

Durbin Crossing Community
Development District

Financial Statements

September 30, 2011

Durbin Crossing Community Development District
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INDEPENDENT AUDITOR'S REPORT

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To the Board of Supervisors
Durbin Crossing Community Development District
St. Johns County, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Durbin Crossing Community Development District (hereinafter referred to as "District"), as of and for the 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 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, each major fund, and the aggregate remaining fund information of the District as of September 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in 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 on pages 2 through 6 and on page 23 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.

Carr, Riggs & Ingram, L.L.C.

Miramar Beach, Florida
March 31, 2012

Management's Discussion And Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Durbin Crossing Community Development District's financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2011. Please read it in conjunction with the District's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

- At September 30, 2011, the assets of the District exceed its liabilities by approximately \$24.3 million.
- During the fiscal year ended September 30, 2011, the District incurred approximately \$3.7 million of interest expenditures and repaid principal of approximately \$10.6 million.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities on pages 7 – 8 provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements start on page 9. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds.

Reporting the District as a Whole

Our analysis of the District as a whole begins on page 3. One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's assessment base and the condition of the District's infrastructure, to assess the overall health of the District.

Reporting the District's Most Significant Funds

Our analysis of the District's major funds begins on page 4. The fund financial statements begin on page 9 and provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State law and by bond covenants. All of the District's funds are governmental fund-types.

- *Governmental funds* – All of the District’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. We describe the relationship (or differences) between governmental activities and governmental funds in a reconciliation with the fund financial statements.

THE DISTRICT AS A WHOLE

The following table reflects the condensed Statement of Net Assets and is compared to the prior year.

<i>September 30,</i>	2011	2010	Change
Assets			
Current and other assets	\$ 7,862,944	\$ 13,489,185	\$ (5,626,241)
Capital assets, net	78,121,300	78,112,224	9,076
Total assets	\$ 85,984,244	\$ 91,601,409	\$ (5,617,165)
Liabilities			
Current liabilities	\$ 2,374,557	\$ 6,205,730	\$ (3,831,173)
Other liabilities	59,320,000	66,250,000	(6,930,000)
Total liabilities	61,694,557	72,455,730	(10,761,173)
Net assets			
Invested in capital assets, net of related debt	22,259,862	12,630,591	9,629,271
Restricted for:			
Debt service	1,695,598	6,223,186	(4,527,588)
Capital projects	56,746	119,962	(63,216)
Unrestricted	277,481	171,940	105,541
Total net assets	24,289,687	19,145,679	5,144,008
Total liabilities and net assets	\$ 85,984,244	\$ 91,601,409	\$ (5,617,165)

For more detailed information, see the accompanying Statement of Net Assets.

During the fiscal year ended September 30, 2011, total assets and liabilities decreased by approximately \$5.6 million and \$10.8 million, respectively. These decreases are largely due to the retirement of the Series 2005 B-1 Bonds in November 2010. The change in allocation between current and other liabilities is also due the prepayment of principal on the outstanding long-term bonds during fiscal year 2011.

The following schedule compares the Statement of Activities for the current and previous fiscal year.

<i>Year ended September 30,</i>	2011	2010	Change
Revenues:			
Program revenues:			
Charges for services	\$ 5,137,594	\$ 8,519,584	\$ (3,381,990)
Grants and contributions	4,885,547	7,483,580	(2,598,033)
General revenues:			
Interest and other revenues	10,342	26,125	(15,783)
Total revenues	10,033,483	16,029,289	(5,995,806)
Expenses:			
General government	207,617	217,247	(9,630)
Maintenance and operations	752,138	686,114	66,024
Amenity center	370,559	349,021	21,538
Interest	3,559,161	4,152,885	(593,724)
Total expenses	4,889,475	5,405,267	(515,792)
Increase in net assets	5,144,008	10,624,022	(5,480,014)
Net assets, beginning	19,145,679	8,521,657	10,624,022
Net assets, ending	\$ 24,289,687	\$ 19,145,679	\$ 5,144,008

For more detailed information, see the accompanying Statement of Activities.

