

Durbin Crossing Community
Development District

Financial Statements

September 30, 2012

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, 2012, 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, 2012, 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 May 29, 2013 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, as listed in the table of contents, 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
May 29, 2013

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, 2012. Please read it in conjunction with the District's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

- At September 30, 2012, the liabilities of the District exceed its assets by approximately \$40.8 million (deficit).
- During the fiscal year ended September 30, 2012, the District incurred approximately \$3.3 million of interest expenditures and repaid principal of approximately \$4.1 million. The District did not make a portion of the May 2012 debt service interest payment on the Series 2006-1 bonds. As a result, the District has recorded a debt service obligation of \$185,456. Subsequent to year end, the District failed to make its November 2012 debt service interest payment on the Series 2006-1 bonds.

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>	2012	2011	Change
Assets			
Current and other assets	\$ 7,395,753	\$ 7,862,944	\$ (467,191)
Capital assets, net	9,516,266	9,872,007	(355,741)
Total assets	\$ 16,912,019	\$ 17,734,951	\$ (822,932)
Liabilities			
Current liabilities	\$ 3,226,981	\$ 2,374,557	\$ 852,424
Other liabilities	54,475,000	59,320,000	(4,845,000)
Total liabilities	57,701,981	61,694,557	(3,992,576)
Net assets			
Invested in capital assets, net of related debt	10,586,271	11,023,154	(436,883)
Restricted for:			
Debt service	1,130,834	1,707,162	(576,328)
Capital projects	131,750	56,746	75,004
Unrestricted	(52,638,817)	(56,746,668)	4,107,851
Total net assets (deficit)	(40,789,962)	(43,959,606)	3,169,644
Total liabilities and net assets	\$ 16,912,019	\$ 17,734,951	\$ (822,932)

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

During the fiscal year ended September 30, 2012, total assets and liabilities decreased by approximately \$823,000 and \$4 million, respectively. The decrease in assets is primarily due to the timing of collection of the amounts due from developer and depreciation on capital assets. The decrease in liabilities is primarily due to the repayment of outstanding long-term bond principal.

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

<i>Year ended September 30,</i>	2012	2011	Change
Revenues:			
Program revenues:			
Charges for services	\$ 5,095,175	\$ 5,137,594	\$ (42,419)
Grants and contributions	3,031,544	4,885,547	(1,854,003)
General revenues:			
Interest and other revenues	10,415	10,342	73
Total revenues	8,137,134	10,033,483	(1,896,349)
Expenses:			
General government	201,886	207,617	(5,731)
Maintenance and operations	1,038,887	1,068,812	(29,925)
Amenity center	424,280	370,559	53,721
Capital infrastructure	20,993	-	20,993
Interest	3,281,444	3,559,161	(277,717)
Total expenses	4,967,490	5,206,149	(238,659)
Increase in net assets	3,169,644	4,827,334	(1,657,690)
Net assets (deficit), beginning	(43,959,606)	(48,786,940)	4,827,334
Net assets (deficit), ending	\$ (40,789,962)	\$ (43,959,606)	\$ 3,169,644

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

Revenues and expenses decreased by approximately \$1.9 million and \$239,000, respectively, from the prior year. The decrease in revenues is due to a decrease in prepayment revenues that resulted from a decrease in lot sales. The decrease in expenses is largely due to the decrease in interest expense. The overall results were a \$3.2 million increase in net assets for fiscal year 2012.

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 million, which is a decrease from last year's balance that totaled approximately \$6.6 million. Significant transactions are discussed below.

- During the fiscal year ended September 30, 2012, the District incurred approximately \$3.3 million of interest expenditures and repaid principal of approximately \$4.1 million. The District did not make a portion of the May 2012 debt service interest payment on the Series 2006-1 bonds. As a result, the District has recorded a debt service obligation of \$185,456.

Subsequent to year end, the District failed to make its November 2012 debt service interest payment on the Series 2006-1 bonds.

The overall decrease in fund balance for the year ended September 30, 2012 totaled approximately \$650,000.

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 \$81,200. Conversely, the District has a favorable variance in expenditures over the budget in the amount of \$147,710. 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, 2012, the District had approximately \$9.5 million invested in capital assets (net of accumulated depreciation). This amount represents a net decrease of approximately \$356,000 from the fiscal year 2011 total.

