			Weighted average
First American Government Oblig Fd Cl Y	\$ 232,694	S&P AAAm	maturity: 24 days
USBank Money Market	783,592	N/A	N/A
Investment in Local Government Surplus Funds			Weighted average
Trust Fund (Florida PRIME)	906,615	S&P AAAm	maturity: 35 days
	<u>\$ 1,922,901</u>		

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The District has no formal policy for custodial risk.

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

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

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

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

Fair Value Measurement – When applicable, the District measures and records its investments using fair value measurement guidelines established in accordance with GASB Statements. The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques.

These guidelines recognize a three-tiered fair value hierarchy, in order of highest priority, as follows:

- *Level 1*: Investments whose values are based on unadjusted quoted prices for identical investments in active markets that the District has the ability to access;
- *Level 2*: Investments whose inputs - other than quoted market prices - are observable either directly or indirectly; and,
- *Level 3*: Investments whose inputs are unobservable.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the entire fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Money market investments that have a maturity at the time of purchase of one year or less and are held by governments other than external investment pools should be measured at amortized cost. For external investment pools that qualify to be measured at amortized cost, the pool's participants should also measure their investments in that external investment pool at amortized cost for financial reporting purposes. Accordingly, the District's investments have been reported at amortized cost above.

External Investment Pool – With regard to redemption gates, Chapter 218.409(8)(a), Florida Statutes, states that “The principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the Executive Director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the Trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The Trustees shall convene an emergency meeting as soon as practicable from the time the Executive Director has instituted such measures and review the necessity of those measures. If the Trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the moratorium may be extended by the Executive Director until the Trustees are able to meet to review the necessity for the moratorium. If the Trustees agree with such measures, the Trustees shall vote to continue the measures for up to an additional 15 days. The Trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the Trustees exceed 15 days.” With regard to liquidity fees, Florida Statute 218.409(4) provides authority for the SBA to impose penalties for early withdrawal, subject to disclosure in the enrollment materials of the amount and purpose of such fees. At present, no such disclosure has been made.

As of September 30, 2023, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100% of their account value.

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended September 30, 2023 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities</u>				
Capital assets, being depreciated				
Infrastructure	\$ 11,938,807	\$ -	\$ -	\$ 11,938,807
Furniture, fixtures, and equipment	77,593	-	-	77,593
Total capital assets, being depreciated	12,016,400	-	-	12,016,400
Less accumulated depreciation for:				
Infrastructure	6,438,410	397,960	-	6,836,370
Furniture, fixtures, and equipment	8,634	22,403	-	31,037
Total accumulated depreciation	6,447,044	420,363	-	6,867,407
Total capital assets, being depreciated, net	5,569,356	(420,363)	-	5,148,993
Governmental activities capital assets, net	\$ 5,569,356	\$ (420,363)	\$ -	\$ 5,148,993

Depreciation was charged to maintenance and operations.

NOTE 6 – INTERLOCAL AGREEMENTS

In consideration of the District providing stormwater maintenance services to the residents of the District, the City of Port St. Lucie (“City”) agrees to pay the District a sum equal to 75% of the stormwater fees collected by the City from within the District boundaries and the adjacent lands. Payments will be made annually on or before the 16th day of each March of those fees collected by the City by March 15th. After March 15th, payment shall be made monthly as fees are collected by the City. Pursuant to this agreement, the District collected \$216,695 during the current fiscal year.

NOTE 7 – LONG TERM LIABILITIES

Series 2005

On October 31, 2005, the District issued \$6,375,000 of Special Assessment Bonds, Series 2005 due May 1, 2036, with a fixed interest rate of 5.60%. The Series 2005 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, 2007 through May 1, 2036.

The Series 2005 Bonds are subject to redemption at the option of the District prior to maturity. The Series 2005 Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture.

The Bond Indenture established a debt service reserve requirement as well as other restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agrees to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The District was not in compliance with the debt service reserve requirement at September 30, 2023.

The Developer owned almost all of the benefitted property associated with the Series 2005 Bonds. The Developer stopped funding the District during a prior fiscal year resulting in significant delinquent assessments. As a result, the District did not have sufficient funds to make the debt service payments due on the Series 2005 Bonds so the payments were not made resulting in events of default. The amounts have been accrued on the fund financial statements as due to Bondholders and reflect \$2,055,000 due for principal and \$4,444,440 due for interest. The occurrence of an event of default creates certain remedial rights and remedies in favor of the Trustee. During prior and current fiscal years, significant expenditures were paid out of the trust accounts for services performed related to the foreclosure, the events of default, and costs related to forming and managing the SPE. Consequently, as a result of the expenditures that were paid from the debt service Reserve Account, and the draws made to finance portions of prior fiscal year debt service payments, there was a deficit in the Series 2005 Debt Service Reserve Account of approximately \$253,287.

