

**INDIGO  
COMMUNITY DEVELOPMENT DISTRICT  
VOLUSIA COUNTY, FLORIDA  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2011**

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

**TABLE OF CONTENTS**

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-6
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet – Governmental Funds	9
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	10
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Notes to the Financial Statements	13-22
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	23
Notes to Required Supplementary Information	24
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	25-26
MANAGEMENT LETTER REQUIRED BY CHAPTER 10.550 OF THE RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA	27-29



**Grau & Associates**  
CERTIFIED PUBLIC ACCOUNTANTS

2700 North Military Trail • Suite 350  
Boca Raton, Florida 33431  
(561) 994-9299 • (800) 299-4728  
Fax (561) 994-5823  
www.graucpa.com

**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying 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, 2011, 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.

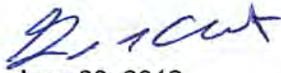
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2011, 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 Note 5 and other referenced notes to the financial statements, the District's financial conditions are deteriorating and the future of the project remains uncertain. In the prior, current, and subsequent fiscal years, major landowners in the District failed to pay all of their assessments. As a result, the Series 1999C and 2005 interest payments due on November 1, 2010 and November 1, 2011 and the principal payments due on May 1, 2011 were made, in part, by draws on the Debt Service Reserve Accounts and the interest and principal payments due on May 1, 2012 were not made. The non-payment of interest and principal payments, when due, are considered events of default. The District is economically dependent on the major landowners of the District. The title work necessary to commence foreclosure proceedings has been completed, but a foreclosure complaint has not yet been filed by the District. Conversations are ongoing with the landowners as the Bondholders are trying to negotiate with the landowners in an attempt to avoid foreclosure.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2012, 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 "D. Scott", is written above the date.

June 28, 2012

## 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, 2012. 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, 2011 resulting in a net asset deficit balance of (\$7,154,011).
- The change in the District's total (deficit) net assets in comparison with the prior fiscal year was (\$1,172,778), 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, 2011, the District's governmental funds reported combined ending fund balances of \$8,759,989, a decrease of (\$1,339,220) in comparison with the prior fiscal year. Of the total fund balance, \$8,429,404 is restricted for debt service and capital projects, \$32,658 is non-spendable for prepaid 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, 2011.

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

	NET ASSETS SEPTEMBER 30,	
	2011	2010
Assets, excluding capital assets	\$ 9,408,890	\$ 10,802,015
Capital assets, net of depreciation	5,503,445	5,721,445
Total assets	14,912,335	16,523,460
Liabilities, excluding long-term liabilities	596,193	609,792
Long-term liabilities	21,470,153	21,894,901
Total liabilities	22,066,346	22,504,693
Net Assets		
Invested in capital assets, net of related debt	(8,193,876)	(8,359,088)
Restricted for debt service	709,280	1,714,363
Unrestricted	330,585	663,492
Total net assets (deficit)	\$ (7,154,011)	\$ (5,981,233)

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, 2011. 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 major landowners.

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,		
	2011	2010
Revenues:		
Program revenues		
Charges for services	\$ 1,467,671	\$ 2,030,429
Operating grants and contributions	1,223	33,508
Capital grants and contributions	5,053	7,510
General revenues	315	806
Total revenues	<u>1,474,262</u>	<u>2,072,253</u>
Expenses:		
General government	233,346	211,204
Maintenance and operations	1,023,383	1,056,697
Interest on long-term debt	1,390,311	1,416,296
Total expenses	<u>2,647,040</u>	<u>2,684,197</u>
Change in net assets	<u>(1,172,778)</u>	<u>(611,944)</u>
Net assets (deficit) - beginning	<u>(5,981,233)</u>	<u>(5,369,289)</u>
Net assets (deficit) - ending	<u>\$ (7,154,011)</u>	<u>\$ (5,981,233)</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2011 was \$2,647,040. 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 primarily because some of the major landowners failed to pay all of their fiscal year 2011 assessments whereas a portion of their fiscal year 2010 assessments were paid in the prior fiscal year. The District also received funds from investment earnings and miscellaneous income which are also included in program revenues.

