Arlington Ridge Community Development District

Financial Statements

September 30, 2013

Arlington Ridge Community Development District
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September 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Arlington Ridge Community Development District
Leesburg, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Arlington Ridge Community Development District (hereinafter referred to as "District"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter Regarding Nonpayment of Debt Service

As discussed in Note 4 to the financial statements, the District has not received a majority of fiscal year 2009 and 2010 debt service assessment amounts due from the Developer as of the date of this report. This unpaid receivable totaled approximately $1.6 million, and was written off due to the foreclosure sale which occurred in the fiscal year 2011. In the absence of available funds, scheduled debt service interest payments in fiscal years 2010 through 2012 were made by drawing on the debt service reserve account. The scheduled debt service principal payments due since May 1, 2010 and the scheduled debt service interest payments due since November 1, 2012 have not been paid as of the date of this report. Accordingly, a debt service obligation totaling approximately $1.9 million has been recorded on the accompanying Balance Sheet – Governmental Funds.

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 Arlington Ridge Community Development District as of September 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated June 26, 2014, 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* in considering the District's internal control over financial reporting and compliance.

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

Miramar Beach, Florida
June 26, 2014

Management's Discussion And Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Arlington Ridge Community Development District's financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2013. Please read it in conjunction with the District's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- At September 30, 2013 the assets of the District exceeded its liabilities by approximately $3.8 million.

- During the fiscal year ended September 30, 2013, the District did not make any of its scheduled debt service payments. In 2009 and 2010, the Developer failed to remit to the District the full amount of debt assessments owed on its property. As a result, the District has failed to make any debt service principal payments since May 2010, other than minimal prepayments, and did not make its scheduled fiscal year 2013 debt service interest payments. As a result, the District has accrued a fund-level debt service obligation totaling approximately $1.9 million.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position 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 Position 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 position and changes in them. You can think of the District's net position – 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 position 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 Position and is compared to the prior year. Certain prior year amounts have been modified to reflect changes associated with the adoption of new accounting standards in the current year.

September 30,	**2013**	**2012**	**Change**
Assets			
Current and other assets	$ 3,676,778	$ 1,569,341	$ 2,107,437
Capital assets, net	16,320,019	16,863,098	(543,079)
Total assets	$ 19,996,797	$ 18,432,439	$ 1,564,358
Liabilities			
Current liabilities	$ 2,624,039	$ 1,487,420	$ 1,136,619
Other liabilities	13,560,000	13,870,000	(310,000)
Total liabilities	16,184,039	15,357,420	826,619
Net position			
Net invested in capital assets	2,470,707	3,013,740	(543,033)
Restricted for:			
Capital projects	1,756	1,755	1
Unrestricted	1,340,295	59,524	1,280,771
Total net position	3,812,758	3,075,019	737,739
Total liabilities and net position	$ 19,996,797	$ 18,432,439	$ 1,564,358

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

During the fiscal year ended September 30, 2013, total assets and liabilities increased by approximately $1.6 million and $827,000, respectively. The increase in assets is primarily due to the District receiving delinquent on-roll assessments, and the nonpayment of scheduled debt service principal and interest payments. The increase in liabilities is primarily due to the accrual of unpaid interest payments.

The following schedule compares the Statement of Activities for the current and previous fiscal year. Certain prior year amounts have been modified to reflect changes associated with the adoption of new accounting standards in the current year.

Year ended September 30,	**2013**	**2012**	**Change**
Revenues:			
Program revenues:			
Charges for services	$ 2,923,173	$ 1,278,821	$ 1,644,352
Grants and contributions	110,802	273,338	(162,536)
General revenues:			
Interest and other revenues	17,980	11,356	6,624
Total revenues	3,051,955	1,563,515	1,488,440
Expenses:			
General government	157,497	163,517	(6,020)
Community and recreation	1,300,158	1,231,723	68,435
SPE maintenance and operations	27,337	286,210	(258,873)
Bad debt	1,222	-	1,222
Interest	828,002	815,398	12,604
Total expenses	2,314,216	2,496,848	(182,632)
Change in net position	737,739	(933,333)	1,671,072
Net position, beginning of year	3,075,019	4,008,352	(933,333)
Net position, ending of year	$ 3,812,758	$ 3,075,019	$ 737,739

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

During the fiscal year ended September 30, 2013, total revenues increased by approximately $1.5 million and total expenses decreased by approximately $183,000. The increase in revenues is primarily due to the District receiving delinquent on-roll assessments in fiscal year 2013. The decrease in expenses is primarily due to a large property tax bill paid by the SPE in the prior year.

