

**GRAMERCY FARMS  
COMMUNITY  
DEVELOPMENT  
DISTRICT**

**FINANCIAL STATEMENTS**

**Year Ended September 30, 2015**

GRAMERCY FARMS COMMUNITY DEVELOPMENT DISTRICT

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Year Ended September 30, 2015

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors  
*Gramercy Farms Community Development District*

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of the *Gramercy Farms Community Development District* (the "District"), as of and for the 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

The District's 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 principles 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.

**MCDIRMIT DAVIS & COMPANY, LLC**

934 NORTH MAGNOLIA AVENUE, SUITE 100 ORLANDO, FLORIDA 32803  
TELEPHONE: 407-843-5406 FAX: 407-649-9339 EMAIL: INFO@MCDIRMITDAVIS.COM

## **Opinions**

### *Basis for Adverse Opinion Due to Omission of Component Unit*

Management has not included financial data for a blended component unit, Special Revenue Fund - Special Purpose Entity ("SPE"), in the Gramercy Farms Community Development District's financial statements. Accounting principles generally accepted in the United States of America require this Special Revenue Fund to be presented as a major governmental fund and financial information about this Fund to be part of the governmental activities, thus increasing the activity's assets, liabilities, revenues, and expenses, and changing its net position. We believe that the exclusion of the financial data of the above mentioned component unit results in financial statements that are misleading. The amount by which this departure would affect the assets, liabilities, net position, revenues and expenses of the governmental activities and the omitted major fund is not reasonably determinable.

### *Adverse Opinion on Governmental Activities and Special Revenue Fund*

In our opinion, because of the omission of the Special Revenue Fund - Special Purpose Entity, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position and the changes in financial position of the Special Revenue Fund and the governmental activities of the District, as of September 30, 2015, or the changes in financial position thereof for the fiscal year then ended.

### *Unmodified Opinion on General, Debt Service and Capital Project Funds*

In our opinion, the financial statements of the General Fund, Debt Service Fund, and Capital Projects Fund present fairly, in all material respects, the respective financial position of each major fund, referred to above, as of September 30, 2015, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis starting on page 4, 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 Information*

As discussed in Notes 7 and 8, the District's financial condition has deteriorated. Due to the deteriorating financial condition, there were insufficient funds to operate the District. As a result, certain scheduled debt service payments in prior years were not made when due. The District declared an event of default and entered into a restructuring agreement for its remaining debt. The restructured debt agreement requires no debt service payments until all of the land has been sold. Beginning in the fiscal year ended September 30, 2013, the District is being funded, in part, by the SPE for its operations and maintenance expenditures. However, the effect of these actions on the District's financial condition cannot be determined at this time.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated April 21, 2016, on our consideration of the District's internal control over financial reporting and 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 the 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.

*McDiernit Davis & Company, LLC*

Orlando, Florida  
April 21, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the *Gramercy Farms Community Development District's* (the "District") financial accomplishments provide an overview of the District's financial activities for the year ended September 30, 2015. Please read it in conjunction with the District's Independent Auditor's Report, financial statements and accompanying notes.

This information is being presented to provide additional information regarding the activities of the District and to meet the disclosure requirements of Government Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* issued June 1999.

### Financial Highlights

- The liabilities of the District exceeded its assets at September 30, 2015 by \$31,531,185, a decrease in the net position of \$3,116,150 in comparison with the prior year.
- At September 30, 2015, the District's governmental funds reported fund balances of \$2,216,453, a decrease of \$460,567 in comparison with the prior year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the *Gramercy Farms Community Development District's* financial statements. The District's financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements.

### 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 of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference between the three reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

The government-wide financial statements include all governmental activities that are principally supported by special assessment revenues. The District does not have any business-type activities. The governmental activities of the District include general government and physical environment related functions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Fund Financial Statements

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government'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 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 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

Statement of Net Position - The District's net position was \$(31,531,185) at September 30, 2015. The analysis that follows focuses on the net position of the District's governmental activities.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Government-Wide Financial Analysis (Continued):**

Gramercy Farms Community Development District  
Statement of Net Position

	<b>September 30, 2015</b>	<b>September 30, 2014</b>
Assets, excluding capital assets	\$ 2,234,070	\$ 2,747,816
Capital Assets, not being depreciated	<u>27,238,285</u>	<u>26,768,811</u>
Total assets	<u>29,472,355</u>	<u>29,516,627</u>
Liabilities, excluding long-term liabilities	6,258,101	4,769,362
Long-term Liabilities	<u>54,745,439</u>	<u>53,162,300</u>
Total liabilities	<u>61,003,540</u>	<u>57,931,662</u>
Net Position:		
Net investment in capital assets	(16,172,042)	(14,861,365)
Restricted for capital projects	1,286,917	1,327,017
Restricted for restructuring costs	99,866	143,642
Unrestricted	<u>(16,745,926)</u>	<u>(15,024,329)</u>
Total net position	<u>\$ (31,531,185)</u>	<u>\$ (28,415,035)</u>

The following is a summary of the District's governmental activities for the fiscal years ended September 30, 2015 and 2014.

