



Village Community Development District No. 7

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO.7

BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

(With Independent Auditors' Report Thereon)

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Basic Financial Statements

September 30, 2006

(With Independent Auditors' Report Thereon)

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

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INDEPENDENT AUDITORS' REPORT

Board of Supervisors
Village Community Development District No. 7
The Villages, Florida

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Village Community Development District No. 7 (the District), as of and for the year ended September 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2006, and the respective changes in financial position thereof and the budgetary comparison of the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2007, 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 read in conjunction with this report in considering the results of our audit.

Certified Public Accountants

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Board of Supervisors
Villages Community Development District No. 7
The Villages, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

The management's discussion and analysis, as listed in the accompanying contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

January 26, 2007
Ocala, Florida

Hurvis, Day and Company, LLP

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7
Management's Discussion and Analysis
(UNAUDITED)
September 30, 2006

The Village Community Development District No. 7 (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 year ended September 30, 2006 was the District's second year of operations.
- The assets of the District exceeded its liabilities at September 30, 2006 by \$87.8 million.
- The District issued \$89.6 million in Special Assessment Revenue Bonds in January 2006. This was recorded as assessment receivables and revenue in the governmental activities.

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 8) and **the Statement of Activities** (page 9) 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 10. 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 11 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. The 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. 7

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2006

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 the 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, the Debt Services Fund, and the Capital Projects 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 15.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7
Management's Discussion and Analysis
(UNAUDITED)
September 30, 2006

The District as a Whole

The District's net assets as of September 30, 2006 and 2005 were \$87.8 million and \$1,172, respectively, representing an increase of \$87.8 million. The District's revenues for the years ended September 30, 2006 and 2005, including assessments and investment earnings, were \$92.3 million and \$.5 million, respectively, representing an increase of \$91.9 million. Total expenses were \$4.5 million and \$.5 million for 2006 and 2005 respectively representing an increase of \$4 million. Table 1 reflects the summary statement of net assets for the current and prior year.

Table 1
Net Assets

	Governmental Activities	
	September 30, 2006	September 30, 2005
Assets:		
Current and other assets	\$ 55,806,111	92,214
Assessments Receivable	89,538,448	-
Capital assets	34,055,481	4,711,695
Total assets	<u>179,400,040</u>	<u>4,803,909</u>
Liabilities:		
Current and other liabilities	2,008,535	4,802,737
Long Term Liabilities	89,570,000	-
Total liabilities	<u>91,578,535</u>	<u>4,802,737</u>
Net assets		
Invested in capital assets, net of related debt	(2,359,304)	-
Restricted for Debt Service	90,162,786	-
Unrestricted	18,023	1,172
Total net assets	<u>\$ 87,821,505</u>	<u>1,172</u>

The majority of the District's net assets relate to amounts restricted for debt service. The District's net assets also relate to 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.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7
Management's Discussion and Analysis
(UNAUDITED)
September 30, 2006

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

Table 2
Changes in Net Assets

	Governmental Activities	
	September 30, 2006	September 30, 2005
Revenues:		
Special assessments	\$ 90,663,602	452,410
Investment income	1,653,296	495
Total revenues	92,316,898	452,905
Expenses:		
General government	1,113,121	451,733
Interest on long-term debt	3,383,444	—
Total expenses	4,496,565	451,733
Increase in net assets	\$ 87,820,333	1,172

Revenues

Revenues include assessments on District landowners for maintenance and debt service. At September 30, 2006, the Developer was the landowner for assessments. Since bonds were issued during the year, the entire bond amount is classified as assessment revenue. The revenues are further broken down as follows:

Debt assessments:	\$ 89,570,000
Maintenance assessments:	1,093,602
	90,663,602
Total	\$ 90,663,602

Expenses

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

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7
Management's Discussion and Analysis
(UNAUDITED)
September 30, 2006

Capital Assets

The District's capital assets (Construction in Progress) at September 30, 2006 and 2005 amount to \$34,055,480 and \$4,711,695, respectively. Additional information regarding the District's capital assets can be found in Note 3 to the financial statements.

