VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

Basic Financial Statements

September 30, 2008

(With Independent Auditors' Report Thereon)

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

Table of Contents

Purvis Gray & Company

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, 2008, 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, 2008, 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 February 3, 2009, 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.

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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 table of 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.

Purvis, Gray and Company, LLP

February 3, 2009
Ocala, Florida

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Management Discussion and Analysis
(UNAUDITED)
September 30, 2008

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 $34,916,621. Of this increase, $32,633,111 occurred as a result of the receipt of the proceeds from a lawsuit settlement agreement involving residents of The Villages, the Village Center Community Development District and the developer, The Villages of Lake Sumter. The governmental activities recognized an increase of $1,684,478, primarily in the Public Safety area. The business-type activities recognized a net increase of $599,032 in addition to the settlement proceeds.
- At the close of the fiscal year, the District's governmental fund reported a fund balance of $1,868,730, a net increase of $761,666 compared to the prior year.
- The District's proprietary funds realized an increase in net assets of $33,232,143. The Recreation Amenities Division (RAD) fund and the Village Center Service Area water and sewer fund both had increases to net assets of $33,564,220 and $737,109, respectively. The Little Sumter Service Area water and sewer fund realized a reduction in net assets of $1,069,186. The significant gain in the RAD fund resulted from the settlement of litigation discussed above.
- The $1,069,186 decrease in net assets in the Little Sumter Service Area was almost identical to the net decrease in the prior year of $1,043,591. Adjustments to the rate schedule due to a new conservation rate structure continued to be offset by resident water conservation. A further rate review will be required in the upcoming year to ensure debt service coverage requirements in the 2003 Utility Bonds are met.
- The District's total long-term debt decreased by $9,771,454 during the current fiscal year. The decrease relates to principal payments made on outstanding revenue bonds and loans during the year ended September 30, 2008. Included in this reduction was the payoff of the Series 2005 Subordinate Recreation Bonds in the amount of $2,988,119, using some of the proceeds of the litigation settlement agreement.

Overview of the Financial Statements:

This discussion and analysis is 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 and decreases in net assets may serve as a useful indicator of whether the financial position of the Village Center Community Development 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 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 (e.g. uncollected assessments).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by assessments and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include general government, public safety, and environmental services. The business-type activities of the District include the Recreation Amenities Division which provides general governmental, debt service and culture and recreation services. The District also operates two water and sewer utilities serving different geographical areas of The Villages. The District has no component units, as all functions are performed by the primary government.

The government-wide financial statements are provided at pages 9-10 of this report.

The Fund Financial Statements, which report by individual fund, begin on page 11. Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. 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 Village Center Community Development District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The General Fund primarily covers public safety services provided by the Department of Public Safety and environmental and property maintenance services for the Village of Spanish Springs, Rolling Acres and road maintenance in commercial areas of the District that are funded through special assessments on benefiting properties. There are currently no other governmental funds.

The District operates three proprietary funds, the Recreation Amenities Division (RAD) fund, and two water and sewer utility funds, the Village Center Service Area (VCSA) fund and the Little Sumter Service Area (LSSA) fund. The fund financial statements present information in more detail than the government-wide financial statements. Governmental Accounting Standards Board (GASB) Statement No. 34 provides the authoritative guidance on the governmental financial reporting model.

Governmental funds. *Governmental funds* are used to account for essentially the same functions as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District currently maintains one continuing governmental fund, the General Fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund. The General Fund is considered to be a major fund.

The District adopts an annual budget for the general fund. A budgetary comparison statement for the General Fund can be found at page 15 of this report.

Proprietary funds. The District maintains three proprietary funds. The Recreation Amenity Division (RAD) Enterprise Fund provides for the operation, maintenance and debt service for bonds used to acquire recreational facilities in the Districts. In addition, the District operates two separate water and sewer utility funds serving different geographical areas of the District. The Village Center Service Area (VCSA) Fund serves the Village of Spanish Springs commercial area and residential areas in Lake County, plus part of District No. 1 in Sumter County. The Little Sumter Service Area Fund provides utility services to part of District No. 1 and all of District Nos. 2, 3, and 4. These enterprise funds, a category of proprietary funds, are included as *business-type activities* in the government-wide financial statements.

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 the three enterprise funds, all of which are considered to be major funds of the Village Center Community Development District.

The basic proprietary fund financial statements can be found on pages 16-18 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Village Center Community Development District's own programs. The accounting for fiduciary funds is much like that used for proprietary funds. The District established its first fiduciary fund, the Beyond the Stars Fund, in July 2008. This new fund is used to account for donations voluntarily deducted from employees' paychecks and used for charitable purposes involving needy employees and their family members. The statement can be found at page 19 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 20 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $35,344,525 as of September 30, 2008, representing an increase of $34,916,621 from the net assets of $427,904 as of September 30, 2007. The increase in net assets for September 30, 2008 is due mainly to the significant increase in the fund balance of the RAD proprietary fund due to receipt of litigation settlement proceeds.

The District's net assets are categorized as follows as of September 30, 2008:

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

Restricted for debt service. An additional portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. The District's restricted net assets are for purposes of meeting its debt service obligations.

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

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

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Table 1

		Governmental Activities		Business-type Activities		Total	
		September 30,		September 30,		September 30,	
		2008	2007	2008	2007	2008	2007
Assets:							
Current assets	$	2,070,620	1,071,909	43,417,557	32,540,349	45,488,177	33,612,258
Restricted assets		105,334	322,225	748,767	369,343	854,101	691,568
Amenity settlement assets		-	-	9,785,184	-	9,785,184	-
Annuity settlement assets		-	-	11,194,611	-	11,194,611	-
Bond issuance costs (net of accumulated amortization)		-	-	13,960,223	14,722,138	13,960,223	14,722,138
Capital assets, (net of accumulated depreciation)		2,872,200	2,181,071	113,064,335	116,455,809	115,936,535	118,636,880
Intangible assets, (net of accumulated amortization)		-	-	173,517,638	178,872,353	173,517,638	178,872,353
Total Assets		5,048,154	3,575,205	365,688,315	342,959,992	370,736,469	346,535,197
Liabilities:							
Current liabilities		595,850	336,504	18,546,115	20,238,084	19,141,965	20,574,588
Long-term liabilities		743,872	1,214,747	315,506,108	324,317,958	316,249,980	325,532,705
Total Liabilities		1,339,722	1,551,251	334,052,223	344,556,042	335,391,945	346,107,293
Net assets (deficit)							
Invested in capital assets, net of related debt		1,880,958	966,323	(20,653,094)	(18,267,924)	(18,772,136)	(17,301,601)
Restricted		1,827,474	1,057,631	14,482,994	5,076,491	16,310,468	6,134,122
Unrestricted		-	-	37,806,193	11,595,383	37,806,193	11,595,383
Total Net Assets	$	3,708,432	2,023,954	31,636,093	(1,596,050)	35,344,525	427,904

Governmental Activities

Governmental activities increased the District's net assets by approximately $1,684,478 during the year ended September 30, 2008. Most of this increase occurred in the Public Safety Department. Commercial area maintenance activities contributed the remaining balance.

Business-type Activities

Business-type activities increased the District's net assets by approximately $33,232,143 during the year ended September 30, 2008. The receipt of litigation settlement proceeds of $32,633,111 constituted the primary source of this increase. Both the Recreation Amenities Division fund and the Village Center Service Area fund produced improvements to the net asset position of the District. The Little Sumter Service Area realized a decrease in net assets during the fiscal year ending September 30, 2008.