The overall result was a $737,739 increase in net position for fiscal year 2013.

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 of approximately $1.6 million, which is a significant increase over last year's fund balance that totaled approximately $702,000. Significant transactions are discussed below.

- In 2009 and 2010, the Developer failed to remit to the District the full amount of debt assessments owed on its property which has impacted the ability of the District to make principal and interest payments when due. During the fiscal year ended September 30, 2013, the District did not make any of its scheduled debt service payments. The District has failed to make any debt service principal payments since May 2010, other than minimal prepayments, and did not make its scheduled fiscal year 2013 debt service interest payments. As a result, the District has accrued a fund-level debt service obligation totaling approximately $1.9 million.

The overall increase in fund balance for the year ended September 30, 2013 totaled $873,460.

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 is shown on page 25.

The District experienced a favorable variance in revenues as compared to the budget in the amount of $12,774. Additionally, the District experienced a favorable variance in expenditures over budget in the amount of $72,823. The difference in expenditures occurred primarily due to anticipated operating expenses that were not incurred during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2013, the District had approximately $16.3 million invested in capital assets (net of depreciation). This amount represents a net decrease of approximately $543,000 from the fiscal year 2012 total.

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

September 30,	**2013**	**2012**	**Change**
Land and land improvements	$ 4,135,000	$ 4,135,000	$ -
Capital assets being depreciated	16,703,187	16,635,365	67,822
Total, prior to depreciation	20,838,187	20,770,365	67,822
Accumulated depreciation	(4,518,168)	(3,907,267)	(610,901)
Net capital assets	$ 16,320,019	$ 16,863,098	$ (543,079)

More information about the District's capital assets is presented in Note 3 to the financial statements.

Debt

At September 30, 2013, the District had approximately $14.9 million of bonds outstanding. This amount did not change from the fiscal year 2012 total.

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

September 30,	**2013**	**2012**	**Change**
Series 2006A bonds	$ 14,940,000	$ 14,940,000	$ -

More information about the District's long-term debt is presented in Note 4 to the financial statements.

FUTURE FINANCIAL FACTORS

Arlington Ridge 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 operation and maintenance assessment rates. Assessment rates for fiscal year 2014 were established to provide for the operations of the District.

As discussed in Note 10 to the financial statements, subsequent to year end, an entity purchased the golf course, 75 townhome lots and 355 detached home lots from the Developer and entered into a forbearance agreement with the trustee, with the consent of the majority bondholder, and which the District acknowledged and consented to. The forbearance agreement terminates on March 31, 2016, and until this date, the District shall not certify debt service assessments related to the Forbearance Property, nor seek any remedy against the Forbearance Property related to past due debt service assessments.

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 Arlington Ridge Community Development District's management company, Wrathell, Hunt & Associates, LLC, at 6131 Lyons Road, Suite 100, Coconut Creek, Florida 33073.

Basic Financial Statements

Statement of Net Position

September 30,	2013 Governmental Activities
Assets	
Cash and cash equivalents	$ 2,354,178
Accounts receivable	348,157
Inventory	9,733
Prepaid expenses	531
Land for resale	964,179
Capital assets:	
Not being depreciated	4,135,000
Depreciable, net	12,185,019
Total assets	19,996,797
Liabilities	
Accounts payable	79,964
Accrued interest payable	1,164,075
Non-current liabilities:	
Due within one year	1,380,000
Due in more than one year	13,560,000
Total liabilities	16,184,039
Net position	
Net investment in capital assets	2,470,707
Restricted for:	
Capital projects	1,756
Unrestricted	1,340,295
Total net position	$ 3,812,758

See accompanying notes to financial statements.

