

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

Basic Financial Statements

September 30, 2006

(With Independent Auditors' Report Thereon)

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

Table of Contents

	Page
Financial Section	
Independent Auditors' Report on the Financial Statements	1
Management's Discussion and Analysis (UNAUDITED)	3
Basic Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Balance Sheet – General Fund	10
Reconciliation of the Balance Sheet – General Fund to the Statement of Net Assets	11
Statement of Revenues, Expenditures and Changes in Fund Balance – General Fund	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance – General Fund to the Statement of Activities	13
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	14
Statement of Net Assets – Proprietary Funds	15
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	16
Statement of Cash Flows – Proprietary Funds	17
Notes to Basic Financial Statements	19
Other Reports	
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 <i>Government Auditing Standards</i>	40
Management Letter	42

INDEPENDENT AUDITORS' REPORT

Board of Supervisors
Village Center 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 Village Center 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

P.O. Box 23999 • 222 N.E. 1st Street • Gainesville, Florida 32602 • (352) 378-2461 • FAX (352) 378-2505
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762
2201 Cantu Court, Suite #100 • Sarasota, Florida 34232 • (941) 379-2800 • FAX (941) 379-2899

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

Board of Supervisors
Village Center 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

Turkic, Gray and Company, LLP

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Management's Discussion and Analysis
(UNAUDITED)
September 30, 2006

The Village Center 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:

- Net assets increased over the previous year by \$1,916,984.
- The District's total debt decreased by \$6.7 million during the fiscal year.
- The Developer conveyed to the District a recreation center with a fair value of \$1,639,990.

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 public safety function and maintenance of commercial common areas. The business-type activities (proprietary funds) of the District include the operation of recreational amenities and two water and sewer utilities.

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 insure and to demonstrate compliance with finance-related legal requirements. The funds of the District can be divided into two categories; governmental funds and proprietary funds.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Management's Discussion and Analysis
(UNAUDITED)
September 30, 2006

The District's one governmental fund, the general fund, is 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 financial resources, as well as on balances of financial 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 the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The District maintains three proprietary funds: The Recreational Amenity Division (RAD), the Village Center Service Area Water and Sewer Fund (VCSA) and the Little Sumter Service Area Water and Sewer Fund (LSSA). Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the District's three proprietary funds.

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 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, net assets increased by \$1,916,984 which reduced the net deficit of the previous year from \$3,153,257 to \$1,236,273.

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, less any related debt used to acquire those assets that is still outstanding. Although the District's investment in 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 will not be used to liquidate these liabilities.

Restricted net assets. This portion of the District's net assets represents resources that are subject to restrictions from external sources.

Unrestricted net assets. This portion of the District's net assets represents the remaining balance of net assets that may be used to meet the District's obligations from ongoing operations.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Management's Discussion and Analysis
(UNAUDITED)
September 30, 2006

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

	Governmental Activities		Business-type Activities		Total	
	September 30,		September 30,		September 30,	
	2006	2005	2006	2005	2006	2005
Assets:						
Current assets	\$ 611,683	173,642	11,022,966	7,004,673	11,634,649	7,178,315
Restricted assets	-	-	20,759,414	22,841,526	20,759,414	22,841,526
Bond issuance costs (net of accumulated amortization)	-	-	15,472,631	16,218,043	15,472,631	16,218,043
Capital assets, (net of accumulated depreciation)	1,976,163	1,695,683	117,504,065	117,141,718	119,480,228	118,837,401
Intangible assets, (net of accumulated amortization)	-	-	184,227,067	191,254,139	184,227,067	191,254,139
Total Assets	2,587,846	1,869,325	348,986,143	354,460,099	351,573,989	356,329,424
Liabilities:						
Current liabilities	488,861	141,495	19,364,656	10,708,831	19,853,517	13,604,440
Long-term liabilities	1,188,856	2,078,107	331,767,927	346,554,248	332,956,783	349,481,697
Total Liabilities	1,677,717	2,219,602	351,132,583	357,263,079	352,810,300	363,086,137
Net assets (deficit)						
Invested in capital assets, net of related debt	524,662	(382,424)	(17,691,019)	(211,457,737)	(17,166,357)	(170,665,042)
Restricted	385,466	-	8,722,508	20,391,395	9,107,974	20,391,395
Unrestricted		32,147	6,822,108	188,263,362	6,822,108	147,120,390
Total net assets	910,128	(350,277)	(2,146,403)	(2,802,980)	(1,236,275)	(3,153,257)

Governmental Activities

Governmental activities increased the District's net assets by approximately \$1,260,400 during the year ended September 30, 2006.

Business-type Activities

Business-type activities increased the District's net assets by approximately \$656,580 during the year ended September 30, 2006.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Management's Discussion and Analysis
(UNAUDITED)
September 30, 2006

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

	Governmental Activities		Business-type Activities		Total	
	September 30,		September 30,		September 30,	
	2006	2005	2006	2005	2006	2005
Program revenues:						
Charges for services	\$ 4,863,337	2,589,771	47,490,537	44,219,598	52,353,874	46,809,369
Operating contributions	12,591	27,600	-	-	12,591	27,600
Capital grants and contributions	35,621	149,769	86,213	323,580	121,834	473,349
General revenues:						
Investment earnings	19,346	4,318	707,286	283,248	726,632	287,566
Total revenues	4,930,895	2,771,458	48,284,036	44,826,426	53,214,931	47,597,884
Expenses:						
Recreational amenity	-	-	15,275,350	14,721,291	15,275,350	14,721,291
Fire and safety	2,820,161	2,734,650	-	-	2,820,161	2,734,650
Commercial area maintenance	605,659	-	-	-	605,659	-
Water & sewer utilities	-	-	4,419,968	4,383,489	4,419,968	4,383,489
Depreciation and amortization	162,982	137,925	10,479,790	10,466,570	10,642,772	10,604,495
Interest on long term debt	81,688	83,712	17,452,348	17,731,891	17,534,036	17,815,603
Total expenses	3,670,490	2,956,287	47,627,456	47,303,241	51,297,946	50,259,528
Changes in net assets	1,260,405	(184,829)	656,580	(2,476,815)	1,916,985	(2,661,644)
Total net assets (deficit), beginning	(350,277)	(165,448)	(2,802,980)	(326,165)	(3,153,257)	(491,613)
Total net assets (deficit), ending	\$ 910,128	(350,277)	(2,146,400)	(2,802,980)	(1,236,272)	(3,153,257)

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Management's Discussion and Analysis
(UNAUDITED)
September 30, 2006

Capital Assets:

The District's capital assets as of September 30, 2006 and 2005 amounted to \$119,480,226 and \$118,837,401, respectively. This is net of accumulated depreciation and includes buildings and structures, improvements other than buildings, and machinery and equipment. Additional information regarding the District's capital assets can be found in Note 5 to the financial statements