First Amendment to the Trust Indenture

During a prior fiscal year, the Series 2005 Bond Indenture was amended which directed the Trustee to withdraw \$138,000 from the Acquisition and Construction Account and deposit into the Default Expenditures Account to be used to pay certain expenses (i.e. Default Expenditures). Pursuant to the provisions of the Bond Indenture, at least a majority of the Bond owners' consent was obtained. During the prior and current fiscal years, significant expenditures were paid out of the trust accounts for services performed related to the foreclosure, the events of default, and the formation and management of an SPE. All amounts on deposit in the Default Expenditures Account were spent as of September 30, 2012, therefore, some of these costs were also paid out of the Reserve, Revenue, and Acquisition and Construction Accounts as there were insufficient amounts available in the Default Expenditures Account to finance all of these expenditures. The District paid \$531,505 in the current fiscal year from its trust accounts for costs related to the SPE.

NOTE 7 – LONG TERM LIABILITIES (Continued)

Series 2013

On March 26, 2013, the District issued \$5,730,000 of Special Assessment Revenue Refunding Bonds, Series 2013 consisting of Serial and Term Bonds due between May 1, 2014 and May 1, 2033, with fixed interest rates ranging between 1.375% and 4.750%. The Bonds were issued to refund the District's outstanding Special Assessment Bonds, Series 2003A and pay certain costs associated with the issuance of the Bonds. 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, 2014 through May 1, 2033.

The Series 2013 Bonds are subject to redemption at the option of the District prior to maturity. The Series 2013 Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture.

The Bond Indenture established a debt service reserve requirement as well as other restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agrees to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The District was in compliance with the requirements at September 30, 2023.

Long-term Debt Activity

Changes in long-term liability activity for the fiscal year ended September 30, 2023 were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 2005	\$ 6,105,000	\$ -	\$ -	\$ 6,105,000	\$ 2,275,000 *
Series 2013	3,675,000	-	265,000	3,410,000	275,000
Total	<u>\$ 9,780,000</u>	<u>\$ -</u>	<u>\$ 265,000</u>	<u>\$ 9,515,000</u>	<u>\$ 2,550,000</u>

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

At September 30, 2023, the scheduled debt service requirements on the long-term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal*	Interest*	Total*
2024	\$ 2,550,000	\$ 501,755	\$ 3,051,755
2025	520,000	362,668	882,668
2026	545,000	336,738	881,738
2027	575,000	308,768	883,768
2028	600,000	279,245	879,245
2029-2033	3,515,000	899,220	4,414,220
2034-2036	1,210,000	138,040	1,348,040
Total	<u>\$ 9,515,000</u>	<u>\$ 2,826,434</u>	<u>\$ 12,341,434</u>

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

NOTE 8– SPECIAL PURPOSE ENTITY AND FORECLOSURE

During a prior fiscal year, the Trustee, on Behalf of the Bondholders, created or caused to be created an SPE to own, manage, maintain, and dispose of the Property comprising the delinquent Series 2005 Assessments ("Property") in an orderly and efficient manner for the benefit of the Trust Estate. The Parties acknowledge and agree that the assessments encumbering the Property owned by the SPE shall not be certified for collection using the Uniform Method or otherwise billed to the SPE but shall be held in abeyance and continue to constitute a lien in accordance with Florida law on the property co-equal with the lien of State, County and municipal taxes and superior to all other liens. The assessments (or Debt Service Assessments) with respect to such Property shall be held in abeyance until such time as the District receives notice from the majority owner of the Bonds to the contrary. The Bondholders contributed \$175,000 to the District during the current fiscal.

NOTE 9 – CONCENTRATION

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

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; and natural disasters. The District has obtained commercial insurance from independent third parties to mitigate the costs of these risks; coverage may not extend to all situations. There were no settled claims during the past three years.

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

NOTE 12 – SUBSEQUENT EVENTS

Events of Default

Subsequent to fiscal year end, certain scheduled debt service payments were due on the 2005 Bonds. However, shortfalls in the collection of special assessments caused there to be insufficient amounts available to fund the scheduled debt service payments. As a result, the scheduled debt service payments were not made. The failure by the District to pay its debt service is considered an event of default.

**PORTOFINO ISLES COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2023**

	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
	Original & Final	Actual Amounts	
REVENUES			
Assessments	\$ 175,152	\$ 142,045	\$ (33,107)
Intergovernmental revenues	186,678	216,695	30,017
Interest	-	33,186	33,186
Total revenues	<u>361,830</u>	<u>391,926</u>	<u>30,096</u>
EXPENDITURES			
Current:			
General government	129,484	87,456	42,028
Maintenance and operations	264,760	142,328	122,432
Capital outlay	60,000	215	59,785
Total expenditures	<u>454,244</u>	<u>229,999</u>	<u>224,245</u>
Excess (deficiency) of revenues over (under) expenditures	(92,414)	161,927	254,341
OTHER FINANCING SOURCES (USES)			
Carry forward	92,414	-	(92,414)
Total other financing sources (uses)	<u>92,414</u>	<u>-</u>	<u>(92,414)</u>
Net change in fund balances	<u>\$ -</u>	161,927	<u>\$ 161,927</u>
Fund balance - beginning		<u>946,626</u>	
Fund balance - ending		<u>\$ 1,108,553</u>	

See notes to required supplementary information

**PORTOFINO ISLES COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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

The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2023.

