

**INDIGO  
COMMUNITY DEVELOPMENT DISTRICT  
VOLUSIA COUNTY, FLORIDA  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2010**

**INDIGO COMMUNITY DEVELOPMENT DISTRICT  
VOLUSIA COUNTY, FLORIDA**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Supervisors  
Indigo Community Development District  
Volusia County, Florida

We have audited the financial statements of the governmental activities and each major fund of Indigo Community Development District, Volusia County, Florida (the "District") as of and for the fiscal year ended September 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2010, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 8 and 13 to the basic financial statement, GMAC, the mortgage holder of certain land owned by MSKP Volusia Partners, LLC ("MSKP"), the former Developer of the District, took over ownership of MSKP's land. During the current fiscal year, certain delinquent fiscal year 2009 assessments were paid by GMAC, in addition to any unpaid fiscal year 2010 assessments owed by MSKP. During the current fiscal year, the land taken over by GMAC was sold to Coast Oak Group ("Coast Oak"). Coast Oak failed to pay a significant portion of its fiscal year 2010 assessments and has paid none of its fiscal year 2011 assessments. The District anticipates initiating foreclosure proceedings on certain parcels owned by Coast Oak for nonpayment of special assessments as it relates to the District's Series 1999C Bonds and certain operation and maintenance assessments. As of September 13, 2011, the District had only collected approximately 17% of the directly billed fiscal year 2011 assessments. As a result of Coast Oak's failure to make payments on the special assessments which ultimately secure the Bonds, the Series 1999C and 2005A interest payments due on November 1, 2010 and the Series 1999C and 2005A principal payments due on May 1, 2011 were made, in part, by draws on the Debt Service Reserve Accounts. Additionally, during the fiscal year ended September 30, 2008, Woodside Group, LLC ("Woodside") and its restricted subsidiaries, consented to the commencement of Chapter 11 bankruptcy protection. At September 30, 2010, Woodside was no longer a landowner within the District having sold its remaining 60 lots within the District during the current fiscal year. The District is economically dependent on the major landowners of the District.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2011, 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, 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* and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in blue ink, appearing to read "G. L. A.", is positioned above the date.

September 30, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Indigo Community Development District, Volusia County, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2010. Please read it in conjunction with the District's Independent Auditor's Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

### FINANCIAL HIGHLIGHTS

- The liabilities of the District exceeded its assets at the close of the fiscal year ended September 30, 2010 resulting in a net asset deficit balance of (\$5,981,233).
- The change in the District's total (deficit) net assets in comparison with the prior fiscal year was (\$611,944), a decrease. The key components of the District's net assets and change in net assets are reflected in the table in the government-wide financial analysis section.
- At September 30, 2010, the District's governmental funds reported combined ending fund balances of \$10,099,209, a decrease of (\$688,224) in comparison with the prior fiscal year. Of the total fund balance, \$9,492,578 is reserved for debt service, capital projects and other items and the remainder is unreserved fund balance which is available for spending at the District's discretion.

### 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 assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 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 governmental funds for external reporting. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund and capital projects fund, all of which are considered major funds.

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

### Notes to the Financial Statements

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

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District, liabilities exceeded assets at the close of the fiscal year ended September 30, 2010.

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

	NET ASSETS SEPTEMBER 30,	
	2010	(Restated) 2009
Assets, excluding capital assets	\$ 10,802,015	\$ 11,692,633
Capital assets, net of depreciation	5,721,445	5,898,422
Total assets	16,523,460	17,591,055
Liabilities, excluding long-term liabilities	609,792	670,695
Long-term liabilities	21,894,901	22,289,649
Total liabilities	22,504,693	22,960,344
Net Assets		
Invested in capital assets, net of related debt	(8,359,088)	(8,514,133)
Restricted for debt service	1,714,363	2,390,982
Unrestricted	663,492	753,862
Total net assets (deficit)	\$ (5,981,233)	\$ (5,369,289)

## GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

The restricted portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the District's other obligations.