Long-term Debt

At September 30, 2006, the District had long-term debt outstanding of \$89,570,000. All of the debt is special assessment debt and is secured solely by revenue sources. At September 30, 2005, the District did not have long-term debt outstanding as these bonds were issued in January 2006. 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 Sumter Landing Community Development District's Chief Financial Officer at 3231 Wedgewood Lane, Suite A, The Villages, FL 32162, telephone (352) 751-3905.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Statement of Net Assets

September 30, 2006

	Assets	Governmental Activities
Cash and Investments		\$ 54,490,140
Assessments receivable		89,538,448
Unamortized bond issuance costs		1,315,971
Capital assets – construction in progress		<u>34,055,481</u>
Total assets		<u>179,400,040</u>
	Liabilities	
Accounts payable		2,540
Accrued interest		2,005,995
Long-term debt:		
Due within one year		1,230,000
Due in more than one year		<u>88,340,000</u>
Total liabilities		<u>91,578,535</u>
	Net Assets (Deficit)	
Invested in capital assets, net of related debt		(2,359,304)
Restricted for debt service		90,162,786
Unrestricted		<u>18,023</u>
Total net assets		<u>\$ 87,821,505</u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Statement of Activities

Year ended, September 30, 2006

Functions/Programs	Expenses	Program revenues		Net (expense) revenue and changes in net assets	
		Charges for services	Operating contributions	Governmental activities	Total
Governmental activities:					
General government	\$ 1,113,121	90,663,602	—	89,550,481	89,550,481
Interest on long-term debt	3,383,444	—	—	(3,383,444)	(3,383,444)
Total governmental activities	4,496,565	90,663,602	—	86,167,037	86,167,037
Total primary government	4,496,565	90,663,602	—	86,167,037	86,167,037
General revenues:					
Investment earnings				1,653,296	1,653,296
Total general revenues				1,653,296	1,653,296
Change in net assets				87,820,333	87,820,333
Net assets – beginning				1,172	1,172
Net assets – ending				\$ 87,821,505	\$ 87,821,505

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Balance Sheet – Governmental Funds

September 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Assets:				
Cash and investments	\$ 20,563	5,734,181	48,735,396	54,490,140
Assessment receivables	—	89,538,448	—	89,538,448
Total assets	20,563	95,272,629	48,735,396	144,028,588
Liabilities:				
Accounts payable	2,540	—	—	2,540
Deferred assessment revenue	—	89,538,448	—	89,538,448
Total liabilities	2,540	89,538,448	—	89,540,988
Fund balances:				
Reserved:				
Debt service	—	5,734,181	—	5,734,181
Capital improvements	—	—	48,735,396	48,735,396
Unreserved	18,023	—	—	18,023
Total fund balances	18,023	5,734,181	48,735,396	54,487,600
Total liabilities and fund balances	\$ 20,563	95,272,629	48,735,396	144,028,588

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

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

Year ended September 30, 2006

Total fund balances, governmental funds		\$	54,487,600
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:			
Construction in progress			34,055,481
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Special assessment revenue bonds	(89,570,000)		
Accrued interest	<u>(2,005,995)</u>	(91,575,995)	
Deferred revenue reported in the funds is added to the beginning balance of net assets restricted for debt service to reflect the revenue as recorded when the total assessment is levied.			89,538,448
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>1,315,971</u>
Net assets of governmental activities		\$	<u><u>87,821,505</u></u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

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

Year ended September 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues:				
Special Assessments	\$ 1,093,602	31,552	—	1,125,154
Interest income	3,101	198,717	1,451,478	1,653,296
Total revenues	<u>1,096,703</u>	<u>230,269</u>	<u>1,451,478</u>	<u>2,778,450</u>
Expenditures:				
Current – general government	1,079,852	—		1,079,852
Capital outlay	—	—	29,343,786	29,343,786
Debt service:				
Interest	—	1,377,449	—	1,377,449
Other debt costs	—	1,349,240	—	1,349,240
Total expenditures	<u>1,079,852</u>	<u>2,726,689</u>	<u>29,343,786</u>	<u>33,150,327</u>
Excess (deficiency) of revenues over expenditures	<u>16,851</u>	<u>(2,496,420)</u>	<u>(27,892,308)</u>	<u>(30,371,877)</u>
Other financing sources (uses):				
Payment on loan from developer	—	—	(4,711,695)	(4,711,695)
Debt Proceeds	—	8,230,601	81,339,399	89,570,000
Total other financing sources	<u>—</u>	<u>8,230,601</u>	<u>76,627,704</u>	<u>84,858,305</u>
Net change in fund balances	<u>16,851</u>	<u>5,734,181</u>	<u>48,735,396</u>	<u>54,486,428</u>
Fund balances, at beginning of year	1,172	—	—	1,172
Fund balances, at end of year	\$ <u>18,023</u>	<u>5,734,181</u>	<u>48,735,396</u>	<u>54,487,600</u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

