

# Paseo Community Development District

Financial Statements

September 30, 2011

Paseo Community Development District  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors  
Paseo Community Development District  
Fort Myers, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Paseo 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.

As discussed in Note 5 to the financial statements, due to a lack of funds, the District was unable to make the scheduled debt service payments after the May 2009 payment. In November 2011, the Developer and the District, with the consent of the bondholders, entered into an agreement, whereby a portion of the Series 2005A, 2005B, and 2006 bonds were exchanged for Series 2011A-1 and 2011A-2 bonds. As a result of the agreement, the debt service obligation was reduced and certain debt service assessments are no longer due.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 18, 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 3 through 7 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.

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

Miramar Beach, Florida  
June 18, 2012

## Management's Discussion And Analysis

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Paseo 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 8.

### FINANCIAL HIGHLIGHTS

- At September 30, 2011, the assets of the District exceed its liabilities by approximately \$2 million.
- As a result of a lack of funds, the District was unable to make the scheduled debt service payments after the May 2009 payment. In November 2011, the Developer and the District, with the consent of the bondholders, entered into an agreement, whereby a portion of the Series 2005A, 2005B, and 2006 bonds were exchanged for Series 2011A-1 and 2011A-2 bonds. As a result of the new terms, the current portion of the bonds due was reduced by approximately \$14 million. At September 30, 2011, the District's accrued debt service obligation totaled approximately \$21.7 million for unpaid 2009 through 2011 debt service interest and principal payments.
- In accordance with the exchange agreement, certain debt service assessments are no longer due; therefore, the District wrote-off assessments receivable totaling approximately \$18.5 million during the fiscal year ended September 30, 2011. Due to questions regarding future collection of these amounts, a reserve had been booked in prior periods which offset these receivables.

### 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 8 – 9 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 10. 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 4. 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 5. The fund financial statements begin on page 10 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>	<b>2011</b>	<b>2010</b>	<b>Change</b>
<b>Assets</b>			
Current and other assets	\$ 6,377,822	\$ 5,082,765	\$ 1,295,057
Capital assets, net	44,199,932	44,977,304	(777,372)
<b>Total assets</b>	<b>\$ 50,577,754</b>	<b>\$ 50,060,069</b>	<b>\$ 517,685</b>
<b>Liabilities</b>			
Current liabilities	\$ 23,093,065	\$ 35,108,550	\$ (12,015,485)
Other liabilities	25,505,000	11,445,000	14,060,000
<b>Total liabilities</b>	<b>48,598,065</b>	<b>46,553,550</b>	<b>2,044,515</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	2,994,992	3,568,155	(573,163)
Restricted for:			
Capital projects	185,487	195,151	(9,664)
Unrestricted	(1,200,790)	(256,787)	(944,003)
<b>Total net assets (deficit)</b>	<b>1,979,689</b>	<b>3,506,519</b>	<b>(1,526,830)</b>
<b>Total liabilities and net assets</b>	<b>\$ 50,577,754</b>	<b>\$ 50,060,069</b>	<b>\$ 517,685</b>

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

During the fiscal year ended September 30, 2011, total assets and liabilities increased approximately \$518,000 and \$2 million, respectively. The increase in assets is primarily due to an increase in cash that resulted from an increase in lots sales and related prepayment revenue. The increase in liabilities is due to the accrual of debt service interest payments that had not been paid as of September 30, 2011. The change in allocation between current and other liabilities is due to the District entering into a bond exchange agreement, whereby a portion of the Series 2005A, 2005B, and 2006 bonds were exchanged for Series 2011A-1 and 2011A-2 bonds (see Note 5).