The District's net assets decreased during the fiscal year ended September 30, 2010. The majority of the decrease represents the extent to which ongoing program revenues exceeded the cost of operations and depreciation expense primarily as result of significant delinquent assessments due from a major landowner.

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

CHANGES IN NET ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30,		
	2010	(Restated) 2009
Revenues:		
Program revenues		
Charges for services	\$ 2,030,429	\$ 2,937,831
Operating grants and contributions	33,508	49,446
Capital grants and contributions	7,510	69,780
General revenues	806	4,468
Total revenues	<u>2,072,253</u>	<u>3,061,525</u>
Expenses:		
General government	211,204	233,659
Maintenance and operations	1,056,697	948,227
Interest on long-term debt	1,416,296	1,441,674
Conveyance of infrastructure	-	5,541,718
Total expenses	<u>2,684,197</u>	<u>8,165,278</u>
Change in net assets	<u>(611,944)</u>	<u>(5,103,753)</u>
Net assets (deficit) - beginning (restated)	<u>(5,369,289)</u>	<u>(265,536)</u>
Net assets (deficit) - ending (restated)	<u>\$ (5,981,233)</u>	<u>\$ (5,369,289)</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2010 was \$2,684,197. The majority of the costs of the District's activities were paid by program revenues. Program revenues, comprised primarily of assessments, decreased from the prior fiscal year as a major landowner failed to pay a significant portion of its fiscal year 2010 assessments. The District also received funds from investment earnings and miscellaneous income which are also included in program revenues. The majority of the decrease in the District's expenses is attributable to the conveyance of infrastructure in prior fiscal years which has been recorded in the aggregate in the 2009 fiscal year.

## GENERAL BUDGETING HIGHLIGHTS

An operating budget was adopted and maintained by the governing board for the District pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2010.

## GENERAL BUDGETING HIGHLIGHTS (Continued)

General fund revenues were lower than anticipated as one of the District's major landowners failed to pay a significant portion of its fiscal year 2010 assessments.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At September 30, 2010, the District had \$7,266,923 invested in land and land improvements, infrastructure, entranceway features, and other improvements. In the government-wide financial statements depreciation of \$1,545,478 has been taken, which resulted in a net book value of \$5,721,445. More detailed information about the District's capital assets is presented in the notes of the financial statements.

### Capital Debt

At September 30, 2010, the District had \$22,010,000 in Bonds outstanding, a decrease of approximately 2% from the prior fiscal year. 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

The Operations and Maintenance Assessments for the 2011 fiscal year have been significantly increased as certain provisions were taken in an effort to offset any deficiencies arising from delinquent fiscal year 2011 assessments.

As discussed in the notes to the basic financial statements, GMAC, the mortgage holder of certain land owned by MSKP Volusia Partners, LLC ("MSKP"), the former Developer of the District, took over ownership of MSKP's land. During the current fiscal year, certain delinquent fiscal year 2009 assessments were paid by GMAC, in addition to any unpaid fiscal year 2010 assessments owed by MSKP.

During the current fiscal year, the land taken over by GMAC was sold to Coast Oak Group ("Coast Oak"). Coast Oak failed to pay a significant portion of its fiscal year 2010 assessments and has paid none of its fiscal year 2011 assessments. The District anticipates initiating foreclosure proceedings on certain parcels owned by Coast Oak for nonpayment of special assessments as it relates to the District's Series 1999C Bonds and certain operation and maintenance assessments. As of September 13, 2011, the District had only collected approximately 17% of the directly billed fiscal year 2011 assessments. As a result of Coast Oak's failure to make payments on the special assessments which ultimately secure the Bonds, the Series 1999C and 2005A interest payments due on November 1, 2010 and the Series 1999C and 2005A principal payments due on May 1, 2011 were made, in part, by draws on the Debt Service Reserve Accounts.

During the fiscal year ended September 30, 2008, Woodside Group, LLC ("Woodside") and its restricted subsidiaries, consented to the commencement of Chapter 11 bankruptcy protection. At September 30, 2010, Woodside was no longer a landowner within the District having sold its remaining 60 lots within the District during the current fiscal year. There were no outstanding delinquent assessments due from Woodside as of the fiscal year ended September 30, 2010.