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

Year ended September 30, 2006

Net change in fund balances – total governmental funds	\$ 54,486,428
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 by which capital outlay exceeded depreciation expense.	29,343,786
Bond and loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which the reduction in long-term debt exceeded the proceeds.	4,711,695
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: Change in accrued interest	(2,005,995)
Governmental funds report special assessment debt service as revenue when collected, however in the statement of activities the revenue is recorded when the total assessment is levied. This is the amount of prepaid assessments included in revenue in the governmental funds.	(31,552)
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 by which bond issuance costs exceeded amortization expense in the current period.	1,315,971
Change in net assets of governmental activities	\$ <u><u>87,820,333</u></u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

General Fund

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

Year ended September 30, 2006

	Budgeted Amounts		Actual amounts	Variance with final budget
	Original	Final		
Revenues:				
Assessments	\$ 1,248,846	1,093,602	1,093,602	—
Interest Income	—	1,500	3,101	1,601
Total revenues	<u>1,248,846</u>	<u>1,095,102</u>	<u>1,096,703</u>	<u>1,601</u>
Expenditures:				
General government:				
Professional services	103,370	95,870	91,421	4,449
Accounting & auditing	10,000	4,000	5,170	(1,170)
Communication & Freight	—	—	35	(35)
Utility services	90,000	20,000	8,159	11,841
Insurance	8,176	—	—	—
Repairs and maintenance/landscape	983,350	972,982	972,984	(2)
Printing and binding	500	100	—	100
Professional dues	200	200	175	25
Other current charges	250	1,250	1,263	(13)
Office supplies	500	200	645	(445)
Operating supplies	2,500	500	—	500
Contingency	50,000	—	—	—
Total expenditures	<u>1,248,846</u>	<u>1,095,102</u>	<u>1,079,852</u>	<u>15,250</u>
Net change in fund balances	—	—	16,851	16,851
Fund balances, at beginning of year	—	—	1,172	1,172
Fund balances, at end of year	<u>\$ —</u>	<u>—</u>	<u>18,023</u>	<u>18,023</u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Notes to Financial Statements

September 30, 2006

(I) Summary of Significant Accounting Policies

(a) Reporting Entity

The Village Community Development District No.7 (the District) was established October 1, 2004 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 District was created by Sumter County Ordinance No. 04-35 pursuant to the provisions of Chapter 190.005 of the Florida Statutes and operates within the criteria established by Chapter 190.

The District is governed by a five member Board of Supervisors. At September 30, 2006, each member of the Board of Supervisors is an employee of or affiliated with the Developer.

The District boundary consists of approximately 976 acres in the northeast corner of the county. The development includes construction of 4,745 residential units. The land within the District is part of the active adult retirement community known as "The Villages". The Villages consists of approximately 20,256 acres spanning the borders of Lake, Sumter and Marion Counties and the Town of Lady Lake, Florida, and when fully developed is expected to include 55,960 residences and approximately 100,000 residents. The Villages of Lake-Sumter, Inc. (the Developer) is the developer and initial owner of the property within the District. The Villages is being developed by the Developer, a family-owned business established for the single purpose of developing The Villages.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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. There are however twelve Community Development Districts (CDD) in the total makeup of The Villages.

