



**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5**

Basic Financial Statements

September 30, 2013

(With Independent Auditors' Report Thereon)

**Village Community Development District No. 5**  
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## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

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## INDEPENDENT AUDITORS' REPORT

Board of Supervisors  
Village Community Development District No. 5  
The Villages, Florida

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Village Community Development District No. 5 (the District) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of

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Board of Supervisors  
Village Community Development District No. 5  
The Villages, Florida

**INDEPENDENT AUDITORS' REPORT**  
*(Concluded)*

**Opinions (Concluded)**

September 30, 2013, and the respective changes in financial position thereof, and, the budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Adoption of New Accounting Standards**

As discussed in Note 1 to the financial statements, for the year ending September 30, 2013, the District adopted new accounting guidance as follows:

- Governmental Accounting Standard Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards* we have also issued our report dated January 30, 2014, 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* in considering the District's internal control over financial reporting and compliance.

*Purvis, Gray and Company, LLP*

January 30, 2014  
Ocala, Florida

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

### Management's Discussion and Analysis

(UNAUDITED)

September 30, 2013

The Village Community Development District No. 5 (the District) management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the District's financial activities; and (c) identify changes in the District's financial position and its ability to address the next and subsequent year challenges.

#### Financial Highlights

- The assets and deferred outflows of the District exceeded its liabilities and deferred inflows as of September 30, 2013 by \$114,321,217 (net position). Of this amount, \$6,633,138 of unrestricted net position may be used to meet the District's ongoing obligations to residents and creditors.
- The District's total net position decreased by \$3,867,536. An additional decrease of \$746,819 resulted from the restatement of beginning net position due to the early implementation of GASB 65. The restatement removed the balance of all unamortized issuance costs, rather than amortizing over the remaining lives of the bonds. The depreciation expenses for capitalized fixed assets as shown on page 26 of this report represent a significant decrease to the asset values, offsetting the net position increase resulting from donations and new additions. Depreciation expenses are provided to reflect the using up over time of the value of items of capital equipment previously acquired, to allow for the planning of the timely replacement or renovation of these assets when required.
- At the close of the Fiscal Year, the District's governmental funds reported combined fund balances of \$11,484,962 a net decrease of \$1,682,379, compared to the prior year. Most of the reduction occurred in the Debt Service Fund and resulted from reduction in the outstanding debt principal along with the refunding of both bond issues during Fiscal Year 2012-2013. Of the total, \$5,406,382 is available for spending at the District's discretion as *unassigned fund balance*.
- At the end of the year, unassigned fund balance of the General Fund was \$5,406,382 or 206.3 percent of total General Fund annual expenditures. This provides a healthy contingency for unexpected expenditures.
- The District's total long-term debt decreased by \$3,060,000 during the current Fiscal Year. The decrease relates to principal payments made on outstanding revenue bonds during the year ended September 30, 2013.
- During Fiscal Year 2012-2013, the District refunded both of its outstanding bond issues to lower interest costs. The Series 2002A and 2003A Special Assessment Revenue Bonds with interest rates of 6.0% and 6.0% to 6.10%, respectively, were both refunded at an interest rate of 3.0% to 4.0% on March 1, 2013. The 2013 Phase 1 and Phase 2 bonds mature on May 2033 and May 2034, respectively. During the refunding, a \$1,010,467 due to the developer long term debt was paid off, eliminating this liability.
- Special assessments are shown as assessments receivable. At the fund level, there is an offsetting line item for unavailable revenue pertaining to assessments due in future years, which is a deferred inflow of resources. Assessments receivable decreased by \$2,599,649 during the year and has a September 30, 2013 balance of \$37,144,739.

#### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village Community Development District No. 5's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

**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

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2013

**Statement of Net Position** presents information on all of the District's assets and deferred outflows compared to liabilities and deferred inflows, with the difference between the two reported as *net position*. The District is implementing Governmental Accounting Standards Statements Nos. 63 and 65 this Fiscal Year which introduced the term *net position* in place of *net assets*. A further discussion of the standards changes promulgated by the Governmental Accounting Standards Board (GASB) is contained in footnote 1. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Village Community Development District No. 5 is improving or deteriorating.

