



SUMTER LANDING COMMUNITY DEVELOPMENT
DISTRICT

BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

(With Independent Auditors' Report Thereon)

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Basic Financial Statements

September 30, 2006

(With Independent Auditors' Report Thereon)

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

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INDEPENDENT AUDITORS' REPORT

Board of Supervisors
Sumter Landing Community Development District
The Villages, Florida

We have audited the accompanying basic financial statements of the governmental activities, business-type activities and each major fund of Sumter Landing Community Development District (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, business-type activities and each major fund of the District as of September 30, 2006, and the respective changes in financial position, budgetary comparison of the general fund, and cash flows, where applicable, thereof 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
Sumter Landing Community Development District
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

Purvis, Gray and Company, LLP

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
Management Discussion and Analysis
(UNAUDITED)
September 30, 2006

The Sumter Landing Community Development District (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, 2006 by \$ 42.1 million.
- The District's debt for business activities increased by \$65.2 million during the fiscal year, due to issuance of Recreation Revenue Bonds.
- The District's debt for governmental activities decreased by \$33.4 million, due to the payoff of the Special Assessment bonds on total.

Using this Annual Report:

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two 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 deteriorating.

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

Both of the government-wide financial statements distinguish functions of the District that are principally supported by assessments (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through fees and charges (business-type activities). The governmental activities of the District relate to its general government functions. The business-type activities (proprietary funds) of the District include the operation of recreational and other amenities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the District can be divided into two categories: governmental funds and proprietary funds.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
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The District's three governmental funds, the general fund, the debt service fund and the capital projects fund are used to account for the same functions as reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The District adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The District maintains one proprietary fund, the Sumter Landing Amenity Division (SLAD). Proprietary funds provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail.

Notes to Basic 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 19.

The District as a Whole

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$42.1 million at September 30, 2006, representing a decrease of \$1.8 million from the net assets (as restated) of approximately \$43.9 million at September 30, 2005. The decrease in net assets for September 30, 2006 is due mainly to redemption of bonds amounting to \$33.3 million during the year ended September 30, 2006.

The District's net assets are categorized as follows at September 30, 2006:

Invested in capital assets, net of related debt. This portion of the District's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its residents; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves will not be used to liquidate these liabilities.

Restricted net assets. An additional portion of the District's net assets represents resources that are subject to external restrictions on how they may be used.

Unrestricted net assets. The remaining balance of the District's net assets may be used to meet the District's ongoing obligations to residents and creditors.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
Management Discussion and Analysis
(UNAUDITED)
September 30, 2006

Table 1 reflects the summary statement of net assets for the current and prior years.

Table 1
Summary Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	September 30		September 30		September 30	
	2006	2005 (as restated)	2006	2005	2006	2005 (as restated)
Assets:						
Current and other assets	\$ 244,131	2,822,350	6,842,476	454,516	7,086,607	3,276,866
Assessments receivable	—	33,390,000	—	—	—	33,390,000
Bond issuance costs (net of accumulated amortization)	—	546,240	2,948,514	—	2,948,514	546,240
Capital assets, net of accumulated depreciation	40,417,417	41,474,082	40,514,021	104,755	80,931,438	41,578,837
Intangible assets, net of accumulated amortization	—	—	19,434,044	—	19,434,044	—
Total assets	40,661,548	78,232,672	69,739,055	559,271	110,400,603	78,791,943
Liabilities:						
Current and other liabilities	30,398	979,799	2,440,822	681,833	2,471,220	1,661,632
Long-term liabilities	—	33,278,252	65,827,472	—	65,827,472	33,278,252
Total liabilities	30,398	34,258,051	68,268,294	681,833	68,298,692	34,939,884
Net assets (deficit):						
Invested in capital assets, net of related debt	40,417,417	8,742,070	(1,737,016)	104,755	38,680,401	8,846,825
Restricted for debt service	40	35,190,736	653,752	—	653,792	35,190,736
Unrestricted	213,693	41,815	2,554,024	(227,317)	2,767,717	(185,502)
Total net assets	\$ 40,631,150	43,974,621	1,470,761	(122,562)	42,101,910	43,852,059

Governmental Activities

Governmental activities decreased the District's net assets by approximately \$3.3 million during the year ended September 30, 2006.

Key elements of this increase are as follows:

- Long-term debt of approximately \$33 million was paid off during the year.
- Bond issuance costs were written off.

For the most part, increases in revenues and expenses closely paralleled the growth in demand for services as the number of homeowners in areas served by the District continued to increase.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
Management Discussion and Analysis
(UNAUDITED)
September 30, 2006

Business-type Activities

Business-type activities increased the District's net assets by approximately \$1.6 million during the year ended September 30, 2006. The District's business-type activities consist of amenities services provided to District residents.