Statement of Activities

Year ended September 30,	**2013**				
		Program Revenues			Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary government:					
Governmental activities:					
General government	$ (157,497)	$ 343,578	$ -	$ -	$ 186,081
Community and recreation	(1,300,158)	1,503,607	-	-	203,449
SPE maintenance and operations	(27,337)	-	-	87,577	60,240
Bad debt	(1,222)	-	-	-	(1,222)
Interest	(828,002)	1,075,988	23,224	1	271,211
Total governmental activities	$(2,314,216)	$ 2,923,173	$ 23,224	$ 87,578	719,759

General revenues	
Interest and other revenues	17,980
Change in net position	737,739
Net position - beginning of year	3,357,226
Effect of adoption of GASB No. 65 (Note 11)	(282,207)
Net position - beginning of year, as restated	3,075,019
Net position - end of year	$ 3,812,758

See accompanying notes to financial statements.

Balance Sheet - Governmental Funds

September 30,	2013				
	General	**Special Purpose Entity**	**Debt Service**	**Non-major**	**Total Governmental Funds**
Assets					
Cash and cash equivalents	$ 1,162,112	$ 19,831	$ 1,170,479	$ 1,756	$ 2,354,178
Accounts receivable	181,739	-	166,418	-	348,157
Inventory	9,733	-	-	-	9,733
Prepaid expenditures	-	531	-	-	531
Land held for resale	-	964,179	-	-	964,179
Due from other funds	8,326	-	16,312	-	24,638
Total assets	$ 1,361,910	$ 984,541	$ 1,353,209	$ 1,756	$ 3,701,416
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities					
Accounts payable	$ 62,770	$ 17,194	$ -	$ -	$ 79,964
Debt service obligation	-	-	1,891,700	-	1,891,700
Due to other funds	16,312	-	8,326	-	24,638
Total liabilities	79,082	17,194	1,900,026	-	1,996,302
Deferred inflows of resources					
Deferred revenue	34,818	-	95,064	-	129,882
Total deferred inflows of resources	34,818	-	95,064	-	129,882
Total liabilities and deferred inflows of resources	113,900	17,194	1,995,090	-	2,126,184
Fund balances					
Nonspendable	9,733	531	-	-	10,264
Restricted for:					
Capital projects	-	-	-	1,756	1,756
Special purpose	-	966,816	-	-	966,816
Committed for:					
Food and beverage management agreement buyout	75,000	-	-	-	75,000
Common area	67,316	-	-	-	67,316
Unassigned	1,095,961	-	(641,881)	-	454,080
Total fund balances (deficit)	1,248,010	967,347	(641,881)	1,756	1,575,232
Total liabilities, deferred inflows of resources and fund balances (deficit)	$ 1,361,910	$ 984,541	$ 1,353,209	$ 1,756	$ 3,701,416

See accompanying notes to financial statements.

Reconciliation of the Balance Sheet to the Statement of Net Position

September 30,		**2013**
Total fund balances, governmental funds	$	1,575,232
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund level statements.		16,320,019
Assessment revenues not available as a current financial resource are considered deferred revenue on the fund level financial statements but are recognized as revenue in the Statement of Activities.		129,882
Liabilities not due and payable from current resources, including accrued interest, are not reported in the fund level statements.		(14,212,375)
Total net position - governmental activities	$	3,812,758

See accompanying notes to financial statements.

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

Year ended September 30,	2013				
	General	**Special Purpose Entity**	**Debt Service**	**Non-major**	**Total Governmental Funds**
Revenues					
Assessments	$ 1,812,367	$ -	$ 980,924	$ -	$ 2,793,291
Assessment prepayments	-	-	23,048	-	23,048
Bondholder contributions	-	87,577	-	-	87,577
Interest and other revenues	10,064	7,916	176	1	18,157
Total revenues	1,822,431	95,493	1,004,148	1	2,922,073
Expenditures					
Current:					
General government	144,780	-	12,717	-	157,497
Community and recreation	689,257	-	-	-	689,257
SPE maintenance and operations	-	27,337	-	-	27,337
Debt service:					
Principal	-	-	285,000	-	285,000
Interest	-	-	821,700	-	821,700
Capital outlay	67,822	-	-	-	67,822
Total expenditures	901,859	27,337	1,119,417	-	2,048,613
Excess (deficit) of revenues over expenditures	920,572	68,156	(115,269)	1	873,460
Other Financing Sources (Uses)					
Transfer in	111,955	-	8,066	-	120,021
Transfer out	-	(110,032)	(9,989)	-	(120,021)
Total other financing sources (uses)	111,955	(110,032)	(1,923)	-	-
Net change in fund balances	1,032,527	(41,876)	(117,192)	1	873,460
Fund balances (deficit), beginning of year	215,483	1,009,223	(524,689)	1,755	701,772
Fund balances (deficit), end of year	$ 1,248,010	$ 967,347	$ (641,881)	$ 1,756	$ 1,575,232

See accompanying notes to financial statements.