Changes in Net Position  
Year ended September 30,

	<b>2015</b>	<b>2014</b>
Revenues:		
Program revenues	\$ 325,957	\$ 79,077
Total revenues	<u>325,957</u>	<u>79,077</u>
Expenses:		
General government	167,339	174,937
Physical environment	149,711	6,761,150
Interest on long-term debt	<u>3,125,057</u>	<u>3,023,064</u>
Total expenses	<u>3,442,107</u>	<u>9,959,151</u>
Change in net position	(3,116,150)	(9,880,074)
Net Position - beginning	<u>(28,415,035)</u>	<u>(18,534,961)</u>
Net Position - ending	<u>\$ (31,531,185)</u>	<u>\$ (28,415,035)</u>

As noted above and in the statement of activities, the cost of all governmental activities during the year ended September 30, 2015 was \$3,442,107. The majority of these costs are interest on long-term debt. Costs decreased primarily due to a conveyance to the City of St. Cloud in the previous year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Financial Analysis of the Government's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At September 30, 2015, the District's governmental funds reported combined ending fund balances of \$2,216,453. Of this total, \$23,063 is nonspendable, \$2,140,123 is restricted, \$18,700 is assigned and \$34,567 is unassigned.

The fund balance of the general fund increased by \$49,138 in the current year due to an increase in special assessments received. In the current year, the fund balance of the debt service fund increased by \$13,911 due to an increase in special assessments received. The fund balance in the capital projects fund decreased by \$523,616 due to construction activities.

### General Fund Budgetary 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. There were no budget amendments to the September 30, 2015 general fund budget. The legal level of budgetary control is at the fund level.

### Capital Asset and Debt Administration

**Capital Assets** - At September 30, 2015, the District had \$27,238,285 invested in capital assets. More detailed information about the District's capital assets is presented in the notes to financial statements.

**Capital Debt** - At September 30, 2015, the District had \$54,745,439 in bonds outstanding. More detailed information about the District's capital debt is presented in the notes to financial statements.

### Requests for Information

If you have questions about this report or need additional financial information, contact the *Gramercy Farms Community Development District's* Finance Department at 3434 Colwell Avenue, Suite 200, Tampa, Florida 33614.

## **FINANCIAL STATEMENTS**

GRAMERCY FARMS COMMUNITY DEVELOPMENT DISTRICT

**STATEMENT OF NET POSITION**

September 30, 2015

	<b>Governmental Activities</b>
<b>Assets:</b>	
Cash	\$ 71,262
Other receivables	1,086
Prepaid costs and deposits	23,063
Restricted assets:	
Temporarily restricted investments	2,138,659
Capital assets not being depreciated	<u>27,238,285</u>
Total assets	<u>29,472,355</u>
 <b>Liabilities:</b>	
Accounts payable and accrued expenses	17,617
Accrued interest payable	6,240,484
Noncurrent liabilities:	
Due in more than one year	<u>54,745,439</u>
Total liabilities	<u>61,003,540</u>
 <b>Net Position:</b>	
Net investment in capital assets	(16,172,042)
Restricted for capital projects	1,286,917
Restricted for restructuring costs	99,866
Unrestricted	<u>(16,745,926)</u>
Total net position	<u>\$ (31,531,185)</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

GRAMERCY FARMS COMMUNITY DEVELOPMENT DISTRICT

**STATEMENT OF ACTIVITIES**

Year Ended September 30, 2015

<b><u>Functions/Programs</u></b>	<b><u>Expenses</u></b>	<b><u>Program Revenue</u></b>		<b>Net (Expense)</b>
		<b><u>Charges for Services</u></b>	<b><u>Operating Grants and Contributions</u></b>	<b>Revenue and Change in Net Position</b>
				<b><u>Governmental Activities</u></b>
Governmental activities:				
General government	\$ 167,339	\$ 156,744	\$ -	\$ (10,595)
Physical environment	149,711	140,233	-	(9,478)
Interest on long-term debt	3,125,057	28,951	29	(3,096,077)
Total governmental activities	<u>\$ 3,442,107</u>	<u>\$ 325,928</u>	<u>\$ 29</u>	<u>(3,116,150)</u>
General Revenues:				-
Change in net position				(3,116,150)
Net Position - beginning				<u>(28,415,035)</u>
Net Position - ending				<u>\$ (31,531,185)</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