## 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 Indigo Community Development District's Finance Department at 13574 Village Park Drive, Suite 265 Orlando, Florida 32837.

**INDIGO COMMUNITY DEVELOPMENT DISTRICT  
VOLUSIA COUNTY, FLORIDA  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2010**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash	\$ 113,419
Investments	457,375
Due from other	23,584
Assessments receivable	427,164
Prepays	34,476
Restricted assets:	
Investments	9,105,727
Deferred charges	640,270
Capital assets:	
Nondepreciable	2,507,717
Depreciable, net	<u>3,213,728</u>
Total assets	<u>16,523,460</u>
 <b>LIABILITIES</b>	
Accounts payable	40,151
Accrued interest payable	569,641
Non-current liabilities:	
Due within one year	430,000
Due in more than one year	<u>21,464,901</u>
Total liabilities	<u>22,504,693</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	(8,359,088)
Restricted for debt service	1,714,363
Unrestricted	<u>663,492</u>
Total net assets (deficit)	<u><u>\$ (5,981,233)</u></u>

See notes to the financial statements

**INDIGO COMMUNITY DEVELOPMENT DISTRICT  
VOLUSIA COUNTY, FLORIDA  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

<u>Functions/Programs</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	\$ 211,204	\$ 211,204	\$ -	\$ -	\$ -
Maintenance and operations	1,056,697	559,171	-	7,510	(490,016)
Interest on long-term debt	1,416,296	1,260,054	33,508	-	(122,734)
Total governmental activities	2,684,197	2,030,429	33,508	7,510	(612,750)
General revenues:					
Unrestricted investment earnings					806
Total general revenues					806
Change in net assets					(611,944)
Net assets (deficit) - beginning (restated)					(5,369,289)
Net assets (deficit) - ending					\$ (5,981,233)

See notes to the financial statements

**INDIGO COMMUNITY DEVELOPMENT DISTRICT  
VOLUSIA COUNTY, FLORIDA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2010**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
<b>ASSETS</b>				
Cash	\$ 113,419	\$ -	\$ -	\$ 113,419
Investments	457,375	1,931,629	7,174,098	9,563,102
Due from other	23,584	-	-	23,584
Assessments receivable	74,789	352,375	-	427,164
Prepays	34,476	-	-	34,476
Total assets	<u>\$ 703,643</u>	<u>\$ 2,284,004</u>	<u>\$ 7,174,098</u>	<u>\$ 10,161,745</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 40,151	\$ -	\$ -	\$ 40,151
Deferred revenue	22,385	-	-	22,385
Total liabilities	<u>62,536</u>	<u>-</u>	<u>-</u>	<u>62,536</u>
Fund balances:				
Reserved for:				
Debt service	-	2,284,004	-	2,284,004
Capital projects	-	-	7,174,098	7,174,098
Other	34,476	-	-	34,476
Unreserved, designated for:				
General fund	606,631	-	-	606,631
Total fund balances	<u>641,107</u>	<u>2,284,004</u>	<u>7,174,098</u>	<u>10,099,209</u>
Total liabilities and fund balances	<u>\$ 703,643</u>	<u>\$ 2,284,004</u>	<u>\$ 7,174,098</u>	<u>\$ 10,161,745</u>

See notes to the financial statements

**INDIGO COMMUNITY DEVELOPMENT DISTRICT  
VOLUSIA COUNTY, FLORIDA  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2010**

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

Fund balance - governmental funds		\$ 10,099,209
<p>Capital assets used in governmental activities are not financial resources, therefore, are not reported as assets in the governmental funds. The statement of net assets includes those capital assets, net of any accumulated depreciation, in the net assets of the government as a whole.</p>		
Cost of capital assets	7,266,923	
Accumulated depreciation	<u>(1,545,478)</u>	5,721,445
<p>Assets that are not available to pay for current-period expenditures are deferred in the fund statements.</p>		
		22,385
<p>Bond issuance costs are not financial resources and, therefore, are not reported as assets in the governmental funds. The statements of net assets includes these costs, net of any amortization.</p>		
Bond issuance costs	1,149,758	
Accumulated amortization	<u>(509,488)</u>	640,270
<p>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.</p>		
Accrued interest payable	(569,641)	
Bonds payable	<u>(21,894,901)</u>	(22,464,542)
Net assets of governmental activities		<u><u>\$ (5,981,233)</u></u>