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

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Table 2

		Governmental Activities		Business-type Activities		Total	
		September 30,		September 30,		September 30,	
		2008	2007	2008	2007	2008	2007
Program revenues:							
Charges for services	$	7,053,064	5,591,236	49,803,728	48,374,478	56,856,792	53,965,714
Operating contributions		83,579	13,679	-	-	83,579	13,679
Capital grants and contributions		32,385	11,862	21,323	99,808	53,708	111,670
General revenues:							
Investment earnings		48,579	35,864	656,529	991,572	705,108	1,027,436
Extraordinary earnings		-	-	32,633,111	-	32,633,111	-
Total revenues		7,217,607	5,652,641	83,114,691	49,465,858	90,332,298	55,118,499
Expenses:							
Recreational amenity		-	-	17,682,374	16,619,977	17,682,374	16,619,977
Public safety		4,551,621	3,590,541	-	-	4,551,621	3,590,541
Commercial area maintenance		667,813	684,601	-	-	667,813	684,601
Water and sewer utilities		-	-	4,666,763	4,652,890	4,666,763	4,652,890
Depreciation and amortization		262,701	202,138	10,538,472	10,493,193	10,801,173	10,695,331
Interest on long-term debt		50,994	61,535	16,994,939	17,149,435	17,045,933	17,210,970
Total expenses		5,533,129	4,538,815	49,882,548	48,915,495	55,415,677	53,454,310
Changes in net assets		1,684,478	1,113,826	33,232,143	550,363	34,916,621	1,664,189
Total net assets (deficit), beginning		2,023,954	910,128	(1,596,050)	(2,146,413)	427,904	(1,236,285)
Total net assets (deficit), ending	$	3,708,432	2,023,954	31,636,093	(1,596,050)	35,344,525	427,904

Capital Assets:

The District's capital assets as of September 30, 2008 and 2007 amounted to $115,936,535 and $118,636,880, 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 4 to the financial statements.

Long-term Debt:

As of September 30, 2008 and 2007, the District had long-term debt outstanding of $316,249,980 and $325,532,705, respectively. Additional information regarding the District's long-term debt can be found in Note 7 of the financial statements.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate in Lake, Sumter and Marion Counties, where the District is located, was 4.5 percent in September 2008 which is an increase from a rate of 3.1 percent a year ago. This compares favorably with the State's average unemployment rate of 6.8 percent and the national average rate of 6.0 percent.
- Inflationary trends in the area compare favorably to national indices. The national Consumer Price Increase (CPI) annual increase for all urban consumers changed unfavorably from 2.76 percent in September 2007 to 4.94 percent in September 2008.

These factors were considered in preparing the District's budget for the 2009 fiscal year. Total annual projected revenues for all funds decreased in the FY 2009 budget by about $1.899 million compared to the FY 2008 final amended budget. Much of this reduction can be explained by the $11.886 million in one-time litigation settlement proceeds included in the FY 2008 budget. Aside from this extraordinary settlement proceeds, other revenues are projected to grow by approximately $9.987 million in the upcoming year. On the expenditure side, the budget is anticipated to grow from $57.600 million to $67.945 million for all funds, a growth of $10.345 million. Much of the revenue and expenditure growth is in the RAD fund and represents a major reorganization of the Village Districts between FY 2008 and FY 2009. The entire employee payroll previously included in the Sumter Landing District has been transferred to create a single payroll in the Village Center District. This both increases the projected expenses, but also results in a major increase in revenue as the Village Center bills the Sumter Landing and other Districts for services rendered. The reorganization also has resulted in the consolidation of the Property Management, Community Watch, Finance, Community Standards and most of the Recreation Departmental budgets under the Village Center Community Development District budget.

The movement to conservation rate structures and an October 2008 Consumer Price Index based rate adjustment in the Village Center Service Area and Little Sumter Service Areas in the last part of FY 2008 is also having a small positive impact on total revenue projected for FY 2009 estimated at approximately $382,000, and included in the above information. Revenue growth in the Public Safety budget is estimated at about $312,000.

Request for Information

The District's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional financial information, contact the Village Community Development Districts, Finance Department at 3201 Wedgewood Lane, The Villages, FL 32162; telephone (352) 753-0421.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Statement of Net Assets
September 30, 2008

Assets		Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	$	1,936,423	29,539,326	31,475,749
Accounts and other receivables		7,919	4,032,441	4,040,360
Note receivable (litigation settlement)		—	9,785,184	9,785,184
Investments (FMIvT)		126,278	9,845,791	9,972,069
Investment in annuity (litigation settlement agreement)		—	11,194,611	11,194,611
Due from developer		—	24,341	24,341
Internal balances		—	595	595
Due from other governments		78,234	413,375	491,610
Inventory		—	9,237	9,237
Prepaids		27,100	301,218	328,318
Capital assets:				
Land		—	10,382,615	10,382,615
Building and structures		—	57,238,609	57,238,609
Improvements other than buildings		—	74,798,611	74,798,611
Machinery and equipment		3,492,000	3,674,421	7,166,420
Construction in progress		378,826	335,824	714,650
Less accumulated depreciation		(998,626)	(33,365,746)	(34,364,372)
Bond issuance costs (net of accumulated amortization)		—	13,960,223	13,960,223
Intangible assets (net of accumulated amortization)		—	173,517,638	173,517,638
Total assets		5,048,154	365,688,316	370,736,470
Liabilities				
Accounts payable		148,114	744,491	892,606
Accrued expenses		189,616	1,156,065	1,345,681
Accrued interest payable		—	7,165,560	7,165,560
Due to other governments		10,751	367,825	378,577
Unearned revenue		—	595	595
Deferred revenue		—	1,488,148	1,488,148
Total current liabilities		348,481	10,922,685	11,271,167
Long-term debt:				
Due to developer		—	1,520,250	1,520,250
Due within one year		247,369	7,623,430	7,870,799
Due in more than one year		743,872	313,985,858	314,729,730
Total long-term debt		991,241	323,129,538	324,120,779
Total liabilities		1,339,722	334,052,223	335,391,946
Net Assets				
Invested in capital assets, net of related debt		1,880,958	(20,653,094)	(18,772,136)
Restricted for:				
Debt Service		—	9,473,077	9,473,077
Renew & Replacement		—	5,009,917	5,009,917
Public Safety		1,336,245	—	1,336,245
Village of Spanish Springs		249,033	—	249,033
Rolling Acres		26,970	—	26,970
Commercial Road Maintenance		215,228	—	215,228
Unrestricted		—	37,806,193	37,806,193
Total net assets	$	3,708,432	31,636,093	35,344,525

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Statement of Activities
Year Ended September 30, 2008

		Program revenues			Net (expense) revenue and changes in net assets		
Functions/Programs	**Expenses**	**Charges for services**	**Operating contributions**	**Capital grants and contributions**	**Governmental activities**	**Business-type activities**	**Total**
Governmental activities:							
Public safety	$ 4,814,322	6,288,851	—	32,385	1,506,914	—	1,506,914
Commercial area maintenance	667,813	847,792	—	—	179,979	—	179,979
Interest on long-term debt	50,994	—	—	—	(50,994)	—	(50,994)
Total governmental activities	5,533,129	7,136,643	—	32,385	1,635,899	—	1,635,899
Business-type activities:							
Recreational Amenities	36,137,945	69,256,093	—	—	—	33,118,148	33,118,148
VCSA Water and sewer utility	4,779,528	5,396,389	—	2,848	—	619,709	619,709
LSSA Water and sewer utility	8,965,075	7,784,357	—	18,475	—	(1,162,243)	(1,162,243)
Total business-type activities	49,882,548	82,436,839	—	21,323	—	32,575,614	32,575,614
Total primary government	$ 55,415,677	89,573,482	—	53,708	1,635,899	32,575,614	34,211,513
General revenues:							
Investment earnings					48,579	656,529	705,108
Total general revenues					48,579	656,529	705,108
Change in net assets					1,684,478	33,232,143	34,916,621
Net assets (deficit) – beginning					2,023,954	(1,596,050)	427,904
Net assets (deficit) – ending					$ 3,708,432	$ 31,636,093	$ 35,344,525

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Balance Sheet
General Fund
September 30, 2008

	Total
Assets	
Cash	1,936,423
Investments	126,278
Due from other governments	78,234
Due from other funds	7,919
Prepaid items	27,100
Total assets	2,175,954
Liabilities and Fund Balance	
Accounts payable and accrued expense	307,224
Total liabilities	307,224
Fund balances:	
Reserved for:	
Prepaid expenses	27,100
Public Safety	1,350,400
Village of Spanish Springs Common Area Maintenance	249,032
Rolling Acres Common Area Maintenance	26,970
Commercial Road Maintenance	215,228
Total fund balance	1,868,730
Total liabilities and fund balance	2,175,954

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, 2008

Fund balance – general fund			$	1,868,730
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	$	3,870,826		
Less accumulated depreciation		(998,626)		2,872,200
Long–term liabilities are not due and payable in the current period and therefore are not reported in the general fund:				
Leases payable		(377,016)		
Loans payable		(614,225)		
Compensated absences		(41,257)		(1,032,498)
Net assets of governmental activities			$	3,708,432