Long-term Debt:

At September 30, 2006 and 2005, the District had long-term debt outstanding of \$341,909,957 and \$348,632,355, respectively. Additional information regarding the District's long-term debt can be found in Note 8 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 to the District's accountability. If you have any questions about the report or need additional financial information, contact the Village Center Community Development District's Chief Financial Officer at 3231 Wedgewood Lane, The Villages, Florida 32162, telephone (352) 753-0421.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Statement of Net Assets
September 30, 2006

Assets	Governmental Activities	Business-Type Activities	Total
Cash and investments	\$ 494,470	\$ 27,705,713	\$ 28,200,183
Receivables	—	3,739,433	3,739,433
Due from developer	—	44,035	44,035
Internal balances	35	(35)	—
Due from other governments	93,160	14,901	108,061
Inventory	—	31,022	31,022
Prepays	24,018	247,311	271,329
Capital assets :			
Land	—	10,382,616	10,382,616
Building and structures	—	57,150,841	57,150,841
Improvements other than buildings	—	71,012,810	71,012,810
Machinery and equipment	2,549,950	3,466,576	6,016,526
Construction in progress	—	35,591	35,591
Less accumulated depreciation	(573,787)	(24,544,369)	(25,118,156)
Bond issuance costs (net of accumulated amortization)	—	15,472,631	15,472,631
Intangible assets (net of accumulated amortization)	—	184,227,067	184,227,067
Total assets	<u>2,587,846</u>	<u>348,986,143</u>	<u>351,573,989</u>
Liabilities			
Accounts payable	117,228	1,612,381	1,729,609
Accrued expenses	99,806	323,695	423,501
Accrued interest payable	—	7,300,119	7,300,119
Due to other governments	—	135,328	135,328
Unearned revenue	9,182	1,391,671	1,400,853
Due to developer	—	1,660,373	1,660,373
Long-term debt:			
Due within one year	262,645	6,941,088	7,203,733
Due in more than one year	1,188,856	331,767,927	332,956,783
Total liabilities	<u>1,677,717</u>	<u>351,132,582</u>	<u>352,810,299</u>
Net Assets			
Invested in capital assets, net of related debt	524,662	(17,691,019)	(17,166,357)
Restricted for:			
Debt Service	—	7,383,474	7,383,474
Renew & Replacement	—	1,339,034	1,339,034
Department of Safety	199,569	—	199,569
Village of Spanish Springs	107,979	—	107,979
Rolling Acres	1,011	—	1,011
Commercial Road Maintenance	76,907	—	76,907
Unrestricted	—	6,822,108	6,822,108
Total net assets (deficit)	<u>\$ 910,128</u>	<u>\$ (2,146,403)</u>	<u>\$ (1,236,275)</u>

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
 Statement of Activities
 Year Ended September 30, 2006

Functions/Programs	Program revenues			Net (expense) revenue and changes in net assets			
	Expenses	Charges for services	Operating contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities:							
Fire safety	\$ 2,983,143	\$ 4,075,385	\$ 12,571	\$ 35,621	\$ 1,140,434	\$ —	\$ 1,140,434
Commercial area maintenance	605,659	787,952	20	—	182,313	—	182,313
Interest on long-term debt	81,688	—	—	—	(81,688)	—	(81,688)
Total governmental activities	3,670,490	4,863,337	12,591	35,621	1,241,059	—	1,241,059
Business-type activities:							
Recreational Amenities	34,056,673	34,282,244	—	—	—	225,571	225,571
VCSA Water and sewer	4,705,640	5,249,568	—	68,989	—	612,917	612,917
LSSA Water and sewer	8,865,146	7,958,725	—	17,224	—	(889,197)	(889,197)
Total business-type activities	47,627,459	47,490,537	—	86,213	—	(50,709)	(50,709)
Total primary government	\$ 51,297,949	\$ 52,353,874	\$ 12,591	\$ 121,834	\$ 1,241,059	\$ (50,709)	\$ 1,190,350
General revenues:							
Investment earnings					19,346	707,286	726,632
Total general revenues					19,346	707,286	726,632
Change in net assets					1,260,405	656,577	1,916,982
Net assets (deficit) – beginning					(350,277)	(2,802,980)	(3,153,257)
Net assets (deficit) – ending					\$ 910,128	\$ (2,146,403)	\$ (1,236,275)

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
 Balance Sheet
 General Fund
 September 30, 2006

Assets

	Total
Cash	\$ 494,470
Due from other governments	93,160
Due from other funds	35
Prepaid items	24,018
Total assets	\$ 611,682

Liabilities and Fund Balance

Accounts payable and accrued expense	\$ 175,316
Deferred revenue	9,182
Total liabilities	184,498

Fund balances:

Reserved for:

Prepays	24,018
Villages Department of Safety	217,269
Village of Spanish Springs Common Area Maintenance	107,979
Rolling Acres Common Area Maintenance	1,011
Commercial Road Maintenance	76,907

Total fund balance	427,184
Total liabilities and fund balance	\$ 611,682

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
 Reconciliation of the Balance Sheet - General Fund to the Statement of Net Assets
 September 30, 2006

Fund balance – general fund	\$	427,184
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 general fund:		
Capital assets	\$	2,549,950
Less accumulated depreciation		<u>(573,787)</u>
		1,976,163
Long-term liabilities are not due and payable in the current period and therefore are not reported in the general fund:		
Leases payable		588,340
Loans payable		863,161
Compensated absences		<u>41,718</u>
		<u>(1,493,219)</u>
Net assets (deficit) of governmental activities	\$	<u><u>910,128</u></u>

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund
Year Ended September 30, 2006

	Total
Revenues:	
Fire assessments - Dept. of Public Safety	\$ 1,851,647
Amenities revenue - Dept. of Public Safety	1,432,225
Sumter County General Fund Transfer - Dept. of Public Safety	400,000
Impact Fees - Dept. of Public Safety	391,513
Grants and contributions - Dept. of Public Safety	35,621
Assessments - Village of Spanish Springs	657,655
Assessments - Rolling Acres	51,171
Assessments - Road Maintenance Commercial	79,126
Other Fees	12,591
Interest	19,346
Total revenues	4,930,895
Expenditures:	
Current:	
Fire safety operations	2,820,205
Maintenance & administration - Village of Spanish Springs	552,257
Maintenance & administration - Rolling Acres	50,303
Maintenance & administration - Road Maintenance	3,099
Debt service:	
Interest - Dept. of Public Safety	81,688
Principal payments - Dept. of Public Safety	626,605
Capital outlay - Dept. of Public Safety	443,462
Total expenditures	4,577,619
Excess of revenues over expenditures	353,276
Net change in fund balance	353,276
Fund balance , beginning of year	73,908
Fund balance, end of year	\$ 427,184