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

Year ended September 30,		**2013**
Net change in fund balances - governmental funds	$	873,460
Capital outlay, reported as expenditures in the governmental funds, is shown as capital assets on the Statement of Net Position.		67,822
Depreciation on capital assets is not recognized in the fund financial statements but is reported as an expense in the Statement of Activities.		(610,901)
Governmental fund financial statements 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.		285,000
Assessment revenues not available as a current financial resource are considered deferred revenue on the fund level financial statements but are recognized as revenue in the Statement of Activities.		129,882
Certain receivable amounts deemed uncollectible in the current year are charged to bad debt expense on the Statement of Net Position, but these amounts were not recognized on the fund level financial statements in the prior years because they were not identified as measurable and available.		(1,222)
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.		(6,302)
Change in net position of governmental activities	$	737,739

See accompanying notes to financial statements.

NOTE 1 – NATURE OF ORGANIZATION

The Arlington Ridge Community Development District (the "District") was created on October 13, 2003 by City of Leesburg, Florida Ordinance No. 03-94 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The Act provides among other things, the power to manage basic services for community development, power to borrow money and issue bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure.

The District was established for the purposes of financing and managing the acquisition, construction, maintenance and operation of a portion of the infrastructure necessary for community development within the District.

The District is governed by a Board of Supervisors ("Board"), which is comprised of five members. Four board members are elected in the general election cycle by resident electors and one Board member is a landowner elected seat, which transitions in November of 2014. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes.

The Board has the final responsibility for:

1. Assessing 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. 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, Arlington Ridge SPE, LLC ("SPE") is considered a blended component unit.

The SPE owns, manages, maintains, and will sell and/or dispose of the property foreclosed upon by the District (the "Property") for the benefit of the District and the Bondholders. The SPE is reported as a Special Revenue Fund.

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 Position 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, 2013, 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 and operation and maintenance assessments, are non-ad valorem assessments imposed on all lands located within the District and benefited by the District's activities. Operation and maintenance assessments are levied by the District prior to the start of the fiscal year which begins October 1st and ends on September 30th. Operation and maintenance special assessments are imposed upon all benefited lands located in the District. Debt service special assessments are imposed upon certain lots and lands as described in each resolution imposing the special assessment for each series of bonds issued by the District.

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)

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.

Special Purpose Entity Fund – The Special Purpose Entity Fund is a Special Revenue Fund that accounts for the activities of the SPE, a blended component unit of the government. The SPE owns, manages, maintains, and will sell and/or dispose of the Property for the benefit of the District and the Bondholders.

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 Series 2006A bonds.

For the year ended September 30, 2013, 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.

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 Governmental Accounting Standards Board, 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 218,415, Florida Statutes; SEC registered money market funds with the highest credit quality rating from a nationally recognized agency; and interest-bearing time deposits or savings accounts in authorized financial institutions.

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.

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 2 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:

Capital Assets	Years
Furniture, fixtures and equipment	5
Building equipment	15
Irrigation, lighting, security	20
Recreation, community, roadways and water systems	30

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

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 Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line or effective interest method. Bonds payable are reported net of these premiums or discounts. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current period expenses.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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 debt service expenditures.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometime include a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any of this type of item at September 30, 2013.

In addition to liabilities, the Statement of Net Position or Balance Sheet – Governmental Funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position or revenue that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. At September 30, 2013, the District has one item, deferred revenue, which qualifies for reporting in this category. Deferred revenue results from assessments not collected within 60 days of the end of the year for which they were levied or imposed.

Fund Equity

Net position in the government-wide financial statements represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is categorized as net investment in capital assets, restricted or unrestricted. Net investment in capital assets represents assets related to infrastructure and property, plant and equipment, net of any related debt. Restricted net position represents the net position restricted by the District's bond covenants.

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.