Revenues and expenses decreased by approximately \$6 million and \$516,000, respectively, over the prior year. The decrease in revenues is due to the discontinuance of assessments on the land formerly attached to the Series 2005 B-1 bonds, as a result of the pay-off in November 2010. In addition, the decrease in revenues is partially due to a decrease in prepayment revenues that resulted from the pay-off of the Series 2005 B-1 bonds and a decrease in lot sales. The decrease in expenses is due to the decrease in interest expense, which resulted from the pay-off of the Series 2005 B-1 bonds in November 2010. The overall results were a \$5.1 million increase in net assets for fiscal year 2011.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 9) reported a combined fund balance of approximately \$6.6 million, which is a decrease from last year's balance that totaled approximately \$12.1 million. Significant transactions are discussed below.

During the year ended September 30, 2011, the District incurred approximately \$3.7 million of interest expenditures and repaid principal of approximately \$10.6 million.

The overall decrease in fund balance for the year ended September 30, 2011 totaled approximately \$5.5 million.

GOVERNMENTAL FUNDS BUDGETARY HIGHLIGHTS

An Operating budget was established by the governing board for the District pursuant to the requirements of Florida Statutes. The budget to actual comparison for the General Fund, including the original budget and final adopted budget, is shown at page 23.

The District experienced an unfavorable variance in revenues as compared to the budget in the amount of \$75,248. Conversely, the District has a favorable variance in expenditures over the budget in the amount of \$89,464. The variance in revenues occurred primarily due to unpaid assessments on the property owned by DOA Properties IX (see Note 11). The variance in expenditures occurred primarily due to anticipated budgeted operating expenditures that were not incurred during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2011, the District had approximately \$78.1 million invested in capital assets (net of accumulated depreciation). This amount represents a net increase of approximately \$9,100 from the fiscal year 2010 total.

A listing of capital assets for the current and prior year follows:

<i>September 30,</i>	2011	2010	Change
Capital assets not being depreciated	\$ 76,768,030	\$ 76,792,450	\$ (24,420)
Capital assets being depreciated	1,493,672	1,404,015	89,657
Total, prior to depreciation	78,261,702	78,196,465	65,237
Accumulated depreciation	(140,402)	(84,241)	(56,161)
Net capital assets	\$ 78,121,300	\$ 78,112,224	\$ 9,076

More information about the District's capital assets is presented in Note 4 to the financial statements.

Debt

At September 30, 2011, the District had approximately \$60.2 million of bonds outstanding. This amount represents a decrease of approximately \$10.6 million from the fiscal year 2010 total.

A listing of debt amounts outstanding for the current and prior year is as follows:

<i>September 30,</i>	2011	2010	Change
Series 2005 A bonds	\$ 48,780,000	\$ 50,460,000	\$ (1,680,000)
Series 2005 B-1 bonds	-	3,650,000	(3,650,000)
Series 2005 B-2 bonds	3,550,000	8,125,000	(4,575,000)
Series 2006-1 bonds	7,860,000	8,505,000	(645,000)
Total	\$ 60,190,000	\$ 70,740,000	\$ (10,550,000)

More information about the District's long-term debt is presented in Note 5 to the financial statements.

FUTURE FINANCIAL FACTORS

Durbin Crossing Community Development District is an independent special district that operates under the provisions of Chapter 190, Florida Statutes. The District operates under an elected Board of Supervisors, which establishes policy and sets assessment rates. Assessment rates for fiscal year 2012 were established to provide for the operations of the District as well as the necessary debt service requirements.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. If you have questions about this report or need additional financial information, contact the Durbin Crossing Community Development District's management company, Government Management Services, LLC, at 475 West Town Place, Suite 111, St. Augustine, FL 32092.

Basic Financial Statements

Durbin Crossing Community Development District

Statement of Net Assets

<i>September 30,</i>	2011
	Governmental Activities
Assets	
Cash and cash equivalents	\$ 179,498
Investments	5,703,319
Assessments receivable, net	828,320
Other receivables	660
Deferred charges, net	1,151,147
Capital assets:	
Not being depreciated	76,768,030
Depreciable, net	1,353,270
Total assets	85,984,244
Liabilities	
Accounts payable	113,115
Accrued interest payable	1,390,840
Contracts payable	602
Non-current liabilities:	
Due within one year	870,000
Due in more than one year	59,320,000
Total liabilities	61,694,557
Net assets	
Invested in capital assets, net of related debt	22,259,862
Restricted for:	
Debt service	1,695,598
Capital projects	56,746
Unrestricted	277,481
Total net assets	\$ 24,289,687

See accompanying notes to financial statements.