See notes to the financial statements

**INDIGO COMMUNITY DEVELOPMENT DISTRICT  
VOLUSIA COUNTY, FLORIDA  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
<b>REVENUES</b>				
Assessments	\$ 717,994	\$ 1,370,414	\$ -	\$ 2,088,408
Miscellaneous income	64,793	-	-	64,793
Interest	806	33,508	7,510	41,824
<b>Total revenues</b>	<b>783,593</b>	<b>1,403,922</b>	<b>7,510</b>	<b>2,195,025</b>
<b>EXPENDITURES</b>				
Current:				
General government	211,204	-	-	211,204
Maintenance	838,697	-	-	838,697
Debt Service:				
Principal	-	400,000	-	400,000
Interest	-	1,392,325	-	1,392,325
Capital outlay	-	-	41,023	41,023
<b>Total expenditures</b>	<b>1,049,901</b>	<b>1,792,325</b>	<b>41,023</b>	<b>2,883,249</b>
Excess (deficiency) of revenues over (under) expenditures	(266,308)	(388,403)	(33,513)	(688,224)
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers in	228,350	40,000	-	268,350
Interfund transfers (out)	(40,000)	(228,350)	-	(268,350)
<b>Total other financing sources (uses)</b>	<b>188,350</b>	<b>(188,350)</b>	<b>-</b>	<b>-</b>
Net change in fund balances	(77,958)	(576,753)	(33,513)	(688,224)
Fund balances - beginning	719,065	2,860,757	7,207,611	10,787,433
Fund balances - ending	<b>\$ 641,107</b>	<b>\$ 2,284,004</b>	<b>\$ 7,174,098</b>	<b>\$10,099,209</b>

See notes to the financial statements

**INDIGO COMMUNITY DEVELOPMENT DISTRICT  
VOLUSIA COUNTY, 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, 2010**

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

Net change in fund balances - total governmental funds	\$ (688,224)
Governmental funds report capital outlays as expenditures; however, the cost of capital assets is eliminated in the statement of activities and capitalized in the statement of net assets.	41,023
Depreciation of capital assets is not recognized in the governmental fund statements, but is reported as an expense in the statement of activities.	(218,000)
Repayments of long-term liabilities are reported as expenditures in the governmental fund statements, but such repayments reduce liabilities in the statement of net assets and are eliminated in the statement of activities.	400,000
Certain revenues were deferred for the fund financial statements in the prior fiscal year. In the current fiscal year, these revenues were recorded in the fund financial statements.	(145,157)
Revenues in the statement of activities that do not provide current financial resources are deferred and not reported as revenues in the fund financial statements.	22,385
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.	10,494
Amortization of deferred charges is not recognized in the governmental fund statements, but is reported as an expense in the statement of activities.	<u>(34,465)</u>
Change in net assets of governmental activities	<u><u>\$ (611,944)</u></u>

See notes to the financial statements

**INDIGO COMMUNITY DEVELOPMENT DISTRICT  
VOLUSIA COUNTY, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

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

Indigo Community Development District ("District") was created January 3, 1995 by Rule 42U-1.001 - 1.003, Florida Administrative Code of the Florida Land and Water Adjudicatory Commission, 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. At September 30, 2010, three of the Supervisors were elected on an at large basis by the owners of the property within the District. The remaining two Supervisors, and all future Supervisors, are elected by residents registered to vote within the District through the general election process. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes.