GRAMERCY FARMS COMMUNITY DEVELOPMENT DISTRICT

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

September 30, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Cash	\$ 71,262	\$ -	\$ -	\$ 71,262
Investments	-	229,982	1,908,677	2,138,659
Other receivables	-	1,086	-	1,086
Due from other funds	-	-	1,480	1,480
Prepaid costs and deposits	9,878	-	13,185	23,063
Total assets	<u>\$ 81,140</u>	<u>\$ 231,068</u>	<u>\$ 1,923,342</u>	<u>\$ 2,235,550</u>
<b>Liabilities and Fund Balances:</b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 16,515	\$ -	\$ 1,102	\$ 17,617
Due to other funds	1,480	-	-	1,480
Total liabilities	<u>17,995</u>	<u>-</u>	<u>1,102</u>	<u>19,097</u>
Fund Balances:				
Nonspendable-prepaid costs and deposits	9,878	-	13,185	23,063
Restricted for:				
Debt service	-	231,068	-	231,068
Capital projects	-	-	1,809,189	1,809,189
Restructuring costs	-	-	99,866	99,866
Assigned for subsequent year's expenditures	18,700	-	-	18,700
Unassigned	34,567	-	-	34,567
Total fund balances	<u>63,145</u>	<u>231,068</u>	<u>1,922,240</u>	<u>2,216,453</u>
Total liabilities and fund balances	<u>\$ 81,140</u>	<u>\$ 231,068</u>	<u>\$ 1,923,342</u>	

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 in the funds. 27,238,285

Liabilities not due and payable from current available resources are not reported in governmental fund statements. All liabilities, both current and long-term, are reported in the government-wide statements.

Accrued interest payable	(6,240,484)	
Bonds payable	<u>(54,745,439)</u>	<u>(60,985,923)</u>
Net position of governmental activities (page 8)		<u>\$ (31,531,185)</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

GRAMERCY FARMS COMMUNITY DEVELOPMENT DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

Year Ended September 30, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Special assessments	\$ 296,977	\$ 28,951	\$ -	\$ 325,928
Investment income	-	29	-	29
Total revenues	<u>296,977</u>	<u>28,980</u>	<u>-</u>	<u>325,957</u>
<b>Expenditures:</b>				
Current:				
General government	98,128	-	69,211	167,339
Physical environment	149,711	-	-	149,711
Capital outlay	-	-	469,474	469,474
Total expenditures	<u>247,839</u>	<u>-</u>	<u>538,685</u>	<u>786,524</u>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<u>49,138</u>	<u>28,980</u>	<u>(538,685)</u>	<u>(460,567)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	15,069	15,069
Transfers out	-	(15,069)	-	(15,069)
Total other financing sources (uses)	<u>-</u>	<u>(15,069)</u>	<u>15,069</u>	<u>-</u>
Net change in fund balances	49,138	13,911	(523,616)	(460,567)
<b>Fund Balances - beginning of year</b>	<u>14,007</u>	<u>217,157</u>	<u>2,445,856</u>	<u>2,677,020</u>
<b>Fund Balances - end of year</b>	<u>\$ 63,145</u>	<u>\$ 231,068</u>	<u>\$ 1,922,240</u>	<u>\$ 2,216,453</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

GRAMERCY FARMS COMMUNITY DEVELOPMENT DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES**

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 (page 11)	\$	(460,567)
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Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. However, in the statement of net position, the cost of those assets is recorded as capital assets:

Capital outlay	469,474
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest expense	(1,541,918)	
Accreted interest expense	(1,583,139)	<u>(3,125,057)</u>

Change in net position of governmental activities (page 9)	\$	<u><u>(3,116,150)</u></u>
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The accompanying Notes to Financial Statements are an integral part of this statement.

GRAMERCY FARMS COMMUNITY DEVELOPMENT DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**

Year Ended September 30, 2015

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Special Assessments	\$ 296,909	\$ 296,909	\$ 296,977	\$ 68
Total revenues	296,909	296,909	296,977	68
<b>Expenditures:</b>				
Current:				
General government	103,459	103,459	98,128	5,331
Physical environment	193,450	193,450	149,711	43,739
Total expenditures	296,909	296,909	247,839	49,070
Net change in fund balance	-	-	49,138	49,138
<b>Fund Balances - beginning of year</b>	14,007	14,007	14,007	-
<b>Fund Balances - end of year</b>	\$ 14,007	\$ 14,007	\$ 63,145	\$ 49,138

The accompanying Notes to Financial Statements are an integral part of this statement.

**NOTES TO FINANCIAL STATEMENTS**

GRAMERCY FARMS COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS**

Year Ended September 30, 2015

**Note 1 - Summary of Significant Accounting Policies:**

**Reporting Entity**

*Gramercy Farms Community Development District*, (the "District") was established on July 21, 2005 by Ordinance 2005-96 of the City of Saint Cloud, 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, the power to borrow money and issue bonds, and the power to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure. The District was established for the purpose 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 (the "Board"), which is composed of five members. The Supervisors are elected on an at large basis by the landowners of the District. At September 30, 2015, four of the Board members were affiliated with Maxcy Development Holdings - Gramercy Farms, Inc. (the "SPE"), which is the majority landowner. The Board exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes.