## 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. The general fund budget for the fiscal year ended September 30, 2011 was amended to increase revenues by \$9,054, increase other financing sources by \$13,410, and increase appropriations by \$22,464. The increase in revenues is primarily the result of greater than anticipated miscellaneous revenues, whereas the increase in appropriations is primarily due to unexpected costs which were not originally budgeted for thereby resulting in an increase in budgeted other financing sources. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2011.

Actual general fund expenditures for the fiscal year ended September 30, 2011 were less than appropriations due primarily to anticipated costs which were not incurred in the current fiscal year. General fund revenues were lower than anticipated as some of the District's major landowners failed to pay their fiscal year 2011 assessments.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At September 30, 2011, 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 \$1,763,478 has been taken, which resulted in a net book value of \$5,503,445. More detailed information about the District's capital assets is presented in the notes of the financial statements.

### Capital Debt

At September 30, 2011, the District had \$21,580,000 in Bonds outstanding. 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 2012 fiscal year have been increased as provisions were taken in an effort to create reserves in the event there are further deficiencies in the collection of assessments.

As discussed in the notes to the basic financial statements, the District's financial conditions are deteriorating and the future of the project remains uncertain. In the prior, current, and subsequent fiscal years, major landowners in the District failed to pay all of their assessments. As a result, the Series 1999C and 2005 interest payments due on November 1, 2010 and November 1, 2011 and the principal payments due on May 1, 2011 were made, in part, by draws on the Debt Service Reserve Accounts and the interest and principal payments due on May 1, 2012 were not made. The non-payment of interest and principal payments, when due, are considered events of default. The District is economically dependent on the major landowners of the District. The title work necessary to commence foreclosure proceedings has been completed, but a foreclosure complaint has not yet been filed by the District. Conversations are ongoing with the landowners as the Bondholders are trying to negotiate with the landowners in an attempt to avoid foreclosure.

## 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, 2011**

	Governmental Activities
<b>ASSETS</b>	
Cash	\$ 78,176
Investments	230,755
Due from other	26,840
Prepaid items	32,658
Restricted assets:	
Investments	8,429,404
Deferred charges	611,057
Capital assets:	
Nondepreciable	2,507,717
Depreciable, net	2,995,728
Total assets	14,912,335
 <b>LIABILITIES</b>	
Accounts payable	37,844
Accrued interest payable	558,349
Non-current liabilities:	
Due within one year	455,000
Due in more than one year	21,015,153
Total liabilities	22,066,346
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	(8,193,876)
Restricted for debt service	709,280
Unrestricted	330,585
Total net assets (deficit)	\$ (7,154,011)

See notes to the financial statements

**INDIGO COMMUNITY DEVELOPMENT DISTRICT  
VOLUSIA COUNTY, FLORIDA  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011**

<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	\$ 233,346	\$ 233,346	\$ -	\$ -	\$ -
Maintenance and operations	1,023,383	454,785	-	5,053	(563,545)
Interest on long-term debt	1,390,311	779,540	1,223	-	(609,548)
Total governmental activities	2,647,040	1,467,671	1,223	5,053	(1,173,093)
General revenues:					
Unrestricted investment earnings					315
Total general revenues					315
Change in net assets					(1,172,778)
Net assets (deficit) - beginning					(5,981,233)
Net assets (deficit) - ending					\$ (7,154,011)