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 generally accepted accounting principles 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

A. Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
B. 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 – CAPITAL ASSETS

The following is a summary of changes in the capital assets for the year ended September 30, 2013:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land and land improvements	$ 4,135,000	$ -	$ -	$ 4,135,000
Total capital assets not being depreciated	4,135,000	-	-	4,135,000
Capital assets being depreciated:				
Furniture, fixtures and equipment	45,730	27,322	-	73,052
Building and maintenance equipment	25,337	-	-	25,337
Recreational facilities and community buildings	9,159,281	40,500	-	9,199,781
Roadways	1,719,177	-	-	1,719,177
Irrigation, lighting, security and other	2,634,818	-	-	2,634,818
Water management systems	3,051,022	-	-	3,051,022
Total capital assets, being depreciated	16,635,365	67,822	-	16,703,187
Less accumulated depreciation for:				
Furniture, fixtures and equipment	22,866	6,766	-	29,632
Building and maintenance equipment	10,983	1,689	-	12,672
Recreational facilities and community buildings	1,984,513	311,605		2,296,118
Roadways	371,543	57,399		428,942
Irrigation, lighting, security and other	856,312	131,741		988,053
Water management systems	661,050	101,701	-	762,751
Total accumulated depreciation	3,907,267	610,901	-	4,518,168
Governmental activities capital assets, net	$ 16,863,098	$ (543,079)	$ -	$ 16,320,019

Depreciation expense of $610,901 was allocated to community and recreation in the Statement of Activities.

NOTE 4 – BONDS PAYABLE

On March 9, 2006, the District issued $15,965,000 of Special Assessment Bonds, Series 2006A with a fixed interest rate of 5.5%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District and the Bondholders. Interest is paid semiannually on each May 1 and November 1. Principal on the Series 2006A Bonds is paid serially commencing on May 1, 2007 through May 1, 2036.

The Series 2006A Bonds are subject to redemption at the option of the District prior to their maturity. The Bonds are subject to extraordinary mandatory redemption prior to their selected maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture.

The Bond Indenture established a debt service reserve requirement as well as other restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agreed to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The requirements have not been met for the fiscal year ended September 30, 2013.

The District has not received a majority of fiscal year 2009 and 2010 debt service assessment amounts due from the Developer as of the date of this report. This unpaid receivable totaled approximately $1.6 million, and was written off due to the foreclosure sale which occurred in fiscal year 2011. Subsequent debt service assessments have been forborn (see Note 8). Due to the delinquency in payment of debt assessments by the Developer and the forbearance agreement as discussed herein, the scheduled debt service interest payments in fiscal years 2010 through 2012 were made by drawing on the debt service reserve account. The scheduled debt service principal payments due since May 1, 2010 and the scheduled debt service interest payments due since November 1, 2012 have not been paid as of the date of this report. Accordingly, a debt service obligation totaling approximately $1.9 million has been recorded on the accompanying Balance Sheet – Governmental Funds.

The District diligently pursued a foreclosure suit against the Property and a final judgment was ordered by the Court in April 2011. At the bondholders direction, the District created an SPE to take title of the Property, which property secured a portion of the 2006 Bonds. The SPE is not required to remit debt service assessments on the property but does hold the property for the benefit of the District and the Bondholders. Foreclosure of the assessment lien on the Property did not affect the principal amount of Bonds allocated to that property from a financial perspective and the interest continues to accrue thereon. However, there are no longer debt special assessments (for principal or interest) due from or on that property and the amount of total principal and interest to be paid on behalf of the Property will be determined at the time of the Property's disposition from the SPE and will be distributed pursuant to the Tri-Party Agreement. At the time of the sale of the Property, the financials will then reflect the write down of the principal and accrued interest allocated to that property.

Subsequent to year end, the District made the November 1, 2013 debt service interest payment, as a result of the significant debt service assessments received during fiscal year 2013 from tax deed sales.