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

Table 2
Changes in Net Assets (Deficit)

	Governmental Activities		Business-type Activities		Total	
	September 30		September 30		September 30	
	2006	2005	2006	2005	2006	2005
Operating revenues:						
Charges for services	\$ —	—	15,508,960	4,529,880	15,508,960	4,529,880
Special assessments	337,083	3,069,534	—	—	337,083	3,069,534
Developer contribution	—	10,862,303	—	—	—	10,862,303
General revenues:						
Investment earnings	246,686	76,159	142,310	10,317	388,996	86,476
Total revenues	583,769	14,007,996	15,651,270	4,540,197	16,235,039	18,548,193
Expenses:						
General government	880,546	378,306	—	—	880,546	378,306
Recreational amenities	—	—	12,803,795	4,601,421	12,803,795	4,601,421
Depreciation and amortization	1,056,665	792,498	1,254,153	—	2,310,818	792,498
Interest on long-term debt	1,990,029	2,118,132	—	—	1,990,029	2,118,132
Total expenses	3,927,240	3,288,936	14,057,948	4,601,421	17,985,188	7,890,357
Transfers:						
Transfer in (out)	—	(126,589)	—	126,589	—	—
Total transfers	—	(126,589)	—	126,589	—	—
Change in net assets	(3,343,471)	10,592,471	1,593,322	65,365	(1,750,149)	10,657,836
Total net assets, beginning (as restated)	43,974,621	—	(122,562)	(187,927)	43,852,059	(187,927)
Total net assets, ending	\$ 40,631,150	10,592,471	1,470,760	(122,562)	42,101,910	10,469,909

Capital Assets

The District's capital assets as of September 30, 2006 and 2005 amounted to \$80,931,438 and \$41,578,837, respectively. This is net of accumulated depreciation and includes improvements other than buildings, furniture and equipment and construction in progress. 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 and 2005, the District had long-term debt outstanding of \$65,827,472 and \$33,278,252, respectively. All of the debt in 2005 was special assessment bond debt and is secured solely by revenue sources. The debt at September 30, 2006 consists of Recreational Revenue Bonds issued during the fiscal year. This debt is secured by a lien and pledge of revenues under the indentures which are derived by the District from the users of the recreational facilities. Additional information regarding the District's long-term debt can be found in Note 5 to the financial statements.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
Management Discussion and Analysis
(UNAUDITED)
September 30, 2006

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.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Statement of Net Assets

September 30, 2006

Assets	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash and investments	\$ 244,131	\$ 6,578,810	\$ 6,822,941
Due from other governments	—	153,558	153,558
Due from others	—	53,771	53,771
Prepays	—	56,337	56,337
Capital assets:			
Land	—	7,810,100	7,810,100
Buildings and structures	—	30,501,290	30,501,290
Improvements other than buildings	42,266,580	2,800,919	45,067,499
Machinery and equipment	—	189,888	189,888
Less accumulated depreciation	(1,849,163)	(788,176)	(2,637,339)
Bond issuance costs (net of accumulated amortization)	—	2,948,514	2,948,514
Intangible assets (net of accumulated amortization)	—	19,434,044	19,434,044
Total assets	<u>40,661,548</u>	<u>69,739,055</u>	<u>110,400,603</u>
Liabilities			
Accounts payable	30,070	186,993	217,063
Accrued expenses	—	180,778	180,778
Accrued interest payable	—	1,588,831	1,588,831
Due to other governments	328	—	328
Unearned revenue	—	177,513	177,513
Due to Developer	—	902,457	902,457
Long-term debt:			
Due within one year	—	400,000	400,000
Due in more than one year	—	64,831,722	64,831,722
Total liabilities	<u>30,398</u>	<u>68,268,294</u>	<u>68,298,692</u>
Net Assets			
Invested in capital assets, net of related debt	40,417,417	(1,737,016)	38,680,401
Restricted for Debt Service	40	653,753	653,793
Unrestricted	213,693	2,554,024	2,767,717
Total net assets	<u>\$ 40,631,150</u>	<u>\$ 1,470,761</u>	<u>\$ 42,101,911</u>

See accompanying notes to basic financial statements.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