See notes to the financial statements

**INDIGO COMMUNITY DEVELOPMENT DISTRICT  
VOLUSIA COUNTY, FLORIDA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2011**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
<b>ASSETS</b>				
Cash	\$ 78,176	\$ -	\$ -	\$ 78,176
Investments	230,755	1,267,629	7,161,775	8,660,159
Due from other	26,840	-	-	26,840
Prepaid items	32,658	-	-	32,658
Total assets	<u>\$ 368,429</u>	<u>\$ 1,267,629</u>	<u>\$ 7,161,775</u>	<u>\$ 8,797,833</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 37,844	\$ -	\$ -	\$ 37,844
Total liabilities	<u>37,844</u>	<u>-</u>	<u>-</u>	<u>37,844</u>
Fund balances:				
Nonspendable:				
Prepaid items	32,658	-	-	32,658
Restricted for:				
Debt service	-	1,267,629	-	1,267,629
Capital projects	-	-	7,161,775	7,161,775
Unassigned	297,927	-	-	297,927
Total fund balances	<u>330,585</u>	<u>1,267,629</u>	<u>7,161,775</u>	<u>8,759,989</u>
Total liabilities and fund balances	<u>\$ 368,429</u>	<u>\$ 1,267,629</u>	<u>\$ 7,161,775</u>	<u>\$ 8,797,833</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, 2011**

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

Fund balance - governmental funds		\$ 8,759,989
<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>(1,763,478)</u>	5,503,445
<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>(538,701)</u>	611,057
<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	(558,349)	
Bonds payable	<u>(21,470,153)</u>	(22,028,502)
Net assets of governmental activities		<u>\$ (7,154,011)</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, 2011**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
<b>REVENUES</b>				
Assessments	\$ 631,087	\$ 779,540	\$ -	\$ 1,410,627
Miscellaneous income	79,429	-	-	79,429
Interest	315	1,223	5,053	6,591
Total revenues	<u>710,831</u>	<u>780,763</u>	<u>5,053</u>	<u>1,496,647</u>
<b>EXPENDITURES</b>				
Current:				
General government	233,346	-	-	233,346
Maintenance	788,007	-	-	788,007
Debt Service:				
Principal	-	430,000	-	430,000
Interest	-	1,367,138	-	1,367,138
Capital outlay	-	-	17,376	17,376
Total expenditures	<u>1,021,353</u>	<u>1,797,138</u>	<u>17,376</u>	<u>2,835,867</u>
Excess (deficiency) of revenues over (under) expenditures	(310,522)	(1,016,375)	(12,323)	(1,339,220)
Fund balances - beginning	<u>641,107</u>	<u>2,284,004</u>	<u>7,174,098</u>	<u>10,099,209</u>
Fund balances - ending	<u>\$ 330,585</u>	<u>\$ 1,267,629</u>	<u>\$ 7,161,775</u>	<u>\$ 8,759,989</u>

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, 2011**

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

Net change in fund balances - total governmental funds	\$ (1,339,220)
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.	430,000
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.	(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.	11,292
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>\$ (1,172,778)</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, 2011, the Supervisors were 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, among other responsibilities:

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 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 cost of issuance 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, 2011, the District reported accumulated amortization of \$538,701.

#### 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 non spendable and restricted fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Assignments of fund balance represent tentative management plans that are subject to change. Under GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balances are required to be reported according to the following classifications:

Non-spendable fund balance – Amounts that are (a) not in spendable form or (b) legally or contractually required to be maintained intact. “Not in spendable form” includes items that are not expected to be converted to cash (such as inventories and prepaid amounts) and items such as long-term amount of loans and notes receivable, as well as property acquired for resale. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.

Restricted fund balance – Amounts that can be spent only for specific purposes stipulated by (a) external resource providers such as creditors (by debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

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

Assigned fund balance – Includes spendable fund balance amounts established by the Board of Supervisors that are intended to be used for specific purposes that are neither considered restricted nor committed.

Unassigned fund balance – Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

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

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

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

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

Net 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.