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance-General Fund to the Statement of
Activities
Year Ended September 30, 2006

Net change in fund balance – general fund	\$	353,276
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.</p>		280,480
<p>Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		626,649
Change in net assets of governmental activities	\$	1,260,405

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund
Year ended September 30, 2006

	Budgeted amounts		Actual amounts	Variance with final budget
	Original	Final		
Revenues:				
Fire assessments - Dept. of Public Safety	\$ 1,982,515	\$ 1,850,195	\$ 1,851,647	\$ 1,452
Amenities revenue - Dept. of Public Safety	1,347,135	1,428,435	1,432,225	3,790
Sumter County General Fund Transfer - Dept of Public Safety	—	400,000	400,000	—
Impact Fees - Dept. of Public Safety	—	369,275	391,513	22,238
Grants and contributions - Dept. of Public Safety	—	34,050	35,621	1,571
Assessments - Village of Spanish Springs	657,655	657,655	657,655	—
Assessments - Rolling Acres	31,072	51,171	51,171	—
Assessments - Road Maintenance Commercial	79,126	79,126	79,126	—
Other fees	—	11,500	12,591	1,091
Interest	—	18,034	19,346	1,312
Total revenues	4,097,503	4,899,441	4,930,895	31,454
Expenditures:				
Current				
Fire safety operations	3,217,036	2,949,075	2,820,205	(128,870)
Maintenance & administration - Village of Spanish Springs	629,491	575,689	552,257	(23,432)
Maintenance & administration - Rolling Acres	31,072	51,048	50,303	(745)
Maintenance & administration - Road Maintenance	2,626	2,626	3,099	473
Debt service:				
Interest - Dept. of Public Safety	75,590	85,590	81,688	(3,902)
Principal payments - Dept. of Public Safety	23,089	630,810	626,605	(4,205)
Capital outlay - Dept. of Public Safety	552,995	378,375	443,462	65,087
Total expenditures	4,531,899	4,673,213	4,577,619	(95,594)
Deficiency of revenues over expenditures	(434,396)	226,228	353,276	127,048
Other financing sources:				
Proceeds from debt issuance	539,060	—	—	—
Total other financing sources	539,060	—	—	—
Net change in fund balance	104,664	226,228	353,276	248,612
Fund balance (deficit), beginning of year	—	—	73,908	73,908
Fund balance (deficit), end of year	\$ 104,664	\$ 226,228	\$ 427,184	\$ 200,956

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Statement of Net Assets
Proprietary Funds
September 30, 2006

Assets	RAD	VCSA Water and Sewer	LSSA Water and Sewer	Total
Current assets:				
Cash and cash equivalents	\$ 2,299,851	\$ 2,809,095	\$ 1,837,354	\$ 6,946,299
Restricted cash and cash equivalents	10,692,625	1,540,316	3,789,686	16,022,627
Accounts receivable	2,188,439	580,234	970,760	3,739,433
Due from developer	44,035	—	—	44,035
Due from other funds	—	2,719	—	2,719
Due from other governments	14,901	—	—	14,901
Inventory	—	24,191	6,830	31,022
Prepaid expenses	247,311	—	—	247,311
Total current assets	15,487,161	4,956,555	6,604,630	27,048,346
Non-current assets:				
Restricted cash and cash equivalents	1,660,373	287,409	2,789,006	4,736,788
Capital assets:				
Land	9,227,525	1,029,479	125,611	10,382,616
Buildings and structures	50,485,854	1,539,423	5,125,564	57,150,841
Improvements other than buildings and structures	8,209,747	30,626,761	32,176,302	71,012,810
Machinery and equipment	2,099,423	1,051,633	315,519	3,466,576
Construction in progress	—	31,115	4,475	35,591
Less accumulated depreciation	(11,556,819)	(8,899,843)	(4,087,707)	(24,544,369)
Bond issuance costs (net of accumulated amortization)	10,625,796	2,069,437	2,777,398	15,472,631
Intangible assets (net of accumulated amortization)	144,135,399	—	40,091,668	184,227,067
Total non-current assets	214,887,298	27,735,415	79,317,837	321,940,550
Total assets	230,374,459	32,691,969	85,922,467	348,988,896
Liabilities				
Current liabilities:				
Accounts payable	890,426	210,952	511,004	1,612,382
Accrued expenses	—	—	323,695	323,695
Accrued interest payable	4,606,384	645,174	2,048,561	7,300,119
Due to other governments	135,328	—	—	135,328
Due to other funds	—	—	2,719	2,719
Deferred revenue	1,391,671	—	—	1,391,671
Current installments of revenue bonds payable	4,986,088	915,000	1,040,000	6,941,088
Total current liabilities	12,009,897	1,771,125	3,925,978	17,707,000
Noncurrent liabilities:				
Revenue bonds payable, net	222,208,422	24,775,000	84,784,505	331,767,927
Due to developer	1,660,373	—	—	1,660,373
Total noncurrent liabilities	223,868,795	24,775,000	84,784,505	333,428,300
Total liabilities	235,878,692	26,546,125	88,710,483	351,135,300
Net assets				
Invested in capital assets, net of related debt	(13,229,766)	2,045,415	(6,506,668)	(17,691,019)
Restricted for:				
Debt service	5,283,281	655,019	1,445,173	7,383,474
Renewal and replacement	802,959	240,123	295,952	1,339,034
Unrestricted	1,639,294	3,205,287	1,977,527	6,822,108
Total net assets (deficit)	\$ (5,504,232)	\$ 6,145,844	\$ (2,788,016)	\$ (2,146,404)