The Developer has formed the following community development districts:

- Village Center CDD – This CDD provides water and sewer utility services, recreation and security services, and fire protection and paramedic services to the residents. The cost of operations is funded by amenity and utility fees that residents pay monthly. This CDD also provides for the maintenance of common areas and roadways for the commercial areas within the CDD boundaries. The cost of maintenance is funded through commercial maintenance assessments.
- Sumter Landing CDD – This CDD provides recreation and security services to the residents. The cost of operations is funded by amenity fees that residents pay monthly. This CDD also provides for the maintenance of common areas and roadways for the commercial areas within the CDD boundaries. The cost of maintenance is funded through maintenance assessments.
- Village CDD No. 1 (Sumter County) – This CDD's boundary consists of approximately 998 acres in the northeast corner of the county. The development includes construction of 3,427 residential units.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Notes to Financial Statements

September 30, 2006

(1) Summary of Significant Accounting Policies (continued)

(a) Reporting Entity (continued)

- Village CDD No. 2 (Sumter County) – This CDD’s boundary consists of approximately 990 acres in the northeast corner of the county. The development includes construction of 3,672 residential units.
- Village CDD No. 3 (Sumter County) – This CDD’s boundary consists of approximately 894 acres in the northeast corner of the county. The development includes construction of 3,765 residential units.
- Village CDD No. 4 (Marion County) – This CDD’s boundary consists of approximately 1,187 acres in the northeast corner of the county. The development includes construction of 5,141 residential units.
- Village CDD No. 5 (Sumter County) – This CDD’s boundary consists of approximately 1,407 acres in the northeast corner of the county. The development includes construction of 6,399 residential units.
- Village CDD No. 6 (Sumter County) – This CDD’s boundary consists of approximately 1,008 acres in the northeast corner of the county. Planned development includes construction of 4,621 residential units.
- Village CDD No. 7 (Sumter County) – This CDD’s boundary consists of approximately 976 acres in the northeast corner of the county. Planned development includes construction of 4,745 residential units.
- Village CDD No. 8 (Sumter County) – This CDD has been formed, but is not being developed as of September 30, 2006.
- Village CDD No. 9 (Sumter County) – This CDD has been formed, but is not being developed as of September 30, 2006.
- Village CDD No. 10 (Sumter County) – This CDD has been formed, but is not being developed as of September 30, 2006.

Certain of these community development districts have issued special assessment revenue bonds to finance various infrastructure improvements in their respective boundaries that are secured by special assessments levied on benefited lands in each district. It is anticipated that additional infrastructure improvements within The Villages will be undertaken by these community development districts and/or community development districts that will be created in the future, for which special assessments may be imposed on residences in The Villages and lands owned by the Developer.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Notes to Financial Statements

September 30, 2006

(1) Summary of Significant Accounting Policies (continued)

(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 government-wide 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 a given function or segment, 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.

Program revenues in the Statement of Activities consist primarily of special assessments for the government activity.

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 issuance costs.

Restricted net assets are assets (generated from revenues) 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.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7
Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies (continued)

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

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.

Capital Projects Fund

The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities or community-wide infrastructure.

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 budgetary authority and control are established in accordance with Section 190.008, *Florida Statutes*. Annual budgets, as well as subsequent amendments, are adopted for the general fund and approved 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.

(e) Cash Equivalents and Investments

The District considers the following highly liquid investments (including restricted assets) to be cash equivalents:

- Money Market Mutual Funds
- Repurchase Agreements

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Notes to Financial Statements

September 30, 2006

(1) Summary of Significant Accounting Policies (continued)

(e) Cash Equivalents and Investments (continued)

The money market mutual funds and repurchase agreements are stated at cost which approximates fair value. The District also holds government agency securities that are stated at fair value. Income from investments owned by the individual funds is recorded in the respective funds as earned.

(f) 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.

At September 30, 2006, the District's capital assets consisted entirely of construction in progress. As such, there was no depreciation expense for the year ended September 30, 2006.

(g) Bond Issuance Costs

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

(h) Assessments

Bond Assessments

The bond debt is repaid from the proceeds of an assessment levied by the District's Board of Supervisors. The levy is in the form of a non-ad valorem special assessment that will have a lien against properties within the boundary of the District that receive special benefits from the infrastructure improvements financed by the bonds. These assessments may be prepaid in total or annually as non-ad valorem special assessments. The bond assessment revenue and the debt service activity is accounted for in the Debt Service Fund.