The **Statement of Activities** presents information showing how the government's net position changed during the most recent Fiscal Year. All changes in net position 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 and debt service. The District has no business-type activities. The District also has no component units, as all functions are performed by the primary government.

The government-wide financial statements are provided on 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 Community Development District No. 5, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are considered governmental funds. There are no proprietary or fiduciary funds maintained by the District. 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 maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund and Debt Service Fund, both of which are considered to be major funds.

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2013

The District adopts an annual appropriated budget for both its General Fund and its Debt Service Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 11-15 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 can be found beginning on page 16.

### **Government-wide Financial Analysis**

The District's net position as of September 30, 2013 and September 30, 2012 were \$114.321 million and \$118.936 million, respectively, representing a decrease of approximately \$4.656 million. This reduction included the restatement of the beginning fund balance by \$746,819 as a result of implementing GASB 65. The District's revenues for the years ended September 30, 2013 and September 30, 2012, including assessments, donations, and investment earnings, were approximately \$4.734 million and \$6.065 million, respectively. The higher revenue amount in the prior year reflects reduced assessments related to the refunding of the bond issue. The District's expenses for the years ended September 30, 2013 and September 30, 2012 were \$8.602 million and \$8.623 million, respectively. Table 1 reflects the summary statement of net position for the current year and prior year.

**Table 1**

#### **Net Position**

	<b>Governmental Activities</b>	
	<b>September 30, 2013</b>	<b>September 30, 2012</b>
Assets:		
Current and other assets	\$ 11,516,870	14,966,801
Assessments receivable	37,144,739	39,744,388
Capital assets - net	103,736,598	106,992,766
Total assets	<u>152,398,207</u>	<u>161,703,955</u>
Deferred outflows of resources:		
Deferred charges on refunding	408,188	-
Liabilities:		
Current and other liabilities	585,648	1,100,423
Long-term liabilities		
Due in less than one year	1,305,000	935,000
Due in more than one year	36,594,530	40,732,960
Total liabilities	<u>38,485,178</u>	<u>42,768,383</u>
Net position:		
Net investment in capital assets	66,138,172	67,091,470
Restricted for debt service	41,549,907	41,549,907
Unrestricted	6,633,138	10,294,195
Total net position	<u>\$ 114,321,217</u>	<u>118,935,572</u>

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2013

The largest share of the District's net position (57.9 percent) relates to net investment in capital assets. Reserves to pay debt service expenses represent another 36.4 percent. The resources required to repay the debt must be provided annually from assessments, since the capital assets themselves cannot be liquidated to pay the liabilities. The remaining net position is unrestricted.

Table 2 below reflects the summary statement of Changes in Net Position for the current year and prior year.

**Table 2**

### Changes in Net Position

	Governmental Activities	
	September 30, 2013	September 30, 2012
Revenues:		
Special assessments	\$ 4,551,161	5,791,639
Intergovernmental revenue	151,851	150,473
Donated capital	6,612	4,083
Miscellaneous revenue	922	1,293
Investment earnings	23,786	117,202
Total revenues	<u>4,734,332</u>	<u>6,064,690</u>
Expenses:		
General government services	886,948	431,780
Physical environment	2,048,495	2,021,814
Transportation	203,226	285,444
Interest on long-term debt	2,200,419	2,625,091
Depreciation (unallocated)	3,262,780	3,259,204
Total expenses	<u>8,601,868</u>	<u>8,623,333</u>
Change in net position	\$ <u>(3,867,536)</u>	<u>(2,558,643)</u>

### Revenues

Revenues include special assessments on District landowners for maintenance and debt service. Other revenue includes reimbursements from Sumter County for the District maintaining county road right-of-ways. Investment earnings on cash balances held during the year make the final source of revenue to the District. Special Assessment revenue decreased by \$1,240,478 in Fiscal Year 2012-2013 compared to Fiscal Year 2011-2012, due to bond payoffs and the application of changes from implementing GASB 65. Investment earnings of \$23,786 marked a decrease of 79.7 percent resulting from substantial reduction in money market and short term bond funds interest rates. The anticipation of higher rates sparked by expectations that quantitative easing would be phased out, led to very defensive positioning in the fixed income market. Further information can be found in Note 2 of the Notes to Basic Financial Statements.

