



VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Basic Financial Statements

September 30, 2005

(With Independent Auditors' Report Thereon)

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

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Independent Auditors' Report on the Financial Statements

The Board of Supervisors
Village Community Development District No. 3:

We have audited the accompanying financial statements of the governmental activities and each major fund of Village Community Development District No. 3 (the District), as of and for the year ended September 30, 2005, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Village Community Development District No. 3, as of September 30, 2005, and the respective changes in financial position thereof and the budgetary comparison of the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2006 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.



The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

January 20, 2006
Certified Public Accountants

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2005

The Village Community Development District No. 3 (the District) management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activities and (c) identify changes in the District's financial position and its ability to address the next and subsequent year challenges.

Financial Highlights

- The assets of the District exceeded its liabilities at September 30, 2005 by \$6.6 million (net assets). Of this amount, \$597,181 of unrestricted net assets may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total debt decreased by \$2.2 million during the current fiscal year. Of this decrease, \$1.5 million represents principal payments made on outstanding revenue bonds and \$643,326 represents payments to decrease the payable to Developer at September 30, 2005.

Using this Annual Report

The financial statement's focus is on both the District as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the District's accountability.

The Statement of Net Assets (page 7) and **the Statement of Activities** (page 8) provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The statements are measured and reported using the economic resources measurement focus and full accrual basis of accounting and are designed to be corporate-like in structure.

The Fund Financial Statements, which report by individual fund, begin on page 9. Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. The governmental funds measure and report activities using the current financial resources measurement focus and the modified accrual basis of accounting. Therefore you will find the reconciliation on page 10 that converts this data to an economic resources measurement focus and the accrual basis of accounting for use in the government-wide financial statements. The fund financial statements present information in more detail than the government-wide financial statements. Governmental Accounting Standards Board (GASB) Statement No. 34 provides the authoritative guidance on the governmental financial reporting model.

The Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities

Government-wide financial statements are designed to be corporate-like in structure. They are intended to allow the reader to assess the government's operational accountability. Operational accountability is defined as the extent to which the government has met its operating objectives efficiently and effectively, using all resources available for that purpose, and whether it can continue to meet its objectives for the foreseeable future.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2005

The statement of net assets presents information on all the District's assets and liabilities, with the difference being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or not.

The statement of activities presents information showing how the District's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain financial control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are governmental funds.

Governmental funds account for all of the District's assessment supported activities. These include the General fund and the Debt Service fund. These funds focus on how money flows into and out of the funds, and the balances left at year-end. The accounting method used is called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash (usually 60 day focus). The two criteria used are that the revenue is measurable and available. Examples of the difference between this and the economic resources measurement focus are that debt financing is considered current revenue, and purchases of capital assets are considered current expenditures, whereas depreciation is not since there is no outlay of cash. In a highly regulatory environment, fund accounting serves a very important purpose, in that funds received for specific purposes are identified as such.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 14.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2005

The District as a Whole

The District's net assets as of September 30, 2005 and 2004 were \$6.6 million and \$5.5 million, respectively, representing an increase of \$1.1 million. The District's revenues for the years ending September 30, 2005 and 2004, including assessments and investment earnings were \$3.5 million and \$3.6 million, respectively, representing a decrease of \$100,000. Total expenses were \$2.5 million for each of the years ending September 30, 2005 and 2004. Table 1 reflects the summary statement of net assets for the current year and prior year.

Table 1
Net Assets

	Governmental activities	
	September 30, 2005	September 30, 2004
Assets:		
Current and other assets – unrestricted	\$ 1,643,591	1,540,034
Restricted assets	1,501,702	2,193,680
Capital assets – net	20,065,432	20,615,650
Total assets	<u>23,210,725</u>	<u>24,349,364</u>
Liabilities:		
Current and other liabilities	411,091	550,000
Long-term liabilities	16,220,000	17,725,000
Total liabilities	<u>16,631,091</u>	<u>18,275,000</u>
Net assets:		
Invested in capital assets, net of related debt	4,480,751	3,567,859
Restricted	1,501,702	2,193,680
Unrestricted	597,181	(229,993)
Total net assets	<u>\$ 6,579,634</u>	<u>5,531,546</u>

The majority of the District's net assets represent investments in capital assets, less the indebtedness outstanding, used to acquire those capital assets. The resources required to repay this debt must be provided annually from assessments, since it is unlikely that the capital assets themselves will be liquidated to pay the liabilities.