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

<i>Year ended September 30,</i>	<b>2011</b>	<b>2010</b>	<b>Change</b>
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 1,107,609	\$ 1,465,150	\$ (357,541)
Grants and contributions	1,322,891	968,933	353,958
General revenues:			
Interest and other revenues	4,378	4,333	45
<b>Total revenues</b>	<b>2,434,878</b>	<b>2,438,416</b>	<b>(3,538)</b>
<b>Expenses:</b>			
General government	507,185	588,366	(81,181)
Maintenance and operations	1,392,140	1,326,601	65,539
Interest	2,062,383	2,328,617	(266,234)
<b>Total expenses</b>	<b>3,961,708</b>	<b>4,243,584</b>	<b>(281,876)</b>
Change in net assets	(1,526,830)	(1,805,168)	278,338
<b>Net assets, beginning</b>	<b>3,506,519</b>	<b>5,311,687</b>	<b>(1,805,168)</b>
<b>Net assets, ending</b>	<b>\$ 1,979,689</b>	<b>\$ 3,506,519</b>	<b>\$ (1,526,830)</b>

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

Revenues did not significantly change from the prior year, while expenses decreased by approximately \$282,000. The decrease in expenses is primarily due to a decrease in interest expense. The overall result was a \$1.5 million decrease 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 10) reported a combined fund balance deficit of approximately \$16 million, which is a decrease from last year's deficit balance that totaled approximately \$14.6 million. Significant transactions are discussed below.

- As a result of a lack of funds, the District was unable to make the scheduled debt service payments after the May 2009 payment. In November 2011, the Developer and the District, with the consent of the bondholders, entered into an agreement whereby a portion of the



Series 2005A, 2005B, and 2006 bonds were exchanged for Series 2011A-1 and 2011A-2 bonds. The District recorded an other financing source of approximately \$7.4 million associated with the new terms of the exchange agreement. This amount was previously recorded as a current period debt service obligation and was deferred to a later period.

- At September 30, 2011, the District's accrued debt service obligation totaled approximately \$21.7 million for unpaid 2009 through 2011 debt service interest and principal payments.
- In accordance with the exchange agreement, certain debt service assessments are no longer due; therefore, the District wrote-off assessments receivable totaling approximately \$18.5 million during the fiscal year ended September 30, 2011. Due to questions regarding future collection of these amounts, a reserve had been booked in prior periods which offset these receivables.

The overall decrease in fund balance for the year ended September 30, 2011 totaled approximately \$1.3 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 a favorable variance in revenues and expenditures as compared to the budget in the amount of \$232,890 and \$25,526, respectively. The variance in revenues occurred primarily due to the collection of delinquent fiscal year 2010 assessments. The variance in expenditures occurred primarily due to anticipated budgeted operating expenses that were not incurred during the year.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### ***Capital Assets***

At September 30, 2011, the District had approximately \$44.2 million invested in capital assets (net of accumulated depreciation). This amount represents a decrease of approximately \$777,000 from the fiscal year 2010 total.

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

<i>September 30,</i>	<b>2011</b>	<b>2010</b>	<b>Change</b>
Capital assets not being depreciated	\$ 18,812,422	\$ 18,812,422	\$ -
Capital assets being depreciated	28,496,999	28,496,999	-
Total, prior to depreciation	47,309,421	47,309,421	-
Accumulated depreciation	(3,109,489)	(2,332,117)	(777,372)
Net capital assets	\$ 44,199,932	\$ 44,977,304	\$ (777,372)

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 \$43.1 million of debt outstanding. This amount represents a decrease of approximately \$267,000 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>	<b>2011</b>	<b>2010</b>	<b>Change</b>
Capital Improvement Revenue Bonds:			
Series 2005 A	\$ 11,855,000	\$ 11,855,000	\$ -
Series 2005 B	16,125,000	16,125,000	-
Series 2006	15,135,000	15,135,000	-
Line of credit	-	266,850	(266,850)
	<b>\$ 43,115,000</b>	<b>\$ 43,381,850</b>	<b>\$ (266,850)</b>

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

## **FUTURE FINANCIAL FACTORS**

Paseo 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 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 Paseo Community Development District's finance department at 3434 Colwell Avenue, Suite 200, Tampa, Florida 33614.