**PORTOFINO ISLES COMMUNITY DEVELOPMENT DISTRICT
CITY OF PORT ST. LUCIE, FLORIDA
OTHER INFORMATION – DATA ELEMENTS
REQUIRED BY FL STATUTE 218.39(3)(C)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2023
UNAUDITED**

<u>Element</u>	<u>Comments</u>
Number of District employees compensated in the last pay period of the District's fiscal year being reported.	0
Number of independent contractors compensated to whom nonemployee compensation was paid in the last month of the District's fiscal year being reported.	0
Employee compensation	\$0
Independent contractor compensation	\$0
Construction projects to begin on or after October 1; (\$65K)	Not applicable
Budget variance report	See the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund
Ad Valorem taxes	Not applicable
Non ad valorem special assessments;	
Special assessment rate	Operations and maintenance - \$175.12 Debt service - \$578.96 - 1,563.40
Special assessments collected	\$717,583
Outstanding Bonds:	see Note 7 for details



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Portofino Isles Community Development District, City of Port St. Lucie, Florida ("District") as of and for the fiscal year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our opinion thereon dated February 15, 2024, which includes explanatory paragraphs regarding the adverse opinion on the special purpose entity fund and the governmental activities as to the departure from generally accepted accounting principles, qualification opinion on the debt service and emphasis of matters paragraph.

Report on 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated February 15, 2024

The District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying Management Letter. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.



February 15, 2024



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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
Portofino Isles Community Development District
City of Port St. Lucie, Florida

We have examined Portofino Isles Community Development District, City of Port St. Lucie, Florida'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, 2023. 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the District complied, in all material respects, with the specified requirements referenced in Section 218.415, Florida Statutes. An examination involves performing procedures to obtain evidence about whether the District complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the examination engagement.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the fiscal year ended September 30, 2023.

This report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, management, and the Board of Supervisors of Portofino Isles Community Development District, City of Port St. Lucie, Florida and is not intended to be and should not be used by anyone other than these specified parties.

Grau & Associates

February 15, 2024



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

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of Portofino Isles Community Development District, City of Port St. Lucie, Florida ("District") as of and for the fiscal year ended September 30, 2023, and have issued our report thereon dated February 15, 2024, which includes explanatory paragraphs regarding the adverse opinion on the special purpose entity fund and the governmental activities as to the departure from generally accepted accounting principles, qualification opinion on the debt service 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 Auditor General.

Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on 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*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated February 15, 2024, 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 Portofino Isles Community Development District, City of Port St. Lucie, Florida and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank Portofino Isles Community Development District, City of Port St. Lucie, Florida and the personnel associated with it, for the opportunity to be of service to them in this endeavor as well as future engagements, and the courtesies extended to us.

Grau & Associates

February 15, 2024

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2022-01: Financial Condition Assessment

Observation: The debt service fund had a deficit fund balance of (\$5,483,118) at September 30, 2023. The Developer stopped funding the District during a prior fiscal year resulting in significant delinquent assessments and unfunded contributions in prior fiscal years. As a result, the payments were made, in part, by draws on the debt service Reserve Account. Therefore, the reserve requirement has not been met. Furthermore, the District did not have sufficient funds to make the debt service payments due on the Series 2005 Bonds so the payments were not made. The failures by the District to pay its debt service are considered events of default. As a result of the delinquent assessments, and in lieu of foreclosure, during the prior fiscal year, a SPE was created to own, manage, maintain, and dispose of the Property comprised by the delinquent Series 2005 Assessments ("Property") for the benefit of the Trust Estate. Consequently, during a prior fiscal year, the title to the Property was conveyed to the SPE with all rights and privileges pertaining to or accruing to the benefit of the Property.

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

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

It is important to emphasize that the Series 2005 Bonds are not general obligation bonds of the District. They are special assessment bonds secured solely by the special assessments levied against the property in the Portofino Court Project where the District assessments were in default and being foreclosed. Thus, no other revenue or assets of the District are pledged toward the payment of debt service on the Series 2005 Bonds. The 2013 Refunding Bonds issued by the District, which are not in default, relate to the Newport Isles portion of the District and are totally unrelated to the Series 2005 Bonds. Moreover, the District is bound by the SPE Agreement not to pursue the collection of special assessments on the Portofino Court property (the only source of pledged revenues to pay debt service on the Series 2005 Bonds) until further direction of the Majority Owner of the Series 2005 Bonds. Thus, the District has been effectively precluded by the bondholders themselves from pursuing any attempt to collect funds from the only source of revenue legally available to pay debt service on the Series 2005 Bonds.

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2022-01; 2021-01; 2020-01; 2019-01: Financial Condition Assessment

Current Status: See finding no. 2023-01 above.

REPORT TO MANAGEMENT (Continued)

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, 2022, except as noted above.

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

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported for the fiscal year ended September 30, 2023, 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, 2023, 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. In connection with our audit, we determined that the District has met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes. The District failed to make certain scheduled debt service payments due on the Series 2005 Bonds, as a result of a lack of funds. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and determined that a deteriorating financial condition was noted. See Findings section above for additional information. It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

6. Management has provided the specific information required by Section 218.39(3)(c) in the Other Information section of the financial statements on page 26.