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, 2008

		Total
Revenues:		
Fire assessments - Public Safety	$	2,121,037
Amenities revenue - Public Safety		1,760,640
Sumter County General Fund Transfer - Public Safety		873,133
Impact Fees - Public Safety		1,534,041
Grants and contributions - Public Safety		32,385
Assessments - Village of Spanish Springs		646,319
Assessments - Rolling Acres		92,660
Assessments - Road Maintenance Commercial		25,234
Other fees		83,579
Interest		48,579
Total revenues		7,217,607
Expenditures:		
Current:		
Fire safety operations		4,559,797
Maintenance & administration - Village of Spanish Springs		596,027
Maintenance & administration - Rolling Acres		60,615
Maintenance & administration - Road Maintenance		11,171
Debt service:		
Interest - Public Safety		50,994
Principal payments - Public Safety		223,504
Capital outlay - Public Safety		953,833
Total expenditures		6,455,941
Net change in fund balance		761,666
Fund balance, beginning of year		1,107,064
Fund balance, end of year	$	1,868,730

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, 2008

Net change in fund balance – general fund	$	761,666
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is 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.		691,132
Repayment of debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		223,504
Decrease in compensated absenses		8,176
Change in net assets of governmental activities	$	1,684,478

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, 2008

		Budget Original	Budget Final	Actual amounts	Variance with final
Revenues:					
Fire assessments - Public Safety	$	1,987,177	2,121,038	2,121,037	(1)
Amenities revenue - Public Safety		1,698,881	1,760,540	1,760,640	100
Sumter County General Fund Transfer - Public Safety		1,669,113	1,534,041	1,534,041	—
Impact Fees - Public Safety		910,000	873,133	873,133	—
Grants and contributions - Public Safety		—	61,171	32,385	(28,786)
Assessments - Village of Spanish Springs		664,319	655,512	646,319	(9,193)
Assessments - Rolling Acres		94,460	93,427	92,660	(767)
Assessments - Road Maintenance Commercial		30,234	28,634	25,234	(3,400)
Other fees		—	53,801	83,579	29,778
Interest		—	36,646	48,579	11,933
Total revenues		7,054,184	7,217,943	7,217,607	(336)
Expenditures:					
Current					
Public safety operations		4,714,745	4,715,224	4,559,797	155,427
Maintenance & administration - Village of Spanish Springs		664,319	624,879	596,027	28,852
Maintenance & administration - Rolling Acres		71,804	70,771	60,615	10,156
Maintenance & administration - Road Maintenance		13,574	11,172	11,171	1
Debt service:					
Interest - Public Safety		—	52,167	50,994	1,173
Principal payments - Public Safety		298,687	246,132	223,504	22,628
Capital outlay - Public Safety		1,251,739	1,088,526	953,833	134,693
Total expenditures		7,014,868	6,808,871	6,455,941	352,930
Surplus of revenues over expenditures		39,316	409,072	761,666	352,594
Net change in fund balance		39,316	409,072	761,666	352,594
Fund balance, beginning of year		—	—	1,107,064	1,107,064
Fund balance, end of year	$	39,316	409,072	1,868,730	1,459,658

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Statement of Net Assets
Proprietary Funds
September 30, 2008

Assets	Recreation Amenities Division (RAD)	VCSA Water and Sewer	LSSA Water and Sewer	Total
Current assets:				
Cash and cash equivalents	$ 5,832,310	$ 4,006,671	$ 1,127,459	$ 10,966,440
Restricted cash and cash equivalents	10,187,969	1,622,832	4,827,836	16,638,637
Accounts receivable	2,517,325	601,066	914,050	4,032,441
Note receivable (litigation settlement)	9,785,184	—	—	9,785,184
Investments (FMIvT)	9,094,981	454,413	296,397	9,845,791
Investment in annuity (litigation settlement)	11,194,611	—	—	11,194,611
Due from developer	24,341	—	—	24,341
Due from other funds	—	595	—	595
Due from other governments	413,375	—	—	413,375
Inventory	—	4,073	5,164	9,237
Prepaid expenses	301,218	—	—	301,218
Total current assets	49,351,315	6,689,650	7,170,907	63,211,872
Non-current assets:				
Restricted cash and cash equivalents	1,488,750	303,552	141,947	1,934,249
Capital assets:				
Land	9,227,525	1,029,479	125,611	10,382,615
Buildings and structures	50,573,622	1,539,423	5,125,564	57,238,609
Improvements other than buildings and structures	8,847,055	30,951,313	35,000,243	74,798,611
Machinery and equipment	2,254,294	1,144,730	275,397	3,674,421
Construction in progress	37,193	—	298,631	335,824
Less accumulated depreciation	(15,366,228)	(11,083,210)	(6,916,308)	(33,365,746)
Bond issuance costs (net of accumulated amortization)	9,561,417	1,806,569	2,592,236	13,960,223
Intangible assets (net of accumulated amortization)	135,592,873	—	37,924,765	173,517,638
Total non-current assets	202,216,501	25,691,856	74,568,087	302,476,444
Total assets	251,567,816	32,381,506	81,738,994	365,688,316
Liabilities				
Current liabilities:				
Accounts payable	352,705	110,683	281,104	744,491
Accrued expenses	306,464	—	849,602	1,156,065
Accrued interest payable	4,530,967	607,450	2,027,143	7,165,560
Due to other governments	361,348	6,478	—	367,825
Due to other funds	—	—	595	595
Deferred revenue	1,488,148	—	—	1,488,148
Current installments of revenue bonds payable	5,193,430	990,000	1,440,000	7,623,430
Total current liabilities	12,233,061	1,714,610	4,598,444	18,546,115
Non-current liabilities:				
Revenue bonds payable, net	209,114,515	22,830,000	82,041,343	313,985,858
Due to developer	1,520,250	—	—	1,520,250
Total non-current liabilities	210,634,765	22,830,000	82,041,343	315,506,108
Total liabilities	222,867,826	24,544,610	86,639,787	334,052,223
Net assets				
Invested in capital assets, net of related debt	(13,611,694)	1,871,856	(8,913,256)	(20,653,094)
Restricted for:				
Debt service	5,657,002	1,015,382	2,800,693	9,473,077
Renewal and replacement	3,600,000	809,917	600,000	5,009,917
Unrestricted	33,054,682	4,139,741	611,770	37,806,193
Total net assets (deficit)	$ 28,699,990	$ 7,836,896	$ (4,900,793)	$ 31,636,093

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, 2008

		Recreation Amenities Division (RAD)	VCSA Water and Sewer	LSSA Water and Sewer	Total
Operating revenues:					
Charges for services:					
Water revenue	$	—	2,321,865	3,344,174	5,666,039
Sewer revenue		—	2,974,701	4,317,871	7,292,572
Recreational amenity fees		31,940,927	—	—	31,940,927
FEMA reimbursement		—	—	51,473	51,473
Other income		4,682,055	102,671	89,314	4,874,040
Total operating revenues		36,622,982	5,399,237	7,802,832	49,825,051
Operating expenses:					
Water and sewer		—	2,347,900	2,318,863	4,666,763
Recreational amenity expenses		12,313,083	—	—	12,313,083
General and administrative		5,369,291	—	—	5,369,291
Depreciation		1,886,574	1,085,294	1,449,976	4,421,844
Amortization		4,809,163	131,434	1,176,031	6,116,628
Total operating expenses		24,378,111	3,564,628	4,944,870	32,887,609
Operating income		12,244,871	1,834,609	2,857,962	16,937,442
Non-operating revenue (expenses):					
Interest income		446,072	117,400	93,057	656,529
Interest expense		(11,759,834)	(1,214,900)	(4,020,205)	(16,994,939)
Litigation settlement revenue		32,633,111	—	—	32,633,111
Total non-operating revenue (expenses)		21,319,349	(1,097,500)	(3,927,148)	16,294,701
Change in net assets		33,564,220	737,109	(1,069,186)	33,232,143
Total net assets (deficit), beginning		(4,864,230)	7,099,787	(3,831,607)	(1,596,050)
Total net assets (deficit), ending	$	28,699,990	7,836,896	(4,900,793)	31,636,093