# Basic Financial Statements

Paseo Community Development District

Statement of Net Assets

<i>September 30,</i>	<b>2011</b>
	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 5,529,851
Assessments receivable, net	594,454
Prepaid expenses	31,315
Deposits	5,168
Deferred charges, net	217,034
Capital assets:	
Not being depreciated	18,812,422
Capital assets, net	25,387,510
<b>Total assets</b>	<b>50,577,754</b>
<b>Liabilities</b>	
Accounts payable	99,488
Due to developer	270,298
Accrued interest payable	5,113,279
Non-current liabilities:	
Due within one year	17,610,000
Due in more than one year	25,505,000
<b>Total liabilities</b>	<b>48,598,065</b>
<b>Net assets</b>	
Invested in capital assets, net of related debt	2,994,992
Restricted for:	
Capital projects	185,487
Unrestricted	(1,200,790)
<b>Total net assets</b>	<b>\$ 1,979,689</b>

See accompanying notes to financial statements.

Paseo Community Development District

Statement of Activities

Year ended September 30,

2011

Functions/Programs	Expenses	Charges for Services	Program Revenues		Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
			Operating Grants and Contributions	Capital Grants and Contributions		
Primary government:						
Governmental activities:						
General government	\$ (507,185)	\$ 360,527	\$ -	\$ -	\$ (146,658)	
Maintenance and operations	(1,392,140)	437,002	-	-	(955,138)	
Interest	(2,062,383)	310,080	1,322,751	140	(429,412)	
<b>Total governmental activities</b>	<b>\$ (3,961,708)</b>	<b>\$ 1,107,609</b>	<b>\$ 1,322,751</b>	<b>\$ 140</b>	<b>(1,531,208)</b>	

**General revenues**

Interest and other revenues	4,378
Change in net assets	(1,526,830)
Net assets - beginning of year	3,506,519
<b>Net assets - end of year</b>	<b>\$ 1,979,689</b>

See accompanying notes to financial statements.

Paseo Community Development District

Balance Sheet - Governmental Funds

September 30,

2011

	General	Debt Service 2005	Debt Service 2006	Non-Major Fund	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 24,722	\$ 3,684,852	\$ 1,634,790	\$ 185,487	\$ 5,529,851
Assessments receivable, net	424,032	170,422	-	-	594,454
Prepaid expenditures	31,315	-	-	-	31,315
Deposits	5,168	-	-	-	5,168
Due from other funds	-	10,860	1,549	-	12,409
<b>Total assets</b>	<b>\$ 485,237</b>	<b>\$ 3,866,134</b>	<b>\$ 1,636,339</b>	<b>\$ 185,487</b>	<b>\$ 6,173,197</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 99,488	\$ -	\$ -	\$ -	\$ 99,488
Due to developer	270,298	-	-	-	270,298
Debt service obligation	-	11,767,528	9,944,313	-	21,711,841
Due to other funds	12,409	-	-	-	12,409
<b>Total liabilities</b>	<b>382,195</b>	<b>11,767,528</b>	<b>9,944,313</b>	<b>-</b>	<b>22,094,036</b>
<b>Fund balances</b>					
Nonspendable	31,315	-	-	-	31,315
Restricted for capital projects	-	-	-	185,487	185,487
Unassigned	71,727	(7,901,394)	(8,307,974)	-	(16,137,641)
<b>Total fund balances (deficit)</b>	<b>103,042</b>	<b>(7,901,394)</b>	<b>(8,307,974)</b>	<b>185,487</b>	<b>(15,920,839)</b>
<b>Total liabilities and fund balances</b>	<b>\$ 485,237</b>	<b>\$ 3,866,134</b>	<b>\$ 1,636,339</b>	<b>\$ 185,487</b>	<b>\$ 6,173,197</b>

See accompanying notes to financial statements.

Paseo Community Development District

Reconciliation of the Balance Sheet to the Statement of Net Assets

<i>September 30,</i>	<b>2011</b>
Total fund balances (deficit), governmental funds	\$ (15,920,839)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund level statements.	44,199,932
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.	217,034
Liabilities not due and payable from current resources, including accrued interest, are not reported in the fund level statements.	(26,516,438)
<b>Total net assets - governmental activities</b>	<b>\$ 1,979,689</b>

See accompanying notes to financial statements.