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	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities:							
General government	\$ 1,937,211	1,046,209	--	--	(891,002)	--	(891,002)
Interest on long-term debt	1,990,029	--	--	--	(1,990,029)	--	(1,990,029)
Total governmental activities	<u>3,927,240</u>	<u>1,046,209</u>	<u>--</u>	<u>--</u>	<u>(2,881,031)</u>	<u>--</u>	<u>(2,881,031)</u>
Business-type activities:							
Sumter Landing Amenities Division	14,057,946	15,508,959	--	--	--	1,451,013	1,451,013
Total business-type activities	<u>14,057,946</u>	<u>15,508,959</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,451,013</u>	<u>1,451,013</u>
Total primary government	<u>\$ 17,985,186</u>	<u>16,555,168</u>	<u>--</u>	<u>--</u>	<u>(2,881,031)</u>	<u>1,451,013</u>	<u>(1,430,018)</u>
General revenues:							
Investment earnings					246,686	142,310	388,996
Total general revenues					<u>246,686</u>	<u>142,310</u>	<u>388,996</u>
Change in net assets					(2,634,345)	1,593,323	(1,041,022)
Net assets (deficit) – beginning (as restated)					<u>43,974,621</u>	<u>(122,562)</u>	<u>43,852,059</u>
Net assets (deficit) – ending					<u>\$ 41,340,276</u>	<u>\$ 1,470,761</u>	<u>\$ 42,811,037</u>

See accompanying notes to basic financial statements.

**SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
LAKE SUMTER LANDING**

Balance Sheet – Governmental Funds

September 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 244,091	40	244,131
Total assets	<u>244,091</u>	<u>40</u>	<u>244,131</u>
Liabilities:			
Accounts payable	30,070	—	30,070
Due to other governments	328	—	328
Total liabilities	<u>30,398</u>	<u>—</u>	<u>30,398</u>
Fund balances:			
Reserved for debt service:	—	40	40
Unreserved	213,693	—	213,693
Total fund balances	<u>213,693</u>	<u>40</u>	<u>213,733</u>
Total liabilities and fund balances	<u>\$ 244,091</u>	<u>40</u>	<u>244,131</u>

See accompanying notes to basic financial statements.

**SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
LAKE SUMTER LANDING**

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

September 30, 2006

Total fund balances, governmental funds	\$	213,733
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	42,266,580	
Less accumulated depreciation	<u>(1,849,163)</u>	<u>40,417,417</u>
Net assets of governmental activities	\$	<u><u>40,631,150</u></u>

See accompanying notes to basic financial statements.

**SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
LAKE SUMTER LANDING**

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

Year ended September 30, 2006

	General	Debt Service	Total
Revenues:			
Special assessments	\$ 1,046,209	32,680,874	33,727,083
Interest income	6,215	240,471	246,686
Total revenues	1,052,424	32,921,345	33,973,769
Expenditures:			
Current:			
General government	880,546	—	880,546
Debt service:			
Interest	—	2,283,499	2,283,499
Principal payments	—	33,390,000	33,390,000
Total expenditures	880,546	35,673,499	36,554,045
Net change in fund balances	171,878	(2,752,154)	(2,580,276)
Fund balances, at beginning of year	41,815	2,752,194	2,794,009
Fund balances, at end of year	\$ 213,693	40	213,733

See accompanying notes to basic financial statements.

**SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
LAKE SUMTER LANDING**

**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	\$	(2,580,276)
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.		(1,056,665)
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:		
Amortization of bond discount		(111,748)
Change in accrued interest		951,458
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 of reduction in long-term debt.		
		33,390,000
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		(32,680,874)
NOT SURE HOW TO WORD THIS - BUT FIXED		
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.		
		(546,240)
Change in net assets of governmental activities	\$	<u>(2,634,345)</u>

See accompanying notes to basic financial statements.

**SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
LAKE SUMTER LANDING**

General Fund

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

Year ended September 30, 2006

	<u>Budgeted Amounts Original and final</u>	<u>Actual amounts</u>	<u>Variance with final budget</u>
Revenues:			
Special assessments	\$ 1,046,209	1,046,209	—
Interest Income	—	6,215	6,215
Total revenues	<u>1,046,209</u>	<u>1,052,424</u>	<u>6,215</u>
Expenditures:			
General government:			
Professional services	83,998	85,950	(1,952)
Communication and freight	—	965	(965)
Utility services	168,700	159,691	9,009
Repair and maintenance/landscape	793,511	633,514	159,997
Office supplies	—	9	(9)
Operating supplies	—	417	(417)
Total expenditures	<u>1,046,209</u>	<u>880,546</u>	<u>165,663</u>
Excess of revenues over expenditures	—	171,878	171,878
Net change in fund balance	—	171,878	171,878
Fund balances, at beginning of year	—	41,815	41,815
Fund balances, at end of year	<u>\$ —</u>	<u>213,693</u>	<u>213,693</u>

See accompanying notes to basic financial statements.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Statement of Net Assets