The Board has 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 GASB Statements 14, 39 and 61. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District Board of Supervisors 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. Management has determined that there are no entities considered to be component units of the District; therefore, the financial statements include only the operations of the District.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 1 - Summary of Significant Accounting Policies (Continued):**

**Government-Wide and Fund Financial Statements**

The 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, 2) grants, contributions and investment earnings that are restricted to meeting the operational or capital requirements of a particular function or segment and 3) operating-type special assessments that are treated as charges for services (including assessments for maintenance and debt service). Other items not included among program revenues are reported instead as *general revenues*.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues 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 District 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, including debt service assessments and operation and maintenance assessments, are non-ad valorem assessments imposed on certain lands located within the District and benefited by the District's activities. Operation and maintenance special 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>. These assessments are imposed upon certain benefited lands located in the District. Debt service special assessments are imposed upon certain lots and lands as 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.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 1 - Summary of Significant Accounting Policies (Continued):**

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

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. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

**General Fund** - is the District's primary operating fund. It is used to account for and report all financial resources not accounted for and reported in another fund.

**Debt Service Fund** - accounts for the accumulation of resources for the annual payment of principal and interest on long-term debt.

**Capital Projects Fund** - accounts for financial resources to be used for the acquisition or construction of major infrastructure within the District.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

**Restricted Assets** - These assets represent cash and investments set aside pursuant to bond covenants.

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

Investments of the District are reported at fair value. The District's investments consist of investments authorized per their investment policy adopted in accordance with Section 218.415, Florida Statutes.

**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.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 1 - Summary of Significant Accounting Policies (Continued):**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued):**

**Capital Assets** - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental activities column 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 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

No depreciation has been taken in the current year as the District's infrastructure and other capital assets are under construction.

**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 using the straight-line method. Bonds payable are reported net of premiums or discounts.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond 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 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. The District does not have any item that qualifies for reporting in this category for the year ended September 30, 2015.

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. The District does not have any item that qualifies for reporting in this category for the year ended September 30, 2015.

GRAMERCY FARMS COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 1 - Summary of Significant Accounting Policies (Continued):**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued):**

**Net Position Flow Assumption** - Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

**Fund Balance Flow Assumptions** - Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**Fund Balance Policies** - Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes fund balance amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Board of Supervisors is the highest level of decision-making authority for the government that can, by adoption of an ordinance or resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance or resolution remains in place until a similar action is taken to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Board of Supervisors has authorized the District Manager to assign amounts for specific purposes. The Board of Supervisors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 1 - Summary of Significant Accounting Policies (Continued):**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued):**

**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 2 - Stewardship, Compliance and Accountability:**

**Budgetary Information**

The District is required to establish a budgetary system and an approved annual budget for the General Fund. Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at the fiscal year end. The legal level of budgetary control is at the fund level. Any budget amendments that increase the aggregate budgeted appropriations, at the fund level, must be approved by the Board of Supervisors.

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

1. Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
2. A public hearing is conducted to obtain comments.
3. Prior to October 1, the budget is legally adopted by the District Board.
4. All budget changes must be approved by the District Board.
5. The budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

GRAMERCY FARMS COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 3 - 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**

Investments are stated at fair value, which is the amount for which an investment could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Fair value is based on quoted market prices. Changes in the fair value of investments are recognized as revenue and included in investment revenue. Investment revenue is recognized as earned and is recorded in the respective funds related to the investment activity.

The District's investment policy is governed by State Statutes and the District Trust Indenture. The District investment policy allows investments in any financial institution that is a qualified public depository of the State of Florida as identified by the State Treasurer, in accordance with Chapter 280 of the Florida Statutes. Authorized District investments include, but are not limited to:

1. The Local Government Surplus Funds Trust Fund (SBA);
2. Securities and Exchange Commission Registered Money Market Funds with the highest credit quality rating from a nationally recognized rating agency;
3. Interest-bearing time deposits or savings accounts in qualified public depositories;
4. Direct obligations of the U.S. Treasury;

Investments made by the District at September 30, 2015 are summarized below. In accordance with GASB 31, investments are reported at fair value.

<b>Investment Type</b>	<b>Fair Value</b>	<b>Credit Rating</b>	<b>Weighted Average Maturity</b>
First American Treasury Obligation Fund Z	\$ 1,995,967	AAAm	43 days
US Bank Managed Money Market	142,692	N/A	N/A
	<u>\$ 2,138,659</u>		

GRAMERCY FARMS COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 3 - Deposits and Investments (Continued):**

**Investments (Continued):**

Credit Risk:

The District's investment policy limits credit risk by restricting authorized investments to those described. Investments in U.S. Government securities and agencies must be backed by the full faith and credit of the United States Government. Short term bond funds shall be rated by a nationally recognized ratings agency and shall maintain the highest credit quality rating.