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2013

### Expenses

General government expenses of the District increased between the past Fiscal Year and the current one by \$455,168. This was a one-time increase resulting from the expensing of the bond issuance expenses as required by GASB 65. Physical environment expenses are mainly for landscaping, irrigation, utilities and maintenance costs. These expenses increased \$26,681 between the past Fiscal Year and the current one. Transportation expenses, which relate primarily to street lighting electric bills, decreased by \$82,218 from the prior Fiscal Year. Interest on the long-term debt is the amount of interest paid to bondholders pertaining to the District's revenue bonds. Interest expense decreased \$424,672 compared to the prior year. The interest on the long-term debt will continue to decrease as the existing bond issues are paid off and due to the lower interest rates on the refunding debt. Depreciation expenses increased by \$3,576. Total expenses decreased by \$21,465.

### Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of a Fiscal Year. As of the end of Fiscal Year 2012-2013, the District's governmental funds reported combined ending fund balances of \$11,484,962, a decrease of \$1,682,379 in comparison with the end of Fiscal Year 2011-2012. Approximately 47.1 percent of this total amount, \$5,406,382, constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *reserved or committed* to indicate that it is not available for new spending because it has already been committed (\$4,526,876 to renewal and replacement) or restricted (\$1,551,704 for debt service).

The General Fund is the chief operating fund of the District. At the end of Fiscal Year 2012-2013, unassigned fund balance was \$5,406,382, while total fund balance reached \$9,933,258. This represents an increase of \$649,529, compared to the balance at the end of Fiscal Year 2011-2012. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 206.3 percent of annual General Fund expenditures, while total fund balance represents 379.0 percent of that same amount.

The Debt Service Fund has a total fund balance of \$1,551,704, all of which is reserved for the payment of debt service. The net decrease in fund balance was \$2,331,908. The refunding of the bond issue resulted in \$762,903 in reductions to the fund balance as the remaining debt was paid down. This fund's revenue is comprised entirely of special assessment proceeds and interest earnings on cash balances. \$37,730,000 in new debt was issued during the Fiscal Year, while \$38,760,000 in old debt was retired.

### General Fund Budgetary Highlights

During the year, there was no increase in the revenue budgeted for the General Fund between the original and final budget. Appropriations increased by \$28,300 during the year, primarily for repairs and maintenance.

### Capital Asset and Debt Administration

**Capital Assets.** The District's capital assets as of September 30, 2013 and September 30, 2012 amounted to \$103,736,598 and \$106,992,766, respectively. These amounts are net of accumulated depreciation, and include

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2013

land and improvements. Depreciation expenses of \$3,262,780 between September 30, 2012 and September 30, 2013 were reduced by \$6,612 in new capital assets. Additional information regarding the District's capital assets can be found in Note 3 of the Notes to the Basic Financial Statements.

**Long-term Debt.** As of September 30, 2013 and September 30, 2012, the District had long-term debt outstanding of \$37,899,530 and \$41,710,467, respectively. Debt principal of \$3,060,000 was retired. All of the debt is special assessment debt and is secured solely by special assessment revenue sources. During Fiscal Year 2012-2013, the District refunded its outstanding bond issue to lower interest costs. The Series 2002A and 2003A Special Assessment Revenue Bonds with interest rates of 6.0% and 6.0% to 6.10% respectively, were both refunded at an interest rate of 3.0% to 4.0% on March 1, 2013. The all-in total interest cost for the refunding bonds is 3.731098% for Phase I and 3.731652% for Phase II, reflecting the slightly different maturities. The net present value of savings was \$3,718,231 for Phase I and \$5,018,572 for Phase II. During the refunding, a \$1,010,467 due to the developer long term debt was paid off, eliminating this liability. Additional information regarding the District's long-term debt can be found in Note 5 of the Notes to the Basic Financial Statements.