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

<i>September 30,</i>	2012	2011	Change
Capital assets not being depreciated	\$ -	\$ 20,993	\$ (20,993)
Capital assets being depreciated	11,197,389	11,159,302	38,087
Total, prior to depreciation	11,197,389	11,180,295	17,094
Accumulated depreciation	(1,681,123)	(1,308,288)	(372,835)
Net capital assets	\$ 9,516,266	\$ 9,872,007	\$ (355,741)

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

Debt

At September 30, 2012, the District had approximately \$56 million of bonds outstanding. This amount represents a decrease of approximately \$4.1 million from the fiscal year 2011 total.

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

<i>September 30,</i>	2012	2011	Change
Series 2005 A bonds	\$ 47,575,000	\$ 48,780,000	\$ (1,205,000)
Series 2005 B-2 bonds	1,595,000	3,550,000	(1,955,000)
Series 2006-1 bonds	6,880,000	7,860,000	(980,000)
Total	\$ 56,050,000	\$ 60,190,000	\$ (4,140,000)

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 2013 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 114, St. Augustine, FL 32092.

Basic Financial Statements

Durbin Crossing Community Development District

Statement of Net Assets

<i>September 30,</i>	2012
	Governmental Activities
Assets	
Cash and cash equivalents	\$ 184,495
Investments	6,090,291
Assessments receivable, net	49,306
Other receivables	1,656
Deferred charges, net	1,070,005
Capital assets:	
Depreciable, net	9,516,266
Total assets	16,912,019
Liabilities	
Accounts payable	98,333
Accrued expenses payable	1,471,985
Contracts payable	416
Deferred revenue	81,247
Non-current liabilities:	
Due within one year	1,575,000
Due in more than one year	54,475,000
Total liabilities	57,701,981
Net assets	
Invested in capital assets, net of related debt	10,586,271
Restricted for:	
Debt service	1,130,834
Capital projects	131,750
Unrestricted	(52,638,817)
Total net assets	\$ (40,789,962)

See accompanying notes to financial statements.

Durbin Crossing Community Development District

Statement of Activities

Year ended September 30,

2012

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	\$ (201,886)	\$ 210,650	\$ -	\$ -	\$ 8,764	
Maintenance and operations	(1,038,887)	694,965	-	-	(343,922)	
Amenity center	(424,280)	442,698	-	-	18,418	
Capital infrastructure	(20,993)	-	-	-	(20,993)	
Interest	(3,281,444)	3,746,862	3,031,518	26	3,496,962	
Total governmental activities	\$ (4,967,490)	\$ 5,095,175	\$ 3,031,518	\$ 26	3,159,229	

General revenues

Interest and other revenues	10,415
Change in net assets	3,169,644
Net assets - beginning of year, as previously stated	24,289,687
Prior period restatement	(68,249,293)
Net assets (deficit) - beginning of year, adjusted	(43,959,606)
Net assets (deficit) - end of year	\$ (40,789,962)

See accompanying notes to financial statements.

Durbin Crossing Community Development District

Balance Sheet - Governmental Funds

September 30,

2012

	General	Debt Service	Non-Major Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 124,511	\$ 54,984	\$ 5,000	\$ 184,495
Investments	241,508	5,721,617	127,166	6,090,291
Assessments receivable, net	7,643	41,663	-	49,306
Other receivables	1,656	-	-	1,656
Total assets	\$ 375,318	\$ 5,818,264	\$ 132,166	\$ 6,325,748
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 98,333	\$ -	\$ -	\$ 98,333
Accrued expenses payable	377	-	-	377
Contracts payable	-	-	416	416
Debt service obligation	-	185,456	-	185,456
Deferred revenue	57,246	35,714	-	92,960
Total liabilities	155,956	221,170	416	377,542
Fund balances				
Restricted for debt service	-	5,597,094	-	5,597,094
Restricted for capital projects	-	-	18,685	18,685
Assigned for capital reserves	53,600	-	113,065	166,665
Unassigned	165,762	-	-	165,762
Total fund balances	219,362	5,597,094	131,750	5,948,206
Total liabilities and fund balances	\$ 375,318	\$ 5,818,264	\$ 132,166	\$ 6,325,748

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>	2012
Total fund balances, governmental funds	\$ 5,948,206
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.	9,516,266
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.	1,070,005
Assets that are not available to pay for current-period expenditures are deferred in the fund level statements.	11,713
Liabilities not due and payable from current resources, including accrued interest, are not reported in the fund financial statements.	<u>(57,336,152)</u>
Total net assets - governmental activities	<u>\$ (40,789,962)</u>

See accompanying notes to financial statements.