The Board has the 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") Statement 14, and Statement 39, an amendment of GASB Statement 14. 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. There are no entities considered to be component units of the District; therefore, the financial statements include only the operations of the District.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Government-Wide and Fund Financial Statements**

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

The government-wide financial statements (i.e., the statement of net assets 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 benefited property within the District. Operating and maintenance assessments are based upon the 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 under 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 the 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

### **General Fund**

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

### **Debt Service Fund**

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

### **Capital Projects Fund**

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

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

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

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

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

Securities listed in paragraph c and d shall be invested to provide sufficient liquidity to pay obligations as they come due. In addition, unspent Bond proceeds are required to be held in investments as specified in the Bond Indentures.

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

#### 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 estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Entry feature and other improvements	10-20
Infrastructure	10-30

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

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

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

#### Deferred Charges

In prior fiscal years, in connection with the issuance of certain debt, the District incurred costs totaling \$1,149,758. In the government-wide financial statements that amount has been capitalized and amortized over the estimated life of the Bonds. At September 30, 2010, the District reported accumulated amortization of \$509,488.

#### Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized ratably over the life of the Bonds. Bonds payable are reported net of applicable premiums or discounts.

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.

#### Fund Equity/Net Assets

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

Net assets in the government-wide financial statements are categorized as invested in capital assets, net of related debt, restricted or unrestricted. Invested in capital assets, net of related debt represents net assets related to infrastructure and property, plant and equipment, net of any related debt. Restricted net assets represent the assets restricted by the District's Bond covenants or other contractual restrictions.

### **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.

### NOTE 3 – BUDGETARY INFORMATION (Continued)

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, 2010:

	Fair Value	Credit Risk	Maturities
First American Prime Obligation Fund Class Z	<u>\$ 9,563,102</u>	S&P AAAm	Weighted average of the fund portfolio: 45 days

*Custodial 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. The money market mutual funds are not evidenced by securities that exist in physical or book entry form.

*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 Indentures limit the type of investments held using unspent proceeds.

## NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended September 30, 2010 were as follows:

Fund	Transfers in	Transfers Out
General fund	\$ 228,350	\$ 40,000
Debt Service Fund	40,000	228,350
Total	\$ 268,350	\$ 268,350

During the current fiscal year, \$228,350 was transferred from the debt service fund to the general fund in accordance with the Bond Indentures. Additionally, during the current fiscal year, \$40,000 was transferred from the general fund to the debt service fund to finance a portion of the Series 1999C May 1, 2010 debt service payments. See Note 7 for more information.

## NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2010 was as follows:

	(Restated) Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land and land improvements	\$ 2,507,717	\$ -	\$ -	\$ 2,507,717
Infrastructure under construction	1,077,286	41,023	1,118,309	-
Total capital assets, not being depreciated	3,585,003	41,023	1,118,309	2,507,717
Capital assets, being depreciated				
Entrance and other improvements	443,210	1,073,982	-	1,517,192
Infrastructure	3,197,687	44,327	-	3,242,014
Total capital assets, being depreciated	3,640,897	1,118,309	-	4,759,206
Less accumulated depreciation for:				
Entrance and other improvements	323,897	95,990	-	419,887
Infrastructure	1,003,581	122,010	-	1,125,591
Total accumulated depreciation	1,327,478	218,000	-	1,545,478
Total capital assets, being depreciated, net	2,313,419	900,309	-	3,213,728
Governmental activities capital assets, net	\$ 5,898,422	\$ 941,332	\$ 1,118,309	\$ 5,721,445

The estimated costs for the 2005 project are approximately \$35,000,000. The infrastructure will include roadways, surface water management system facilities, street lighting, wastewater pumping facilities, entrance features and landscape improvements. A portion of the project costs are expected to be financed with the proceeds of the Series 2005 Bonds with the remainder expected to be funded by the former Developer. However, in the event that any subsequent Developer of the project does not complete a portion of the project, the responsibility would rest on the District. See Note 8 for additional information related to the former Developer. In addition, upon completion, certain improvements are to be conveyed to other governments for ownership and maintenance responsibilities. In prior fiscal years, certain infrastructure including wastewater pumping facilities and roadways was conveyed to other governments for ownership and maintenance responsibilities. During the current fiscal year, the District was contacted by the city of Daytona Beach (“City”) that certain repairs need to be made to the District’s sidewalks and entry features. The District is currently in negotiations with the City related to the repairs.