Durbin Crossing Community Development District

Statement of Activities

Year ended September 30,

2011

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Primary government:						
Governmental activities:						
General government	\$ (207,617)	\$ 206,200	\$ -	\$ -	\$ (1,417)	
Maintenance and operations	(752,138)	691,228	-	-	(60,910)	
Amenity center	(370,559)	368,030	-	-	(2,529)	
Interest	(3,559,161)	3,872,136	4,885,474	73	5,198,522	
Total governmental activities	\$ (4,889,475)	\$ 5,137,594	\$ 4,885,474	\$ 73	5,133,666	

General revenues

Interest and other revenues	10,342
Total general revenues	10,342
Change in net assets	5,144,008
Net assets - beginning of year	19,145,679
Net assets - end of year	\$24,289,687

See accompanying notes to financial statements.

Durbin Crossing Community Development District

Balance Sheet - Governmental Funds

September 30,

2011

	General	Debt Service	Non-Major Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 167,934	\$ 11,564	\$ -	\$ 179,498
Investments	199,774	5,446,197	57,348	5,703,319
Assessments receivable, net	7,174	821,146	-	828,320
Other receivables	660	-	-	660
Total assets	\$ 375,542	\$ 6,278,907	\$ 57,348	\$ 6,711,797
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 109,625	\$ 3,490	\$ -	\$ 113,115
Contracts payable	-	-	602	602
Total liabilities	109,625	3,490	602	113,717
Fund balances				
Restricted for debt service	-	6,275,417	-	6,275,417
Restricted for capital projects	-	-	56,746	56,746
Assigned for capital reserves	53,600	-	-	53,600
Unassigned	212,317	-	-	212,317
Total fund balances	265,917	6,275,417	56,746	6,598,080
Total liabilities and fund balances	\$ 375,542	\$ 6,278,907	\$ 57,348	\$ 6,711,797

See accompanying notes to financial statements.

Durbin Crossing Community Development District

Reconciliation of the Balance Sheet to the Statement of Net Assets

<i>September 30,</i>	2011
Total fund balances, governmental funds	\$ 6,598,080
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.	78,121,300
Bond issue costs are not financial resources and therefore are not reported as assets in governmental funds. The Statement of Net Assets includes these costs, net of amortization.	1,151,147
Liabilities not due and payable from current resources, including accrued interest, are not reported in the fund financial statements.	(61,580,840)
Total net assets - governmental activities	\$ 24,289,687

See accompanying notes to financial statements.

Durbin Crossing Community Development District

Statement of Revenues, Expenditures and Changes in Fund Balances-
Governmental Funds

<i>Year ended September 30,</i>	2011			
	General	Debt Service	Non-Major Fund	Total Governmental Funds
Revenues				
Assessments	\$ 1,265,458	\$ 3,872,136	\$ -	\$ 5,137,594
Prepayment revenue	-	4,879,804	-	4,879,804
Interest and other revenues	10,342	5,670	73	16,085
Total revenues	1,275,800	8,757,610	73	10,033,483
Expenditures				
Current:				
General government	195,048	12,569	-	207,617
Maintenance and operations	695,977	-	-	695,977
Amenity center	370,559	-	-	370,559
Debt service:				
Principal	-	10,550,000	-	10,550,000
Interest	-	3,654,298	-	3,654,298
Capital outlay	-	-	65,237	65,237
Total expenditures	1,261,584	14,216,867	65,237	15,543,688
Excess (deficit) of revenues over expenditures	14,216	(5,459,257)	(65,164)	(5,510,205)
Other Financing Sources (Uses)				
Transfer in	79,761	-	1,948	81,709
Transfer out	-	(81,709)	-	(81,709)
Total other financing sources (uses)	79,761	(81,709)	1,948	-
Net change in fund balances	93,977	(5,540,966)	(63,216)	(5,510,205)
Fund balances, beginning of year	171,940	11,816,383	119,962	12,108,285
Fund balances, end of year	\$ 265,917	\$ 6,275,417	\$ 56,746	\$ 6,598,080

See accompanying notes to financial statements.