Durbin Crossing Community Development District

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

Year ended September 30,

2012

	General	Debt Service	Non-Major Fund	Total Governmental Funds
Revenues				
Assessments	\$ 1,348,313	\$ 3,735,149	\$ -	\$ 5,083,462
Prepayment revenue	-	3,028,327	-	3,028,327
Interest and other revenues	10,415	3,191	26	13,632
Total revenues	1,358,728	6,766,667	26	8,125,421
Expenditures				
Current:				
General government	201,886	-	-	201,886
Maintenance and operations	666,052	-	-	666,052
Amenity center	424,280	-	-	424,280
Debt service:				
Principal	-	4,140,000	-	4,140,000
Interest	-	3,304,990	-	3,304,990
Capital outlay	-	-	38,087	38,087
Total expenditures	1,292,218	7,444,990	38,087	8,775,295
Excess (deficit) of revenues over expenditures	66,510	(678,323)	(38,061)	(649,874)
Other Financing Sources (Uses)				
Transfer in	-	-	113,065	113,065
Transfer out	(113,065)	-	-	(113,065)
Total other financing sources (uses)	(113,065)	-	113,065	-
Net change in fund balances	(46,555)	(678,323)	75,004	(649,874)
Fund balances, beginning of year	265,917	6,275,417	56,746	6,598,080
Fund balances, end of year	\$ 219,362	\$ 5,597,094	\$ 131,750	\$ 5,948,206

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>	2012
Net change in fund balances - governmental funds	\$ (649,874)
Capital outlay, reported as expenditures in the governmental funds, is shown as capital assets on the Statement of Net Assets.	38,087
Depreciation on capital assets is not recognized in the fund financial statements but is reported as an expense in the Statement of Activities.	(372,835)
The conveyance of fixed assets is recorded as an expense on the Statement of Activities, but not in the fund financial statements.	(20,993)
Amortization of bond issuance costs is not recognized in the governmental fund statement but is reported as an expense in the Statement of Activities.	(81,142)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the fund level financial statements.	11,713
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.	4,140,000
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.	104,688
Change in net assets of governmental activities	\$ 3,169,644

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 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 exercises 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) as defined by the Governmental Accounting Standards Board (GASB) in statements No. 14 and No. 61. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2012, 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.

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

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.

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 benefited 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the collectibility of specific accounts becomes questionable, an allowance for doubtful accounts is established. At September 30, 2012, the allowance for doubtful accounts totaled \$757,831.

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, 2012, 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. When committed, assigned, or unassigned resources are available for use in the governmental fund financial statements, it is the government's policy to use committed resources first, followed by assigned resources, and then unassigned resources as 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 in accordance with collateral requirements determined by the State's Chief Financial Officer. 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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$1,064,398 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 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 balance is a limitation imposed by a designee of the District board. Unassigned fund balance in the General

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

NOTE 3 – INVESTMENTS

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, 2012, 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.

Durbin Crossing Community Development District

Notes to Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

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.

All investments held at September 30, 2012, are reported at fair value based on quoted market prices, which approximates amortized cost.

<i>September 30,</i>	2012	Credit Risk	Maturities
Short-term Money Market Funds	\$ 6,090,291	S&P AAAM	50 - 54 days
Total investments	\$ 6,090,291		

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. During the year ended September 30, 2012, 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.

The following is a summary of changes in the capital assets for the year ended September 30, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Infrastructure under construction	\$ 20,993	\$ -	\$ (20,993)	\$ -
Total capital assets, not being depreciated	20,993	-	(20,993)	-
Capital assets being depreciated				
Infrastructure	11,159,302	38,087	-	11,197,389
Total capital assets, being depreciated	11,159,302	38,087	-	11,197,389
Less accumulated depreciation for:				
Infrastructure	(1,308,288)	(372,835)	-	(1,681,123)
Total accumulated depreciation	(1,308,288)	(372,835)	-	(1,681,123)
Total capital assets, being depreciated, net	9,851,014	(334,748)	-	9,516,266
Governmental activities capital assets, net	\$ 9,872,007	\$ (334,748)	\$ (20,993)	\$ 9,516,266

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation expense of \$372,835 was allocated to maintenance and operations on the accompanying Statement of Activities.