Depreciation expense was charged to the maintenance and operations function.

In connection with the 2005 project, if costs of the 2005 project are identified by the District to the Trustee in writing as having been advanced under the Acquisition Agreement, then it may be determined that deferred costs exist. Upon completion of the project, certain funds available from the Bonds may be used to pay deferred costs, as outlined in the Bond Indenture. At September 30, 2010, the 2005 project has not been completed and the District has not yet determined if a liability exists for deferred costs.

## NOTE 7 – LONG-TERM LIABILITIES

At September 30, 2010, the District had Bond issues as follows:

Series	Issue Date	Original Face Amount	Interest Rate	Maturity
Capital Improvement Bonds:				
Series 1999A	December 20, 1999	\$ 980,000	7.00%	May 1, 2031
Series 1999C	December 20, 1999	8,515,000	7.00%	May 1, 2030
Series 2005	February 1, 2005	14,710,000	5.75%	May 1, 2036

The Capital Improvement Bonds, Series 1999A, 1999C and 2005A were issued to finance the acquisition and construction of certain improvements for the benefit of the District.

Interest is to be paid semiannually for each Bond series on each May 1 and November 1. Principal is to be paid serially for each Bond series on each May 1.

The Series 1999A, 1999C, and 2005 Bonds are subject to redemption at the option of the District prior to maturity. Each Bond Series is 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 Indentures established debt service reserve requirements 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 is in compliance with those requirements of the Bond Indentures at September 30, 2010.

During the current fiscal year, \$40,000 was transferred from the general fund to the debt service fund to finance a portion of the Series 1999C Bonds May 1, 2010 debt service payments. See Note 13 for additional information subsequent to fiscal year end.

Changes in long-term liability activity for the fiscal year ended September 30, 2010 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 1999	\$ 8,300,000	\$ -	\$ 175,000	\$ 8,125,000	\$ 190,000
Series 2005	14,110,000	-	225,000	13,885,000	240,000
Less deferred amounts:					
For issuance discounts	(120,351)	-	(5,252)	(115,099)	-
Governmental activities long-term liabilities	<u>\$ 22,289,649</u>	<u>\$ -</u>	<u>\$ 394,748</u>	<u>\$ 21,894,901</u>	<u>\$ 430,000</u>

## NOTE 7 – LONG-TERM LIABILITIES (Continued)

At September 30, 2010, the scheduled debt service requirements on the long-term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2011	\$ 430,000	\$ 1,367,138	\$ 1,797,138
2012	455,000	1,340,038	1,795,038
2013	485,000	1,311,313	1,796,313
2014	525,000	1,280,675	1,805,675
2015	555,000	1,247,488	1,802,488
2016-2020	3,345,000	5,665,963	9,010,963
2021-2025	4,600,000	4,455,100	9,055,100
2026-2030	6,320,000	2,787,113	9,107,113
2031-2035	4,295,000	1,048,588	5,343,588
2036	1,000,000	57,500	1,057,500
Total	<u>\$ 22,010,000</u>	<u>\$ 20,560,916</u>	<u>\$ 42,570,916</u>

## NOTE 8 – RELATED PARTY INFORMATION

### **Developer and Significant Landowner Assessments**

MSKP Volusia Partners, LLC (“MSKP”), the former Developer of the District, owned a significant portion of land within the District; therefore, assessment revenues in the general and debt service funds included the assessments levied on those lots owned by MSKP. GMAC, the mortgage holder of certain land owned by MSKP, took over ownership of MSKP’s land. During the current fiscal year, delinquent fiscal year 2009 assessments of approximately \$145,000 were paid by GMAC, in addition to any unpaid fiscal year 2010 assessments owed by MSKP.

During the current fiscal year, the land taken over by GMAC was sold to Coast Oak Group (“Coast Oak”). During the current fiscal year, Coast Oak failed to pay a significant portion of its fiscal year 2010 assessments. Coast Oak’s delinquent assessments for the fiscal year ended September 30, 2010 totaled approximately \$860,000. As collectability is both uncertain and unlikely, this revenue has not been recognized in the governmental-wide financial statements. See Note 13 for additional information subsequent to fiscal year end.