Paseo Community Development District

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

Year ended September 30,

2011

	General	Debt Service 2005	Debt Service 2006	Non-Major Fund	Total Governmental Funds
<b>Revenues</b>					
Special assessments	\$ 1,027,677	\$ 480,848	\$ -	\$ -	\$ 1,508,525
Prepayment revenue	-	760,403	734,310	-	1,494,713
Interest and other revenues	4,378	2,355	919	140	7,792
Total revenues	1,032,055	1,243,606	735,229	140	3,011,030
<b>Expenditures</b>					
Current:					
General government	148,106	253,768	85,311	20,000	507,185
Maintenance and operations	614,768	-	-	-	614,768
Debt service:					
Principal	-	-	8,620,000	-	8,620,000
Interest	-	1,426,264	567,563	-	1,993,827
Bond issue costs	10,765	-	-	-	10,765
Total expenditures	773,639	1,680,032	9,272,874	20,000	11,746,545
Excess (deficiency) of revenues over expenditures	258,416	(436,426)	(8,537,645)	(19,860)	(8,735,515)
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	34,262	-	10,531	44,793
Transfers out	-	-	(44,458)	(335)	(44,793)
Reduction in current debt service obligation due to bond exchange	-	7,410,000	-	-	7,410,000
Total other financing sources (uses)	-	7,444,262	(44,458)	10,196	7,410,000
Net change in fund balances	258,416	7,007,836	(8,582,103)	(9,664)	(1,325,515)
Fund balances (deficit), beginning of year	(155,374)	(14,909,230)	274,129	195,151	(14,595,324)
Fund balances (deficit), end of year	\$ 103,042	\$ (7,901,394)	\$ (8,307,974)	\$ 185,487	\$ (15,920,839)

See accompanying notes to financial statements.



Paseo 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>	<b>2011</b>
Net change in fund balances - governmental funds	\$ (1,325,515)
Depreciation on capital assets is not recognized in the fund financial statements but is reported as an expense in the Statement of Activities	(777,372)
Governmental funds report the effect of bond issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	10,765
Amortization of bond issuance costs and original issue discount is not recognized in the governmental fund statements but is reported as an expense in the Statement of Activities.	(41,707)
Governmental funds report scheduled principal payments on bonds when debt is due even though the amounts have not been paid, whereas these amounts do not affect the Statement of Activities.	8,620,000
Certain transactions relating to the District's reduction in debt service obligation due to bond exchange are treated differently on the fund financial statements than they are on the government-wide financial statements.	(7,410,000)
Revenues previously reported in the Statement of Activities that did not provide current financial resources are reported in the current period in the governmental funds.	(576,152)
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.	(26,849)
<b>Change in net assets of governmental activities</b>	<b>\$ (1,526,830)</b>

See accompanying notes to financial statements.

**NOTE 1 – NATURE OF ORGANIZATION**

Paseo Community Development District (the “District”) was established on November 15, 2004 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes, by the City of Fort Myers Ordinance No. 3243. 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. Certain supervisors are currently affiliated with the Developer of the community, Stock Development, LLC (the “Developer”). 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). The primary criterion for including organizations within the District's reporting entity, as defined by the Governmental Accounting Standards Board (GASB) Statement 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:

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***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 and 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 1<sup>st</sup> and ends on September 30<sup>th</sup>. 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. However, as discussed in Note 5 to the financial statements, the Developer and the District, with the consent of the bondholders, entered into an agreement, whereby a portion of the Series 2005A, 2005B, and 2006 bonds were exchanged for Series 2011A-1 and 2011A-2 bonds. In accordance with the exchange agreement, certain debt service assessments are no longer due; therefore, the District wrote-off assessments totaling approximately \$18.5 million, during the fiscal year ended September 30, 2011. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

General Fund – 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 Series 2005 – The Debt Service Fund Series 2005 is used to account for the accumulation of resources for the annual payment of principal and interest on long-term debt.

Debt Service Fund Series 2006 – The Debt Service Fund Series 2006 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 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.