NOTE 4 – BONDS PAYABLE (CONTINUED)

Long-term liability activity for the year ended September 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds Payable:					
Series 2006A	$ 14,940,000	$ -	$ -	$ 14,940,000	$ 1,380,000
	$ 14,940,000	$ -	$ -	$ 14,940,000	$ 1,380,000

At September 30, 2013, the scheduled debt service requirements on long-term debt were as follows:

Year Ending September 30,	Principal	Interest	Total Debt Service
2014	$ 1,380,000	$ 1,643,400	$ 3,023,400
2015	325,000	745,800	1,070,800
2016	345,000	727,925	1,072,925
2017	365,000	708,950	1,073,950
2018	385,000	688,875	1,073,875
2019 - 2023	2,270,000	3,102,550	5,372,550
2024 - 2028	2,990,000	2,403,225	5,393,225
2029 - 2033	3,940,000	1,481,975	5,421,975
2034 - 2036	2,940,000	329,450	3,269,450
	$ 14,940,000	$ 11,832,150	$ 26,772,150

NOTE 5 – 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 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 – RELATED PARTY TRANSACTIONS

Redus Arlington Ridge FL, LLC (the “Developer”), affiliate of Wells Fargo Bank, N.A. (“Wells Fargo”), owned a significant portion of land within the District; therefore, assessment revenues in the General and Debt Service Funds include the assessments levied on those lots owned by the Developer. The Developer did not pay a portion of their fiscal year 2009 and 2010 debt service assessments totaling approximately $1.6 million, which was written off due to the foreclosure sale which occurred in the fiscal year 2011. The foreclosure sale resulted in the creation of the SPE. During the year ended September 30, 2013, the District directly assessed the Developer $28,923 and $114,771 for operations and maintenance and debt service, respectively, all of which was paid by Wells Fargo. In addition, the Developer was assessed $831,022 and $448,210 for operations and maintenance and debt service, respectively, through the county tax roll.

NOTE 8 – TRI-PARTY AGREEMENT

The District diligently pursued a foreclosure suit against the Property and a final judgment was ordered by the Court in April 2011. At the bondholders direction, the District created an SPE to take title the Property, which property secured a portion of the 2006 Bonds. The SPE is not required to remit debt service assessments on the property but does hold the property for the benefit of the District and the Bondholders. Foreclosure of the assessment lien on the Property did not affect the principal amount of Bonds allocated to that property from a financial perspective and the interest continues to accrue thereon. However, there are no longer debt special assessments (for principal or interest) due from or on that property and the amount of total principal and interest to be paid on behalf of the Property will be determined at the time of the Property's disposition from the SPE and will be distributed pursuant to the Tri-Party Agreement. At the time of the sale of the Property, the financials will then reflect the write down of the principal and accrued interest allocated to that property.

The District, the Trustee and the SPE (the “Parties”) entered into a Tri-Party Agreement (the “Agreement”) on July 18, 2011. Pursuant to the Agreement, the SPE agrees to own, maintain, sell and/or dispose of the Property for the benefit of the District, who, in turn, acts for the benefit of the Bondholders in relation to the maintenance and disposal of the Property. The Parties acknowledge that the sole source of funds necessary to operate the SPE will be provided by the Bondholders through the Trustee. The Trustee, on behalf of the Bondholders, shall cause to be paid to the District annually the sum of $300 per lot owned by the SPE (“Partial Annual Assessment”). The Partial Annual Assessment shall be due in accordance with the direct collection schedule as set forth in the District’s annual assessment resolution, as adopted by the Board of Supervisors.

The Parties acknowledge that the District will not seek to enforce collection of any additional portions of each ensuing fiscal year’s annual operations and maintenance assessments allocated to the Property that are not covered by the Partial Annual Assessments until the Property is sold. However, such assessments (“Accreted O&M Assessments”) shall accrete on a monthly basis in an amount equal to 1/12 of the total annual allocable operations and maintenance assessments on the Property as determined and adopted annually by the Board, minus the Partial Annual Assessments paid, from October 1, 2011 until sale of the Property. Proceeds from the sale of the Property shall be distributed to the Bondholders and the District pro rata based upon the principal bond debt and any Accreted O&M Assessments assigned to such parcels at the time of sale. However, if the sale

NOTE 8 – TRI-PARTY AGREEMENT (CONTINUED)

proceeds, once applied pro rata, are sufficient to fully satisfy the principal bond debt assigned to the parcels at the time of the sale, the remaining proceeds shall be paid 50% to the District and 50% to the Bondholders.