As discussed in Note 12 to the financial statements, the District conducted an analysis of the amounts listed as infrastructure under construction in prior financial statements. Based on this analysis, the District identified capital assets totaling approximately \$9.7 million that were completed in previous years. In addition, the District identified assets totaling \$68.2 million that had been previously completed and conveyed to other governmental entities.

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 2005 B-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. 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%.

\$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.

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, 2012. The requirement for the Series 2005A bonds has not been met for the fiscal year ended September 30, 2012. The District utilized reserve funds to make a portion of November 2010 and 2011 debt service interest payment. The reserve fund has not been replenished as of the date of this report.

In addition, the District did not make a portion of the May 2012 debt service interest payment on the Series 2006-1 bonds. As a result, the District has recorded a debt service obligation of \$185,456 in the accompanying Balance Sheet – Governmental Funds. Subsequent to year end, the District failed to make its November 2012 debt service interest payment on the Series 2006-1 bonds. In December 2012, the District made an interest payment in the amount of \$197,006 on the Series 2006-1 bonds for the period of November 1, 2011 to and including April 30, 2012. These missed payments are a result of the delinquent assessments on one specific parcel of land as discussed in Note 11.

Durbin Crossing Community Development District

Notes to Financial Statements

NOTE 5 – BONDS PAYABLE (CONTINUED)

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 items mentioned above, the District is in compliance with the requirements of the Bond Indentures for all series.

At September 30, 2012, the scheduled debt service requirements on long-term debt were as follows:

<i>Year Ending September 30,</i>	Principal	Interest	Total Debt Service
2013	\$ 1,575,000	\$ 3,066,029	\$ 4,641,029
2014	960,000	2,995,245	3,955,245
2015	1,015,000	2,942,445	3,957,445
2016	8,885,000	2,672,285	11,557,285
2017	1,135,000	2,398,825	3,533,825
2018 - 2022	6,710,000	10,984,600	17,694,600
2023 - 2027	8,830,000	8,918,525	17,748,525
2028 - 2032	11,630,000	6,620,900	18,250,900
2033 - 2037	15,310,000	2,197,250	17,507,250
	\$ 56,050,000	\$ 42,796,104	\$ 98,846,104

In November 2012, the Series 2005B-2 and Series 2006-1 bonds were selected for partial redemption in the amount of \$415,000 and \$250,000, respectively. The partial redemption amounts are included in the current principal due for fiscal year 2013.

Long-term liability activity for the year ended September 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities</i>					
Bonds Payable:					
Series 2005 A	\$ 48,780,000	\$ -	\$ 1,205,000	\$ 47,575,000	\$ 910,000
Series 2005 B-2	3,550,000	-	1,955,000	1,595,000	415,000
Series 2006-1	7,860,000	-	980,000	6,880,000	250,000
	\$ 60,190,000	\$ -	\$ 4,140,000	\$ 56,050,000	\$ 1,575,000

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. Settled claims have not exceeded this 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.

NOTE 9 – INTERFUND TRANSFERS

During the year ended September 30, 2012, the District transferred the budgeted capital reserves totaling \$113,065 from the General Fund to the Non-Major Fund.

NOTE 10 – RELATED PARTY TRANSACTIONS

The District directly assessed the Developers \$2,176,647 for operations and maintenance and debt service costs on undeveloped property. The Developers were also assessed \$719,969 for operations and maintenance and debt service costs on developed property through the local tax collector.

Impact fees are charged to cover the impact made by the property and its occupant upon the local infrastructure. Impact fees are used to fund transportation, roads, schools, parks, sewer systems, police and fire protection, and other public facilities. The District and St. Johns County have entered into a Road and Park Impact Fee Credit Agreement pursuant to which any property owner seeking electrical energizing of construction within the District will pay the county's otherwise applicable road and park impact fees directly to the District until the District has been paid \$18,578,703 and \$2,249,894 in road and park impact fees, respectively. During the year ended September 30, 2012, the Developers remitted \$208,004 in impact fees to the District.