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

Year ended September 30, 2006

	<u>RAD</u>	<u>VCSA Water and Sewer</u>	<u>LSSA Water and Sewer</u>	<u>Total</u>
Operating revenues:				
Charges for services:				
Water revenue	\$ —	\$ 2,377,872	\$ 3,865,730	\$ 6,243,602
Sewer revenue	—	2,853,040	3,972,727	6,825,767
Recreational amenity fees	29,635,240	—	—	29,635,240
Other income	4,647,004	87,645	137,493	4,872,142
Total operating revenues	<u>34,282,244</u>	<u>5,318,557</u>	<u>7,975,950</u>	<u>47,576,751</u>
Operating expenses:				
Water and sewer	—	2,173,981	2,245,987	4,419,968
Recreational amenity expenses	11,593,616	—	—	11,593,616
General and administrative	3,677,360	—	—	3,677,360
Depreciation	1,871,589	1,109,899	1,380,088	4,361,576
Amortization	4,857,365	131,434	1,129,415	6,118,214
Total operating expenses	<u>21,999,930</u>	<u>3,415,314</u>	<u>4,755,490</u>	<u>30,170,734</u>
Operating income	<u>12,282,314</u>	<u>1,903,243</u>	<u>3,220,460</u>	<u>17,406,017</u>
Nonoperating revenue (expenses):				
Interest income	373,930	97,164	236,192	707,285
Interest expense	(12,052,366)	(1,290,326)	(4,109,656)	(17,452,348)
Loss on disposal of capital assets	(4,374)	—	—	(4,374)
Total nonoperating revenue (expenses)	<u>(11,682,810)</u>	<u>(1,193,163)</u>	<u>(3,873,464)</u>	<u>(16,749,437)</u>
Change in net assets	599,504	710,081	(653,005)	656,580
Total net assets (deficit), beginning	<u>(6,103,736)</u>	<u>5,435,763</u>	<u>(2,135,011)</u>	<u>(2,802,984)</u>
Total net assets (deficit), ending	\$ <u><u>(5,504,232)</u></u>	\$ <u><u>6,145,844</u></u>	\$ <u><u>(2,788,016)</u></u>	\$ <u><u>(2,146,405)</u></u>

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

Statement of Cash Flows

Proprietary Funds

Year ended September 30, 2006

	<u>RAD</u>	<u>VCSA Water and Sewer</u>	<u>LSSA Water and Sewer</u>	<u>Total</u>
Cash flows from operating activities:				
Receipts from customers	\$ 36,302,905	\$ 5,273,692	\$ 7,474,897	\$ 49,051,494
Payments to suppliers	(12,629,600)	(1,849,174)	(2,155,895)	(16,634,669)
Payments to employees	(4,402,132)	—	—	(4,402,132)
Net cash provided by operating activities	<u>19,271,173</u>	<u>3,424,518</u>	<u>5,319,002</u>	<u>28,014,693</u>
Cash flows from capital and related financing activities:				
Payment of bond issue costs	(10,000)	—	—	(10,000)
Principal payments on bonds	(4,374,401)	(880,000)	(820,000)	(6,074,401)
Interest paid	(12,125,827)	(1,307,768)	(4,102,246)	(17,535,841)
Net cash (used in) provided by capital and related financing activities	<u>(16,510,228)</u>	<u>(2,187,768)</u>	<u>(4,922,246)</u>	<u>(23,620,242)</u>
Cash flows from investing activities:				
Payment for capital assets	(3,018,758)	(67,901)	(26,479)	(3,113,138)
Proceeds from sale of fixed assets	2,500	—	—	2,500
Interest received	373,930	97,164	236,192	707,286
Net cash provided by investing activities	<u>(2,642,328)</u>	<u>29,262</u>	<u>209,713</u>	<u>(2,403,353)</u>
Net increase (decrease) in cash and cash equivalents	118,617	1,266,012	606,469	1,991,098
Cash and cash equivalents, beginning of year	<u>14,534,231</u>	<u>3,370,808</u>	<u>7,809,577</u>	<u>25,714,616</u>
Cash and cash equivalents, end of year	<u>\$ 14,652,848</u>	<u>\$ 4,636,820</u>	<u>\$ 8,416,046</u>	<u>\$ 27,705,714</u>
Reconciliation of cash and cash equivalents per statement of cash flows to the statement of net assets:				
Cash per statement of net assets:				
Unrestricted cash and cash equivalents	\$ 2,299,851	\$ 2,809,095	\$ 1,837,354	\$ 6,946,299
Restricted cash and cash equivalents – current	10,692,625	1,540,316	3,789,686	16,022,627
Restricted cash and cash equivalents – noncurrent	<u>1,660,373</u>	<u>287,409</u>	<u>2,789,006</u>	<u>4,736,788</u>
Cash and cash equivalents	<u>\$ 14,652,848</u>	<u>\$ 4,636,820</u>	<u>\$ 8,416,046</u>	<u>\$ 27,705,714</u>

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Statement of Cash Flows
Proprietary Funds
Year ended September 30, 2006

	<u>RAD</u>	<u>VCSA Water and Sewer</u>	<u>LSSA Water and Sewer</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 12,282,314	\$ 1,903,243	\$ 3,220,460	\$ 17,406,017
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,871,589	1,109,899	1,380,088	4,361,576
Amortization	4,857,365	131,434	1,129,415	6,118,214
Cash provided by (used in) changes in:				
Accounts receivable	(227,609)	(44,865)	(111,366)	(383,840)
Due from/to Developer (net)	(87,216)	—	—	(87,216)
Interfund balances (net)	147,226	340,881	2,032	490,139
Intergovernmental balances (due from/to, net)	294,565	—	—	294,565
Inventory		(14,542)	(1,679)	(16,221)
Prepaid expenses	(114,019)	—	—	(114,019)
Accounts payable and accrued liabilities	230,941	(1,532)	(299,947)	(70,538)
Deferred revenue	16,017	—	—	16,017
Net cash provided by operating activities	<u>\$ 19,271,173</u>	<u>\$ 3,424,518</u>	<u>\$ 5,319,002</u>	<u>\$ 28,014,692</u>
Noncash capital activities:				
Conveyance of capital assets by Developer	<u>1,639,990</u>	<u>-</u>	<u>-</u>	<u>1,639,990</u>

See accompanying notes to basic financial statements

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2006

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

(a) **Reporting Entity**

The Village Center Community Development District (the District) was established in 1992 to manage and finance basic services for a community 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 the Town of Lady Lake, Florida, Ordinance No. 92-06 pursuant to the provisions of Chapter 190.005 of the *Florida Statutes*, and operates within the criteria established by Chapter 190.

The District provides water and sewer utility services, recreation and security services and fire protection and paramedic services to residents of a retirement community known as The Villages, located in The Villages, Florida. The District also provides for the maintenance of common areas and roadways for the commercial areas within the District's boundaries. The Villages of Lake-Sumter, Inc. (Developer) developed The Villages. At September 30, 2006, 3 of the supervisors are employees of the Developer and 1 supervisor is employed by an entity in which the Developer has an ownership interest.

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 funds in accordance with GASB Statement No. 20. 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 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 CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2006

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

(a) **Reporting Entity (continued)**

- 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 CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic 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 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 the District, which are offset by 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 utility and 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. Related debt is the debt less any associated unamortized issuance costs.

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

Unrestricted net assets represent net assets not included in *Invested in capital assets, net of related debt* or *Restricted net assets*.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues, including recreational amenities fees and utilities charges, 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

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic 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 is the District's major governmental fund:

General Fund

The District's governmental fund is the general fund, which is the general operating fund of the District and is used to account for all financial resources of the general government (fire and safety department and commercial common area maintenance).