Maintenance Assessments

In addition to the assessment for the repayment of bond obligations, the District has levied an assessment for the maintenance of the infrastructure and the operations of the District. This assessment is derived from the general fund's annual budget. The maintenance assessment revenue is classified as general revenue.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Notes to Financial Statements

September 30, 2006

(1) Summary of Significant Accounting Policies (continued)

(h) Assessments (continued)

Assessment Methodology

The assessment methodology consists of five steps. First, the District engineer determines the costs for all District improvements needed. Second, the assessable acres that benefit from the District's infrastructure improvements are determined. Third, the District Financial Advisor and Underwriter estimate total funding needed to acquire and/or construct the infrastructure improvements. Fourth, this amount is divided equally among the benefited properties on a net assessable acreage basis. Finally, as land is platted, the debt on each assessable acre is allocated to each residential unit. This methodology is applied to both the bond and the maintenance assessments.

Billing / Collection of Assessments

The District has entered into an agreement with the tax collector of the respective county. The assessments are placed on the county property tax bill as a non-ad valorem assessment. It is collected by the county under the uniform tax collection process and then remitted to the District.

(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.

(j) Income Taxes

The District is created as a special purpose government under Florida Statutes Chapter 190 and therefore is exempt from federal and state income tax.

(2) Investments

<u>Investment Type</u>	<u>Fair Value at 9/30/2006</u>	<u>Weighted Average Maturity Days</u>	<u>Credit Rating</u>
Repurchase Agreements	20,463	overnight	n/a
Money Market Mutual Funds	48,793,754	23	AAAm
Government Agency-FHLM	5,675,823	30	AAA/aaa

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7
Notes to Financial Statements
September 30, 2006

(2) Investments (continued)

Custodial Credit Risk

All cash and investments, other than demand deposit accounts, are held in the name of a custodian or a Trustee for the District. The repurchase agreement is an obligation of Citizen's First Bank. The securities pledged as collateral are held by a safekeeping agent. In the event of insolvency of the bank the District may become an unsecured creditor to the extent the market value of the federal agency security falls below the amount invested during the tenure of the repurchase agreement.

Interest Rate Risk

The short term liquidity of the cash equivalents and investments minimizes the impact that interest rate risk may have on the District.

Concentration of Credit Risk

Type of Investment:	Issuer:	% of Total Investments
Government Agency-FHLM	US Bank	10.42%

Investment Policy

The District is authorized to invest in those financial instruments as established by Florida Statute 218.415 (17) and the Master Bond Trust Indenture for accounts held at Trustee banks. 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.

The Districts' investment policies follow *Florida Statutes 218.45 (17)* and master bond trust indenture which do not address custodial credit risk or concentration of credit risk.

Although not addressed in an investment policy, the Districts' governing board approved by resolution the investment of District funds in overnight repurchase agreements. The District is in the process of adopting a comprehensive investment policy.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Notes to Financial Statements

September 30, 2006

(3) Capital Assets

Capital asset activity for the year ended September 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Assets not being depreciated:				
Construction in progress	\$ 4,711,695	29,343,786	-	\$ 34,055,481
Governmental activities, capital assets	\$ 4,711,695	29,343,786	-	\$ 34,055,481

(4) Long Term Debt

Long-term debt consisted of the following at September 30, 2006:

\$89,570,000 Special Assessment Revenue Bonds, Series 2006, annual principal installments ranging from \$1,230,000 to \$5,855,000 through May of 2036 in accordance with the redemption schedule.

Interest is due semi-annually on May 1 and November 1 of each year until maturity. Interest rate is 5.38%.

	\$ 89,570,000
Less current installment of bonds payable	<u>1,230,000</u>
Revenue bonds payable less current installments	<u>\$ 88,340,000</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, 2006 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30:			
2007	\$ 1,230,000	4,814,388	6,044,388
2008	1,300,000	4,748,275	6,048,275
2009	1,370,000	4,678,400	6,048,400
2010	1,445,000	4,604,763	6,049,763
2011-2015	8,525,000	21,768,750	30,293,750
2016-2020	11,160,000	19,208,638	30,368,638
2021-2025	14,595,000	15,860,013	30,455,013
2026-2030	19,100,000	11,479,656	30,579,656
2031-2036	30,845,000	6,062,463	36,907,463
	\$ <u>89,570,000</u>	<u>93,225,344</u>	<u>182,795,344</u>

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Notes to Financial Statements

September 30, 2006

(4) Long Term Debt (continued)

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended September 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Governmental activities:					
Bonds payable	\$ -	89,570,000	-	89,570,000	1,230,000
Governmental activities long-term debt	\$ -	89,570,000	-	89,570,000	1,230,000

(5) Related Parties

The District has no employees. For certain management, finance, and administrative services, the District entered into an inter-local agreement with Sumter Landing Community Development District (SLCDD) and Village Center Community Development District (VCCDD). Both are community development districts created under Florida Statute 190. Under the agreement, fees paid to SLCDD and VCCDD by the District for such services totaled \$75,912 and \$13,464, respectively for the year ended September 30, 2006.