Durbin Crossing Community Development District

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

<i>Year ended September 30,</i>	2011
Net change in fund balances - governmental funds	\$ (5,510,205)
Capital outlay, reported as expenditures in the governmental funds, is shown as capital assets on the Statement of Net Assets.	65,237
Depreciation on capital assets is not recognized in the fund financial statements but is reported as an expense in the Statement of Activities.	(56,161)
Amortization of bond issuance costs is not recognized in the governmental fund statement but is reported as an expense in the Statement of Activities.	(95,625)
Governmental funds report principal payments on bonds when debt is paid, whereas these payments are eliminated in the Statement of Activities and recognized as a decrease in bonds payable in the Statement of Net Assets.	10,550,000
The change in accrued interest between the current and prior year is recorded on the Statement of Activities but not on the fund financial statements.	190,762
Change in net assets of governmental activities	\$ 5,144,008

See accompanying notes to financial statements.

Durbin Crossing Community Development District

Notes to Financial Statements

NOTE 1 – NATURE OF ORGANIZATION

The Durbin Crossing Community Development District (the “District”) is a local unit of special purpose government located in St. Johns County, created under and pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes (the “Act”), and established by Rule 42MM-1, Florida Administrative Code adopted by the Florida Land and Water Adjudicatory Commission on November 5, 2003. 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 a Board of Supervisors (“Board”), which is comprised of five members. The Supervisors are elected on an at large basis by the owners of the property within the District. During the reporting period, certain Supervisors were affiliated with Durbin Crossing, LLC, Orchard Park Jax, LLC, and Silvertree Estates, LLC (each a related company and collectively the “Master Developer”) or Durbin Crossing North, LLC, which is developing certain items of the master infrastructure for the northern portion of the development. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes.

The Board has the final responsibility for:

1. Allocating and levying special 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.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth by Generally Accepted Accounting Principles (GAAP). The primary criteria for including organizations within the District's reporting entity, as defined by the Governmental Accounting Standards Board (GASB) No. 14, is financial accountability. The District is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District. The District may be financially accountable if an organization is fiscally dependent on the District regardless of whether the organization has (a) a separately elected governing board, (b) a governing board appointed by a higher level of government, or a jointly appointed board. Based on the foregoing criteria, no potential component units were found.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to GAAP as applicable to governments in accordance with those promulgated by GASB. The following is a summary of the more significant 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 the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by assessments, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The business-type activities are reported separately in government-wide financial statements; however, at September 30, 2011, the District did not have any significant business-type activities. Therefore, no business-type activities are reported. Assessments and other items not properly included as program revenues (i.e., charges to customers or applicants who purchase, use, or directly benefit from goods or services) are reported as general revenues.

The preparation of government-wide financial statements includes the application of both GASB pronouncements and those of the Financial Accounting Standards Board (FASB) issued before November 30, 1989. Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation

In March 2009, GASB issued Statement No. 54 - *Fund Balance Reporting and Government Fund Type Definitions*. This Statement establishes fund balance classifications based primarily on the extent to which the District is bound to honor constraints on the use of the resources reported in each governmental fund as well as establishes additional note disclosures regarding fund balance classification policies and procedures. The District made the decision to implement this standard effective October 1, 2010.

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 the related cash flows. Assessments are recognized as revenues in the year for which they are levied. Grants and other 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 District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assessments, including debt service assessments along with operation and maintenance assessments, are non-ad valorem special assessments imposed on all lands located within the District and benefited by the District's activities, operation and maintenance. Assessments are levied and certified for collection by the District prior to the start of the fiscal year which begins October 1st and ends on September 30th. Operation and maintenance special assessments are imposed upon all benefited lands located in the District. Debt service special assessments are imposed upon certain lots and lands as described in each resolution imposing the special assessment for each series of bonds issued by the District. Certain debt service assessments are collected upon the closing of those lots subject to short term debt and are used to prepay a portion of the bonds outstanding.

Assessments and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Assessments and assessments receivable are recorded net of any provision for bad debt and allowance for doubtful accounts, respectively. The District provides for doubtful accounts based on experience and analysis of individual accounts. When specific accounts are determined to be uncollectible, they are written off. At September 30, 2011, the District deemed outstanding assessments totaling \$588,982 to be uncollectible.

The District reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the District. It is used to account for all financial resources except those required to be accounted for in other funds.

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.

For the year ended September 30, 2011, the District does not report any proprietary funds.