Proprietary Funds

September 30, 2006

Assets	SLAD
Current assets:	
Cash and investments	\$ 3,738,099
Restricted cash and investments	2,242,583
Due from other governments	153,558
Due from others	53,771
Prepaid expenses	56,337
Total current assets	<u>6,244,348</u>
Non-current assets:	
Restricted cash and investments	598,128
Capital assets:	
Land	7,810,100
Buildings and structures	30,501,290
Improvements other than buildings and structures	2,800,919
Machinery and equipment	189,888
Less accumulated depreciation	(788,176)
Bond issuance costs (net of accumulated amortization)	2,948,514
Intangible assets (net of accumulated amortization)	19,434,044
Total non-current assets	<u>63,494,707</u>
Total assets	<u>69,739,055</u>
Liabilities	
Current liabilities:	
Accounts payable	186,993
Accrued expenses	180,778
Accrued interest payable	1,588,831
Deferred revenue	177,513
Due to developer	306,707
Current installments of revenue bonds payable	400,000
Total current liabilities	<u>2,840,822</u>
Non-current liabilities:	
Revenue bonds payable, net	64,831,722
Due to developer	595,750
Total non-current liabilities	<u>65,427,472</u>
Total liabilities	<u>68,268,294</u>
Net assets	
Invested in capital assets, net of related debt	(1,737,016)
Restricted for debt service	653,753
Unrestricted	2,554,024
Total net assets	<u>\$ 1,470,761</u>

See accompanying notes to basic financial statements.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

Year ended September 30, 2006

	<u>SLAD</u>
Operating revenues:	
Charges for services	
Recreational amenity fees	\$ 9,687,272
Project Wide Fees	5,121,170
Other income	700,517
Total operating revenues	<u>15,508,959</u>
Operating expenses:	
Recreational amenity expenses	10,076,165
Depreciation	755,844
Amortization	569,059
Total operating expenses	<u>11,401,068</u>
Operating income	<u>4,107,891</u>
Non-operating revenue (expenses):	
Interest income	142,310
Interest expense	<u>(2,656,878)</u>
Total non-operating revenue	<u>(2,514,568)</u>
Change in net assets	1,593,323
Total net assets (deficit), beginning	<u>(122,562)</u>
Total net assets, ending	<u>\$ 1,470,761</u>

See accompanying notes to basic financial statements.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Statement of Cash Flows

Proprietary Funds

Year ended September 30, 2006

	<u>SLAD</u>
Cash flows from operating activities:	
Receipts from customers	\$ 15,508,959
Payments to suppliers	(7,275,790)
Payments to employees	(2,480,604)
Net cash used by operating activities	<u>5,752,565</u>
Cash flows from capital and related financing activities:	
Proceeds from bond issuance	65,493,735
Payment of bond issue costs	(3,025,298)
Interest paid	<u>(1,324,026)</u>
Net cash used in capital and related financing activities	<u>61,144,411</u>
Cash flows from investing activities:	
Purchase of capital assets	(60,501,713)
Interest received	<u>142,310</u>
Net cash provided by investing activities	<u>(60,359,403)</u>
Net decrease in cash and cash equivalents	6,537,573
Cash and cash equivalents, beginning of year	<u>41,237</u>
Cash and cash equivalents, end of year	\$ <u>6,578,810</u>
Reconciliation of cash and cash equivalents per statement of cash flows to the statement of net assets:	
Cash per statement of net assets:	\$ 3,738,099
Restricted cash and cash equivalents-current	2,242,583
Restricted cash and cash equivalents-non-current	<u>598,128</u>
Cash and cash equivalents	\$ <u>6,578,810</u>

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Statement of Cash Flows

Proprietary Funds

Year ended September 30, 2006

	<u>SLAD</u>
Reconciliation of operating income to net cash used in operating activities:	
Operating income	\$ 4,107,891
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	755,844
Amortization	569,059
Cash provided by (used in) changes in:	
Due from/to Developer (net)	(69,817)
Due from/to other districts (net)	139,812
Due from/to other governments (net)	(136,285)
Prepaid expenses	138,310
Accounts payable and accrued liabilities	70,238
Deferred revenue	177,513
Net cash used in operating activities	\$ <u>5,752,565</u>

See accompanying notes to basic financial statements

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

Sumter Landing Community Development District (the District) was established in 2002 to manage and finance basic services for a development district located in The Villages, Florida. The District is governed by a five member board of supervisors who are elected on a rotating basis by the landowners within the District for terms from two to four years. The District was created by Sumter County Commission Ordinance No. 02-06 pursuant to the provisions of Chapter 190.005 of the Florida Statutes and operates within the criteria established by Chapter 190.

The District provides recreation and security services to the residents of a retirement community known as The Villages, located in The Villages, Florida. 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.

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 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.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies (continued)

(a) Reporting Entity (continued)

- 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.