The Developer provides to SLCDD at no cost information system support, including software, hardware, computer programming and internal mail room operations. The SLCDD then passes on this benefit to the District.

Engineering services were provided to the District by the Developer, some of which were for no charge.

Substantially all capital costs for infrastructure were acquired from the developer or paid on contracts that were assigned to the District by the developer using bond proceeds in either current or previous years.

At September 30, 2006, the construction fund balance is \$48,735,396 which is expected to be paid out to the Developer for acquired infrastructure assets.

The five members of the Board of Supervisors for the District at September 30, 2006 are either employees or affiliates of the Developer.

Project Wide Agreement

Village Community Development District No. 7, as well as Village Community Development Districts No. 6 & 8, has joined in a Project Wide Agreement between Village Community Development District No. 5 and Sumter Landing Community Development District. The Districts pay their share of areas that are classified as project wide and benefit the area South of CR 466. The shares are calculated by dividing a District's assessable acreage into the total assessable acreage South of CR 466.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Notes to Financial Statements

September 30, 2006

(5) Related Parties (continued)

Interim Funding Agreement

The District has entered into an interim funding agreement with The Villages of Lake-Sumter, Inc. The Developer begins construction prior to bonds being issued and has agreed to fund as is necessary to commence or continue construction of the work. The District gives the Developer certain assurances of its intent to purchase the Project and repay the Developer from all permissible sources. At September 30, 2006, the Developer has been reimbursed \$ 34,055,481 for costs to date.

(6) Risk Management

The District is exposed to various risks of loss related to torts, theft, damage, and destruction of assets; errors and omissions; and natural disasters for which the District generally carries insurance for these risks. However, the District retains risks for certain property coverage and for any losses in excess of coverage limits. There have been no claims in excess of coverage limits for the past two years.

**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***

Board of Supervisors
Village Community Development District No. 7
The Villages, Florida

We have audited the financial statements of the governmental activities and each major fund of Village Community Development District No. 7 (the District), as of and for the year ended September 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 26, 2007. 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 assurance 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 over financial reporting 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. However, we noted other matters involving the internal control over financial reporting that we have communicated to the Board of Supervisors in a separate letter dated January 26, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic 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 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. It is not intended to be used, and should not be used by anyone other than these specified parties.

January 26, 2007
Ocala, Florida

Purvis, Gray and Company, LLP

Certified Public Accountants

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MANAGEMENT LETTER

Board of Supervisors
Village Community Development District No. 7
The Villages, Florida

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Village Community Development District No. 7 (the District), as of and for the fiscal year ended September 30, 2006, and have issued our report thereon dated January 26, 2007.

We have issued our independent auditors' report on compliance and on internal control over financial reporting dated January 26, 2007. Disclosures in this report, if any, should be considered in conjunction with this management letter.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The *Rules of the Auditor General* [Section 10.554(1)(h)1.] require that we comment as to whether or not corrective action has been taken to address significant findings and recommendations made in the preceding annual financial audit report (see attached management letter comments).

The *Rules of the Auditor General* [Section 10.554(1)(h)2.] require that we determine whether the District complied with Section 218.415, Florida Statutes, regarding investment of public funds (see attached management letter comments).

The *Rules of the Auditor General* [Sections 10.554(1)(h)3.] require us to provide any recommendations to improve the District's financial management, accounting procedures and internal controls (see attached management letter comments).

The *Rules of the Auditor General* [Sections 10.554(1)(h)4.] require disclosure in the management letter of the following matters if not clearly inconsequential, and if not already addressed in the auditors' report on compliance and internal control: 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; improper or illegal expenditures discovered within the scope of the audit that may not materially affect the financial statements; deficiencies in internal control, including but not limited to: improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); failures to properly record financial transactions; and other inaccuracies, shortages, and defalcations and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit disclosed no matters required to be disclosed by *Rules of the Auditor General* [Sections 10.554(1)(h)4.].