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2008

	Recreation Amenities Division (RAD)	VCSA Water and Sewer	LSSA Water and Sewer	Total
Cash flows from operating activities:				
Receipts from customers	$ 34,328,011	5,403,068	7,802,832	47,533,911
Receipts from other funds	2,034,000	—	—	2,034,000
Payments to suppliers	(12,595,283)	(2,711,113)	(2,828,416)	(18,134,812)
Payments to employees	(5,519,494)	—	—	(5,519,494)
Net cash provided by operating activities	18,247,234	2,691,955	4,974,416	25,913,605
Cash flows from capital and related financing activities:				
Principal payments on bonds	(7,186,869)	(955,000)	(1,269,081)	(9,410,950)
Interest paid	(11,751,954)	(1,234,283)	(4,033,172)	(17,019,409)
Litigation Settlement	11,886,151	—	—	11,886,151
Net cash (used in) provided by capital and related financing activities	(7,052,672)	(2,189,283)	(5,302,253)	(14,544,208)
Cash flows from investing activities:				
Payment for capital assets	(588,024)	(231,805)	(210,540)	(1,030,369)
Purchase of investments	(9,193,079)	(459,917)	(299,997)	(9,952,993)
Interest received	311,333	122,900	96,657	530,890
Net cash provided (used) by investing activities	(9,469,770)	(568,822)	(413,880)	(10,452,472)
Net increase (decrease) in cash and cash equivalents	1,724,792	(66,150)	(741,717)	916,925
Cash and cash equivalents, beginning of year	15,784,237	5,999,205	6,838,959	28,622,401
Cash and cash equivalents, end of year	$ 17,509,029	5,933,055	6,097,242	29,539,326
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	$ 5,832,310	4,006,671	1,127,459	10,966,440
Restricted cash and cash equivalents – current	10,187,969	1,622,832	4,827,836	16,638,637
Restricted cash and cash equivalents – non-current	1,488,750	303,552	141,947	1,934,249
Cash and cash equivalents	$ 17,509,029	5,933,055	6,097,242	29,539,326
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$ 12,244,871	1,834,609	2,857,962	16,937,442
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,886,574	1,085,297	1,449,976	4,421,847
Amortization	4,809,163	131,434	1,176,030	6,116,628
Cash provided by (used in) changes in:				
Accounts receivable	(71,043)	3,831	(47,281)	(114,493)
Due from/to developer (net)	(119,697)	—	—	(119,697)
Interfund balances (net)	—	(595)	595	—
Intergovernmental balances (net)	(265,028)	6,478	—	(258,550)
Inventory	—	10,356	(823)	9,533
Prepaid expenses	(5,426)	—	—	(5,426)
Accounts payable and accrued liabilities	(276,779)	(379,455)	(462,043)	(1,118,277)
Deferred revenue	44,597	—	—	44,597
Net cash provided by operating activities	$ 18,247,234	2,691,955	4,974,416	25,913,605
Noncash capital activities:				
Conveyance of capital assets by developer	$ 1,488,750	—	—	1,488,750
Note receivable (litigation settlement)	9,785,184	—	—	9,785,184
Investment in annuity (litigation settlement)	11,194,611	—	—	11,194,611

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Fund
September 30, 2008

		Beyond the Stars Agency Fund
Assets:		
Cash and cash equivalents		52,993
Total assets	$	52,993
Liabilities:		
Due to Beyond the Stars beneficiaries		52,993
Total liabilities	$	52,993

(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, in 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, security services, 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. As of September 30, 2008, the majority of members of the Board of Supervisors are employees of or affiliated with the Developer.

There are no component units that are legally separate from the District. There are twelve Community Development Districts (CDD) in the total structure of The Villages, each being a separate government entity, established pursuant to Chapter 190, Florida Statutes.

The Developer has formed the following community development districts:

- Village Center CDD (Lake, Marion and Sumter Counties) – This CDD provides water and sewer utility services, recreation, security services, 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 in the commercial areas is funded through commercial maintenance assessments.
- Sumter Landing CDD (Sumter County) – 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 in the commercial areas 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 3,420 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 3,668 residential units.
- Village CDD No. 3 (Sumter County) – This CDD's boundary consists of approximately 895 acres in the northeast corner of the county. The development includes construction of 3,762 residential units.

(1) Summary of Significant Accounting Policies (continued)

(a) Reporting Entity (continued)

- Village CDD No. 4 (Marion County) – This CDD's boundary consists of approximately 1,187 acres in the southern portion of the county. The development includes construction of 5,132 residential units.
- Village CDD No. 5 (Sumter County) – This CDD's boundary consists of approximately 1,406 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 1,496 acres in the northeast corner of the county. Planned development includes construction of 6,562 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 4,765 residential units.
- Village CDD No. 8 (Sumter County) – This CDD's boundary consists of approximately 1,069 acres in the northeast corner of the county. Planned development includes construction of 4,938 residential units.
- Village CDD No. 9 (Sumter County) – This CDD has been formed, but is not yet being developed as of September 30, 2008.
- Village CDD No. 10 (Sumter County) – This CDD has been formed, but is not yet being developed as of September 30, 2008.

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.

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.

(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

(1) Summary of Significant Accounting Policies (continued)

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

related cash flows. Assessments are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are 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 (public safety department and commercial common area maintenance).

The following are the District's major enterprise funds, a type of propriety fund:

Recreation Amenities Division (RAD) Fund

The principal operating revenues of the District's RAD fund are charges to customers for amenity fee based services, including recreation and security. RAD's operating fund is used to account for all costs of providing services on a continuing basis.

Village Center Service Area (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 to customers located in the Lake County portion of The Villages, and a portion of District No. 1 residential areas in Sumter County.

Little Sumter Service Area (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 in the residential areas located in District Nos. 1 (portion), 2, 3, and 4, along with associated commercial areas.

(1) Summary of Significant Accounting Policies (continued)

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

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 enterprise funds: the Recreational Amenities Division (RAD) Fund, the Village Center Service Area (VCSA) Water and Sewer Utility Fund and the Little Sumter Service Area (LSSA) Water and Sewer Utility Fund. Enterprise 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 an enterprise fund's principal on-going 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 debt service issuance costs and intangible assets. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Additionally, the District reports on the following fund type:

Fiduciary fund - The Beyond the Stars Agency Fund accounts for the voluntary donations made by District employees for the benefit of needy employees and their families. This fund is not reflected in the government-wide financial statements because the resources of the fund are not available to support the District's own programs. The accounting used for this fund is much like that used for proprietary funds.

(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) Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

- Money Market Mutual Funds

(1) Summary of Significant Accounting Policies (continued)

(e) Deposits and Investments (continued)

- Demand Deposits
- Florida State Board of Administration's Local Government Investment Pool (SBA LGIP)

The money market mutual funds are stated at cost which approximates fair value.

In May 2008, the District transferred amounts approximately equal to its long-term reserved fund balances (less debt service reserves maintained with the bond trustee) into the Florida Municipal Investment Trust (FMIvT) operated by the Florida League of Cities. The investment was placed into the FMIvT's 1-3 Year High Quality Bond Fund. The investment in this pool is evidenced by shares which are marked to market monthly.

As part of the settlement agreement between the District, The Villages of Lake Sumter, and Villages residents, an initial payment of $11,886,151 in cash was received in April 2008. In addition, a total of $28,021,000 in further payments is due each December for the next thirteen (13) years. The Villages of Lake Sumter provided the District an annuity contract which is held as an investment valued at $11,194,611 to cover the last eight years of this settlement requirement. The first five annual payments are shown as a receivable with a net present value of $9,785,184 as of September 30, 2008.

(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

(g) Intangible Assets

Intangible assets represent the discounted value of future amenity fees or utilities service fees 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.

(1) Summary of Significant Accounting Policies (continued)

(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, and amortized over the life of the bond issue.

(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) 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.

The utility bond resolutions further require that the District deposit all system development charges promptly, upon receipt thereof, in the System Development Charges account. These funds shall be accumulated and applied by the District in accordance with the provisions of Bond Trust Indenture. Certain of these assets are reimbursed to the developer by the Little Sumter Service Area utility fund.

(l) Accounts Receivable

Accounts Receivable in the proprietary funds consists of amounts due on amenity contracts, charges for water and sewer, and amounts owed by the developer as a portion of the settlement agreement. For uncollectible accounts receivable, the allowance method is used.

(2) Stewardship, Compliance and Accountability

Deficit Net Assets

The District's Little Sumter Service Area (LSSA) Utility Fund reported accumulated negative net assets for the year ended September 30, 2008 and September 30, 2007 of $4,900,793 and $3,831,607, respectively. Management believes that as the utility migrates to the conservation rate structure supported by the Southwest Florida Water Management District in the upcoming fiscal year and implements a 4.94 percent inflation-based rate adjustment in October 2008, that the operating revenue will cover expenses. Management also believes that the LSSA Water and Sewer utility fund's cash flows will be sufficient to fund its operations and debt service requirements in the future. A rate sufficiency study will be conducted in the upcoming fiscal year to confirm these facts.