As of September 30, 2006, all supervisors of the District were employees of the Developer or related to the Developer.

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. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary fund in accordance with GASB Statement No. 20. The District’s more significant accounting policies are described below.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

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 non-fiduciary 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 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 and charges for recreational amenities in proprietary funds.

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. The net 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, as are the proprietary fund financial statements. 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

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
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)*

of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due and compensated absences are recognized to the extent they have matured.

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 (commercial area maintenance) 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.

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.

Proprietary funds report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The District uses an enterprise fund to account for the operations and maintenance of the Sumter Landing Amenities Division (SLAD) which are financed and operated in a manner similar to private business enterprises, where the costs of providing services on a continuing basis are financed through user charges.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for amenities services. Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The following is the District's major enterprise fund:

SLAD Fund

The principal operating revenues of the District's SLAD funds are charges to customers for amenities services. The operating fund of SLAD is used to account for all costs of providing services on a continuing basis.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies (continued)

(d) Budgetary Data

Legal authority and control are established in accordance with Section 190.008 of *Florida Statutes*. Annual budgets are adopted and approved by the board of supervisors. Annual budgets, as well as subsequent amendments, are adopted for the general fund on a basis consistent with GAAP.

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

The money market mutual funds and repurchase agreements 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-Proprietary Funds

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. Restricted assets in the form of cash and cash equivalents that will be used to pay current liabilities are classified as current assets in the accompanying statement of net assets.

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

In addition, the bond resolutions require that a renewal and replacement reserve be established. The renewal and replacement reserve deposits are maintained as restricted assets until such time as needed.

(g) Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund 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.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
Notes to Financial Statements
September 30, 2006

(1) **Summary of Significant Accounting Policies (continued)**

(g) ***Capital Assets (continued)***

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. Estimated useful lives of the assets are as follows:

Buildings and Structures	15-40 years
Improvements other than buildings	10-40 years
Machinery and equipment	5-10 years

(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 are 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.

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.

At September 30, 2006, all assessments were/are being paid by the Developer.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies (continued)

(i) Intangible Assets

Intangible assets represent the discounted value of future amenity fees or utilities assessments acquired from the Developer, and are capitalized at cost at the date of acquisition. Intangible assets are amortized on a straight-line basis over an estimated useful life of 40 years.

(j) Compensated Absences

It is the District's policy to accumulate earned but unused vacation benefits. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements.

(k) Bond Discounts, Bond Premiums and Issuance Costs

In the government-wide and proprietary fund financial statements, bond discounts, bond premiums and issuance costs are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Bond discounts and premiums are presented as a reduction and increase, respectively, of the face amount of the revenue bonds payable, whereas issuance costs are recorded as assets.

(l) Accounts Receivable

Accounts receivable in the proprietary fund consists of receivables on amenity contracts. For uncollected receivables, the direct write-off method is used which is not significantly different than the allowance method.

(m) 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.

(n) 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

Investment Type	Fair Value at 9/30/2006	Weighted Average Maturity Days	Credit Rating
Repurchase Agreements	3,980,343	overnight	n/a
Money Market Mutual Funds	2,840,711	23	AAAm

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
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

<u>Type of Investment:</u>	<u>Issuer:</u>	<u>% of Total Investments</u>
Repurchase Agreement	Citizen's First Bank	58.35%
Money Market Mutual Funds	U S Bank	41.64%

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* 218.415 (17) and Master Bond Trust Indenture which do not address interest rate risk, 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.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
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 being depreciated:				
Improvements other than buildings	\$ 42,266,580			42,266,580
Less accumulated depreciation for:				
Improvements other than buildings	<u>(792,498)</u>	<u>(1,056,665)</u>		<u>(1,849,163)</u>
Governmental activities, capital assets, net	<u>41,474,082</u>	<u>(1,056,665)</u>	<u>—</u>	<u>40,417,417</u>
Business-type activities:				
Assets not being depreciated:				
Land	—	7,810,800		7,810,800
Assets being depreciated:				
Building and structures	—	30,501,290		30,501,290
Improvements other than buildings	—	2,800,919		2,800,919
Machinery and equipment	<u>137,087</u>	<u>52,801</u>	<u>—</u>	<u>189,888</u>
Total at cost	<u>137,087</u>	<u>41,165,810</u>	<u>—</u>	<u>41,302,897</u>
Less accumulated depreciation for:				
Building and structures	—	(631,784)	—	(631,784)
Improvements other than buildings	—	(58,352)	—	(58,352)
Machinery and equipment	<u>(32,332)</u>	<u>(65,708)</u>	<u>—</u>	<u>(98,040)</u>
Total accumulated depreciation	<u>(32,332)</u>	<u>(755,844)</u>	<u>—</u>	<u>(788,176)</u>
Business-type activities capital assets, net	<u>\$ 104,755</u>	<u>40,409,966</u>	<u>—</u>	<u>40,514,721</u>