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

Cash, Deposits and Investments

The District maintains deposits with "Qualified Public Depositories" as defined in Chapter 280, Florida Statutes. All Qualified Public Depositories must place with the Treasurer of the State of Florida securities which have a market value equal to 50% of all public funds on deposit at the end of each month in excess of any applicable deposit insurance. In the event of default by a Qualified Public Depository, the State Treasurer will pay public depositors all losses. Losses in excess of insurance and collateral will be paid through assessments between all Qualified Public Depositories.

Durbin Crossing Community Development District

Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under this method, all the District's deposits are fully insured or collateralized at the highest level of security as defined by GASB, Statement Number 40, *Deposits and Investment Disclosures (An Amendment of GASB, Statement Number 3)*.

The District is authorized to invest in financial instruments as established by Section 218.415, Florida Statutes. The authorized investments include among others negotiable direct or indirect obligations which are secured by the United States Government; the Local Government Surplus Funds Trust as created by Section 218.405, Florida Statutes; SEC registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and interest-bearing time deposits or savings accounts in authorized financial institutions.

Capital Assets

Capital assets, which include primarily infrastructure assets (e.g., roads, sidewalks, water management systems and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial/individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost and estimated historical cost if purchased or constructed. Donated 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 asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Asset	Years
Infrastructure	25

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.

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 over the life of the bonds using the effective-interest or straight-line method. Bonds payable are reported net of premiums or discounts. Bond issuance costs are shown as deferred charges and are presented net of \$983,256 of accumulated amortization.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 current period expenditures.

Fund Equity

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the District board through approval of resolutions. Assigned fund balances is a limitation imposed by a designee of the District board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes.

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 net assets restricted by the District's bond covenants.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budgets

The District is required to establish a budgetary system and an approved annual budget. Annual budgets are legally adopted on a basis consistent with GAAP for the General Fund. Any revision to the budget must be approved by the District Board. The budgets are compared to actual expenditures. In instances where budget appropriations and estimated revenues have been revised during the year, budget data presented in the financial statements represent final authorization amounts.

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 significant budget changes must be approved by the District Board.
- E. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Durbin Crossing Community Development District

Notes to Financial Statements

NOTE 3 – INVESTMENTS

All investments held at September 30, 2011, are reported at fair value based on quoted market prices, which approximates amortized cost.

The following is a summary of the District’s investments:

<i>September 30,</i>	2011	Credit Risk	Maturities
Short-term Money Market Funds	\$ 5,703,319	S&P AAAm	44 days
Total investments	\$ 5,703,319		

Concentration risk – The District’s investment policy requires diversification, but does not specify limits on types of investments.

Custodial credit risk – For an investment, custodial credit risk is the risk that 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. At September 30, 2011, none of the investments listed above are exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Interest rate risk – The District does not have a formal policy for addressing interest rate risk; however, investments are made with discretion, to seek reasonable returns, preserve capital, and in general, avoid speculative investments. The District manages its exposure to declines in fair values from interest rate changes by reviewing the portfolio on an ongoing basis for changes in effective yield amounts.

NOTE 4 – CAPITAL ASSETS

The total cost of infrastructure has been estimated at approximately \$126 million, of which approximately \$73 million has been funded by the Series 2005 and 2006 bonds. Subsequent to year end, the District Board approved resolutions 2012-01 and 2012-02, which modified the product mix of the original plan and added 43 units. Infrastructure costs in excess of the amounts available from the Series 2005 and 2006 bonds, as well as any future bond proceeds, may be funded by the Developer.

Depreciation expense of \$56,161 was allocated to maintenance and operations on the Statement of Activities.

Durbin Crossing Community Development District

Notes to Financial Statements

NOTE 4 – CAPITAL ASSETS (COTINUED)

The following is a summary of changes in the capital assets for the year ended September 30, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Infrastructure under construction	\$ 76,792,450	\$ 65,237	\$ (89,657)	\$ 76,768,030
Total capital assets, not being depreciated	76,792,450	65,237	(89,657)	76,768,030
Capital assets being depreciated				
Infrastructure	1,404,015	89,657	-	1,493,672
Total capital assets, being depreciated	1,404,015	89,657	-	1,493,672
Less accumulated depreciation for:				
Infrastructure	(84,241)	(56,161)	-	(140,402)
Total accumulated depreciation	(84,241)	(56,161)	-	(140,402)
Total capital assets, being depreciated, net	1,319,774	33,496	-	1,353,270
Governmental activities capital assets, net	\$ 78,112,224	\$ 98,733	\$ (89,657)	\$ 78,121,300