The District's net assets also include amounts restricted for debt service and renewal and replacement, and are subject to external restrictions under the District's Bond Resolutions.

Table 2 reflects the summary statement of activities for the current year and prior year.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2005

Table 2
Changes in Net Assets

	Governmental activities	
	September 30, 2005	September 30, 2004
Revenues:		
Special assessments	\$ 3,461,282	3,466,162
Other revenues	19,827	91,230
Investment earnings	41,088	20,551
Total revenues	<u>3,522,197</u>	<u>3,577,943</u>
Expenses:		
General government	1,531,186	1,465,443
Interest on long-term debt	942,923	1,020,250
Total expenses	<u>2,474,109</u>	<u>2,485,693</u>
Increase in net assets	<u>\$ 1,048,088</u>	<u>1,092,250</u>

Revenues

Revenues include assessments on District landowners for maintenance and debt service. Other revenues include reimbursements from Sumter County for maintaining county right-of-ways.

Expenses

General government expenses of the District are mainly for landscaping, irrigation and utilities costs.

Capital Assets

The District's capital assets as of September 30, 2005 and 2004 amounted to \$20,065,432 and \$20,615,650, respectively. This is net of accumulated depreciation and includes land and improvements. Additional information regarding the District's capital assets can be found in Note 3 to the financial statements.

Long-term Debt

At September 30, 2005 and 2004, the District had long-term debt outstanding of \$16,220,000 and \$17,725,000, respectively. All of the debt is special assessment debt and is secured solely by revenue sources. Additional information regarding the District's long-term debt can be found in Note 4 to the financial statements.

Request for Information

The District's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional financial information, contact the Village Center Community Development District's Chief Financial Officer at 3231 Wedgewood Lane, The Villages, FL 32162, telephone (352) 753-0421.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Statement of Net Assets

September 30, 2005

	Assets	Governmental Activities
Cash		\$ 1,008,272
Restricted cash and cash equivalents		1,501,702
Unamortized bond issuance costs		635,319
Capital assets, net of accumulated depreciation		<u>20,065,432</u>
Total assets		<u>23,210,725</u>
	Liabilities	
Accounts payable		7,009
Accrued interest		384,082
Payable to Developer		20,000
Long-term debt:		
Due within one year		540,000
Due in more than one year		<u>15,680,000</u>
Total liabilities		<u>16,631,091</u>
	Net Assets	
Invested in capital assets, net of related debt		4,480,751
Restricted for debt service		1,501,702
Unrestricted		<u>597,181</u>
Total net assets		<u>\$ 6,579,634</u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Statement of Activities

Year ended September 30, 2005

	<u>Governmental Activities</u>
Expenses:	
General government	\$ 1,531,186
Interest on long-term debt	942,923
Total expenses	<u>2,474,109</u>
Revenues:	
Special assessments	3,461,282
Other revenues	19,827
Investment earnings	41,088
Total revenues	<u>3,522,197</u>
Change in net assets	1,048,088
Net assets – beginning	<u>5,531,546</u>
Net assets – ending	<u>\$ 6,579,634</u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Balance Sheet – Governmental Funds

September 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Assets:			
Cash	\$ 1,008,272	—	1,008,272
Restricted cash and cash equivalents	—	1,501,702	1,501,702
Total assets	\$ 1,008,272	1,501,702	2,509,974
Liabilities:			
Accounts payable	\$ 7,009	—	7,009
Total liabilities	7,009	—	7,009
Fund balances:			
Reserved:			
Debt service	—	1,501,702	1,501,702
Unreserved, designated for:			
Renewal and replacement	550,000	—	550,000
Operating reserves	100,000	—	100,000
Unreserved, undesignated	351,263	—	351,263
Total fund balances	1,001,263	1,501,702	2,502,965
Total liabilities and fund balances	\$ 1,008,272	1,501,702	2,509,974