### **I-95 Landscape Contribution Agreement**

In a prior fiscal year, the District entered into an agreement with Indigo Development Inc., the prior Developer, whereby Indigo Development Inc. agreed to finance 50% of the costs related to the maintenance of the I-95 Interchange. The terms of the agreement shall remain in effect through September 30, 2020, unless sooner terminated in accordance the terms of the agreement. In connection with that agreement, revenues received during the 2010 fiscal year totaled \$37,199. An additional \$22,385 has been deferred in the governmental fund financial statements as the revenue was not available to finance current year expenditures.

### **Significant Landowner Bankruptcy**

During the fiscal year ended September 30, 2008, Woodside Group, LLC (“Woodside”), and its restricted subsidiaries, consented to the commencement of Chapter 11 bankruptcy protection. On October 29, 2008, the bankruptcy court entered an order allowing Woodside to pay special assessments and similar debt during the pendency of its case. The District filed a secured proof of claim in Woodside’s bankruptcy case which represents special assessments owed to the District and secured by special assessment liens (both debt and operations and maintenance). The bankruptcy order was confirmed.

Woodside was assessed for the fiscal year 2010 assessments on the 60 lots it owned within the District. Thereafter, Woodside sold the properties and was no longer a landowner within the District as of September 30, 2010. There were no outstanding delinquent assessments due from Woodside for the fiscal year ended September 30, 2010.

## NOTE 9 – PRIOR PERIOD ADJUSTMENT

The fiscal year 2010 report has adjusted the following items listed in the fiscal year 2009 report:

	<u>Governmental Activities</u>
Net assets/fund balance - as previously stated	\$ 27,272
Understatement of assets	145,157
Overstatement of fixed assets	<u>(5,541,718)</u>
Net assets/fund balance - as restated	<u>\$ (5,369,289)</u>

## NOTE 10 – CONCENTRATION

A significant portion of the District's activity is dependent upon the continued involvement of the major landowners, the loss of which could have a material adverse effect on the District's operations.

## NOTE 11 – MANAGEMENT AGREEMENTS

The District has contracted with management companies to perform management advisory services, which include financial and accounting services, and field management services. Certain employees of one of the management companies also serve as officers of the District. Under the agreements, the District compensates one of the management companies for management, accounting, financial reporting, computer and other administrative costs and the other management company for field operations management services.

## NOTE 12 – 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. Settled claims from these risks have not exceeded commercial insurance coverage over the past three years.

## NOTE 13 – SUBSEQUENT EVENTS

### **Assessments**

Subsequent to September 30, 2010, Coast Oak has paid none of its fiscal year 2011 assessments. Coast Oak's fiscal year 2011 delinquent assessments totaled approximately \$1,213,000. Coast Oaks has indicated that it will not be making payment on the delinquent fiscal year 2010 or 2011 assessments. The District anticipates initiating foreclosure proceedings on certain parcels owned by Coast Oak for nonpayment of special assessments as it relates to the District's Series 1999C Bonds and certain operation and maintenance assessments. However, proceedings have not been filed or initiated as of September 28, 2011.

As of September 13, 2011, the District had only collected approximately 17% of the directly billed fiscal year 2011 assessments.

### **Scheduled Debt Service Payments**

As discussed in Note 8, Coast Oak failed to make certain payments on the special assessments which ultimately secure the Bonds. As a result, the Series 1999C and 2005A interest payments due on November 1, 2010 and the Series 1999C and 2005A principal payments due on May 1, 2011 were made, in part, by draws on the Debt Service Reserve Accounts.