The following are the District's major enterprise funds:

RAD Fund

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

VCSA Utility Fund

The principal operating revenues of the District's VCSA Utility fund are charges to customers for water and waste water services. VCSA Utility's operating fund is used to account for all costs of providing services on a continuing basis.

LSSA Utility Fund

The principal operating revenues of the District's LSSA Utility fund are charges to customers for water and waste water services. LSSA Utility's operating fund is used to account for all costs of providing services on a continuing basis.

Proprietary funds report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The District uses enterprise funds to account for the operations and maintenance of the water and sewer utility systems and the recreational amenities division (RAD) that 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.

The District reports the following major proprietary funds: the Recreational Amenities Division (RAD) Fund, the Village Center Service Area (VCSA) Water and Sewer Fund and the Little Sumter Service Area (LSSA) Water and Sewer Fund. 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

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2006

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

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

principal ongoing operations. The principal operating revenues of the District enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, depreciation on capital assets, and amortization of amenity fees. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(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.

(f) *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.

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

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2006

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

(g) ***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.

(h) ***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.

(i) ***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.

(j) ***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 revenue and expenses during the period. Actual results could differ from those estimates.

(k) ***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.

(l) ***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 both the utility and recreational 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 to fund those necessary water and sewer system renewals and replacements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies (continued)

(l) Restricted Assets – Proprietary Funds (continued)

The utility bond resolutions further require that the District deposit all system development charges promptly, upon receipt thereof, in the System Development Charges Fund. These funds shall be accumulated and applied by the District in accordance with the provisions of Bond Trust Indenture.

(m) Accounts Receivable

Accounts Receivable in the proprietary funds consist of amounts due on amenity contracts and charges for water and sewer. For uncollectible accounts receivable, the direct write-off method is used which is not significantly different from the allowance method.

(2) Fire Assessments

Fire assessments are levied as non-ad valorem assessments by the respective Board of County Commissioners. The assessments are billed on the annual property tax bill sent out each November. The assessments become due and payable on November 1 of each year and are delinquent on April 1 of the following year. Discounts are allowed for payments made prior to the April 1 delinquent date. There is no exemption for non-ad valorem assessments.

Important dates in the assessment cycle are as follows:

- (a) November 1 – Taxes due and payable (levy date)
- (b) November 30 - Assessments payable (maximum discount of 4%)
- (c) March 31 – Due Date
- (d) April 1 – Assessments become delinquent (lien date)

(3) Stewardship, Compliance and Accountability

Deficit Fund Equity

The District's LSSA Water and Sewer fund reported an accumulated deficit negative working capital and net loss for the year ended September 30, 2006 of \$2,764,533 and \$629,522, respectively. Management believes that as the utility's service area is built out, the net deficit will be decreased through added charges for services. Management also believes that the LSSA Water and Sewer fund's cash flows will be sufficient to fund its operations and debt requirements.

(4) Investments

<u>Investment Type</u>	<u>Fair Value at September 30, 2006</u>	<u>Weighted Average Maturity (days)</u>	<u>Credit Rating</u>
Repurchase Agreements	7,439,085	overnight	n/a
Money Market Mutual Funds	20,759,414	23	AAAm

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2006

(4) 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	26.40%

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 District's investment policies follow *Florida Statutes 218.415 (17)* and the 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.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2006

(5) Capital Assets

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

	Beginning balance	Increases	Decreases	Ending balance
Governmental activities:				
Assets being depreciated:				
Machinery and equipment	\$ 2,106,488	443,462	-	2,549,950
Less accumulated depreciation for:				
Machinery and equipment	(410,805)	(162,982)	-	(573,787)
Governmental activities capital assets, net	<u>\$ 1,695,683</u>	<u>280,480</u>	<u>-</u>	<u>1,976,163</u>
Business-type activities:				
Assets not being depreciated				
Land	\$ 10,382,616	-	-	10,382,616
Construction in progress	538,065	35,591	(538,065)	35,591
Assets being depreciated:				
Buildings and structures	52,019,091	5,131,750		57,150,841
Improvements other than buildings	70,950,866	22,005		70,972,871
Machinery and equipment	3,441,914	86,807	(22,206)	3,506,515
Total	<u>137,332,552</u>	<u>5,276,153</u>	<u>(560,271)</u>	<u>142,048,434</u>
Less accumulated depreciation for:				
Buildings and structures	(6,353,448)	(1,450,699)	776	(7,803,371)
Improvements other than buildings	(11,788,175)	(2,521,920)	678	(14,309,417)
Machinery and equipment	(2,049,211)	(388,957)	6,587	(2,431,581)
Total accumulated depreciation	<u>(20,190,834)</u>	<u>(4,361,576)</u>	<u>8,041</u>	<u>(24,544,369)</u>
Business-type activities capital assets, net	<u>\$ 117,141,718</u>	<u>914,577</u>	<u>(552,230)</u>	<u>117,504,065</u>

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2006

(5) Capital Assets (continued)

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

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
RAD:				
Assets not being depreciated	\$			
Land	9,227,525	-	-	9,227,525
Construction in progress	538,065	-	(538,065)	-
Assets being depreciated:				
Buildings and structures	45,354,104	5,131,750		50,485,854
Improvements other than buildings	8,209,747	-	-	8,209,747
Machinery and equipment	2,071,608	50,021	(22,206)	2,099,423
Total	<u>65,401,049</u>	<u>5,181,771</u>	<u>(560,271)</u>	<u>70,022,549</u>
Less accumulated depreciation for:				
Buildings and structures	(5,415,400)	(1,185,332)	781	(6,599,951)
Improvements other than buildings	(2,960,368)	(440,623)	678	(3,400,313)
Machinery and equipment	(1,317,508)	(245,634)	6,587	(1,556,555)
Total accumulated depreciation	<u>(9,693,276)</u>	<u>(1,871,589)</u>	<u>8,046</u>	<u>(11,556,819)</u>
RAD capital assets, net	<u>\$ 55,707,773</u>	<u>3,310,183</u>	<u>(552,225)</u>	<u>58,465,731</u>

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2006

(5) Capital Assets (continued)