### **Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate in Sumter County where the District is located was 5.7 percent in September 2013 which is a decrease from a rate of 6.9 percent a year ago. This compares favorably with the State's average unemployment rate of 6.9 percent and is below the national average rate of 7.0 percent.
- Inflationary trends in the area are comparable to national indices. The national Consumer Price Index (CPI) annual increase for all urban consumers decreased significantly from 1.99 percent in September 2012 to 0.92 percent in September 2013.

These factors were considered in preparing the Districts' budget for the 2013-2014 Fiscal Year. In Fiscal Year 2013-2014, the annual maintenance assessment remained unchanged from the Fiscal Year 2012-2013 amounts and the debt service assessments have been reduced slightly as more of the bond issues have been paid down. Total annual revenues are projected to decrease by \$124,942 in the Fiscal Year 2013-2014 General Fund budget compared to the final Fiscal Year 2012-2013 budget. This decrease primarily results from an expected reduction in the Transportation revenue from the Sumter County Road agreement, with some of the reduction going to the Project Wide Fund in the Sumter Landing District. Total Fiscal Year 2013-2014 General Fund expenditures are projected to increase by \$16,610 compared to the Fiscal Year 2011-2012 final budget.

### **Requests for Information**

The District's financial statements are designed to present users (residents, 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 COMMUNITY DEVELOPMENT DISTRICT NO. 5**

Statement of Net Position

September 30, 2013

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 2,889,399
Investments	8,589,475
Interest receivable	33
Due from other governments	37,963
Assessments receivable	37,144,739
Capital assets, net	
Non-depreciable	1,733,023
Depreciable, net of depreciation	102,003,575
Total assets	<u>152,398,207</u>
<b>Deferred outflows of resources</b>	
Loss on refunding	<u>408,188</u>
<b>Liabilities</b>	
Accounts payable	22,436
Due to other governments	9,472
Accrued interest payable	553,740
Long-term debt:	
Due within one year	1,305,000
Due in more than one year	36,594,530
Total liabilities	<u>38,485,178</u>
<b>Net Position</b>	
Net investment in capital assets	66,138,172
Restricted for debt service	41,549,907
Unrestricted	6,633,138
Total net position	<u>\$ 114,321,217</u>

See accompanying notes to basic financial statements.

Corrected 5-14-2014

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5**

Statement of Activities  
Year Ended September 30, 2013

Functions/Programs	Expenses	Program revenues			Net (expense) revenue and changes in net assets	
		Charges for services	Operating contributions	Capital grants and contributions	Governmental activities	Total
Governmental activities:						
General government services	\$ 886,948	4,551,161	-	-	3,664,213	3,664,213
Physical environment	2,048,495	-	-	6,612	(2,041,883)	(2,041,883)
Transportation	203,226	-	151,851	-	(51,375)	(51,375)
Interest on long-term debt	2,200,419	-	-	-	(2,200,419)	(2,200,419)
Depreciation (unallocated)	3,262,780	-	-	-	(3,262,780)	(3,262,780)
Total governmental activities	8,601,868	4,551,161	151,851	6,612	(3,892,244)	(3,892,244)
Total primary government	8,601,868	4,551,161	151,851	6,612	(3,892,244)	(3,892,244)
General revenues:						
Miscellaneous revenue					\$ 922	922
Investment earnings					23,786	23,786
Total general revenues					24,708	24,708
Change in net position					(3,867,536)	(3,867,536)
Net position – beginning (as restated)					118,188,753	118,188,753
Net position – ending					\$ 114,321,217	114,321,217

See accompanying notes to basic financial statements.