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

- a) Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
- b) A public hearing is conducted to obtain comments.
- c) Prior to October 1, the budget is legally adopted by the District Board.
- d) All budget changes must be approved by the District Board, subject to the District's appropriation resolution.
- 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, 2011:

	<u>Fair Value</u>	<u>Credit Risk</u>	<u>Maturities</u>
First American Prime Obligation Fund Class Z	<u>\$ 8,660,159</u>	S&P AAAM	Weighted average of the fund portfolio: 44 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 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended September 30, 2011 was as follows:

	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
Total capital assets, not being depreciated	2,507,717	-	-	2,507,717
Capital assets, being depreciated				
Entrance and other improvements	1,517,192	-	-	1,517,192
Infrastructure	3,242,014	-	-	3,242,014
Total capital assets, being depreciated	4,759,206	-	-	4,759,206
Less accumulated depreciation for:				
Entrance and other improvements	419,887	95,990	-	515,877
Infrastructure	1,125,591	122,010	-	1,247,601
Total accumulated depreciation	1,545,478	218,000	-	1,763,478
Total capital assets, being depreciated, net	3,213,728	(218,000)	-	2,995,728
Governmental activities capital assets, net	\$ 5,721,445	\$ (218,000)	\$ -	\$ 5,503,445

The Engineer’s Report for the Series 2005 Bonds estimated the total cost of infrastructure to be \$35,000,000. Infrastructure constructed includes roadways, surface water management systems, streetlighting, wastewater pumping facilities, entrance features and landscape improvements. A portion of the costs of the infrastructure were to be funded with the proceeds from the Series 2005 Bonds. An additional series of Bonds, along with contributions from the former Developer, were also anticipated for such purposes. See Note 7 for additional information related to the former Developer. In addition, upon completion, certain improvements were, and will be in the future as completed, conveyed to other governmental entities for ownership, operation and maintenance. During the prior fiscal year, the District was contacted by the city of Daytona Beach (“City”) that certain repairs need to be made to certain sidewalks and District entry features. The District had been in negotiations with the City related to the repairs. However, it was subsequently determined that the sidewalks are not assets owned or maintained by the District and, accordingly, the District is not responsible for their repairs. Subsequent to fiscal year end, the repairs to the sidewalks have been started by the City.

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, 2011, the 2005 project has not been completed and the District has not yet determined if a liability exists for deferred costs.

**NOTE 6 – LONG-TERM LIABILITIES**

At September 30, 2011, 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.

**NOTE 6 – LONG-TERM LIABILITIES (Continued)**

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 agreed at the time of issuance to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements and has agreed to collect the same. The Series 1999C and 2005 debt service reserve requirements were not met at September 30, 2011. See Note 11 for additional information subsequent to fiscal year end.

Major landowners in the District failed to make payment on the special assessments which ultimately secure the Bonds. As a result, the Series 1999C and 2005 interest payments due on November 1, 2010 and the Series 1999C and 2005 principal payments due on May 1, 2011 were made, in part, by draws on the Debt Service Reserve Accounts. Consequently, at September 30, 2011, the District reported deficits of approximately \$267,000 and \$392,000 in the Series 1999C and 2005 Debt Service Reserve Accounts, respectively. See Note 11 for additional information subsequent to fiscal year end.

Changes in long-term liability activity for the fiscal year ended September 30, 2011 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 1999	\$ 8,125,000	\$ -	\$ 190,000	\$ 7,935,000	\$ 205,000
Series 2005	13,885,000	-	240,000	13,645,000	250,000
Less deferred amounts:					
For issuance discounts	(115,099)	-	(5,252)	(109,847)	-
Governmental activities long-term liabilities	<u>\$ 21,894,901</u>	<u>\$ -</u>	<u>\$ 424,748</u>	<u>\$ 21,470,153</u>	<u>\$ 455,000</u>

At September 30, 2011, the scheduled debt service requirements on the long-term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
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	585,000	1,212,388	1,797,388
2017-2021	3,570,000	5,454,063	9,024,063
2022-2026	4,900,000	4,162,788	9,062,788
2027-2031	6,035,000	2,384,338	8,419,338
2032-2036	4,470,000	800,688	5,270,688
Total	<u>\$ 21,580,000</u>	<u>\$ 19,193,779</u>	<u>\$ 40,773,779</u>