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets

September 30, 2005

Total fund balances, governmental funds		\$	2,502,965
Total net assets reported for governmental activities in the statement of net assets is different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:			
Capital assets	\$	22,198,755	
Less accumulated depreciation		<u>(2,133,323)</u>	20,065,432
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Special assessment revenue bonds		(16,220,000)	
Accrued interest		(384,082)	
Payable to Developer		<u>(20,000)</u>	(16,624,082)
Certain long-term assets are not available to pay for current period expenditures and therefore are not included in the funds:			
Unamortized bond issuance costs			<u>635,319</u>
Net assets of governmental activities	\$		<u><u>6,579,634</u></u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

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

Year ended September 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Revenues:			
Special assessments	\$ 948,612	1,485,080	2,433,692
Special assessments – prepayments	—	1,027,590	1,027,590
Other revenues	19,827	—	19,827
Interest income	22,469	18,619	41,088
Total revenues	<u>990,908</u>	<u>2,531,289</u>	<u>3,522,197</u>
Expenditures:			
Current – general government	940,077	—	940,077
Debt service:			
Principal	—	2,148,326	2,148,326
Interest	—	976,405	976,405
Total expenditures	<u>940,077</u>	<u>3,124,731</u>	<u>4,064,808</u>
Excess (deficiency) of revenues over expenditures	<u>50,831</u>	<u>(593,442)</u>	<u>(542,611)</u>
Other financing sources (uses):			
Transfers in (out)	<u>98,536</u>	<u>(98,536)</u>	<u>—</u>
Total other financing sources (uses)	<u>98,536</u>	<u>(98,536)</u>	<u>—</u>
Net change in fund balances	149,367	(691,978)	(542,611)
Fund balances, at beginning of year	<u>851,896</u>	<u>2,193,680</u>	<u>3,045,576</u>
Fund balances, at end of year	<u>\$ 1,001,263</u>	<u>1,501,702</u>	<u>2,502,965</u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

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

Year ended September 30, 2005

Net change in fund balances – total governmental funds	\$	(542,611)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures.		
However, in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in the current period.		
		(550,218)
Governmental funds report the costs of bond issuance as expenditures. However, in the statement of activities, bond issuance costs are capitalized and allocated over the term of the related bonds as amortization expense. This is the amount of bond issuance cost amortization expense in the current period.		
		(40,891)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Accrued interest		
		33,482
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		<u>2,148,326</u>
Change in net assets of governmental activities	\$	<u><u>1,048,088</u></u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Statement of Revenues, Expenditures and Changes in
Fund Balances – Budget and Actual

General Fund

Year ended September 30, 2005

	<u>Budgeted amounts</u>		<u>Variance with final budget</u>
	<u>Original and final</u>	<u>Actual amounts</u>	<u>Favorable (unfavorable)</u>
Revenues:			
Special assessments	\$ 947,678	948,612	934
Interest and other income	12,519	42,296	29,777
Total revenues	<u>960,197</u>	<u>990,908</u>	<u>30,711</u>
Expenditures:			
General government:			
Professional services	197,124	191,697	5,427
Accounting and auditing	15,800	17,095	(1,295)
Other contractual services	50,743	50,658	85
Communication and freight	500	3,158	(2,658)
Utility services	166,000	154,170	11,830
Rentals and leases	2,000	—	2,000
Insurance	8,502	8,710	(208)
Repair and maintenance/landscape	542,000	511,073	30,927
Printing and binding	2,800	—	2,800
Other current charges	500	927	(427)
Office supplies	250	700	(450)
Operating supplies	4,000	1,889	2,111
Total expenditures	<u>990,219</u>	<u>940,077</u>	<u>50,142</u>
Excess (deficiency) of revenues over expenditures	<u>(30,022)</u>	<u>50,831</u>	<u>80,853</u>
Other financing sources:			
Transfers	—	98,536	98,536
Total other financing sources	<u>—</u>	<u>98,536</u>	<u>98,536</u>
Net change in fund balances	<u>(30,022)</u>	<u>149,367</u>	<u>179,389</u>
Fund balances, at beginning of year	<u>851,896</u>	<u>851,896</u>	<u>—</u>
Fund balances, at end of year	\$ <u><u>821,874</u></u>	<u><u>1,001,263</u></u>	<u><u>179,389</u></u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2005

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

Village Community Development District No. 3 (the District) was established in 1998 for the purpose of planning, financing, constructing, operating, and maintaining certain community-wide infrastructure for a community development district located entirely within Sumter County, Florida. The Villages of Lake-Sumter, Inc. (the Developer) is the developer and initial owner of property within the District. The District is governed by a five member Board of Supervisors. As of September 30, 2005, two of the five members of the Board of Supervisors were employees or affiliates of the Developer. The District was created by Sumter County Commission Ordinance No. 98-10 pursuant to the provisions of Chapter 190.005 of the *Florida Statutes* and operates within the criteria established by Chapter 190.