**INDIGO COMMUNITY DEVELOPMENT DISTRICT  
VOLUSIA COUNTY, FLORIDA  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
	Original & Final	Actual Amounts	
<b>REVENUES</b>			
Assessments	\$ 904,686	\$ 717,994	\$ (186,692)
Miscellaneous revenue	71,027	64,793	(6,234)
Interest	4,000	806	(3,194)
Total revenues	<u>979,713</u>	<u>783,593</u>	<u>(196,120)</u>
<b>EXPENDITURES</b>			
Current:			
General government	182,125	211,204	(29,079)
Maintenance	888,453	838,697	49,756
Total expenditures	<u>1,070,578</u>	<u>1,049,901</u>	<u>20,677</u>
Excess (deficiency) of revenues over (under) expenditures	(90,865)	(266,308)	(175,443)
<b>OTHER FINANCING SOURCES (USES)</b>			
Interfund transfers in	90,865	228,350	137,485
Interfund transfers (out)	-	(40,000)	(40,000)
Total other financing sources (uses)	<u>90,865</u>	<u>188,350</u>	<u>97,485</u>
Net change in fund balance	<u>\$ -</u>	<u>(77,958)</u>	<u>\$ (77,958)</u>
Fund balance - beginning		<u>719,065</u>	
Fund balance - ending		<u>\$ 641,107</u>	

See notes to required supplementary information

**INDIGO COMMUNITY DEVELOPMENT DISTRICT  
VOLUSIA COUNTY, 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, 2010.

General fund revenues were lower than anticipated as one of the District's major landowners failed to pay a significant portion of its fiscal year 2010 assessments.



**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  
Indigo Community Development District  
Volusia County, Florida

We have audited the financial statements of the governmental activities and each major fund of Indigo Community Development District, Volusia County, Florida ("District") as of and for the fiscal year ended September 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 30, 2011, which includes an emphasis of matter paragraph. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

*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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as discussed in the accompanying report to management dated September 30, 2011, we consider deficiency 2010-01 to be a significant deficiency in internal control over financial reporting.

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, 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*.

This report is intended for the information of the management, Board of Supervisors of Indigo Community Development District, Volusia County, Florida and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

September 30, 2011



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

To the Board of Supervisors  
Indigo Community Development District  
Volusia County, Florida

We have audited the accompanying basic financial statements of Indigo Community Development District ("District") as of and for the fiscal year ended September 30, 2010, and have issued our report thereon dated September 30, 2011, which includes an emphasis of matter paragraph.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 of material misstatement.

In addition, we have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters dated September 30, 2011. Disclosures in that report should be considered in conjunction with this management letter.

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

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

This report is intended for the information of the management, Board of Supervisors of Indigo Community Development District, Volusia County, Florida and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank Indigo Community Development District, Volusia County, 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.

September 30, 2011

## REPORT TO MANAGEMENT

### I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

#### *Significant Deficiency*

##### **2010-01 Not Maintaining Fixed Assets Schedule**

Finding: During the course of conducting procedures for the audit of the fiscal year ended September 30, 2010, it came to our attention that the District has not been maintaining its fixed asset schedule. Documentation for certain prior year conveyances could not be provided. Additionally, (other) conveyances that had been executed in prior fiscal years had not been accounted for in the District's government-wide financial statements.

Recommendation: The District should be maintaining its capital asset schedules throughout the course of the fiscal year. The District's policies for accounting for capital assets and generally accepted accounting principles should be taken into consideration in doing so.

Management Response: The District has updated capital asset schedules and will maintain throughout the fiscal year in accordance with the auditors recommendations.

### II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

None

### 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, 2009.

2. A statement as to whether or not the local governmental entity complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

The District complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

3. 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, 2010, except as noted above.

4. Violations of 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 more than inconsequential.

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, 2010, except as noted above.

## REPORT TO MANAGEMENT (Continued)

5. For matters that have an inconsequential effect on the financial statements, considering both quantitative and qualitative factors, the following may be reported based on professional judgment:
  - a. Violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse.
  - b. Deficiencies in internal control that are not significant deficiencies.

There were no such matters discovered by, or that came to the attention of, the auditor, that, in our judgment, are required to be reported, for the fiscal year ended September 30, 2010, except as noted above.

6. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.
7. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2010 financial audit report.
8. The District has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
9. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and no deteriorating financial conditions were noted for the fiscal year ended September 30, 2010. 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.