NOTE 11 – CONTINGENCIES

DOA Properties IX ("DOA"), successor landowner to GMAC Model Home Finance, owns property within the District with delinquent assessments. The District is unsure regarding the extent and timing of collecting these delinquent assessments and, accordingly, has established an allowance for doubtful accounts totaling \$757,831 (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

NOTE 11 – CONTINGENCIES (CONTINUED)

govern future foreclosure sale and the distribution of any sale proceeds, which was unsuccessful. The foreclosure sale has not been reset, and the tax certificate holder has sued the District and others. On August 20, 2012, a stay order was entered as a result of the tax certificate holder filing for Chapter 11 bankruptcy. Pursuant to the stay order, the Clerk of Court has closed the case pending completion of the bankruptcy and lifting of the bankruptcy stay. Given that the amount of governmental liens on the DOA property exceeds its value, the District is currently in negotiation with debtors' counsel regarding abandonment of the DOA property from the bankruptcy litigation.

Following the entry of the bankruptcy stay, the tax certificate holder filed a second lawsuit solely against the District. In the case, the tax certificate holder is suing the District for unjust enrichment and for a declaratory judgment. The tax certificate holder seeks the return of the monies it paid for its tax certificate or a declaration that its tax certificate is superior in right to any interest of the District. The tax certificate holder further seeks a declaration that the District's foreclosure judgment has merged into its assessment liens and that the issuance of a certificate of title following a foreclosure sale in the District's foreclosure will not affect the tax certificate held. In November 2012, the District moved to dismiss the new complaint. In April of 2013, the two tax certificate holder cases were consolidated. The parties have exchanged initial written discovery. Until the court rules on the pending motion and the pleadings become closed, it is premature to assess the likelihood of success on the merits. However, the current complaint does not appear to state a valid claim against the District. Moreover, to the extent the complaint is really intended to obtain an order voiding the tax certificate, management is unaware of any factual basis to void the certificate at this time. The District intends to vigorously defend the case accordingly.

NOTE 12 – PRIOR PERIOD RESTATEMENT

As part of the fiscal year 2012 audit process, the District conducted an analysis of the components included as infrastructure under construction in prior financial statements. Based on this analysis, the District identified the need to record a prior period restatement to adjust for capital assets that were completed and conveyed to other governmental entities in prior periods. The adjustment resulted in a decrease in the beginning balances of capital assets and net asset balance of approximately \$68.2 million.

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>	2012		
	Original and Final Budget	Actual Amounts	Variance with Final Budget
Revenues			
Assessments	\$ 1,433,628	\$ 1,348,313	\$ (85,315)
Interest and other revenues	6,300	10,415	4,115
Total revenues	1,439,928	1,358,728	(81,200)
Expenditures			
General government	247,730	201,886	45,844
Maintenance and operations	803,497	666,052	137,445
Amenity center	388,701	424,280	(35,579)
Total expenditures	1,439,928	1,292,218	147,710
Excess of revenues over expenditures	\$ -	\$ 66,510	\$ 66,510

**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
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, 2012, which collectively comprise the District's basic financial statements and have issued our report dated May 29, 2013. 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:

- IC2011-01: The District is not in compliance with provisions of its Debt Service Bond indenture relating to maintaining adequate funds in debt service reserve account and making its semi-annual debt service interest payments.

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.

Caru, Riggs & Ingram, L.L.C.

Miramar Beach, Florida
May 29, 2013

MANAGEMENT LETTER

(850) 837-3141
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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 Durbin Crossing Community Development District ("District") as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated May 29, 2013.

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; and Chapter 10.550, Rules of the Florida Auditor General. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in this report, which is dated May 29, 2013, 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. Corrective actions have been taken but have not yet been successful in addressing the findings and recommendations made in the preceding annual financial audit report. These findings were also in the second preceding fiscal year financial 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 met the condition described in Section 218.503(1)(a), Florida. The District did not make a portion of the May 2012 debt service interest payment on the Series 2006-1 bonds. Subsequent to year end, the District failed to make its November 2012 debt service interest payment on the Series 2006-1 bonds. The unpaid debt service amounts relate to one specific parcel of land on which the District has delinquent assessments. See the District's response to the finding on page 25.

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, 2012, 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, 2012. 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.

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

Miramar Beach, Florida
May 29, 2013