**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 Trust Funds as created by Section 218.415, 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:

Infrastructure	Years
Infrastructure and related improvements	20 - 50

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 \$907,479 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.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***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.

***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 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.

***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 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.

Paseo Community Development District

Notes to Financial Statements

**NOTE 3 – 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 did not file any claims under this commercial coverage during the last three years.

**NOTE 4 – CAPITAL ASSETS**

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

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Governmental activities</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 18,002,328	\$ -	\$ -	\$ 18,002,328
Infrastructure under construction	810,094	-	-	810,094
<b>Total capital assets not being depreciated</b>	<b>18,812,422</b>	<b>-</b>	<b>-</b>	<b>18,812,422</b>
<b>Capital assets being depreciated</b>				
Infrastructure and related improvements	28,496,999	-	-	28,496,999
<b>Total capital assets being depreciated</b>	<b>28,496,999</b>	<b>-</b>	<b>-</b>	<b>28,496,999</b>
<b>Less accumulated depreciation for:</b>				
Infrastructure and related improvements	(2,332,117)	(777,372)	-	(3,109,489)
<b>Total accumulated depreciation</b>	<b>(2,332,117)</b>	<b>(777,372)</b>	<b>-</b>	<b>(3,109,489)</b>
<b>Total capital assets being depreciated, net</b>	<b>26,164,882</b>	<b>(777,372)</b>	<b>-</b>	<b>25,387,510</b>
<b>Governmental activities capital assets, net</b>	<b>\$44,977,304</b>	<b>\$ (777,372)</b>	<b>\$ -</b>	<b>\$ 44,199,932</b>

Depreciation expense of \$777,372 was allocated to maintenance and operations on the Statement of Activities.

**NOTE 5 – BONDS PAYABLE**

On June 16, 2005, the District issued \$33,405,000 of Capital Improvement Revenue Bonds, Series 2005 consisting of \$12,405,000 Series 2005 A Bonds and \$21,000,000 of Series 2005 B Bonds with fixed interest rates of 5.400% and 4.875%, respectively. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is paid semiannually on each May 1 and November 1. Principal on the Series 2005 A Bonds is due in full May 1, 2036. Principal on the Series 2005 B Bonds was scheduled to be paid in full on May 1, 2010. As discussed below, subsequent to year end, a portion of the Series 2005 bonds were exchanged for Series 2011A-1 and 2011A-2 Bonds.

On February 9, 2006, the District issued \$20,260,000 of Capital Improvement Revenue Bonds, Series 2006 with a fixed interest rate of 5.00%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is paid

**NOTE 5 – BONDS PAYABLE (CONTINUED)**

semiannually on each May 1 and November 1. Principal on the Series 2006 Bonds was due in full on February 1, 2011. As discussed below, subsequent to year end, a portion of the Series 2006 bonds were exchanged for Series 2011A-1 and 2011A-2 Bonds.

In November 2011, the District entered into an exchange agreement, whereby the District exchanged approximately \$5.4 million, \$7.3 million, and \$6.5 million of the Series 2005A, 2005B, and 2006 bonds, respectively, for Capital Improvement Revenue Bonds Series 2011A-1 and 2011A-2. The Capital Improvement Revenue Bonds Series 2011 consist of \$4,040,000 Series 2011A-1 bonds and \$15,184,032 of Series 2011A-2 bonds with an interest rate of 5.4%. Principal payments on the Series 2011A-1 bonds will be made serially commencing on May 1, 2012 through May 1, 2036. Principal on the Series 2011A-2 bonds is due in full on May 1, 2036.

Upon the issuance of the Series 2011 Bonds, the exchanged bonds will be cancelled by the trustee. The unexchanged bonds totaling approximately \$6.4 million, \$8.6 million, and \$7.7 million of Series 2005A, 2005B, and 2006 bonds, respectively, remain outstanding. The District's payment obligations with respect to the unexchanged bonds will be (i) subordinate to the District's payment obligations with respect to the Series 2011 Bonds, and (ii) the rights and remedies of the holders of the unexchanged bonds will be modified so that (a) no default or Event of Default under the prior bond indentures with respect to the unexchanged bonds shall constitute a default or Event of Default with respect to the Series 2011 Bonds, and (b) upon the occurrence and continuation of an Event of Default with respect to the unexchanged bonds, the trustee and/or the owners of the unexchanged bonds are only entitled to enforce those remedies available under Florida law and under the prior bond indentures that do not or will not adversely affect the owners of the Series 2011 bonds.