**Restatement of Net Position**

<b>Beginning Net Position</b>	<b>118,935,572</b>
Less Cost of Issuance	(746,819)
<b>Net Position - beginning (as restated)</b>	<b>118,188,753</b>

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5**

Balance Sheet – Governmental Funds

September 30, 2013

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 1,337,718	-	1,337,718
Cash and cash equivalents with fiscal agent	-	1,551,681	1,551,681
Investments	8,589,475	-	8,589,475
Interest receivable	10	23	33
Due from other governments	37,963	-	37,963
Assessments receivable	-	37,144,739	37,144,739
	<u>9,965,166</u>	<u>38,696,443</u>	<u>48,661,609</u>
Total assets			
Liabilities:			
Accounts payable	22,436	-	22,436
Due to other governments	9,472	-	9,472
	<u>31,908</u>	<u>-</u>	<u>31,908</u>
Total liabilities			
Deferred inflows of resources:			
Unavailable special assessment revenue	-	37,144,739	37,144,739
Fund balances:			
Restricted for debt service	-	1,551,704	1,551,704
Committed for renewal and replacement	4,526,876	-	4,526,876
Unassigned	5,406,382	-	5,406,382
	<u>9,933,258</u>	<u>1,551,704</u>	<u>11,484,962</u>
Total fund balances			
Total liabilities and fund balances	\$ <u>9,965,166</u>	<u>38,696,443</u>	<u>48,661,609</u>

See accompanying notes to basic financial statements.

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5**

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position  
September 30, 2013

Total fund balances, governmental funds		\$ 11,484,962
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Capital assets	\$ 131,316,225	
Less accumulated depreciation	<u>(27,579,627)</u>	103,736,598
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Special assessment revenue bonds	(37,899,530)	
Including: Loss on refunding (to be amortized as a decrease in interest expense)	408,188	
Accrued interest payable	<u>(553,740)</u>	(38,045,082)
Unavailable special assessment revenue reported in the funds is added to the balance of net position restricted for debt service to reflect the revenue as recorded when the total assessment is levied.		<u>37,144,739</u>
Net position of governmental activities		\$ <u><u>114,321,217</u></u>

See accompanying notes to basic financial statements.

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5**

Statement of Revenues, Expenditures and Changes in

Fund Balances – Governmental Funds

Year Ended September 30, 2013

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Revenues:			
Special assessments	\$ 3,099,764	4,051,046	7,150,810
Intergovernmental revenue	151,851	-	151,851
Miscellaneous revenue	922	-	922
Investment earnings	17,949	5,837	23,786
Total revenues	<u>3,270,486</u>	<u>4,056,883</u>	<u>7,327,369</u>
Expenditures:			
General government services	369,236	87,511	456,747
Physical environment	2,048,495	-	2,048,495
Transportation	203,226	-	203,226
Debt service:			
Principal	-	2,030,000	2,030,000
Interest	-	3,078,176	3,078,176
Miscellaneous Bond Expense	-	430,201	430,201
Total expenditures	<u>2,620,957</u>	<u>5,625,888</u>	<u>8,246,845</u>
Excess (deficiency) of revenues over expenditures	<u>649,529</u>	<u>(1,569,005)</u>	<u>(919,476)</u>
Other financing sources (uses):			
Refunding bonds issued	-	37,730,000	37,730,000
Premium on refunded debt	-	267,097	267,097
Payment to refunded bond escrow agent	-	(38,760,000)	(38,760,000)
Total other financing sources (uses)	<u>-</u>	<u>(762,903)</u>	<u>(762,903)</u>
Net change in fund balances	649,529	(2,331,908)	(1,682,379)
Fund balances, at beginning of year	<u>9,283,729</u>	<u>3,883,612</u>	<u>13,167,341</u>
Fund balances, at end of year	<u>\$ 9,933,258</u>	<u>1,551,704</u>	<u>11,484,962</u>

See accompanying notes to basic financial statements.

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5**  
Reconciliation of the Statement of Revenues, Expenditures, and Changes in  
Fund Balances – Governmental Funds to the Statement of Activities  
Year Ended September 30, 2013