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
VCSA Water and Sewer:				
Assets not being depreciated	\$			
Land	1,029,479	-	-	1,029,479
Construction in Progress	-	31,115		31,115
Assets being depreciated:				
Buildings and structures	1,539,423	-	-	1,539,423
Improvements other than buildings	30,626,761	-	-	30,626,761
Machinery and equipment	<u>1,014,847</u>	<u>36,782</u>	-	<u>1,051,629</u>
Total	<u>34,210,510</u>	<u>67,897</u>	-	<u>34,278,407</u>
Less accumulated depreciation for:				
Buildings and structures	(632,738)	(90,815)	-	(723,553)
Improvements other than buildings	(6,475,513)	(920,835)	-	(7,396,348)
Machinery and equipment	<u>(681,689)</u>	<u>(98,249)</u>	-	<u>(779,938)</u>
Total accumulated depreciation	<u>(7,789,940)</u>	<u>(1,109,899)</u>	-	<u>(8,899,839)</u>
VCSA Water and Sewer capital assets, net	<u>\$ 26,420,570</u>	<u>(1,042,002)</u>	<u>-</u>	<u>25,378,568</u>

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2006

(5) Capital Assets (continued)

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
LSSA Water and Sewer:				
Assets not being depreciated	\$			
Land	125,612	-	-	125,612
Construction in Progress		4,475		4,475
Assets being depreciated:				
Buildings and structures	5,125,564	-	-	5,125,564
Improvements other than buildings	32,154,298	22,004	-	32,176,302
Machinery and equipment	315,519	-	-	315,519
Total	<u>37,720,993</u>	<u>26,479</u>	<u>-</u>	<u>37,747,472</u>
Less accumulated depreciation for:				
Buildings and structures	(318,000)	(174,552)	-	(492,552)
Improvements other than buildings	(2,352,294)	(1,160,462)	-	(3,512,756)
Machinery and equipment	(37,324)	(45,074)	-	(82,398)
Total accumulated depreciation	<u>(2,707,618)</u>	<u>(1,380,088)</u>	<u>-</u>	<u>(4,087,706)</u>
LSSA Water and Sewer capital assets, net	<u>\$ 35,013,375</u>	<u>(1,353,609)</u>	<u>-</u>	<u>33,659,766</u>

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2006

(6) 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>
Business-type activities:				
Discounted value of amenity fees	\$ 173,080,218	-	(1,639,990)	171,440,228
Discounted value of utilities charges	43,338,051	-	-	43,338,051
Less accumulated amortization	<u>(25,164,130)</u>	<u>(5,387,082)</u>	<u>-</u>	<u>(30,551,212)</u>
Intangible assets, net	<u>\$ 191,254,139</u>	<u>(5,387,082)</u>	<u>(1,639,990)</u>	<u>184,227,067</u>
RAD:				
Discounted value of amenity fees	\$ 173,080,218	-	(1,639,990)	171,440,228
Less accumulated amortization	<u>(23,001,198)</u>	<u>(4,303,631)</u>	<u>-</u>	<u>(27,304,829)</u>
Intangible assets, net	<u>\$ 150,079,020</u>	<u>(4,303,631)</u>	<u>(1,639,990)</u>	<u>144,135,399</u>
LSSA:				
Discounted value of utilities charges	\$ 43,338,051	-	-	43,338,051
Less accumulated amortization	<u>(2,162,932)</u>	<u>(1,083,451)</u>	<u>-</u>	<u>(3,246,383)</u>
Intangible assets, net	<u>\$ 41,175,119</u>	<u>(1,083,451)</u>	<u>-</u>	<u>40,091,668</u>

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2006

(7) **Inter-fund Balances**

The composition of inter-fund balances as of September 30, 2006 is as follows:

Receivable fund	Payable fund		
VCSA Water and Sewer	Fire	Interfund billing for services	\$ 118
LSSA Water and Sewer	Fire	Interfund billing for services	29
VCSA Water and Sewer	RAD	Interfund billing for services	8,913
VCSA Water and Sewer	LSSA Water and Sewer	Inter-Fund Transfers	2,718
LSSA Water and Sewer	RAD	Interfund billing for services	3,663

(8) **Long-term Debt**

Revenue Bonds Payable

Revenue bonds payable consisted of the following:

Recreational Revenue Bonds :

<p>\$60,175,000 Recreational Revenue Refunding Bonds, Series 1998A due in annual principal installments ranging from \$1,690,000 to \$3,640,000 through November 2022 in accordance with the redemption schedule. Interest is due semi-annually on May 1 and November 1 of each year until redemption or maturity. Interest rates range from 4.45% to 5.50%.</p>	<p>\$ 46,605,000</p>
<p>\$14,220,000 Recreational Revenue Bonds, Series 1999A due in annual principal installments ranging from \$255,000 to \$5,035,000 through November 2023 in accordance with the redemption schedule. Interest is due semi-annually on May 1 and November 1 of each year until redemption or maturity. Interest rates range from 4.45% to 5%.</p>	<p>13,795,000</p>
<p>\$36,455,000 Recreational Revenue Bonds, Series 2001A due in annual principal installments ranging from \$740,000 to \$7,310,000 through November 2025 in accordance with the redemption schedule. Interest rates range from 4.15% to 5.20% and interest is due semi-annually on May 1 and November 1 of each year until redemption or maturity.</p>	<p>33,695,000</p>
<p>\$57,250,000 Recreational Revenue Bonds, Series 2003A due in annual principal installments ranging from \$3,535,000 to \$10,110,000 through November 2032 in accordance with the redemption schedule. Interest rate is 5.0% and interest is due semi-annually on May 1 and November 1 of each year until redemption maturity.</p>	<p>57,250,000</p>

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2006

(8) Long-term Debt (continued)

Revenue Bonds Payable (continued)

Recreational Revenue Bonds (continued) :

<p>\$39,425,000 Recreational Revenue Bonds, Series 2004A due in annual principal installments ranging from \$4,895,000 to \$12,110,000 through November 2036 in accordance with the redemption schedule. Interest rates are 5.125-5.375% and interest is due semi-annually on May 1 and November 1 of each year until redemption or maturity.</p>	39,425,000
<p>\$5,575,000 Subordinate Recreational Revenue Bonds, Series 1998B due in annual principal installments ranging from \$220,000 to \$470,000 through January 2017 in accordance with the redemption schedule. Interest at 8.25% is due semi-annually on January 1 and July 1 of each year until redemption or maturity.</p>	3,870,000
<p>\$5,340,000 Subordinate Recreational Revenue Bonds, Series 1998C due in annual principal installments ranging from \$145,000 to \$1,005,000 through January 2019 in accordance with the redemption schedule. Interest at 7.375% is due semi-annually on January 1 and July 1 of each year until redemption or maturity.</p>	4,550,000
<p>\$7,665,000 Subordinate Recreational Revenue Bonds, Series 1999B due in annual principal installments ranging from \$125,000 to \$1,065,000 through January 2013 in accordance with the redemption schedule. Interest at 6.25% is due semi-annually on January 1 and July 1 of each year until redemption or maturity.</p>	6,110,000
<p>\$2,010,000 Subordinate Recreational Revenue Bonds, Series 2001B due in annual principal installment of \$630,000 through January 2007 in accordance with the redemption schedule. Interest at 6.30% is due semi-annually on January 1 and July 1 of each year until redemption or maturity.</p>	630,000
<p>\$7,005,000 Subordinate Recreational Revenue Bonds, Series 2003B due in annual principal installments ranging from \$140,000 to \$2,420,000 through January 2018 in accordance with the redemption schedule. Interest at 6.35% is due semi-annually on January 1 and July 1 of each year until redemption or maturity.</p>	7,005,000
<p>\$11,160,000 Subordinate Recreational Revenue Bonds, Series 2004B due in annual principal installments ranging from \$940,000 to \$2,475,000 through January 2015 in accordance with the redemption schedule. Interest at 5.875% is due semi-annually on January 1 and July 1 of each year until redemption or maturity.</p>	10,980,000
<p>\$4,000,000 Recreational Revenue Bond, Series 2005 Junior Lien Bonds, due in annual principal installments ranging from \$141,088 to \$2,569,673 through August 1, 2015. Interest at 3.90% due annually. These bonds are subordinate to both the Senior and Subordiante Revenue Bonds previously issued.</p>	3,864,208