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
Notes to Financial Statements
September 30, 2006

(3) Capital Assets (continued)

Capital assets relating to business-type activities are further detailed as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
SLAD:				
Assets being depreciated:				
Land	\$ —	7,810,100		7,810,100
Assets being depreciated:				
Building and structures	—	30,501,290		30,501,290
Improvements other than buildings	—	2,800,919		2,800,919
Machinery and equipment	137,087	52,801		189,888
Total at historical cost	<u>137,087</u>	<u>41,165,110</u>	<u>—</u>	<u>41,302,197</u>
Less accumulated depreciation for:				
Building and structures	—	(631,784)		(631,784)
Improvements other than buildings	—	(58,352)		(58,352)
Machinery and equipment	(32,332)	(65,708)		(98,040)
Total accumulated depreciation	<u>(32,332)</u>	<u>(755,844)</u>	<u>—</u>	<u>(788,176)</u>
SLAD capital assets, net	<u>\$ 104,755</u>	<u>40,409,266</u>	<u>—</u>	<u>40,514,021</u>

Depreciation expense was \$755,844 for the year ended September 30, 2006.

(4) Intangible Assets

Intangible 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>
SLAD:				
Discounted value of amenity fees	\$ —	19,932,353		19,932,353
Less accumulated amortization	—	(498,309)		(498,309)
Intangible assets, net	<u>\$ —</u>	<u>19,434,044</u>	<u>—</u>	<u>19,434,044</u>

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
Notes to Financial Statements
September 30, 2006

(5) Long-term Debt

Revenue Bonds Payable

Revenue bonds payable consisted of the following:

\$53,085,000 Recreational Revenue Refunding Bonds, Series 2005A due in annual principal installments ranging from \$355,000 to \$3,100,000 through October 2038 in accordance with the redemption schedule. Interest is due semi-annually on April 1 and October 1 of each year until redemption or maturity. Interest rates range from 3.25% to 5.125%.	\$ 53,085,000
\$11,915,000 Recreational Revenue Bonds, Series 2005B due in annual principal installments ranging from \$45,000 to \$775,000 through October 2038 in accordance with the redemption schedule. Interest is due semi-annually on April 1 and October 1 of each year until redemption or maturity. The interest rate is 5.70%.	<u>11,915,000</u>
Total revenue bonds payable	65,000,000
Plus bond premium	700,955
Less bond discount	(469,233)
Less current installments of revenue bonds payable	<u>(400,000)</u>
Revenue bonds payable less current installments	<u><u>\$ 64,831,722</u></u>

The Recreational Revenue Bonds, Series 2005A and 2005B are secured by a lien and pledge of revenues under the indentures which are derived by the District from the users of the recreational facilities. These bonds and notes are additionally secured by amounts on deposit in the funds and accounts created pursuant to the indentures. The Recreational Revenue Bonds, Series 2005B are secured by a lien and pledge of revenues which is junior and subordinate to the lien and pledge of revenues on the Recreational Revenue Bonds, Series 2005A.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT
Notes to Financial Statements
September 30, 2006

(5) Long-term Debt (continued)

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	\$ 400,000	3,171,054	3,571,054
2008	910,000	3,148,005	4,058,005
2009	945,000	3,113,931	4,058,931
2010	980,000	3,077,443	4,057,443
2011	1,020,000	3,038,389	4,058,389
2012 - 2016	5,775,000	14,468,705	20,243,705
2017 - 2021	7,370,000	12,820,475	20,190,475
2022 - 2026	9,430,000	10,723,790	20,153,790
2027 - 2031	11,950,000	8,132,871	20,082,871
2032 - 2036	15,170,000	4,838,201	20,008,201
2037 - 2039	11,050,000	888,365	11,938,365
Total	<u>\$ 65,000,000</u>	<u>67,421,229</u>	<u>132,421,229</u>

Changes in Long-Term Debt

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
Bonds payable	\$ 33,390,000	—	(33,390,000)	—	—
Less bond discount	(111,748)	111,748	—	—	—
Governmental activities long-term debt	<u>\$ 33,278,252</u>	<u>111,748</u>	<u>(33,390,000)</u>	<u>—</u>	<u>—</u>
Business-type activities:					
Bonds payable	\$ —	65,000,000	—	65,000,000	400,000
Less bond discount	—	12,220	481,453	(469,233)	—
Add bond premium	—	719,209	18,254	700,955	—
Total bonds payable	—	65,731,429	499,707	65,231,722	400,000
Due to developer-SLAD	—	595,750	—	595,750	—
Total business-type activities long-term liabilities	<u>\$ —</u>	<u>66,327,179</u>	<u>499,707</u>	<u>65,827,472</u>	<u>400,000</u>

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Notes to Financial Statements

September 30, 2006

(5) Long-term Debt (continued)

Due to Developer-Recreational Amenities

Subordinate debt service reserve requirement was funded by the recreational revenue bond proceeds. Therefore, this amount was not available for payment to Developer for the purchase of recreation and security facilities. This amount becomes available for payment to the Developer when the reserve requirement is reduced as principal payments are made on the debt. The balance in this reserve at September 30, 2006 was \$595,750 and is classified as due to the developer.