Net change in fund balances – total governmental funds		\$ (1,682,379)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in the current period net of donations.		
Donated capital	6,612	
Depreciation expense	<u>(3,262,780)</u>	(3,256,168)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Change in accrued interest payable	504,510	
Amortization of loss on refunding	(11,621)	
Amortization of bond premium	<u>7,567</u>	500,456
Bond and loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt is an expenditure in governmental funds but the repayment reduces long-term liabilities in the statement of net position. This is the amount of principal on refunding debt issued including the premium on the refunding debt.		
Bond proceeds (gross)	(37,730,000)	
Bond premium	(267,097)	
Loss on refunding	<u>377,301</u>	(37,619,796)
Governmental funds report special assessment debt service revenue when collected, however, in the statement of activities the revenue is recorded when the total assessment is levied.		
Deferred assessment revenue as of September 30, 2013	37,144,739	
Deferred assessment revenue as of September 30, 2012	<u>(39,744,388)</u>	(2,599,649)
Repayment of long-term liabilities is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
Principal payments	2,030,000	
Payments to refunding agent	<u>38,760,000</u>	40,790,000
Change in net position of governmental activities		<u>\$ (3,867,536)</u>

See accompanying notes to basic financial statements.

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5**

Statement of Revenues, Expenditures and Changes in

Fund Balances – Budget and Actual

General Fund

Year Ended September 30, 2013

	Budgeted Amount		Actual Amounts	Variance with final budget
	Original	Final		
Revenues:				
Special assessments, charges for public services	\$ 3,090,250	3,090,250	3,099,764	9,514
Local government unit grant, transportation	151,851	151,851	151,851	-
Other general government charges and fees	-	-	922	922
Investment earnings	5,500	5,500	17,949	12,449
Total revenues	<u>3,247,601</u>	<u>3,247,601</u>	<u>3,270,486</u>	<u>22,885</u>
Expenditures:				
Personnel services	17,264	17,264	17,056	208
Professional services	306,845	329,645	324,298	5,347
Accounting and auditing	10,654	11,904	11,904	-
Other contractual services	1,932	1,932	5,237	(3,305)
Travel and per diem	5,000	5,000	3,312	1,688
Communication and freight	1,800	1,800	46	1,754
Utility services	326,194	302,144	237,773	64,371
Rental and leases	500	500	-	500
Insurance	5,500	5,500	5,402	98
Repairs and maintenance/landscape	410,509	438,809	389,985	48,824
Printing and binding	500	500	129	371
Other current charges	1,626,439	1,626,439	1,625,540	899
Operating supplies	500	500	275	225
Total expenditures	<u>2,713,637</u>	<u>2,741,937</u>	<u>2,620,957</u>	<u>120,980</u>
Excess of revenues over expenditures	<u>533,964</u>	<u>505,664</u>	<u>649,529</u>	<u>143,865</u>
Other financing sources:				
Transfers in (out)	<u>(450,000)</u>	<u>(450,000)</u>	<u>-</u>	<u>450,000</u>
Total other financing sources	<u>(450,000)</u>	<u>(450,000)</u>	<u>-</u>	<u>450,000</u>
Net change in fund balance	83,964	55,664	649,529	593,865
Fund balance, beginning	9,283,729	9,283,729	9,283,729	-
Fund balance, ending	<u>\$ 9,367,693</u>	<u>9,339,393</u>	<u>9,933,258</u>	<u>593,865</u>

See accompanying notes to basic financial statements.

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

Notes to Basic Financial Statements

September 30, 2013

### (1) Summary of Significant Accounting Policies

#### (a) Reporting Entity

Village Community Development District No. 5 (the District) was established in 2002 for the purpose of planning, financing, constructing, operating, and maintaining certain community-wide infrastructure for a community development district located entirely within Sumter County, Florida. The District was created by Sumter County Commission Ordinance No. 02-05 pursuant to the provisions of Chapter 190.005, Florida Statutes, and operates within the criteria established by Chapter 190. The District is governed by a five member Board of Supervisors. As of September 30, 2013, each member of the Board of Supervisors is an elected resident of the District.

The District boundary consists of approximately 1,407 acres in the northeast corner of the county. Development includes construction of 6,399 residential units. The land within the District is part of the active adult retirement community known as “The Villages”. The Villages consists of approximately 22,590 acres spanning the borders of Lake, Sumter and Marion Counties, City of Wildwood, City of Fruitland Park and the Town of Lady Lake, Florida, and when fully developed is expected to include approximately 58,775 residences and 111,672 residents. The Villages of Lake-Sumter, Inc. was the developer and initial owner of the property within the District. All of the residential units in Village Community Development District No. 5 have been completed by the developer and sold to the current residents of the District. The Villages continues to be developed by the developer, a family-owned business established for the single purpose of developing The Villages. Most current development is being performed in District Nos. 9 and 10 south of District No. 5.