The District's Recreation Amenity Division (RAD) fund reported accumulated negative net assets for the year ended September 30, 2007 of $4,864,230. Net assets had increased to a positive amount of $28,699,990 by September 30, 2008, primarily resulting from receipt of the litigation settlement proceeds discussed above.

(3) Deposits and Investments

As of September 30, 2008, the District had the following investments:

Deposits and Investment Type		Fair Value at September 30, 2008	Weighted Average Maturity (Days)	Credit Rating
Cash on Hand	$	3,310	n/a	n/a
Demand Deposits, CFB		6,406,833	1.0	n/a
Local Government Investment Pool, SBA		6,545,713	8.5	AAAm
Money Market Mutual Funds, U.S. Bank		18,572,886	40.0	AAAm
1-3 Year Bond Fund, FMIvT		9,972,069	522.0	AAA/v2
Annuity Investment, settlement proceeds		11,194,611	2,934.3	AA
Total Fair Value	$	52,695,422		
Less: Fiduciary Fund Balances		(52,993)		
Basic Financial Statement Balances	$	52,642,429		
Portfolio Weighted Average Maturity (WAM)			737.4	

Interest Rate Risk. Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. GASB 40 requires that interest rate risk be disclosed using one of the five approved methods. The five methods are: segmented time distribution, specific identification, weighted average maturity (WAM), duration, and simulation model. The District has used the WAM method in the above chart. In accordance with the District's investment policy, the government manages its exposure to decline in fair values by limiting the Weighted Average Maturity (WAM) of its investment portfolio to less than two years. The WAM on September 30, 2008 was 737.4 days.

(3) Deposits and Investments (continued)

Credit Risk. GASB 40 requires disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed income securities. Investments may be aggregated by ratings categories within the disclosure. Ratings are set by nationally recognized statistical rating organizations (Fitch, Moody's, and S&P). Fitch provides the ratings for FMIvT, while S&P provides the ratings for the U.S. Bank money market and the SBA investment pool.

Operating cash is maintained with Citizens First Bank, an authorized Public Depository, pursuant to Chapter 280, Florida Statutes.

The District's investments consist of funds placed with four entities:

- The State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pool created by Section 218.415, Florida Statues. This investment pool operates under investment guidelines established by Section 215.47, Florida Statutes. The District's investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, are reported at fair value which is amortized cost.

- Trust balances related to restricted debt service accounts are maintained with U.S. Bank and are invested in First American Government Obligation Fund Class Y, a money market mutual fund.

- The District also has investments consisting of funds placed with the Florida League of Cities, Inc. for participation in the Florida Municipal Investment Trust investment pool. The pool is an authorized investment consistent with Section 218.415(16)(a), Florida Statutes and the District's investment policy. The District owns shares in the 1-3 Year High Quality Bond Fund, a pool operated by the FMIvT. GASB 31 requires all governments to mark to market the unrealized gains and losses incurred in its investments. As of September 30, 2008, the FMIvT had incurred unrealized losses of a net amount of $108,626. These losses would only be realized if the underlying shares in the FMIvT pool are sold.

- On May 13, 2008, The Villages of Lake Sumter, Inc. (VLS) obtained an annuity contract with MetLife, Inc. with an initial balance of $10,961,776.79, and provided it to the Village Center Community Development District (VCCDD) as sole beneficiary of the annuity contract proceeds. Provision of this annuity contract was required in the litigation settlement agreement among VLS, VCCDD and residents of The Villages. This annuity provides interest earnings at a rate of 5.49842876 percent with payments in various amounts due annually on December 31, 2013 through December 31, 2020, and totaling $17,124,200. As of September 30, 2008, the annuity contract was valued at $11,194,611, including accrued interest. MetLife is rated A+ by A.M. Best, AA by Standard & Poor's, Aa2 by Moody's and A+ by Fitch. The Standard & Poor's rating is shown in the above schedule.

- In total, net of the FMIvT unrealized losses, the District recognized an investment gain of $705,108 during the fiscal year.

(3) Deposits and Investments (continued)

Concentration of Credit Risk. The District's investment policy requires the diversification of its investment portfolio. Investments may be diversified by:

- Limiting investments to avoid over-concentration in securities from a specific issuer or business sector;
- Limiting investments in securities with higher credit risks;
- Investment in securities with varying maturities; and
- Continuously investing a portion of the portfolio in readily available funds, such as the Local Government Investment Pool, money market funds, or overnight repurchase agreements to ensure the appropriate liquidity is maintained to meet ongoing obligations.

Custodial Credit Risk-Deposits In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District invests its operating cash solely in Guaranteed Public Depositories that meet the requirements of Chapter 280, Florida Statutes. In addition to protection of up to $250,000 for its deposits with a single bank being provided by the Federal Deposit Insurance Corporation (FDIC), the District's deposits are provided an extra level of security afforded by using a public depository that meets the requirements of Chapter 280. This includes the provision by the public depository of collateral based on the amount of public deposits maintained at the institution and the ability of the State of Florida to levy other public depositories for shortages in collateral in the event of the failure of a public depository. The Citizens First Bank is a Guaranteed Public Depository.

Custodial Credit Risk-Investments For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. All investments are held in the name of the District by a custodian or a Trustee for the District.

Investment Policy

The District is authorized to invest in those financial instruments as established by the Investment Policy of the District. This policy allows investments authorized under *Florida Statutes* 218.415 amended to include Repurchase Agreements and prohibiting derivative-type investments. The authorized investments consist of:

- The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Inter-local Cooperation Act as provided in section 163.01 Florida Statutes.
- 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 Florida Statutes.

(3) Deposits and Investments (continued)

Investment Policy (continued)

- Direct obligations of the United States Treasury.
- Federal agencies and instrumentalities.
- Repurchase agreements with financial institutions approved as public depositors, provided that the underlying collateral consist of obligations of the United States Government, its agencies and instrumentalities. The repurchase agreement shall be collateralized equal to at least 102 percent of the value of the District's investment.

(4) Capital Assets

Capital asset activity for the year ended September 30, 2008 was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Governmental activities:				
Assets not being depreciated				
Construction in progress	$ -	378,826	-	378,826
Assets being depreciated:				
Machinery and equipment	2,956,993	575,007	(40,000)	3,492,000
Less accumulated depreciation for:				
Machinery and equipment	(775,925)	(262,701)	40,000	(998,626)
Governmental activities capital assets, net	2,181,068	691,132	-	2,872,200
Enterprise activities:				
Assets not being depreciated				
Land	10,382,616	-	-	10,382,616
Construction in progress	103,041	232,782	-	335,823
Assets being depreciated:				
Buildings and structures	57,238,399	-	210	57,238,609
Improvements other than buildings	74,186,055	655,777	(43,221)	74,798,611
Machinery and equipment	3,489,601	141,810	43,011	3,674,421
Total	145,399,711	1,030,369	-	146,430,080
Less accumulated depreciation for:				
Buildings and structures	(9,346,610)	(1,544,503)	(61,719)	(10,829,394)
Improvements other than buildings	(16,864,687)	(2,596,874)	91,315	(19,552,876)
Machinery and equipment	(2,732,602)	(280,471)	(29,596)	(2,983,477)
Total accumulated depreciation	(28,943,898)	(4,421,848)	-	(33,365,747)
Enterprise capital assets, net	$ 116,455,813	(3,391,480)	-	113,064,333

Government activities depreciation expense of $262,701 pertains to the Public Safety Department.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
Notes to Basic Financial Statements
September 30, 2008

(4) Capital Assets (continued)

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

Recreation Amenities Division

		Beginning balance	Increases	Decreases	Ending balance
RAD					
Assets not being depreciated					
Land	$	9,227,525	-	-	9,227,525
Construction in progress		-	37,192	-	37,192
Assets being depreciated:					
Buildings and structures		50,573,412	-	210	50,573,622
Improvements other than buildings		8,422,772	424,493	(210)	8,847,055
Machinery and equipment		2,127,956	126,339	-	2,254,294
Total assets		70,351,664	588,024	-	70,939,688
Less accumulated depreciation for:					
Buildings and structures		(7,877,823)	(1,279,136)	-	(9,156,959)
Improvements other than buildings		(3,844,497)	(429,912)	-	(4,274,409)
Machinery and equipment		(1,757,335)	(177,526)	-	(1,934,861)
Total accumulated depreciation		(13,479,654)	(1,886,574)	-	(15,366,228)
RAD capital assets, net	$	56,872,010	(1,298,551)	-	55,573,459