The financial statements of the District have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

There are no component units that are legally separate from the District.

(b) Basic Financial Statements

Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the District as a whole) and fund financial statements. The government-wide financial statements (i.e. the statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of internal activity has been removed from these statements.

The financial reporting model focus is on either the District as a whole, or major individual funds. The government-wide statement of net assets reports the governmental activities of the District (a) on a consolidated basis and (b) on a full accrual basis, using the economic resources measurement focus, which incorporates long-term assets and receivables as well as long-term debt and obligations. The statement of activities reflects the expenses of the District, which are offset by program revenues. Program revenues are defined as charges for services, operating grants and contributions, and capital grants and contributions directly associated with a given function.

The District's major funds are presented in separate columns on the fund financial statements. The definition of a major fund is one that meets certain criteria set forth in GASB 34.

Net assets are categorized as invested in capital assets, net of related debt, restricted and unrestricted.

Invested in capital assets, net of related debt is intended to reflect the portion of net assets which are associated with capital assets net of accumulated depreciation less outstanding capital asset related debt. Related debt is the debt less any associated unamortized bond issuance costs.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2005

Restricted net assets are assets that have third party (statutory, bond covenant or granting agency) or enabling legislation limits on their use. The District would typically use restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use thereof to a future project or replacement equipment acquisition.

Unrestricted net assets represent net assets not included in invested in capital assets, net of related debt or restricted net assets.

(c) **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments are recognized as revenues in the year for which they are levied.

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 only recorded when payment is due.

The following are the District's major governmental funds:

General Fund

The general fund is the operating fund of the District and is used to account for all financial resources of the general government except those required to be accounted for in another fund.

Debt Service Fund

The debt service fund is used to account for the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs.

(d) **Budgetary Data**

Legal authority and control are established in accordance with Section 190.008, *Florida Statutes*. Annual budgets, as well as subsequent amendments, are adopted and approved for the general fund by the Board of Supervisors. Budgets are adopted on a basis consistent with GAAP. Budgetary control is established by the District through nonappropriated budgets. These budgets are financial plans approved in the manner authorized by law, but not subject to appropriation.

All budget amounts presented in the statements reflect the original budget and the amended budget if so amended.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2005

(e) Cash Equivalents

The District's cash equivalents are in money market mutual funds which own U.S. Treasury securities. The mutual funds are stated at cost which approximates fair value. Income from investments owned by the individual funds is recorded in the respective funds as earned.

(f) Restricted Assets

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

The resolutions authorizing the special assessment revenue bonds require that the District establish reserve accounts in amounts that equal the Reserve Account Requirements, which are defined in the Bond Trust Indentures.

(g) Capital Assets

Capital assets are reported in the government-wide financial statements. As defined by the District, capital assets are assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The District values and records donated capital assets at the estimated fair value of the item at the date of its donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation of capital assets is computed using the straight-line method and is recorded in general government expenses in the District's statement of activities. Estimated useful lives of the assets are as follows:

Improvements other than buildings	40 years
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(h) Bond Issuance Costs

In the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. In the fund financial statements, bond issuance costs are recorded as expenditures when incurred.

(i) Use of Estimates

The preparation of financial statements requires management of the District to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the period. Actual results could differ from those estimates.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2005

(2) Cash and Cash Equivalents

Deposits with Financial Institutions

At September 30, 2005, the carrying amount and bank balance of the District's demand deposits was \$1,008,272 and \$1,054,694, respectively. The bank balances were covered by federal depository insurance and by deposits held in banks that are members of the State of Florida's Collateral Pool.

Cash Equivalents

The District's cash equivalents, totaling \$1,501,702 at September 30, 2005, consist of an investment in a money market mutual fund with a credit rating of AAAM, and a weighted average maturity of 22 days.