The District will depend on the Partial Annual Assessment payments to fund a portion of the SPE's total annual operations and maintenance assessment assigned to the Property. The Trustee agrees that it will use available amounts on deposit in the funds and accounts comprising the Trust Estate (including any proceeds received from the sale of all or a portion of the Property) to pay the Partial Annual Assessment and taxes. Should funding from the Trustee cease or otherwise become delinquent for a period of 90 days, the Trustee agrees to relinquish all rights, title and interest to the Property as well as all rights, title and interest to the unpaid bond principal and interest on the Property, and shall have no further obligation to fund the operations and maintenance obligations of the Property. Subsequent to year end, the Trustee became delinquent on a quarterly payment. The Board of Supervisors is currently exploring its options and the outcome cannot be determined at this time.

In the event that the SPE does not sell and/or dispose of the Property, the SPE may convey, and the District may accept, the Property for ownership and maintenance. Immediately upon conveying the Property to the District, or as otherwise mutually agreed upon by the Parties, the SPE shall dissolve. Upon dissolution, all records shall be transferred to the District for maintenance and storage.

Pursuant to the Agreement, during the current fiscal year the Bondholders contributed $87,577 to fund the SPE's activities. The SPE remitted $93,900 of Annual O&M Assessments to the District in accordance with the related resolution adopted by the Board of Supervisors.

The District has accreted operations and maintenance assessments totaling $703,178 ($264,562 and $438,616 for fiscal years 2012 and 2013, respectively) on the Property in accordance with the Agreement and the District's annual assessment resolution, and will not seek to enforce collection of these Accreted O&M Assessments until the Property is sold. Accordingly, the Accreted O&M Assessments have not been recognized in the fund or government-wide financial statements as of September 30, 2013. The Property is reported on the Statement of Net Position and Balance Sheet – Governmental Funds as Land for resale, and totaled $964,179 at September 30, 2013.

NOTE 9 – INTERFUND TRANSFERS

Interfund transfers during the fiscal year ended September 30, 2013 were as follows:

	Interfund	
Funds	Transfers in	Transfers out
Major funds:		
General	$ 111,955	$ -
Special Purpose Entity	-	110,032
Debt Service	8,066	9,989
Total	$ 120,021	$ 120,021

The transfers between funds are in accordance with the Bond Indenture to fund the general government operations of the District.

NOTE 10 – SUBSEQUENT EVENT

In December 2013, CB Arlington Ridge Landco, LLC (the "Subsequent Landowner") purchased the golf course, 75 townhome lots and 355 detached home lots from the Developer (henceforth referred to as the "Forbearance Property"). On December 20, 2013, a Forbearance Agreement was executed between the trustee and the Subsequent Landowner, with the consent of the majority bondholder. Although not a party to the agreement, the District acknowledged and consented to the Forbearance Agreement. In accordance with this agreement, the Subsequent Landowner shall, among other things, bring current delinquent O&M assessments related to the Forbearance Property by March 31, 2014 and continue to pay O&M assessments as it becomes due. The Forbearance Agreement terminates on March 31, 2016 (the "Forbearance Termination Date"). Until the Forbearance Termination Date, the District shall not certify debt service assessments related to the Forbearance Property, nor seek any remedy against the Forbearance Property related to past due debt service assessments. The Subsequent Landowner shall pay all forborn debt assessments by the Forbearance Termination Date. It is understood by all parties to the agreement, and the majority bondholder, that while the debt service assessments have been forborn until the Forbearance Termination Date, the scheduled debt service principal and interest payments on the Series 2006A Bonds have not been forborn or otherwise forgiven; thus the District is still in default with the Bond Indenture until a time when it makes all past due principal and interest payments and replenished the debt service reserve fund. The District is not responsible for "making up" the Property assessments except to the extent of the money received from the ultimate disposition of the Property pursuant to the terms of the Tri Party Agreement.

As discussed in Note 8, subsequent to year end, the Trustee became delinquent on a quarterly payment. The Board of Supervisors is currently exploring its options and the outcome cannot be determined at this time. All parties, the District, the bondholders, the Trustee and Subsequent Landowner, are in agreement regarding the financial approach to the delinquent assessments and are working together for the financial improvement of the District.

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLES

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement established standards for reporting deferred outflows of resources, deferred inflows of resources, and net position and creates a new format for the statement of financial position that requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This statement improves financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

The District made the decision to implement these standards effective October 1, 2012.

As a result of implementation, government-wide net position at the beginning of the year ended September 30, 2013 has been restated. GASBS No. 65 requires, among other things, that bond issue costs be shown as current-period outflows of resources (expenses) and not capitalized. Accordingly, prior year deferred charges have been removed from the current year financial statements. The restatement resulted in a decrease in the beginning net position of $282,207.