Village Center Service Area Water and Sewer Utility

		Beginning balance	Increases	Decreases	Ending balance
VCSA Water and Sewer:					
Assets not being depreciated	$				
Land		1,029,479	-	-	1,029,479
Construction in Progress		-	-	-	-
Assets being depreciated:					
Buildings and structures		1,539,423	-	-	1,539,423
Improvements other than buildings		30,734,979	216,334	-	30,951,313
Machinery and equipment		1,129,259	15,471	-	1,144,730
Total		34,433,140	231,805	-	34,664,945
Less accumulated depreciation for:					
Buildings and structures		(814,368)	(90,814)	-	(905,182)
Improvements other than buildings		(8,318,964)	(930,715)	-	(9,249,679)
Machinery and equipment		(864,580)	(63,769)	-	(928,349)
Total accumulated depreciation		(9,997,912)	(1,085,298)	-	(11,083,210)
VCSA Water and Sewer capital assets, net	$	24,435,229	(853,493)	-	23,581,735

(4) Capital Assets (continued)

Little Sumter Service Area Water and Sewer Utility

		Beginning balance	Increases	Decreases	Ending balance
LSSA Water and Sewer:					
Assets not being depreciated	$				-
Land		125,612	-	-	125,612
Construction in Progress		103,041	195,590	-	298,631
Assets being depreciated:					
Buildings and structures		5,125,564	-	-	5,125,564
Improvements other than buildings		35,028,304	14,950	(43,011)	35,000,243
Machinery and equipment		232,386	-	43,011	275,397
Total		40,614,907	210,540	-	40,825,447
Less accumulated depreciation for:					
Buildings and structures		(667,104)	(174,553)	(61,719)	(903,376)
Improvements other than buildings		(4,701,226)	(1,236,247)	91,315	(5,846,158)
Machinery and equipment		(98,002)	(39,176)	(29,596)	(166,774)
Total accumulated depreciation		(5,466,332)	(1,449,976)	-	(6,916,308)
LSSA Water and Sewer capital assets, net	$	35,148,575	(1,239,436)	-	33,909,139

(5) Intangible Assets

Intangible asset activity for the year ended September 30, 2008 was as follows:

		Beginning balance	Increases	Decreases	Ending balance
RAD:					
Discounted value of amenity fees	$	171,440,228	-	-	171,440,228
Less accumulated amortization		(31,576,092)	(4,271,263)		(35,847,355)
RAD Intangible assets, net	$	139,864,136	(4,271,263)	-	135,592,873
LSSA:					
Discounted value of utilities charges	$	43,338,051	-	-	43,338,051
Less accumulated amortization		(4,329,834)	(1,083,451)	-	(5,413,285)
LSSA Intangible assets, net	$	39,008,217	(1,083,451)	-	37,924,766
Business-type activities, total:					
Discounted value of amenity fees	$	171,440,228	-	-	171,440,228
Discounted value of utilities charges		43,338,051	-	-	43,338,051
Less accumulated amortization		(35,905,926)	(5,354,714)	-	(41,260,640)
Total Intangible assets, net	$	178,872,353	(5,354,714)	-	173,517,639

(6) Inter-fund Balances

One inter-fund payable and receivable exists between the two utility proprietary funds in the amount of $595. A payment in this amount was erroneously collected into the Little Sumter Service Area (LSSA), when it should have been collected into the Village Center Service Area (VCSA). The error resulted in LSSA having a Due to VCSA of $595 and the VCSA recording a Due from the LSSA in a like amount as of September 30, 2008.

(7) Long-term Debt

Revenue Bonds Payable

Revenue bonds payable consisted of the following:

Recreation Amenity Division Bonds:

$60,175,000 Recreational Revenue Refunding Bonds, Series 1998A due in annual principal installments ranging from $1,935,000 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 4.10% to 5.50%.	$	43,175,000
$14,220,000 Recreational Revenue Bonds, Series 1999A due in annual principal installments ranging from $390,000 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 3.9% to 5.0%.		13,540,000
$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 3.25% to 5.20% and interest is due semi-annually on May 1 and November 1 of each year until redemption or maturity.		31,680,000
$57,250,000 Recreational Revenue Bonds, Series 2003A due in annual principal installments ranging from $0 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 or maturity.		57,250,000
$39,425,000 Recreational Revenue Bonds, Series 2004A due in annual principal installments ranging from $0 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.		39,425,000
$5,755,000 Subordinate Recreational Revenue Bonds, Series 1998B due in annual principal installments ranging from $270,000 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.		3,420,000

(7) Long-term Debt (continued)

Revenue Bonds Payable (continued)

$5,340,000 Subordinate Recreational Revenue Bonds, Series 1998C due in annual principal installments ranging from $175,000 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.		4,250,000
$7,665,000 Subordinate Recreational Revenue Bonds, Series 1999B due in annual principal installments ranging from $740,000 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.		4,120,000
$7,005,000 Subordinate Recreational Revenue Bonds, Series 2003B due in annual principal installments ranging from $0 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.		7,005,000
$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.		10,980,000
VCSA Utility Revenue Bonds		
$25,465,000 Utility Revenue Refunding Bonds, Series 1998A, due in annual principal installments ranging from $810,000 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 3.60% to 5.25%.		19,485,000
$5,690,000 Subordinate Utility Revenue Bonds, Series 1998B, due in annual principal installments ranging from $180,000 to $385,000 through October 2023 in accordance with the redemption schedule. Interest rates range from 3.65% to 5.25%. Interest is due semi-annually on April 1 and October 1 of each year until redemption or maturity.		4,335,000
LSSA Utility Revenue Bonds		
$86,400,000 Utility Revenue Bonds, Series 2003, due in annual principal installments ranging from $1,440,000 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%.		82,900,000
Total revenue bonds payable	$	321,565,000
Plus bond premium		941,549
Less bond discount		(902,120)
Less current installment of revenue bonds payable		(7,620,000)
Revenue bonds payable less current installments	$	313,984,429

(7) Long-term Debt (continued)

Revenue Bonds Payable (continued)

The Recreational Revenue Bonds, Series 1998A, 1998B, 1998C, 1999A, 1999B, 2001A, 2003A, 2003B, 2004A, and 2004B 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, 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 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 Village Center Service Area (VCSA). 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, 2008 are as follows:

		Principal	Interest	Total
Fiscal year ending September 30:				
2009		7,620,000	15,162,126	22,782,126
2010		8,185,000	16,059,437	24,244,437
2011		8,610,000	15,626,988	24,236,988
2012		9,065,000	15,162,126	24,227,126
2013		9,560,000	14,664,197	24,224,197
2014-2018		54,250,000	64,816,501	119,066,501
2019-2023		50,365,000	50,739,586	101,104,586
2024-2028		49,605,000	37,677,234	87,282,234
2029-2033		65,405,000	23,672,366	89,077,366
2034-2037		58,900,000	6,664,509	65,564,509
Total	$	321,565,000	260,245,071	581,810,071

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 the developer for the purchase of recreation and security facilities. This amount becomes available for payment to the developer when the reserve requirement is reduced as principal payments are made on the debt. Amounts due to the developer as of September 30, 2008 were $1,520,250.

(7) Long-term Debt (continued)

Capital Leases

The District is obligated under capital leases covering machinery and equipment that expire at various dates through 2014. As of September 30, 2008, the gross amount of machinery and equipment recorded under capital leases was $916,598 with accumulated depreciation of $399,011.