Custodial Credit Risk:

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires that bank deposits be secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida, and creates the Public Deposits Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2015, all of the District's bank deposits were in qualified public depositories.

For an investment, this is the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At September 30, 2015, none of the investments listed are exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk:

The District's investment policy does not specify limits on the amount the District may invest in any one issuer.

Interest Rate Risk:

The District's investment policy does not specifically address interest rate risk; however, the general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and in general, avoid speculative investments. The District manages its exposure to declines in fair values by investing primarily in pooled investments that have a weighted average maturity of less than three months.

GRAMERCY FARMS COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 4 - Capital Assets:**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital Assets, not being depreciated:				
Land and land improvements	\$ 6,282,896	\$ -	\$ -	\$ 6,282,896
Infrastructure under construction	20,485,915	469,474	-	20,955,389
Total capital assets, not being depreciated	<u>26,768,811</u>	<u>469,474</u>	<u>-</u>	<u>27,238,285</u>
Governmental activities capital assets, net	<u>\$ 26,768,811</u>	<u>\$ 469,474</u>	<u>\$ -</u>	<u>\$ 27,238,285</u>

In January 2014, the District conveyed land and improvements to Osceola County with a value of \$6,687,104. In connection with this conveyance, the District provided a maintenance bond requiring the District to be responsible for costs of any repairs needed during the two years following the date of conveyance.

**Note 5 - Interfund Receivables, Payables and Transfers:**

During the year, the Debt Service Fund transferred \$15,069 to reimburse the Capital Projects Fund for trustee fees.

At September 30, 2015, the General Fund owed the Capital Projects Fund \$1,480 for payment of certain expenditures.

**Note 6 - Long-Term Liabilities:**

**Unexchanged Series 2007 Bonds**

The District restructured its bonds during fiscal year 2011, and a portion of the Series 2007 Bonds were exchanged for Series 2011 bonds. The remaining portion of the Series 2007 bonds outstanding (\$2,675,000 of Series 2007A-1, \$1,700,000 of Series 2007A-2, and \$25,730,000 of Series 2007B bonds), represents the Unexchanged Series 2007 Bonds. Under the terms of the restructuring agreement, assessments securing the Series 2007 Bonds were extinguished upon issuance of the Series 2011 Bonds. All other items of the 2007 bond indenture remain. The Unexchanged 2007 Bonds are subordinate to the Series 2011 Bonds, and are payable solely from lot sale proceeds remaining after the payment of SPE operating costs and prepayments of 2011 Special Assessments up to the SPE prepayment cap defined in the restructuring agreement. At such time as (i) all lots have been sold to end users, (ii) all lot sale proceeds have been applied by the SPE in accordance with the provisions of the restructuring agreement, (iii) all funds paid to the Trustee pursuant to the provisions above have been applied to the payment of the Unexchanged 2007 Bonds, and (iv) no amounts are held by the Trustee in the 2007 trust accounts, the Unexchanged 2007 Bond principal then outstanding shall be considered forgiven.

GRAMERCY FARMS COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 6 - Long-Term Liabilities (Continued):**

**Unexchanged Series 2007 Bonds (Continued)**

The Bond Indenture requires that the District maintain adequate funds in a reserve account to meet the debt service reserve requirements as defined in the Indenture. The requirement has not been met at September 30, 2015.

**Series 2011 Bonds**

In September 2011, the District issued \$18,832,585 of Series 2011 Special Assessment Refunding Bonds due on May 1, 2039 at a fixed interest rate of 6.75%. The Bonds were issued in exchange for \$1,675,000 Series 2007A-1, \$1,065,000 Series 2007A-2, and \$16,095,000 Series 2007B Bonds. The Bonds are capital appreciation bonds and will accrete interest from the date of issuance until the conversion date. If the Bonds are not converted prior to maturity, they will have an expected accreted value of \$117,910,000 at the maturity date. At conversion, the Bonds will become current interest bonds and interest will no longer accrete.

The Bonds are subject to mandatory conversion prior to maturity in the manner determined by the Bond Registrar if certain events occur as outlined in the Bond Indenture. The Bonds are also subject to optional conversion at the direction of a majority of the Bondholders subject to the terms outlined in the Bond Indenture. From and after the conversion date, interest on the current interest Bonds will be payable semi-annually. In addition, in connection with the conversion, the District shall prepare an amortization schedule setting forth mandatory redemption to be made each May 1.

The Bonds are subject to redemption at the option of the District prior to maturity. The Bonds are also 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.

After all of the lots in the District have been sold and all lot sale proceeds have been applied, in accordance with the restructuring agreement, the District shall prepare and file with the Trustee a cash flow certificate of the projected receipts from the 2011 annual assessments plus the amount on deposit in the prepayment account. If that projected amount is not sufficient to pay the remaining principal, the amount of the deficiency shall be considered forgiven 2011 Bond principal.