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2006

(8) Long-term Debt (continued)

Revenue Bonds Payable (continued)

Village Center Service Area Utility Revenue Bonds :

\$25,465,000 Utility Revenue Refunding Bonds, Series 1998A, due in annual principal installments ranging from \$750,000 to \$1,720,000 through October 2023 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 4.00% to 5.25%.

21,015,000

\$5,690,000 Subordinate Utility Revenue Bonds, Series 1998B due in annual principal installments ranging from \$165,000 to \$385,000 through October 2023 in accordance with the redemption schedule. Interest rates range from 4.05% to 5.25% and interest is due semi-annually on April 1 and October 1 of each year until redemption or maturity.

4,675,000

Little Sumter Service Area Utility Revenue Bonds :

\$86,400,000 Utility Revenue Bonds, Series 2003, due in annual principal installments ranging from \$1,040,000 to \$5,230,000 through October 2036 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 5.00% to 5.25%.

85,175,000

Total long-term debt	338,644,208
Plus bond premium	1,035,726
Less bond discount	(970,918)
Less current installments of revenue bonds payable	(6,941,088)
Revenue bonds payable less current installments	<u><u>\$331,767,928</u></u>

The Recreational Revenue Bonds, Series 1998A, 1998B, 1998C, 1999A, 1999B, 2001A, 2001B, 2003A, 2003B, 2004A, 2004B and 2005 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 1998B, 1998C, 1999B, 2001B, 2003B and 2004B 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 1998A, 1999A, 2001A, 2003A and 2004A. The Recreational Bonds Series 2005 are secured by a lien and pledge of revenues which is junior and subordinate to the liens and pledges of revenue or all of the other Recreational Revenue Bonds issued by the District.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2006

(8) Long-term Debt (continued)

Revenue Bonds Payable (continued)

The Utility Revenue Bonds, Series 1998A and 1998B are secured by a lien and pledge of the revenues under the indenture which are derived by the District from the fees and charges for water and wastewater services in the VCSA (Village Center Service Area). The Utility Revenue Bonds, Series 1998B are secured by a lien and pledge of revenues which is junior and subordinate to the lien and pledge of revenues on the Utility Revenue Bonds, Series 1998A.

The Utility Revenue Bond, Series 2003 is secured by a lien and pledge of the revenues under the indenture which is derived by the District from the fees and charges for water and wastewater services in the Little Sumter Service Area.

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	6,941,088	17,246,990	24,188,078
2008	6,561,193	16,940,755	23,501,948
2009	7,772,292	16,596,877	24,369,169
2010	8,343,231	16,192,998	24,536,229
2011	8,774,402	15,754,378	24,528,780
2012-2016	53,017,002	70,961,302	123,978,304
2017-2021	52,085,000	56,097,978	108,182,978
2022-2026	56,410,000	42,807,010	99,217,010
2027-2031	61,325,000	30,310,138	91,635,138
2032-2036	60,075,000	13,221,928	73,296,928
2037	17,340,000	441,069	17,781,069
Total	<u>\$ 338,644,208</u>	<u>296,571,423</u>	<u>635,215,631</u>

Due to Developer – Recreational Amenities

Subordinate debt service reserve requirements were 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 Developer when the reserve requirement is reduced as principal payments are made on the debt. Amounts due to the Developer at September 30, 2006 were \$1,660,373.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2006

(8) Long-term Debt (continued)

Capital Leases

The District is obligated under capital leases covering machinery and equipment that expire at various dates through 2014. At September 30, 2006, the gross amount of machinery and equipment recorded under capital leases was \$ 909,738 with accumulated depreciation of \$260,036.

Future minimum lease payments (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of September 30, 2006 are:

Year ending September 30,	<u>Capital leases</u>
2007	141,222
2008	117,468
2009	117,468
2010	90,368
2011	71,862
2012 – 2014	<u>145,398</u>
Total minimum lease payments	683,786
Less interest	<u>95,445</u>
Net present value	<u>\$ 588,340</u>

Loans Payable

District loans payable related to the District's governmental activities consisted of the following:

Loan payable to bank, secured by fire and safety equipment, principal and interest payments due monthly, interest at the lender's prime rate (4.38 % at September 30, 2006), maturing September 1, 2009.	\$ 110,884
Loan payable to bank, secured by fire and safety equipment, principal and interest payments due monthly, interest fixed at 4.30%, maturing February 28, 2010.	\$ 56,806
Loan payable to bank, secured by fire and safety equipment, principal and interest payments due monthly, interest fixed at 4.30% for five years and then adjusted to 70% of lenders prime rate, maturing February 28, 2015.	\$ <u>695,471</u>
Total loans payable	\$ 863,161
Less current installments of loans payable	<u>121,423</u>
Loans Payable less current installments	<u>\$ 741,738</u>

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2006

(8) Long-term Debt (continued)

Loans Payable (continued)