## **NOTE 7 – RELATED PARTY INFORMATION**

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

During the prior fiscal year, 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 which comprised a significant portion of the land within the District. Thereafter, the land taken over by GMAC was sold to a partnership comprised of Coast Oak Group (“Coast Oak”) and Hayman Woods, LLC (“Hayman”). Title to the lands was held in several LLCs, including CGC Investment Land LLC; GC Land, LLC; and GC Five Sisters, LLC (all such holdings collectively referred to as “GCHW Land”). During the prior fiscal year, a significant portion of the assessments on the GCHW Land was not paid. Such delinquent assessments for the fiscal year ended September 30, 2010, totaled approximately \$860,000. In the current fiscal year, none of the assessments on GCHW lands were paid and delinquent assessments for the fiscal year ended September 30, 2011 totaled approximately \$1,213,000. As collectability is both uncertain and unlikely, this revenue has not been recognized in the government-wide financial statements. See Note 11 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 2011 fiscal year totaled \$79,429 which includes a receivable of \$26,840 at September 30, 2011. Of the \$79,429 recorded during fiscal year 2011, \$22,385 been deferred in the governmental fund financial statements during fiscal year 2010 as the revenue was not available to finance current year expenditures.

## **NOTE 8 – CONCENTRATION**

A significant portion of the District’s activity is dependent upon the continued involvement of the major landowners. As such, the nonpayment of assessments by some of the major landowners in the prior, current, and subsequent fiscal years has resulted in the deterioration of the District’s financial conditions.

## **NOTE 9 – 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 10 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has obtained commercial insurance from independent third parties to mitigate the costs of these risks; coverage may not extend to all situations. No claims have been filed over the past three years; therefore, settled claims from these risks have not exceeded commercial insurance coverage over the past three years.

## **NOTE 11 – SUBSEQUENT EVENTS**

### **Debt Service Payments**

As discussed in Note 7, major landowners failed to make payment on the special assessments which ultimately secure the Bonds. As a result, the Series 1999C and 2005 interest payments due on November 1, 2011 were made, in part, by draws on the Debt Service Reserve Accounts and the Series 1999C and 2005 interest and principal payments due on May 1, 2012 were not made. The non-payment of interest and principal payments, when due, are considered events of default.

**NOTE 11 – SUBSEQUENT EVENTS (Continued)**

**Delinquent Assessments**

In October 2011, the Board of Supervisors authorized the foreclosure of certain parcels owned by Coast Oak and Hayman, as well as Brisinger Fund 1 LLC, a landowner in the District, for nonpayment of special assessments as it relates to the District's Series 1999C Bonds and operation and maintenance assessments for fiscal years 2009 through 2012. The title work necessary to commence foreclosure proceedings has been completed, but a foreclosure complaint has not yet been filed by the District. In addition, in December 2011, Consolidated Tomoka, a major landowner within the District, indicated that it intended not to pay assessments on various parcels owned by it, and was seeking to avoid foreclosure proceedings by pursuing a deed in lieu. Conversations are ongoing with the landowners as the Bondholders are trying to negotiate with the landowners in an attempt to avoid foreclosure.

Subsequent to September 30, 2011, the District has been informed that Hayman has taken over all of the interests of Coast Oak in that partnership and now controls the GCHW Lands.

**Other Information**

In December 2011, the District was contacted by counsel for another landowner seeking adjustments to assessments levied on platted lots, and indicating a potential lawsuit if such adjustments were not made. The District has not yet made a response to that correspondence nor evaluated any potential claim as to those properties.