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, 2008 are:

		Capital Leases Governmental Funds	Capital Leases Proprietary Funds	Total Capital Leases
Fiscal year ending September 30:				
2009	$	117,468	5,830	123,298
2010		90,368	1,629	91,997
2011		71,862	-	71,862
2012		71,862	-	71,862
2013		36,768	-	36,768
2014		36,768	-	36,768
Total minimum lease payments		425,096	7,459	432,555
Less interest		48,080	-	48,080
Net present value	$	377,016	7,459	384,475

(7) Long-term Debt (continued)

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, 2005), maturing September 1, 2009.	$	36,452
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.		24,626
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.		553,147
Total loans payable		614,225
Less current installments of loan payable		(129,901)
Long-term portion of loans payable	$	484,324

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

		Principal	Interest	Total
Fiscal year ending September 30:				
2009	$	129,901	23,865	153,766
2010		87,075	19,056	106,131
2011		83,114	15,481	98,594
2012		86,759	11,837	98,595
2013		90,564	8,033	98,597
2014-2015		136,813	4,550	141,363
Total	$	614,225	82,821	697,047

(7) Long-term Debt (continued)

Changes in Long-Term Debt:

		Beginning balance	Additions	Reductions	Ending balance	Due within one year
Govermental activities:						
Loans payable	$	741,358	-	127,133	614,225	129,901
Capital leases		473,385	-	96,370	377,015	117,468
Governmental activities long-term debt	$	1,214,743	-	223,504	991,239	247,369
Business-type activities:						
Bonds payable						
RAD	$	222,058,120	-	7,213,120	214,845,000	5,190,000
VCSA Water and Sewer		24,775,000	-	955,000	23,820,000	990,000
LSSA Water and Sewer		84,135,000	-	1,235,000	82,900,000	1,440,000
Bond discount and deferred amounts		52,118	-	12,689	39,429	-
Total bonds payable		331,020,238	-	9,415,809	321,604,429	7,620,000
Due to developer - RAD		1,657,250	-	137,000	1,520,250	-
Capital Leases		-	4,859	-	4,859	3,430
Total business-type activities long-term liabilities	$	332,677,488	4,859	9,552,809	323,129,538	7,623,430
Total long term debt	$	333,892,231	4,859	9,776,313	324,120,777	7,870,799

(8) 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), Village Community Development District No. 8 (District No. 8), Village Community Development District No. 9 (District No. 9), and Village Community Development District No. 10 (District No. 10) certain management, finance, and administrative services for fees of $186,672, $186,672, $186,672, $186,672, $501,449, $27,329, $26,373, $25,418, $9,796, $0 and $0, respectively, for the fiscal year ended September 30, 2008. Upon action by their respective Boards of Supervisors, District No. 1 through District No. 10 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 classified advertising, building rents, management services, and repair services for $512,865. In addition, the District reimbursed the developer $118,553 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, paying rates approved by the Public Service Commission, from companies affiliated with the developer for $5,605. The District paid bank fees and loan interest to a bank affiliated with the developer in the amount of $63,550 and received interest income from the same bank of $428,949. 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 the Little Sumter Service Area (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, in March 2006, $713,381 was paid, in May 2007, $323,695 was paid and in March 2008, $1,134,409 was paid. As of September 30, 2008 the remaining balance of potential additional CIAC proceeds to the Seller is $1,539,226 of which $801,602 has been collected and not yet paid.

The District and the Developer entered into a Utility Option agreement dated February 27, 2004. 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.

The District is governed by a five-member Board of Supervisors. As of September 30, 2008, a majority of members of the Board of Supervisors are employees of or affiliated with the Developer.

(9) Commitments and Contingencies

Operating Leases

The District has entered into five leases with the developer for three office buildings and two public safety facilities. The district has also entered into operating leases for office equipment. Each of the building leases has a CPI-based increase scheduled in their renewal month (October for four leases and November for the fifth lease) that is not included in the amounts below.

The future minimum leases payments for these leases are as follows:

Year Ending September 30:		Building Leases	Equipment Leases	Total
2009	$	485,026	9,511	494,537
2010		485,030	9,733	494,763
2011		485,030	5,165	490,195
2012		485,030	4,750	489,780
2013		485,030	4,054	489,084
Total	$	2,425,146	33,213	2,458,359

(10) 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.

(11) Litigation Settlement Agreement and Amenity Authority Committee

As part of the litigation settlement agreement between the District, The Villages of Lake Sumter, and Villages residents, an initial payment of $11,886,151 in cash was received in April 2008. In addition, a total of $28,021,000 in further payments is due each December for the next thirteen (13) years. The Villages of Lake Sumter provided the District an annuity contract which is held as an investment valued at $11,194,611 to cover the last eight years of this settlement requirement. The first five annual payments are shown as a receivable with a net present value of $9,785,184 as of September 30, 2008.

As part of the settlement agreement a requirement was established to form an Amenity Authority Committee (AAC) with duties, authority and limitations to be defined in an Inter-local Agreement among the Village Center Community Development District, the Town of Lady Lake, and Village Community Development Districts Nos. 1, 2, 3 and 4. This Inter-local Agreement dated April 18, 2008 establishes the membership of the AAC including elected representatives from each of the six jurisdictions named above. It establishes the powers and limitations of the AAC in advising and providing direction to the Board of Supervisors of the Village Center Community Development District concerning the receipt and expenditure of amenities fees, settlement proceeds and related funds.

(12) Establishment of Investment Advisory Committee

In December 2007, the Boards of Supervisors of the Village Center Community Development District, Sumter Landing Community Development District and Village Community Development District Nos. 1-8 formed an Investment Advisory Committee, comprised of one member for each District, to provide staff guidance on the Districts' investment strategy and to report back to their respective boards the status of the Districts investments. In January 2009, an eleventh member was added to the committee, with the consent of all ten Districts, to represent the Amenity Authority Committee.

(13) Subsequent Event- Internal Revenue Service Audit of Recreation Bonds

On January 7, 2008, the Internal Revenue Service (IRS) notified the Village Center Community Development District (VCCDD) of its intent to audit the $57,250,000 Village Center Community Development District Recreational Revenue Bonds, Series 2003A, and the $7,005,000 Village Center Community Development District Recreational Revenue Bonds, Series 2003B. The IRS routinely examines municipal debt issues to determine compliance with Federal tax requirements. In May 2008, the District engaged the services of Mr. Perry Israel, as tax counsel, to represent the District before the IRS. On June 5, 2008, the District provided a Notice of Material Event-IRS Examination, to the bondholders and potential bondholders of CUSIP 92706NCQ4 and 92706NCS0.

(13) Subsequent Event- Internal Revenue Service Audit of Recreation Bonds (continued)

The Village Center Community Development District (the "Issuer") received on January 23, 2009 three (3) "Notice of Proposed Issues" (collectively, the "Notices") relating to the Internal Revenue Services' (the "IRS") examination of the above referenced bond issue. The conclusions stated in the Notices are as follows: (1) the Issuer does not qualify as a political subdivision or as "an on behalf of issuer" of tax-exempt bonds pursuant to Section 1.103-1(b) of the Internal Revenue Code regulations; (2) the opinions of value do not support the price paid by the Issuer to the developer for the Series 2003 Facilities and the payment of the sales price for the facilities to the developer by the Issuer is not a governmental use of the proceeds of the Bonds; and (3) the Bonds are private activity bonds the interest on which is not excludable under IRS Section 103.

The Issuer disagrees with the conclusions set forth in the Notices and intends to work with the IRS to protect the exclusion from gross income of interest on the Bonds. The Issuer cannot predict the outcome of the discussions and negotiations with the IRS.

(14) Subsequent Event-Amendment to Indentures of Trust, Recreation and Utility Bonds

In June 2008, the District provided a Notice of Material Event concerning its Series 1998A, 1999A, 2001A, 2003A and 2004A Recreational Revenue Bonds and its Series 1998A Utility Revenue Refunding Bonds and 2003 Utility Revenue Bonds explaining that the bond ratings agencies had lowered the rating of MBIA, Inc., the District's Bond Surety below the rating grade AAA. This change would require the District re-establish its cash debt service reserve funds to be compliant with the respective Indentures of Trust for each bond series. On December 19, 2008, the District passed Resolutions 09-03 and 09-04 which approved agreements with MBIA and the Bond Trustees to modify the Indentures of Trust of the recreation and utility bonds, respectively, to lower the threshold level for the bond surety rating, before the need to establish cash debt service reserve funds will be required.

Purvis Gray & Company

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, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 3, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

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)

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 the following instance of noncompliance that is required to be reported under *Government Auditing Standards*:

- **Bond Compliance**
  The District's LSSA Water and Sewer Fund Utility Revenue Bonds Series 2003 contains a rate covenant that requires the District to levy sufficient rates to generate net revenues from the system that will meet a minimum Debt Service Coverage (DSC) ratio defined in the authorizing resolution. For the year ended September 30, 2008, the LSSA Water and Sewer Fund of the District did not have sufficient net revenues to meet the required DSC ratio. To remedy this condition we recommend that the District review the LSSA rates and costs to determine the appropriate mix of rate change or cost adjustments necessary for the system to generate sufficient net revenues that will meet the minimum DSC ratio.