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Board of Supervisors
Village Community Development District No. 7
The Villages, Florida

MANAGEMENT LETTER
(Concluded)

The *Rules of the Auditor General* [Section 10.554(1)(h)5.] also require that the name or official title and legal authority for the government be disclosed in the management letter, unless disclosed in the notes to the financial statements. See note 1 of the September 30, 2006, Village Community Development District No. 7 basic financial statements for this information.

As required by the *Rules of the 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)(a), Florida Statutes, "Determination of Financial Emergency." In connection with our audit, we determined that the District did not meet one or more of the financial emergency criteria 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 financial report for the District for the fiscal year ended September 30, 2006, filed with the 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, 2006.

As required by the *Rules of the Auditor General* [Section 10.554(1)(h)6.(c)], we applied financial condition assessment procedures pursuant to Rule 10.556(8). There were no findings of deteriorating financial condition, which were required to be reported.

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.

We wish to take this opportunity to thank you and your staff for the cooperation and courtesies extended to us during the course of our audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or other matters.

January 26, 2007
Ocala, Florida

Survie, Gray and Company, LLP

MANAGEMENT LETTER COMMENTS

Board of Supervisors
Village Community Development District No. 7
The Villages, Florida

During the course of our audit, the following items came to our attention involving primarily operational matters, which if improved, will result in more efficient and effective operations:

Status of Prior Year Comments and Recommendations

All prior year comments and recommendations have been addressed.

Current Year Recommendations

Purchase of Road and Street Infrastructure from Developer

During the construction phase of Village Community Development District No. 7 (the District), Special Assessment Bonds are issued to provide funding for the purchase of infrastructure such as roads and streets, drainage, site grading and other related items from the Developer, who has previously contracted for the work to be performed. The bond proceeds are held by a Trustee Bank and disbursed upon presentation of paid construction invoices by the Developer. We believe it would benefit the District to work with the Developer in the contractor selection phase of each project through a joint bidding process whereby the contractors are hired under the District's purchasing policies. This would provide the District with more control over the process, ensure the best value is procured and allow the District to unitize the infrastructure costs.

Investment Policy

Section 218.415 of the Florida Statutes requires that all local governments develop a comprehensive 15-point investment policy unless the local government chooses to limit its investments to certain safe harbor items defined in the Statute. The Statute also recognizes the authority of bond indentures that may dictate investment guidelines for bond funds. The District did not have the required investment policies but entered into overnight repurchase agreements with the local bank for the investment of surplus funds. Our reading of the Statute indicates that repurchase agreements are not included among the safe harbor investments and require adoption of the comprehensive investment policy. Although the District did not have an approved investment policy prior to September 30, 2006, it has subsequently begun development of policies to come into compliance with the State Statute. We recommend that the District continue its efforts to develop a comprehensive investment policy.

Capital Asset Renewal and Replacement

The District has a very large investment in infrastructure that is all debt financed and likely to require significant ongoing renewal and replacements over time as these assets age. Accordingly, we recommend that the District continue its existing efforts to develop a comprehensive capital improvement plan that would identify the timetable and funding source for all significant items likely to require renewal or replacement.

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Board of Supervisors
Village Community Development District No. 7
The Villages, Florida

MANAGEMENT LETTER COMMENTS
(Concluded)

Current Year Recommendations *(Concluded)*

Capital Asset Renewal and Replacement *(Concluded)*

The District should also review policies and procedures in effect to ensure that all significant items of tangible personal property are inventoried annually and that capital asset retirements are communicated and recorded in the accounting records.

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

We would like to take this opportunity to express our appreciation for the courtesies that have been extended to our staff. If you have any questions or comments about the contents of this letter, please do not hesitate to contact us.

January 26, 2007
Ocala, Florida

Survis, Gray and Company, LLP

Board of Supervisors
Village Community Development District No. 7
The Villages, Florida

Response to Management Letter Comments

- **Purchase of Road and Street Infrastructure From Developer**
Management agrees and will implement recommendations.

- **Investment Policy**
All Districts are adopting an Investment Policy. The Policy requires an annual review by the Board of Supervisors.

- **Capital Asset Renewal and Replacement**
Management agrees and will begin implementation of procedures to comply with the recommendations.