NOTE 5 – BONDS PAYABLE

The District has issued the following long-term liabilities to finance the acquisition and construction of certain improvements for the benefit of the District:

\$78,320,000 of Special Assessment Bonds, Series 2005 consisting of \$54,995,000 Series 2005 A Bonds, \$8,735,000 of Series 2005 B-1 Bonds, and \$14,590,000 of Series 2005B-2 Bonds with a fixed interest rate of 5.500%, 4.875%, and 4.875%, respectively. Interest is paid semiannually on each May 1 and November 1. Principal payments on the Series 2005 A Bonds are made serially commencing on May 1, 2008 through May 1, 2037. The Series 2005 B-1 bonds were paid off in November 2010. The principal balance on the Series 2005 B-2 Bonds was due in full on November 1, 2010. However, in October 2010, the District entered into a modification agreement with the developer, trustee, and bondholders whereby certain terms of the Series 2005 B-2 Term Bonds were modified. The Series 2005 B-2 Bonds will now mature on November 1, 2015 and, commencing on November 1, 2010, will bear interest at a rate of 6.83%. The modification terms are reflected in the scheduled debt service requirements below.

\$11,365,000 of Special Assessment Bonds, Series 2006-1 with a fixed interest rate of 5.25%. Interest is paid semiannually on each May 1 and November 1. Principal is due in full on November 1, 2015.

Durbin Crossing Community Development District

Notes to Financial Statements

NOTE 5 – BONDS PAYABLE (CONTINUED)

The Bond Indentures require that the District maintain adequate funds in the reserve account to meet the debt service reserve requirements as defined in the Indentures. The requirements for the Series 2005 B-2 and Series 2006-1 Bonds have been met for the fiscal year ended September 30, 2011. The requirement for the Series 2005A bonds has not been met for the fiscal year ended September 30, 2011. The District utilized reserve funds to make a portion of November 2010 debt service interest payment. The reserve fund has not been replenished as of the date of this report.

The Bond Indentures have certain restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedure to be followed by the District on assessments to property owners. The District agreed to levy special assessments in annual amounts adequate to provide payment of debt service. Other than the item mentioned above, the District is in compliance with the requirements of the Bond Indentures for all series.

Long-term liability activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities</i>					
Bonds Payable:					
Series 2005 A	\$ 50,460,000	\$ -	\$ 1,680,000	\$ 48,780,000	\$ 870,000
Series 2005 B-1	3,650,000	-	3,650,000	-	-
Series 2005 B-2	8,125,000	-	4,575,000	3,550,000	-
Series 2006-1	8,505,000	-	645,000	7,860,000	-
	<u>\$ 70,740,000</u>	<u>\$ -</u>	<u>\$ 10,550,000</u>	<u>\$ 60,190,000</u>	<u>\$ 870,000</u>

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

<i>Year Ending September 30,</i>	Principal	Interest	Total Debt Service
2012	\$ 870,000	\$ 3,338,016	\$ 4,208,016
2013	915,000	3,290,166	4,205,166
2014	970,000	3,239,841	4,209,841
2015	1,025,000	3,186,491	4,211,491
2016	12,490,000	2,802,558	15,292,558
2017 - 2021	6,390,000	11,414,150	17,804,150
2022 - 2026	8,425,000	9,444,875	17,869,875
2027 - 2031	11,080,000	6,851,900	17,931,900
2032 - 2036	14,595,000	3,439,975	18,034,975
2037	3,430,000	188,650	3,618,650
	<u>\$ 60,190,000</u>	<u>\$ 47,196,622</u>	<u>\$ 107,386,622</u>

NOTE 6 – MANAGEMENT COMPANY

The District has contracted with a management company to perform management advisory services, which include financial and accounting advisory services. Certain employees of the management company also serve as officers (Board appointed non-voting positions) of the District. Under the agreement, the District compensates the management company for management, accounting, financial reporting, and other administrative costs.

NOTE 7 – 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 maintains commercial insurance coverage to mitigate the risk of loss. Coverage may not extend to all situations. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. The District has not received any insurance claims under the commercial coverage in the previous three years.

NOTE 8 – CONCENTRATION

A significant portion of the District's future activity is dependent upon the continued involvement of the Developers, the Master Developer and Durbin Crossing North, LLC, and significant landowners, the loss of which could have a material adverse effect on the District's operations.