The Bond Indentures have certain restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agreed to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. As discussed below, the District is not in compliance with certain requirements of the Bond Indentures as of September 30, 2011.

The Bond Indentures require that the District maintain adequate funds in the reserve accounts to meet the debt service reserve requirements as defined in the Indentures. The debt service reserve requirements have not been met for the fiscal year ended September 30, 2011.

Due to a lack of funds, the District was unable to make the scheduled debt service payments after the May 2009 payment. As a result, a debt service obligation totaling \$21,711,841 has been recorded on the accompanying Balance Sheet – Governmental Funds. A large portion of this debt service obligation was the result of the Series 2005B and 2006 unexchanged bonds becoming due in full in 2010 and 2011, respectively. As discussed above, in November 2011, the Developer and the District, with the consent of the bondholders, entered into an agreement, whereby a portion of the Series 2005A, 2005B, and 2006 bonds were exchanged for Series 2011A-1 and 2011A-2 bonds. As a result of the new terms, the current portion of the bonds due was reduced by approximately \$14 million. The District recorded an other financing source of approximately \$7.4 million associated with the new terms of the exchange agreement. This amount was previously recorded as a current period debt service obligation on the Balance Sheet – Governmental Funds and was deferred to a later period.



Paseo Community Development District

Notes to Financial Statements

**NOTE 5 – BONDS PAYABLE (CONTINUED)**

In accordance with the exchange agreement, subsequent to year end, the District is in compliance with the requirements of the bond indentures.

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	\$ 11,855,000	\$ -	\$ -	\$ 11,855,000	\$ 100,000
Series 2005 B	16,125,000	-	-	16,125,000	8,815,000
Series 2006	15,135,000	-	-	15,135,000	8,620,000
Series 2011 A-1	-	-	-	-	75,000
Series 2011 A-2	-	-	-	-	-
Line of credit	266,850	-	(266,850)	-	-
	<b>\$ 43,381,850</b>	<b>\$ -</b>	<b>\$ (266,850)</b>	<b>\$ 43,115,000</b>	<b>\$ 17,610,000</b>

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

<i>Year Ending September 30,</i>	Principal	Interest	Total Debt Service
2012	\$ 17,610,000	\$ 2,216,251	\$ 19,826,251
2013	85,000	2,181,001	2,266,001
2014	90,000	1,372,680	1,462,680
2015	95,000	1,367,820	1,462,820
2016	100,000	1,362,690	1,462,690
2017 - 2021	580,000	6,727,050	7,307,050
2022 - 2026	750,000	6,553,170	7,303,170
2027 - 2031	980,000	6,327,450	7,307,450
2032 - 2036	22,825,000	6,031,260	28,856,260
	<b>\$ 43,115,000</b>	<b>\$ 34,139,372</b>	<b>\$ 77,254,372</b>

*Note: The schedule above reflects the new terms of the bond exchange agreement.*

**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 – INTERFUND TRANSFERS**

Interfund transfers during the fiscal year ended September 30, 2011 were as follows:

<i>Funds</i>	Interfund	
	Transfers in	Transfers out
Major funds:		
Debt Service 2005	\$ 34,262	\$ -
Debt Service 2006	-	44,458
Non-major fund	10,531	335
<b>Total</b>	<b>\$ 44,793</b>	<b>\$ 44,793</b>

The transfers between the funds were primarily to facilitate the bond exchange.

**NOTE 8 – CONCENTRATION**

At September 30, 2011, the Developer owned a significant portion of the assessable property located within the District boundaries. A significant portion of the District’s future activity is dependent upon the continued involvement of the Developer.