The majority of the remaining amount in the line item due to the developer of \$306,707 represents collections of amenities during the month of September, which are payable in the next month.

(6) Related Parties

The District entered into interlocal agreements to provide Village Community Development District No. 5 (District No. 5), Village Community Development District No. 6 (District No. 6), Village Community Development District No. 7 (District No.7), Village Community Development District No. 8 (District No. 8) certain management, finance, and administrative services. Under the agreement, fees paid to SLCCDD from the numbered Districts for such services totaled \$175,032, \$159,648, \$75,912, and \$6,264, respectively, for the year ended September 30, 2006. Upon action by their respective boards of supervisors, District No. 5, District No. 6, District No. 7, and District No. 8 may request additional services as they deem necessary for the efficient and effective management of their respective districts. Such additional services are billed to the benefiting district at the District's cost.

The District has purchased from the Developer engineering services, classified advertising, building rents, management services, computerized tee-time reservation system and repair services for approximately \$110,000. In addition, the District reimbursed the Developer for items and services purchase or paid for by the Developer on behalf of the District. The district purchases water, waste water, and irrigation water from companies affiliated with the Developer for approximately \$200,650. The District received for no charge from the Developer certain rents, information system support including software, hardware and computer programming and internal mail room operations.

The District operates new facilities as they are opened by the Developer. The Developer reimburses all start-up costs and all operating costs until the facility is transferred through an amenity sale. These costs at September 30, 2006 were approximately \$666,150.

On May 1, 2006, \$33,390,000 of special assessment debt for the commercial area (Lake Sumter Landing) was paid off. The Citizens First Bank (developer owned) contributed \$978,149 and the Developer contributed the balance of \$32,411,851 towards the debt pay off.

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.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Notes to Financial Statements

September 30, 2006

(6) Related Parties (continued)

On December 1, 2005, the District issued \$53,085,000 Series 2005A Recreational Revenue Bonds and \$11,915,000 2005B Subordinate Recreational Revenue Bonds. The proceeds were used to (i) pay a portion of the cost of acquiring certain recreation and golf facilities from the Developer; (ii) purchase a Reserve Account Insurance Policy issued by MBIA Insurance Corporation to be deposited to the credit of the 2005 Sub account of the Reserve Account; (iii) make deposits to the Renewal and Replacement Fund and the 2005 Working Capital Fund; and pay the cost of issuing the Series 2005A Bonds, including payment of the premiums for municipal bond insurance and the Reserve Account Insurance Policy. The District paid \$7,810,100 for land costs, \$33,302,209 for buildings and structures and \$ 19,336,602 in discounted value of amenities contracts (intangible assets). Additional intangible assets of \$595,750 are recorded with the off-set as a due to the developer. These funds will be paid to the developer as the subordinated debt service reserve is reduced.

The Board of Supervisors for SLCCDD at September 30, 2006 is made up of five members that are either employees or affiliates of the Developer.

(7) Commitments and Contingencies

Operating Lease-Office Building

The District entered into a non-cancelable, five year operating lease in June 2004 with the Developer, for its office building. The lease is renewable every five years. Rent expense recognized under the lease amounted to \$101,238 for the year ended September 30, 2006. Future minimum lease payments for this lease are as follows:

Year Ending September 30:

	2007 \$	101,238
	2008	101,238
(8 Months)	2009	<u>67,494</u>
	\$	<u><u>269,970</u></u>

(8) 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.

(9) Restatement of Beginning Net Assets

The beginning net assets at the government wide level was restated to reflect special assessments not previously reported. This change to net assets resulted in an increase of \$33,390,000.

(10) Subsequent Event

In the early morning hours of February 2, 2007 a tornado caused significant damage to property in the District. The cost of clean-up is expected to be reimbursed from FEMA and is currently not determinable.