Custodial Credit Risk

As of September 30, 2005, the District's deposits were entirely covered by federal depository insurance or by collateral pledged with the State Treasurer pursuant to Chapter 280, *Florida Statutes*. Under this chapter, in the event of default by a participating financial institution (a qualified public depository), all participating institutions are obligated to reimburse the governmental entity for the loss. This pool is provided as additional insurance to the federal depository insurance and allows for additional assessments against the member institutions, providing full insurance for public deposits. The District had deposits only with qualifying institutions as of September 30, 2005, or with banks in which depository insurance was sufficient to cover the deposit balance.

Credit Risk

The District is authorized to invest in those financial instruments as established by *Florida Statutes* 218.415. The authorized investments consist of:

- The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in section 163.01.
- Securities and Exchange Commission registered money market mutual funds with the highest credit quality rating from a nationally recognized rating agency.
- Interest-bearing time deposits or savings accounts in qualified public depositories as defined in Section 280.02.
- Direct obligations of the United States Treasury.
- Federal agencies and instrumentalities.
- Securities of, or other interests in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et seq., as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof, and to repurchase agreements fully collateralized by such

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2005

United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.

The District's investment policies follow *Florida Statutes* which do not address custodial credit risk or concentration of credit risk.

(3) Capital Assets

Capital asset activity for the year ended September 30, 2005 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Assets not being depreciated:				
Land	\$ 190,000	—	—	190,000
Assets being depreciated:				
Improvements other than buildings	22,008,755	—	—	22,008,755
Less accumulated depreciation for:				
Improvements other than buildings	<u>(1,583,105)</u>	<u>(550,218)</u>	—	<u>(2,133,323)</u>
Total assets being depreciated, net	<u>20,425,650</u>	<u>(550,218)</u>	—	<u>19,875,432</u>
Governmental activities, capital assets	\$ <u><u>20,615,650</u></u>	<u><u>(550,218)</u></u>	—	<u><u>20,065,432</u></u>

(4) Payable to Developer

In November 2002, the District entered into an agreement with the Developer whereby amounts needed to fund construction of District infrastructure were loaned to the District in anticipation of the issuance of the Special Assessment Revenue Bonds. The District agreed to reimburse the Developer for amounts borrowed with, among other sources as noted in the agreement, any available bond proceeds and amounts held by the District in excess of Bond Reserve Amount Requirements, as described in the related bond indentures. As of September 30, 2005, the District owed the Developer \$20,000 under this agreement, which is recorded as a payable to Developer on the District's statement of net assets.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2005

(5) Long-term Debt

Long-term debt consisted of the following at September 30, 2005:

\$12,625,000 Special Assessment Revenue Bonds, Series 1998 principal installments ranging from \$430,000 to \$8,645,000 through May 2019 in accordance with the redemption schedule. Interest is due semi-annually on May 1 and November 1 of each year until redemption or maturity. Interest rates range from 4.0% to 5.0%.	\$ 8,340,000
\$8,725,000 Special Assessment Revenue Bonds, Series 2002 principal installments ranging from \$95,000 to \$640,000 through May 2032 in accordance with the redemption schedule. Interest is due semi-annually on May 1 and November 1 of each year until redemption or maturity. Interest rate is 6.5%.	<u>7,880,000</u>
Total long-term debt	16,220,000
Less current installments of revenue bonds payable	<u>(540,000)</u>
Long-term debt less current installments	\$ <u><u>15,680,000</u></u>

The Special Assessment Revenue Bonds are secured by a lien and pledge of revenues under the indentures, which are derived by the District through levy and collection on land within the District specifically benefited. These bonds are additionally secured by amounts on deposit in the funds and accounts created pursuant to the indentures.

The annual requirements to amortize the principal and interest of all revenue bonds payable as of September 30, 2005 are as follows:

Fiscal year ending September 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 540,000	921,795	1,461,795
2007	570,000	895,725	1,465,725
2008	595,000	867,900	1,462,900
2009	625,000	838,625	1,463,625
2010	660,000	805,350	1,465,350
2011 - 2015	3,885,000	3,457,625	7,342,625
2016 - 2020	4,185,000	2,304,125	6,489,125
2021 - 2025	1,680,000	1,472,250	3,152,250
2026 - 2030	2,320,000	848,900	3,168,900
2031 - 2032	<u>1,160,000</u>	<u>114,400</u>	<u>1,274,400</u>
Total	\$ <u><u>16,220,000</u></u>	<u><u>12,526,695</u></u>	<u><u>28,746,695</u></u>

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2005

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended September 30, 2005:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
Bonds payable	\$ 17,725,000	—	1,505,000	16,220,000	540,000
Governmental activities long-term debt	\$ 17,725,000	—	1,505,000	16,220,000	540,000

(6) Transfers

During the year ended September 30, 2005, the District made a one-time transfer of \$98,536 from the debt service fund to the general fund to recognize the release from bond related restrictions of these amounts.