During the year ended, September 30, 2011, the District directly assessed one significant landowner \$70,593 for operations and maintenance and debt service costs on undeveloped property. In addition, the significant landowner was assessed \$148,573 through the local tax collector. The significant landowner owner also made prepayments totaling \$1,361,464. This significant landowner plus the Developers accounted for approximately 48% of the District's total assessment and prepayment revenues.

NOTE 9 – INTERFUND TRANSFERS

During the year ended September 30, 2011, the District transferred the remaining funds in the Series 2005 B-2 reserve investment account totaling \$79,761 from the Debt Service Fund to the General Fund.

NOTE 10 – RELATED PARTY TRANSACTIONS

The District directly assessed the Developers \$2,134,714 for operations and maintenance and debt service costs on undeveloped property, of which \$648,955 is included in Assessments receivable, net on the accompanying Statement of Net Assets and Balance Sheet – Governmental Funds. The Developers were also assessed \$1,080,875 for operations and maintenance and debt service costs on developed property through the local tax collector.

NOTE 11 – CONTINGENCIES

DOA Properties IX (“DOA”), successor landowner to GMAC Model Home Finance, owns property within the District with delinquent assessments. The delinquent assessments due from DOA totaling \$574,104 have been deemed uncollectible (see Note 2). On November 22, 2010, the District filed a foreclosure complaint, and on February 16, 2011, the District obtained a final judgment of foreclosure sale to take place on March 17, 2011. At the scheduled foreclosure sale, a third-party posted a bid of \$100,000 but failed to remit the required deposit when due. The District attempted to negotiate an agreement with the Trustee and a holder of tax certificate on the lands which would govern future foreclosure sale and the distribution of any sale proceeds, but to no avail. The foreclosure sale has not been reset, and the tax certificate holder has sued the District and others. Both the foreclosure case and the case filed by the tax certificate holder are pending.

Required Supplemental Information
(Other Than MD&A)

Durbin Crossing Community Development District

Budget to Actual Comparison Schedule - General Fund

<i>Year ended September 30,</i>	2011		
	Original and Final Budget	Actual Amounts	Variance with Final Budget
Revenues			
Assessments	\$ 1,346,848	\$ 1,265,458	\$ (81,390)
Interest and other revenues	4,200	10,342	6,142
Total revenues	1,351,048	1,275,800	(75,248)
Expenditures			
General government	287,284	195,048	92,236
Maintenance and operations	697,125	695,977	1,148
Amenity center	366,639	370,559	(3,920)
Total expenditures	1,351,048	1,261,584	89,464
Excess of revenues over expenditures	\$ -	\$ 14,216	\$ 14,216



Carr, Riggs & Ingram, LLC
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**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**

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To the Board of Supervisors
Durbin Crossing Community Development District
St. Johns County, Florida

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Durbin Crossing Community Development District (hereinafter referred to as the "District"), as of and for the year ended September 30, 2011, which collectively comprise the District's basic financial statements and have issued our report dated March 31, 2012. 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

Management of the District is responsible for establishing and maintaining effective 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 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 the 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 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, contracts, and grant 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described below:

- At September 30, 2011, the District was not in compliance with a provision of its Debt Service Bond indenture relating to maintaining adequate funds in debt service reserve account.

The District's response to the finding identified in our audit is described below. We did not audit the District's response and, accordingly, we express no opinion on it.

- *The District is in the process of replenishing the reserve account through the foreclosure process.*

This report is intended for the information and use of management, the Board of Supervisors, others within 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 those specified parties.

Carr, Riggs & Ingram, L.L.C.

Miramar Beach, Florida
March 31, 2012

MANAGEMENT LETTER

To the Board of Supervisors
Durbin Crossing Community Development District
St. Johns County, Florida

We have audited the financial statements of the Durbin Crossing Community Development District ("District") as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated March 31, 2012.

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. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in this report, which is dated March 31, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's report:

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no recommendations made in the preceding annual audit report.

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the District complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address 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. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contract or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The information required is disclosed in the notes to the financial statements.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes during the year ended September 30, 2011.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the District for the fiscal year ended September 30, 2011, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2011. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the District's 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.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Carri Riggs & Ingram, L.L.C.

Miramar Beach, Florida
March 31, 2012