The annual requirements to amortize the loans payable are shown below:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30:			
2007	121,423	34,817	156,240
2008	126,778	29,462	156,241
2009	131,514	23,871	155,384
2010	87,077	18,991	106,068
2011	83,153	15,417	98,570
2012 - 2015	313,216	24,175	337,391
Total	<u>863,161</u>	<u>146,734</u>	<u>1,009,895</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:					
Loans payable	\$ 1,379,752	# -	516,591	863,161	121,423
Capital leases	698,355	-	110,015	588,340	141,222
Governmental activities long-term debt	<u>\$ 2,078,107</u>	<u>-</u>	<u>626,606</u>	<u>1,451,501</u>	<u>262,645</u>
Business-type activities:					
Bonds payable					
RAD	\$ 232,175,000	-	4,395,792	227,779,208	4,986,088
VCSA Water and Sewer	26,570,000	-	880,000	25,690,000	915,000
LSSA Water and Sewer	85,995,000	-	820,000	85,175,000	1,040,000
Less bond discount and deferred amounts	77,498	-	-	77,498	-
Total bonds payable	<u>344,817,498</u>	<u>-</u>	<u>6,095,792</u>	<u>338,721,706</u>	<u>6,941,088</u>
Due to developer - RAD	1,736,750	-	76,377	1,660,373	-
Total business-type activities long-term liabilities	<u>\$ 346,554,248</u>	<u>-</u>	<u>6,172,169</u>	<u>340,382,079</u>	<u>6,941,088</u>

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2006

(9) *Related Parties*

The District entered into inter-local agreements to provide Village Community Development District No. 1 (District No. 1), Village Community Development District No. 2 (District No. 2), Village Community Development District No. 3 (District No. 3), Village Community Development District No. 4 (District No. 4), Sumter Landing Community Development District (Sumter Landing), and 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) certain management, finance, and administrative services for fees of \$186,567, \$186,567, \$186,567, \$186,567, \$367,602, \$26,075, \$26,075 and \$13,460 respectively, for the fiscal year ended September 30, 2006. Upon action by their respective Boards of Supervisors, District No. 1, District No. 2, District No. 3, District No. 4, Sumter Landing, District No. 5, District No. 6 and District No. 7 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 \$501,750. In addition the District reimbursed the Developer \$261,915 for items and services purchased or paid for by the Developer on behalf of the District. The District purchased water, waste water, and irrigation water from companies affiliated with the Developer for \$6,670. The District paid bank fees and loan interest to a bank affiliated with the Developer in the amount of \$139,393 and received interest income from the same bank for \$74,387. The District received for no charge from the Developer information system support, including software, hardware and computer programming and internal mail room operations.

The District purchased LSSA Utility from a company affiliated with the Developer and per the terms of the sale has paid CIAC receipts to the seller. In February 2005 \$3,145,819 was paid and in March 2006 \$713,381 was paid. At September 30, 2006 the remaining balance of potential additional CIAC proceeds to the Seller is \$2,997,330 of which \$323,695 has been collected and not yet paid.

The District and the Developer entered into a Utility Option agreement dated 02/27/04. The District grants the Developer the option to purchase up to 500,000 gallons per day of additional wastewater treatment capacity. An option fee of \$150,000 was collected from the Developer in consideration of this option. The Developer has the right to assign all or portions of the capacity by giving the District written notice. The agreement expires five years from the effective date.

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 the current or previous years.

At September 30, 2006, 3 of the supervisors of the District are employees of the Developer and 1 supervisor is employed by an entity in which the Developer has an ownership interest.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2006

(10) Commitments and Contingencies

Operating Leases

The District has entered into five leases with the Developer for three office buildings and two fire safety facilities. The district has also entered into an operating lease for office equipment. The future minimum leases payments for these leases are as follows:

Year Ending September 30:	Building Leases	Equipment Leases	Total
2007	\$ 338,018	\$ 4,983	\$ 343,001
2008	275,609	4,983	280,592
2009	275,608	4,983	280,591
2010	203,130	4,983	208,112
2011	-	4,983	4,983
Total	<u>\$ 1,092,365</u>	<u>\$ 24,914</u>	<u>\$ 1,117,279</u>

(11) 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. The District generally carries insurance for these risks, however the District retains risk for certain property coverage and for losses in excess of coverage limits. There have been no claims in excess of coverage limits for the past two years.

(12) Subsequent Events

During the fiscal year ended September 30, 2006, the firefighters voted to unionize. Subsequent to year end the union has begun negotiations with District management for a contract. The financial effect to the District is unknown at this time.

**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 Center Community Development District
The Villages, Florida

We have audited the financial statements of the governmental activities, business-type activities and each major fund of Village Center 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*.

Certified Public Accountants

P.O. Box 23999 • 222 N.E. 1st Street • Gainesville, Florida 32602 • (352) 378-2461 • FAX (352) 378-2505
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762
2201 Cantu Court, Suite #100 • Sarasota, Florida 34232 • (941) 379-2800 • FAX (941) 379-2899

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

Board of Supervisors
Village Center Community Development District
The Villages, Florida

**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*
(Concluded)**

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

Purkie, Gray and Company, LLP

MANAGEMENT LETTER

Board of Supervisors
Village Center 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 Village Center 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.].

Certified Public Accountants

P.O. Box 23999 • 222 N.E. 1st Street • Gainesville, Florida 32602 • (352) 378-2461 • FAX (352) 378-2505
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762
2201 Cantu Court, Suite #100 • Sarasota, Florida 34232 • (941) 379-2800 • FAX (941) 379-2899

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

Board of Supervisors
Village Center 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, Village Center 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) (see attached management letter comments).

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

Purkin, Gray and Company, LLP

MANAGEMENT LETTER COMMENTS

Board of Supervisors
Village Center 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 investment guidelines for bond funds. Village Center 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.

Certified Public Accountants

P.O. Box 23999 • 222 N.E. 1st Street • Gainesville, Florida 32602 • (352) 378-2461 • FAX (352) 378-2505
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762
2201 Cantu Court, Suite #100 • Sarasota, Florida 34232 • (941) 379-2800 • FAX (941) 379-2899

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 COMMENTS
(Continued)

Current Year Recommendations *(Continued)*

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 District, however it also leaves the District completely reliant upon the developer and not in control of system security and overall system management.

Additionally, by agreement with the Developer, the District 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 timesheet 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.

Board of Supervisors
Village Center Community Development District
The Villages, Florida

MANAGEMENT LETTER COMMENTS
(Concluded)

Current Year Recommendations *(Concluded)*

Payroll Related *(Concluded)*

■ **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.

Financial Condition Assessment

The RAD and LSSA funds have negative net assets and LSSA had a negative change in net assets for the 2006 year. We believe that this is largely due to capital and intangible assets being depreciated/amortized faster than the long-term debt associated with these assets are being retired, which will level out over time as debt retirements increase. However, we recommend that the District also continue to work its business plan to increase the net assets of these funds through rate changes and cost containment measures as necessary.

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

Purkie, Gray and Company, LLP

Board of Supervisors
Village Center Community Development District
The Villages, Florida

Response to Management Letter Comments

- **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 purchases from the Developer have resulted in the Due to Developer for an amount equal to the subordinate debt service reserve amounts.
- **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.
- **Financial Condition Assessment**
Management agrees and will implement measures to address recommendations.