**NOTE 9 – RELATED PARTY TRANSACTIONS**

For the year ended September 30, 2011, the District directly assessed the Developer \$573,744 and \$67,759 for operations and maintenance assessments and debt service costs, respectively. In addition, the Developer was assessed \$1,491 and \$1,772 for operations and maintenance and debt service costs, respectively, through the local tax collector.

As discussed in Note 5 to the financial statements, in November 2011, the Developer and the District, with the consent of the bondholders, entered into an agreement, whereby a portion of the Series 2005A, 2005B, and 2006 bonds were exchanged for Series 2011A-1 and 2011A-2 bonds. As a result, debt service assessments totaling approximately \$18.5 million are no longer due and were written off during the fiscal year ended September 30, 2011. At September 30, 2011, the Developer owes the District \$198,223, which is included in Assessments receivable, net on the accompanying Statement of Net Assets and Balance Sheet – Governmental Funds.

During the fiscal year ended September 30, 2011, the Developer advanced funds totaling \$270,298 to the District for the repayment of the line of credit, which is recorded as Due to Developer on the accompanying Statement of Net Assets and Balance Sheet – Governmental Funds. The District repaid these funds in December 2011.

Required Supplemental Information  
(Other Than MD&A)

Paseo Community Development District

Budget to Actual Comparison Schedule - General Fund

<i>Year ended September 30,</i>	<b>2011</b>		
	<b>Original and Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
<b>Revenues</b>			
Special assessments	\$ 795,165	\$ 1,027,677	\$ 232,512
Interest and other revenues	4,000	4,378	378
<b>Total revenues</b>	<b>799,165</b>	<b>1,032,055</b>	<b>232,890</b>
<b>Expenditures</b>			
General government	128,725	148,106	(19,381)
Maintenance and operations	670,440	614,768	55,672
Bond issue costs	-	10,765	(10,765)
<b>Total expenditures</b>	<b>799,165</b>	<b>773,639</b>	<b>25,526</b>
Excess (deficiency) of revenues over expenditures	\$ -	\$ 258,416	\$ 258,416

**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  
Paseo Community Development District  
Fort Myers, Florida

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Paseo 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 thereon dated June 18, 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 over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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 that is required to be reported under *Government Auditing Standards* and which is described below.

- IC2010-1: The District is not in compliance with certain provisions of its Bond Indenture including those relating to 1) collecting assessments to provide payment of debt service, 2) maintaining adequate funds in debt service reserve accounts, and 3) making its semi-annual debt service principal and interest payments.

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

- *Subsequent to year end, the Developer and the District, with the consent of the bondholders, entered into an agreement whereby a portion of the Series 2005A, 2005B, and 2006 bonds were exchanged for Series 2011A-1 and 2011A-2 bonds. As a result of this agreement and related actions, the District is now in compliance with the requirements of the bond indentures.*

This report is intended for the information 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  
June 18, 2012

## MANAGEMENT LETTER

To the Board of Supervisors  
Paseo Community Development District  
Fort Myers, Florida

We have audited the financial statements of Paseo Community Development District (“District”) as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated June 18, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 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*. Disclosures in this report which is dated June 18, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern 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 not been taken to address findings made in the preceding annual audit report due to the timing of the bond restructure.

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 determination of financial statement amounts 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 contracts 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 meet conditions described in Sections 218.503(1)(a) and 218.503(1)(e), Florida Statutes. The District failed to make its November 2010 and May 2011 debt service payments as a result of a lack of funds. Subsequent to year end, the Developer and the District, with the consent of the bondholders, entered into an agreement whereby a portion of the Series 2005A, 2005B, and 2006 bonds were exchanged for Series 2011A-1 and 2011A-2 bonds. As a result of this agreement and related actions, the District is now in compliance with the requirements of the bond indentures. In addition, at September 30, 2011, the District reported a total deficit unassigned fund balance in the debt service funds of \$16,209,368. We applied financial condition assessment procedures pursuant to Rule 10.566(7) and deteriorating financial conditions were noted. See the District's response to the findings 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, 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.

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

Miramar Beach, Florida  
June 18, 2012