We noted certain other matters that we reported to management of the Districts in separate letter dated February 3, 2009.

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

Purvis, Gray and Company, LLP

February 3, 2009
Ocala, Florida

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, 2008, and have issued our report thereon dated February 3, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our independent auditors' report on internal control over financial reporting and compliance and other matters. Disclosures in those reports and schedule, which are dated February 3, 2009, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the state of Florida. This letter includes the following information, which is not included in the aforementioned auditors report or schedule:

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective action has been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report (see attached management letter comments).

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

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

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that we address violations of laws, regulations, contracts or grant agreements or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

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

MANAGEMENT LETTER
(Concluded)

Section 10.554(1)(i)5., *Rules of the Auditor General*, provides that the auditor may, based on professional judgment, the reporting of the following matters that are inconsequential to the determination of financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations and contracts or provisions or abuse that have occurred, or are likely to have occurred, and would have an immaterial effect on the financial statements; (2) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages defalcations, and instances of fraud discovered by, or that come to the attention of the auditor. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)6., *Rules of the Auditor General*, also requires that the name or official title and legal authority for the primary government be disclosed in the management letter, unless disclosed in the notes to the financial statements. See note 1 of the September 30, 2008, Village Center Community Development District's basic financial statements for this information.

Section 10.554(1)(i)7.(a)., *Rules of the Auditor General*, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1)(a), Florida Statutes, and identification of the specific conditions(s) met. In connection with our audit we determined that the District did not meet any conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.(b)., *Rules of the Auditor General*, requires that we determined whether the annual financial report for the District for the fiscal year ended September 30, 2008, 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, 2008. In connection with our audit, we determined that these two reports agree.

Sections 10.554(1)(i)7.(c) and 10.556(7)., *Rules of the Auditor General,* we applied financial condition assessment procedures. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same (see attached management letter comments).

Pursuant to Chapter 199, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, 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.

Purvis, Gray and Company, LLP

February 3, 2009
Ocala, Florida

Purvis Gray & Company

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

The District has addressed all prior year Comments and Recommendations, however the following item has not been completed:

- **Financial Condition Assessment**
  The LSSA Water and Sewer Fund had a decrease in net assets for the year and did not meet the minimum Debt Service Coverage (DSC) ratio required by its bond documents as more fully discussed in our report dated February 3, 2009 on internal control over financial reporting and on compliance and other matters. Accordingly, we recommend that the District review rates and costs of the fund to determine the appropriate mix of rate changes and cost adjustments necessary to generate an increase in Net Assets and meet the required DSC ratio.

Current Year Comment and Recommendation

IRS Audit

The IRS has been auditing the Recreational Amenity Revenue Bonds of the District for several months. The District has recently received communication from the IRS that asserts their position that the bonds are Private Activity Bonds that are not tax exempt because the District is not a qualified issuer of tax exempt bonds and for other asserted imperfections associated with the issuance of the bonds. The District is vigorously contesting these assertions through legal counsel and is appealing the Internal Revenue Service (IRS) position. We recommend that the District continue its defense and consult with legal counsel to determine if the recent IRS assertion requires a material events notice or other form of communication with the bond holders that could be affected.

Pursuant to Chapter 199, Florida Statutes, this management letter comment is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

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

MANAGEMENT LETTER COMMENTS
(Concluded)

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.

Purvis, Gray and Company, LLP

February 3, 2009
Ocala, Florida

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT
3201 Wedgewood Lane, The Villages, FL 32162 Telephone: (352) 753-0421 Fax: (352) 751-3901

February 10, 2009

Board of Supervisors
Village Center Community Development District
The Villages, Florida 32162

RE: Management Response Letter

Dear Supervisors:

Attached is the completed audit for fiscal year 2007-2008 for Village Center Community Development District. We are proud to report that this audit has an unqualified opinion that has no comments concerning internal controls. There is one compliance issue related to the LSSA Water and Sewer Utility Bond not meeting debt service coverage requirements in the Bond Master Indenture of Trust. Management staff is aware of this shortcoming and has already completed two adjustments to the fund revenue, late in fiscal year 2007-2008, that should help remedy the shortfall. The Bond Indenture also requires that in fiscal year 2008-2009 that a revenue sufficiency study be completed by a qualified rate engineer or consultant. Following completion of the study, staff will advise the Board of Supervisors if any additional action is required.

In the prior year audit, there were three management letter comments. Two have been resolved and removed from this report. The third addresses the revenue shortfall in the LSSA Water and Sewer Utility Fund, which is in the process of being addressed. A new comment has been added concerning the preliminary "Notice of Proposed Issues" provided by the Internal Revenue Service (IRS) to the District on its ongoing audit of the Series 2003A and 2003B Village Center Community Development District Recreational Revenue Bonds. Both of these comments are addressed below, along with District Managements' response to the comments.

1. Auditor Comment: Financial Condition Assessment
The LSSA Water and Sewer Fund had a decrease in Net Assets for the year and did not meet the minimum Debt Service Coverage (DSC) ratio required by its bond documents as more fully discussed in our report dated February 3, 2009, on Internal Control Over Financial Reporting and On Compliance and Other Matters. Accordingly we recommend that the District review rates and costs of the fund to determine the appropriate mix of rate changes and cost adjustments necessary to generate an increase in Net Assets and meet the required DSC ratio.

Management Response: Concur.
There have already been two changes to the rate structure in July and October 2008, that will positively impact the revenue received by the LSSA Water and Sewer Utility Fund. The issue

stems from a gradual reduction in revenue occasioned by more stringent water conservation regulations provided by the Southwest Florida Water Management District (SWFWMD) and voluntary water conservation by the customers of the utility. In July 2008, the District began to see the results of the implementation of a new water conservation rate schedule designed to provide rate tiers that encourage water conservation while providing more adequate revenue to the utility. In October 2008 the District implemented its annual Consumer Price Index based rate increase of 4.94 percent. These two changes are expected to improve the debt coverage calculation in the upcoming year. In addition, the staff will recommend to the Board of Supervisors that the District engage an independent rate consultant to review the revenue sufficiency of the fund.

2. Auditor Comment: IRS Audit
The IRS has been auditing the Recreation Amenity Revenue Bonds of the District for several months. The District has recently received communication from the IRS that asserts their position that the bonds are Private Activity Bonds that are not tax exempt because the District is not a qualified issuer of tax exempt bonds and for other asserted defects associated with the issuance of the bonds. The District is vigorously contesting these assertions through legal counsel and is appealing the IRS position. We recommend that the District continue its defense and consult with legal counsel to determine if the recent IRS assertion requires a material events notice or other form of communication with the bond holders that could be affected.

Management Response: Concur
The Village Center Community Development District (the "Issuer") received on January 23, 2009 three (3) "Notice of Proposed Issues" (collectively, the "Notices") relating to the Internal Revenue Services' (the "IRS") examination of the above referenced bond issue. The conclusions stated in the Notices are as follows: (1) the Issuer does not qualify as a political subdivision or as "an on behalf of issuer" of tax-exempt bonds pursuant to Section 1.103-1(b) of the Internal Revenue Code regulations; (2) the opinions of value do not support the price paid by the Issuer to the developer for the Series 2003 Facilities and the payment of the sales price for the facilities to the developer by the Issuer is not a governmental use of the proceeds of the Bonds; and (3) the Bonds are private activity bonds the interest on which is not excludable under IRS Section 103.

The Issuer disagrees with the conclusions set forth in the Notices and intends to work with the IRS to protect the exclusion from gross income of interest on the Bonds.

A secondary market material event disclosure notice was provided to the marketplace and the bondholders of the 2003A and 2003B series bonds on February 4, 2009.

Your District staff has worked hard to assure you as supervisors that the management of the District's funds is conducted professionally, consistent with generally accepted accounting principles and governing Florida Statutes.

We believe that the Village Center Community Development District continues to set an example for the appropriate management of Community Development Districts as conceived in Chapter 190, Florida Statutes. We would particularly like to commend the staff of the Village District Finance Department for their diligent efforts in recording and maintaining the financial records of the District.

We would be happy to entertain any questions members of the Board of Supervisors may have on the audit report or the management of District resources.

Sincerely,

David R. Miles, CGFO
Finance Director

Janet Y. Tutt
District Manager