**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, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Assessments	\$ 1,334,911	\$ 1,334,911	\$ 631,087	\$ (703,824)
Miscellaneous revenue	47,990	57,044	79,429	22,385
Interest	1,000	1,000	315	(685)
Total revenues	<u>1,383,901</u>	<u>1,392,955</u>	<u>710,831</u>	<u>(682,124)</u>
<b>EXPENDITURES</b>				
Current:				
General government	571,491	606,109	233,346	372,763
Maintenance	817,384	805,230	788,007	17,223
Total expenditures	<u>1,388,875</u>	<u>1,411,339</u>	<u>1,021,353</u>	<u>389,986</u>
Excess (deficiency) of revenues over (under) expenditures	(4,974)	(18,384)	(310,522)	(292,138)
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers	4,974	4,974	-	(4,974)
Carryforward	-	13,410	-	(13,410)
Total other financing sources (uses)	<u>4,974</u>	<u>18,384</u>	<u>-</u>	<u>(18,384)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(310,522)	<u>\$ (310,522)</u>
Fund balance - beginning			<u>641,107</u>	
Fund balance - ending			<u>\$ 330,585</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. The general fund budget for the fiscal year ended September 30, 2011 was amended to increase revenues by \$9,054, increase other financing sources by \$13,410, and increase appropriations by \$22,464. The increase in revenues is primarily the result of greater than anticipated miscellaneous revenues, whereas the increase in appropriations is primarily due to unexpected costs which were not originally budgeted for thereby resulting in an increase in budgeted other financing sources. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2011.

Actual general fund expenditures for the fiscal year ended September 30, 2011 were less than appropriations due primarily to anticipated costs which were not incurred in the current fiscal year. General fund revenues were lower than anticipated as some of the District's major landowners failed to pay their fiscal year 2011 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 accompanying basic 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, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 28, 2012, 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.

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*.

We noted certain matters that we reported to management of the District in a separate letter dated June 28, 2012.

The District's responses to the findings identified in our audit are described in the accompanying Management Letter. We did not audit the District's responses and, accordingly, we express no opinion on them.

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.

  
June 28, 2012



**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, 2011, and have issued our report thereon dated June 28, 2012, 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.

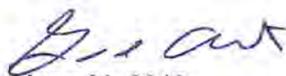
In addition, we have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters dated June 28, 2012. Disclosures in that report should be considered in conjunction with this management letter.

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.**

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. This letter is intended for the information and use of management, Board of Supervisors of the District 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.

  
June 28, 2012

## REPORT TO MANAGEMENT

### I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

#### **2011-01 Reserve Requirement:**

Observation: As a result of unscheduled draws on the Series 1999C and 2005 Debt Service Reserve Accounts to make certain scheduled debt service payments, the reserve requirements were not met at September 30, 2011.

Recommendation: The District should take the necessary steps to replenish the reserve account.

Management Response: The unscheduled draws on the Reserve Funds were due to non-payment of annual debt service assessments by certain landowners within the District. The District is utilizing all legal means available, including foreclosure proceedings, to collect delinquent assessments as discussed in Notes 7 and 11 of audit report. Also, the replenishment of the reserve account is governed by the flow of funds from Trust Indenture of the Series 1999C and 2005 Bond issues.

#### **2011-02 Financial Condition Assessment**

Observation: The District's financial conditions are deteriorating. In the prior, current, and subsequent fiscal years, major landowners in the District failed to pay all of their assessments. As a result, the Series 1999C and 2005 interest payments due on November 1, 2010 and November 1, 2011 and the principal payments due on May 1, 2011 were made, in part, by draws on the Debt Service Reserve Accounts and the interest and principal payments due on May 1, 2012 were not made. The non-payment of interest and principal payments, when due, are considered events of default. The District is economically dependent on the major landowners of the District.

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

Management Response: The unscheduled draws on the Reserve Funds were due to non-payment of annual debt service assessments by certain landowners within the District. The District is utilizing all legal means available, including foreclosure proceedings, to collect delinquent assessments as discussed in Notes 7 and 11 of audit report.

### II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

#### ***Significant Deficiency***

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

Current Status: Recommendation has been implemented

### 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, 2010, except as noted above.

## REPORT TO MANAGEMENT (Continued)

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, 2011, 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, 2011, except as noted above.

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, 2011, 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, 2011 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 determined that a deteriorating financial condition was noted. See Findings section above for additional information. It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.