GRAMERCY FARMS COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 6 - Long-Term Liabilities (Continued):**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Bonds Payable:				
Series 2007A-1	\$ 2,675,000	\$ -	\$ -	\$ 2,675,000
Series 2007A-2	1,700,000	-	-	1,700,000
Series 2007B	25,730,000	-	-	25,730,000
Series 2011	23,057,300	1,583,139	-	24,640,439
Governmental activity long-term liabilities	<u>\$ 53,162,300</u>	<u>\$ 1,583,139</u>	<u>\$ -</u>	<u>\$ 54,745,439</u>

An amortization schedule of future payments is not presented for either bond series as the Unexchanged Series 2007 Bonds are subordinate to the Series 2011 Bonds, which are payable from lot sale proceeds after the SPE operating expenses and Series 2011 assessment amounts are paid.

**Note 7 - Special Purpose Entity:**

On February 25, 2010, the District declared an event of default on the Series 2007 Bonds as a result of noncollection of assessments from the former Developer to make the necessary debt service payments. The occurrence of an event of default creates certain remedial rights and remedies in favor of the Trustee. Pursuant to the Indenture, the owners of the majority in aggregate principal amount of the Bonds then outstanding may direct the Trustee with regard to such rights and remedies following an event of default and upon provision of indemnity satisfactory to the Trustee and in accordance with the provisions of the Indenture.

Pursuant to the Bond Indenture, the Trustee has access to the funds held on deposit in the trust accounts to enforce and protect the rights of the Bondholders, and the SPE was created to own and maintain the property subject to delinquent 2007 assessments, which assessments were ultimately restructured and replaced with the 2011 assessments. In order to avoid potential litigation, the Developer conveyed ownership of the property with delinquent assessments to the SPE (the "Property"). In addition, an agreement was entered into between the Trustee, the District and the SPE, whereby, the SPE will own, maintain, sell and dispose of the property for the benefit of the Trust estate. The parties acknowledge that the source of funds necessary to operate the SPE will come from the District's Trust accounts that are now controlled by the Trustee and from revenues from the sale or lease of all or a portion of the Property.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 7 - Special Purpose Entity (Continued):**

The parties acknowledge that operation and maintenance assessments on the Property shall continue to be a lien in accordance with Florida Law. The agreement states that in the event funds are no longer available in the trust accounts and another funding source has not been secured or changes affecting the delinquent lands results in increased risk to the SPE or related parties, the SPE may convey the lands to the District for ownership and maintenance. Rather than levying operations and maintenance assessments on the Property, the District and the SPE agreed that the operations and maintenance expenses of the District allocable to the portions of the Property from time to time owned by the SPE shall be billed and invoiced by the District directly and paid by the SPE to the District as funds are needed by the District to pay its expenses for operations and maintenance. If the SPE fails to pay these amounts, the District will levy operations and maintenance assessments.

**Note 8 - Restructuring Agreement:**

In September 2011, the District, the Trustee, (on behalf of the Series 2007 Bondholders), and the SPE as the current owner of the Property entered into a restructuring agreement in order to permit the SPE to reposition, orderly phase and continue development of the Property and for the District to complete the construction project as amended.

The Restructuring Agreement sets forth certain terms with respect to the Restructuring of the Series 2007 Bonds including, among other things: (a) the acknowledgement that special assessments levied to secure the 2011 Bonds are valid in accordance with law and are a first lien on the Property; (b) the manner in which lot sale proceeds will be allocated; (c) the manner in which bond principal may be forgiven; and (d) the manner in which the parties will account for lot sale proceeds and SPE operating costs.

The Restructuring Agreement provides, and 100% of the Owners of the outstanding Series 2007 Bonds at the time of the execution and delivery thereof consented to, that: (i) the lien of the Series 2007 Special Assessments securing the Unexchanged 2007 Bonds shall be extinguished upon the issuance of the 2011 Bonds, and (ii) from and after the issuance of the 2011 Bonds, the Unexchanged 2007 Bonds shall be payable solely from lot sales proceeds (as defined in the agreement) remaining after the payment of SPE operating costs, (including operating and maintenance costs of the District allocated to the Property), and prepayments of 2011 Special Assessments up to the SPE prepayment increment cap (as defined in the agreement).

The agreement provides that lot sale proceeds shall be allocated upon sale and applied by the SPE at least quarterly on each March 1, June 1, September 1, and December 1 following the closing of any lot sale in the following order of priority: (i) First to the Trustee for deposit in the SPE operating account an amount sufficient to pay SPE operating costs incurred to date and estimated for the next six months immediately following; (ii) Second, to the District as partial prepayment, pro rata across the portion of the Property owned by end users unless otherwise specified by the SPE of the 2011 special assessments levied thereon; provided that amount of prepayments does not exceed the SPE prepayment cap, and no lot sale proceeds shall be transferred on or after the conversion date; (iii) Third, to the Trustee for the pro rata payment of the Unexchanged 2007 Bonds until no Unexchanged 2007 Bonds remain outstanding; and (iv) Fourth, all remaining lot sale proceeds shall be paid to the SPE.