(7) Interlocal Agreements

The District has no employees. For certain management, finance, and administrative services, the District entered into an interlocal agreement with Village Center Community Development District (Center), a community development district created under Florida Statute 190. Under the agreement, fees accrued to Center by the District for such services totaled \$122,854 for the year ended September 30, 2005.

(8) 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 for which the District carries commercial insurance.



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Independent Auditors' 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*

The Board of Supervisors
Village Community Development District No. 3:

We have audited the financial statements of the governmental activities and each major fund of Village Community Development District No. 3 (the District) as of and for the year ended September 30, 2005, which collectively comprise the District's basic financial statements, have issued our report thereon dated January 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



This report is intended solely for the information and use of the Board of Supervisors, management, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 20, 2006
Certified Public Accountants



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Management Letter

The Board of Supervisors
Village Community Development District No. 3:

We have audited the financial statements of the governmental activities and each major fund of Village Community Development District No. 3 (the District) as of and for the year ended September 30, 2005, and have issued our report thereon dated January 20, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have also issued our report dated January 20, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. Disclosures in that report, if any, 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 governmental audits performed in the State of Florida and require that certain items be addressed in this letter. The *Rules of the Auditor General* Section 10.554(1)(h)(1) require that, unless otherwise required to be reported in the auditors' report on internal control over financial reporting and compliance and other matters, a management letter shall include a statement as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations made in the preceding annual financial audit report.

The Rules of the Auditor General Section 10.554(1)(h)(2) require that we determine whether or not the District complied with Section 218.415, *Florida Statutes*, regarding the investment of public funds. At September 30, 2005, the District was in compliance with Section 218.415, *Florida Statutes* as it relates to the investment of public funds.

The Rules of the Auditor General, Section 10.554(1)(h)(3) require that we report any recommendations to improve the District's financial management, accounting procedures, and internal controls. There were no recommendations to improve the District's financial management, accounting procedures, and internal controls.

The Rules of the Auditor General, Section 10.554(1)(h)(4) state that, if not already reported in the auditors' report on internal control over financial reporting and compliance and other matters, the management letter shall include, unless clearly inconsequential, the following:

- (a) Violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and were discovered within the scope of the audit.



- (b) Improper or illegal expenditures discovered within the scope of the audit that may not materially affect the financial statements.
- (c) Deficiencies in internal control that are not reportable conditions, including, but not limited to:
 - (1) Improper or inadequate accounting procedures (i.e., the omission of required disclosures from the annual financial statements).
 - (2) Failures to properly record financial transactions.
 - (3) Other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

The results of our audit disclosed no violations of laws, rules, regulations or contractual provisions or abuse, no improper or illegal expenditures, or other deficiencies in internal control.

The *Rules of the Auditor General* Section 10.554(1)(h)(5) also require that we report on the District's name or official title and legal authority. The disclosure of this information is included in the notes to the financial statements.

As required by the *Rules of Auditor General* Section 10.554(1)(h)(6)(a), the scope of our audit included a review of the provisions of Section 218.503(1), *Florida Statutes*, regarding financial emergencies. In connection with our audit, we determined that the District is not in a state of financial emergency as a consequence of the conditions described in Section 218.503(1), *Florida Statutes*.

As required by the *Rules of the Auditor General* Section 10.554(1)(h)(6)(b), we determined that the annual financial report for the District for the fiscal year ended September 30, 2005, to be filed with the Florida Department of Financial Services pursuant to Section 218.32, *Florida Statutes*, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2005.

As required by the *Rules of the Auditor General* Sections 10.554(h)(6)(c) and 10.556(7), 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.

* * * * *

This management letter is intended solely for the information and use of the Board of Supervisors, management, and the Auditor General of the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 20, 2006