**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
Sumter Landing Community Development District
The Villages, Florida

We have audited the financial statements of the governmental activities, business-type activities and each major fund of Sumter Landing Community Development District (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 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 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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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

MANAGEMENT LETTER

Board of Supervisors
Sumter Landing Community Development District
The Villages, Florida

We have audited the accompanying basic financial statements of the governmental activities, business-type activities and each major fund of Sumter Landing Community Development District (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
Sumter Landing Community Development District
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, Sumter Landing Community Development District's 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

Purvis, Gray and Company, LLP

MANAGEMENT LETTER COMMENTS

Board of Supervisors
Sumter Landing Community Development District
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

Recreation Amenity Purchases from Developer

The purchase price of Recreation Amenities acquired from the developer is implied in various documents and appraisal reports associated with the Recreation Amenity Bond issues, but not spelled out conclusively in any one place. This has led to confusion about additional amounts owed to the Developer such as the Subordinate Debt Reserves and additional amounts associated with the appraisal documents. Accordingly, we recommend that future Recreation Amenity purchase documents identify or define how to subsequently determine the exact purchase price to avoid the uncertainty of amounts owed to the Developer beyond those paid at bond closing.

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 investments guidelines for bond funds. Sumter Landing Community Development District (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.

Developer Provided Information Technology (IT)

All computer hardware and software associated with the accounting function is completely provided and controlled by the Developer. This arrangement appears to be very economical in that a single IT staff, hardware and software are able to handle all needs of the developer and all Districts at no charge to the Districts; however, it also leaves the District completely reliant upon the developer and not in control of system security and overall system management.

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MANAGEMENT LETTER COMMENTS
(Continued)

Current Year Recommendations (Concluded)

Developer Provided Information Technology (IT) (Concluded)

Additionally, by agreement with the Developer, the Districts will be required to acquire its own computer hardware and software in the near future, which will require all Districts to cooperatively select, acquire and operate its own financial systems. Accordingly, we recommend that the District form a joint task with the other Districts to begin the planning and implementation process associated with this significant project.

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.

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.

Payroll Related

■ **Segregation of Duties**

For much of 2006, a lack of segregation of incompatible duties existed in the payroll process with one individual responsible for inputting rate changes and time sheet information into the ADP payroll system, forwarded the payroll to ADP and received the checks for distribution without any outside review. One individual should not have total control over payroll processing especially the ability to make rate changes. Accordingly, we suggest that someone other than the payroll clerk receive the checks and compare the list to the approved payroll and that the payroll processor not have access to rate change fields. As an additional control, we also recommend that all rate change edits from the payroll system be approved by the District manager and maintained on file to ensure that all rate changes are under management's control.

■ **Insurance Deductions**

Our audit indicates that the District had trouble at various times during 2006 deducting dependent health care and other insurance related premiums from employees pay checks, which resulted in the District paying for some of these coverage's. Accordingly, we recommend that the District perform an internal audit of all employee withholdings for these items to ensure that they are properly deducted from employee paychecks.

■ **Compensated Absences**

During 2006 the Districts' policies governing vacation and sick leave were not properly set up within the ADP system resulting in a loss of accurate earned but unused vacation and sick leave for employees. The liability for unused compensated absences has not been updated as a result. Accordingly, we recommend that the District research and update the earned but unused hours for vacation and sick leave for each employee and work with representatives of ADP to establish a process to maintain this information through the payroll system.

Board of Supervisors
Sumter Landing Community Development District
The Villages, Florida

MANAGEMENT LETTER COMMENTS
(Concluded)

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

Turris, Gray and Company, LLP

Board of Supervisors
Sumter Landing Community Development District
The Villages, Florida

Response to Management Letter Comments

- **Purchase of Road and Street Infrastructure From Developer**
Management agrees and will implement recommendations.
- **Recreation Amenity Purchases From The Developer**
The language in the Purchase and Sale Agreement has been clarified to include the recommendation presented in the Management Letter. The prior amenity purchase from the Developer has resulted in the Due to Developer for an amount equal to the subordinate debt service reserve amount.
- **Investment Policy**
All Districts are adopting an Investment Policy. The Policy requires an annual review by the Board of Supervisors.
- **Developer Provided Information Technology**
Management has begun the process of looking at alternative software packages and will be forming a committee to review the transition to a District directed information system.
- **Capital Asset Renewal and Replacement**
Management agrees and will begin implementation of procedures to comply with the recommendations.
- **Payroll Related:**
 - Segregation of Duties**
Management agrees and the District Manager will approve and Human Resources will retain all rate change edits and rate change reports generated by the payroll system.
 - Insurance Deductions**
Management agrees and will implement and maintain controls to insure that deductions are accounted for accurately.
 - Compensated Absences**
Management has implemented processes that have corrected this and will enable accurate accounting for accrued leave at fiscal year end.
- **Restatement of Government Wide Net Assets**
Management agrees and will implement for the current fiscal year.