GRAMERCY FARMS COMMUNITY DEVELOPMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Year Ended September 30, 2015

**Note 8 - Restructuring Agreement (Continued):**

After all of the lots in the District have been sold and all lot sale proceeds have been applied, in accordance with the restructuring agreement, the District shall prepare and file with the Trustee a cash flow certificate of the projected receipts from the 2011 annual assessments plus the amount on deposit in the prepayment account. If that projected amount is not sufficient to pay the remaining principal, the amount of the deficiency shall be considered forgiven 2011 Bond principal.

At such time as: (i) all lots have been sold to end users, (ii) all lot sales proceeds have been applied by the SPE in accordance with the provisions above, (iii) all funds paid to the Trustee pursuant to the provisions above have been applied to the payment of the Unexchanged 2007 Bonds, and (iv) no amounts are held by the Trustee in the Series 2007 trust accounts, the Unexchanged 2007 Bond principal then outstanding shall be considered forgiven.

**Note 9 - Developer Transactions:**

Developer revenue in the current year totaled \$287,387 which was 88% of total special assessments revenue.

**Note 10 - Deficit Net Position:**

The District has a government-wide net deficit of (\$31,531,185) at September 30, 2015. This deficit results from capital assets which were financed by District long-term debt and conveyed to other governmental entities. There is no deficit in the governmental fund financial statements.

**Note 11 - 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. These risks are covered by commercial insurance from independent third parties. The District has not filed any claims under this commercial coverage during the last three years.

**Note 12 - Line Extension Agreement:**

During a prior year, the District entered into a line extension agreement with the City of St. Cloud whereby the District will construct certain reclaimed water and waste water extensions, and waste water lift station improvements to serve the District, Hickory Tree Estates and certain adjoining properties. The City agrees to reimburse the District for a portion of the costs of the improvements through a combination of direct reimbursements and impact fee credits when certain conditions are met. Pursuant to this agreement, the City reimbursed the District \$1,193,558 during the previous year. An additional \$842,851 will be paid by the City either in cash reimbursements or impact fee credits at the time of lot sales within the District. There is also a \$100,000 contingency allowance that may be payable for a total reimbursement from the City not to exceed \$2,136,409.

**COMPLIANCE SECTION**

**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  
*Gramercy Farms Community Development District*

We have audited, 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, the financial statements of the governmental activities, and each major fund of the *Gramercy Farms Community Development District* (the "District") as of and for the 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 report thereon dated April 21, 2016, which includes an explanatory paragraph regarding the adverse opinion for the omission of the blended component unit.

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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we identified a deficiency that we consider to be a material weakness as described in Appendix A.

MCDIRMIT DAVIS & COMPANY, LLC

934 NORTH MAGNOLIA AVENUE, SUITE 100 ORLANDO, FLORIDA 32803  
TELEPHONE: 407-843-5406 FAX: 407-649-9339 EMAIL: INFO@MCDIRMITDAVIS.COM

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. See Appendix B.

We noted certain other matters that we reported to management of the District in a separate letter dated April 21, 2016. The District's response to our findings identified in our audit is included in this report. 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.

*McDiernit Davis & Company, LLC*

Orlando, Florida  
April 21, 2016

**MANAGEMENT COMMENTS**

Board of Supervisors  
 Gramercy Farms Community Development District

**Report on the Financial Statements**

We have audited the financial statements of the *Gramercy Farms Community Development District*, (the “District”) as of and for the fiscal year ended September 30, 2015, and have issued our report thereon dated April 21, 2016, which includes an adverse opinion due to the omission of a component unit.

**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 Reports**

We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *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 April 21, 2016, should be considered in conjunction with this management letter.

**Prior Audit Findings**

Section 10.554(1)(i).1., Rules of the Auditor General, require that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, except as noted below.

<b>Tabulation of Uncorrected Audit Findings</b>		
<b>Current Year Finding #</b>	<b>2013-14 FY Finding #</b>	<b>2012-2013 FY Finding #</b>
12-01	12-01	12-01
12-03	12-03	12-03
12-04	12-04	12-04

**MCDIRMIT DAVIS & COMPANY, LLC**

934 NORTH MAGNOLIA AVENUE, SUITE 100 ORLANDO, FLORIDA 32803  
 TELEPHONE: 407-843-5406 FAX: 407-649-9339 EMAIL: INFO@MCDIRMITDAVIS.COM

## **Official Title and Legal Authority**

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information has been disclosed in the notes to the financial statements.