Required Supplemental Information
(Other Than MD&A)

Arlington Ridge Community Development District

Budget to Actual Comparison Schedule - General Fund

Year ended September 30,	2013		
	Original and Final Budget	**Actual Amounts**	**Variance with Final Budget**
Revenues			
Assessments	$ 1,800,657	$ 1,812,367	$ 11,710
Interest and other revenues	9,000	10,064	1,064
Total revenues	1,809,657	1,822,431	12,774
Expenditures			
General government	237,945	144,780	93,165
Community and recreation	712,359	689,257	23,102
Capital outlay	24,378	67,822	(43,444)
Total expenditures	974,682	901,859	72,823
Excess of revenues over expenditures	$ 834,975	$ 920,572	$ 85,597

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Supervisors
Arlington Ridge Community Development District
Leesburg, Florida

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Arlington Ridge Community Development District (hereinafter referred to as the "District"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report dated June 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

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.

- IC2010-01: 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.

- IC2010-02: The District has not received a majority of fiscal year 2009 and 2010 debt service assessment amounts due from the Developer as of the date of this report. Consequently, events of default on the Series 2006A Bonds occurred and are continuing.

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.

- IC2010-01: *This item is a direct result of the events outlined in item IC2010-02 (below). As such, the District, new Developer, Bondholders and Trustee are all continuing to work together to address this item, including the entering into a Forbearance Agreement. The Bondholders have the right to direct withdrawals from the trust estate and the District does not have the ability to direct such withdrawals.*

- IC2010-02: *The District, the new Developer, Bondholders and Trustee are all working together to address this item. The District diligently pursued a foreclosure suit against the Property and a final judgment was ordered by the Court in April 2011. At the bondholders direction, the District created an SPE to take title the Property, which property secured a portion of the 2006 Bonds. The SPE is not required to remit debt service assessments on the property but does hold the property for the benefit of the District and the Bondholders. Foreclosure of the assessment lien on the Property did not affect the principal amount of Bonds allocated to that property from a financial perspective and the interest continues to accrue thereon. However, there are no longer debt special assessments (for principal or interest) due from or on that property and the amount of total principal and interest to be paid on behalf of the Property will be determined at the time of the Property's disposition from the SPE and will be distributed pursuant to the Tri-Party Agreement. At the time of the sale of the Property, the financials will then reflect the write down of the principal and accrued interest allocated to that property.*

<u>Purpose of this Report</u>

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C

Miramar Beach, Florida
June 26, 2014

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MANAGEMENT LETTER

To the Board of Supervisors
Arlington Ridge Community Development District
Leesburg, Florida

We have audited the financial statements of the Arlington Ridge Community Development District ("District") as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated June 26, 2014.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 June 26, 2014, 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. Recommendations IC2010-01 and IC2010-02 were made in the preceding annual audit report and are addressed on page 27. As mentioned in management's response on page 27, the District has taken all actions afforded under the bond indenture and statutory law; however, the finding is still applicable in the current year. Recommendations IC2010-01 and IC2010-02 were also made in the second preceding annual audit report.

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

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

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

Section 10.554(1)(i)5., 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)6.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 Section 218.503(1)(a), Florida Statutes. In the absence of available funds, the scheduled debt service principal payments due since May 1, 2010 and the scheduled debt service interest payments due since November 1, 2012 have not been paid as of the date of this report. The financial emergency conditions met were a result of deteriorating financial conditions. Such deteriorating financial conditions are further discussed below. The District's response to these findings is presented on page 27.

Section 10.554(1)(i)6.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, 2013, 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, 2013. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)6.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures and as a result, it was determined that a deteriorating financial condition exists with respect to the District. As discussed in Note 4 to the financial statements, the District has not received a majority of fiscal year 2009 and 2010 debt service assessment amounts due from the Developer as of the date of this report. This unpaid receivable totaled approximately $1.6 million, and was written off due to the foreclosure sale which occurred in the fiscal year 2011. In the absence of available funds, the District has not made its scheduled debt service principal payments due since May 1, 2010 and the scheduled debt service interest payments due since November 1, 2012 have not been paid as of the date of this report. 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.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management, 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 26, 2014