## **Financial Condition**

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, requires that we report the results of our determination as to whether or not the District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District did not meet any condition described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the District 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. We did note deteriorating financial conditions as disclosed in Appendix C.

## **Annual Financial Report**

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, requires that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 2015, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2015. In connection with our audit, we determined that these two reports were in agreement.

## **Other Matters**

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address 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. In connection with our audit, we did not have any such findings.

## **Purpose of this Letter**

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, the Board of Supervisors, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

*McDiarmid Davis & Company, LLC*

Orlando, Florida  
April 21, 2016

**APPENDIX A - MATERIAL WEAKNESS**

Year Ended September 30, 2015

**12-01 - Failure to Include Component Unit Financial Statements in the Financial Report**

**Criteria**

Generally accepted accounting principles require that the District include the financial statements of the Special Purpose Entities ("SPE's") in their audited financial report as blended component units.

**Condition**

The SPE's are not included as component units in the District's financial report.

**Cause**

It is the District's position that the SPE is not a component unit of the District.

**Effect**

McDermitt Davis could not audit these records nor include them as blended component units in the District's government-wide financial statements.

**Recommendation**

We recommend the District include the SPE's as blended components unit of the District's government-wide financial statements.

**APPENDIX B - COMPLIANCE, VIOLATIONS OF LAWS, REGULATIONS AND CONTRACTUAL PROVISIONS**

Year Ended September 30, 2015

**12-03 - Failure to Meet Debt Service Reserve Account Requirement**

**Criteria**

The Trust Indenture requires the District to maintain a minimum balance in the Series 2007 Debt Service Reserve Accounts.

**Condition**

At September 30, 2015, the Debt Service Reserve Accounts were deficient.

**Cause**

The balance in the Debt Service Reserve Accounts were used to pay prior year debt service on the Bonds.

**Effect**

The District is not in compliance with the Trust Indentures.

**Recommendation**

We recommend the District utilize all remedies available to replenish the Debt Service Reserve Account.

GRAMERCY FARMS COMMUNITY DEVELOPMENT DISTRICT

**APPENDIX C - FINANCIAL CONDITION ASSESSMENT**

Year Ended September 30, 2015

**12-04 - Financial Condition Assessment**

The District's financial condition has deteriorated. In a prior year, the Developer failed to pay debt service assessments, causing the District to be unable to pay certain debt service payments when due. An event of default was declared and the debt was subsequently restructured with the agreement of the bondholders. The restructured agreement requires no current payments and the SPE is now funding the District; however, the overall effect of these actions on the District's financial condition cannot be determined at this time.

# GRAMERCY FARMS COMMUNITY DEVELOPMENT DISTRICT

DISTRICT OFFICE · 8529 SOUTH PARK CIRCLE · SUITE 330 · ORLANDO, FLORIDA 32819

April 21, 2016

## **Response to the Management Letter for the fiscal year ended September 30, 2015**

### **Management Letter finding 12-01:**

*The auditor noted that the SPE was not included as a blended component unit of the District.*

### **District response to the finding:**

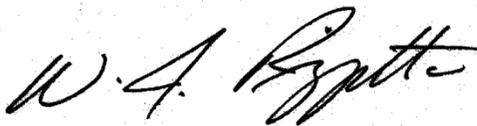
*Management does not agree that the Special Purpose Entity should be included as a blended component unit on the government-wide financial statements. In summary, management feels that it would be misleading to the users of the financial statements to include the SPE as a component unit for the following reasons. The District has no ownership and/or control over this SPE and in no way can it impose its will on this SPE. In addition, the District will not benefit from the activities of this SPE. When the land held by this SPE is sold, the proceeds will be paid to the Bondholders to satisfy the Bond debt. The District will not be responsible for any deficiency between the net proceeds of the sale and the associated Bond debt.*

### **Management Letter finding 12-03:**

*The auditor noted that the District did not meet the debt service reserve requirements at September 30, 2015.*

### **District response to the finding:**

*The District has taken all necessary and available actions in order to comply with the Trust Indenture. A SPE was formed and took ownership of the unplatted land. During the prior year the bonds were restructured to enable the District to continue with development of the property and completion of the construction project as amended. Due to the restructure, it is uncertain as to if and when the Trustee may use funds to replenish the reserves for the unexchanged bonds.*



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William J. Rizzetta

Treasurer

Gramercy Farms Community Development District

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
THE REQUIREMENTS OF SECTION 218.415, FLORIDA STATUTES**

Board of Supervisors  
*Gramercy Farms Community Development District*

We have examined *Gramercy Farms Community Development District's* (the "District") compliance with the requirements of Section 218.415, Florida Statutes, during the year ended September 30, 2015. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the 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 the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence about the 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 the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2015.

*MCDIRMIT DAVIS & COMPANY, LLC*

Orlando, Florida  
April 21, 2016