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

There are no component units that are legally separate from the District. There are thirteen 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 and security services, and fire protection and paramedic services to the residents. The cost of operations is funded by amenity and utility fees that residents pay monthly. This CDD also provides for the maintenance of common areas and roadways for the commercial areas within the CDD boundaries. The cost of maintenance 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

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

Notes to Basic Financial Statements

September 30, 2013

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

#### (a) Reporting Entity (continued)

and roadways for the commercial areas within the CDD boundaries. The cost of maintenance in the commercial areas is funded through commercial maintenance assessments.

- Brownwood CDD (Sumter County) – This CDD was newly established in June 2012 by the City of Wildwood, Florida and is located at the southern end of The Villages. This CDD 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 and Developer contributions as the new downtown area builds out.
- Village CDD No. 1 (Sumter County) – This CDD’s boundary consists of approximately 993 acres in the northeast corner of the county. The development included 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 included construction of 3,668 residential units.
- Village CDD No. 3 (Sumter County) – This CDD’s boundary consists of approximately 894 acres in the northeast corner of the county. The development included construction of 3,762 residential units.
- Village CDD No. 4 (Marion County) – This CDD’s boundary consists of approximately 1,186 acres in the southern portion of the county. The development included construction of 5,132 residential units.
- Village CDD No. 5 (Sumter County) – This CDD’s boundary consists of approximately 1,407 acres in the northeast corner of the county. The development included construction of 6,399 residential units.
- Village CDD No. 6 (Sumter County) – This CDD’s boundary consists of approximately 1,497 acres in the northeast corner of the county. Planned development included construction of 6,697 residential units of which 9 remain unsold as of September 30, 2013.
- Village CDD No. 7 (Sumter County) – This CDD’s boundary consists of approximately 976 acres in the northeast corner of the county. The development included construction of 4,765 residential units.
- Village CDD No. 8 (Sumter County) – This CDD’s boundary consists of approximately 1,098 acres in the northeast corner of the county. Planned development includes construction of 5,193 residential units. Construction is now complete with 127 unsold and being used as lifestyle preview homes by the Developer.

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

Notes to Basic Financial Statements

September 30, 2013

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

#### (a) Reporting Entity (continued)

- Village CDD No. 9 (Sumter County) – This CDD’s boundary consists of approximately 1,280 acres in the northeast corner of the county. Planned development includes construction of 5,376 residential units. Construction is now underway.
- Village CDD No. 10 (Sumter County) – This CDD’s boundary consists of approximately 1,588.8 acres in the northeast corner of the county. Planned development includes construction of 6,639 residential units. The first Phase Infrastructure Assessment Bonds were issued December 18, 2012, and active development began in Fiscal Year 2012-2013 with 462 homes sold by September 30, 2013.

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.

#### (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 position 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 Position 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. Previously called the Statement of Net Assets, the Statement of Net Position also addresses deferred inflows and deferred outflows as a result of implementation of GASB 63 and 65 in this Fiscal Year 2012-2013 financial report. 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. The General Fund and the Debt Service Fund meet this definition and are designated as major funds. The District has no non-major funds.

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

Notes to Basic Financial Statements

September 30, 2013

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

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

*Net investment in capital assets* is intended to reflect the portion of net position which are associated with capital assets net of accumulated depreciation less outstanding capital asset related debt. As a result of early implementation of GASB 65 in this report, all new issuance costs have been expensed in the current year and will no longer be amortized over the life of the debt.

*Restricted net position* is 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 position* represent net position not included in net investment in capital assets or restricted net position.

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

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.

Governmental funds report fund balances either as non-spendable or spendable. Spendable balances are further classified as restricted, committed, assigned or unassigned, based on the extent to which there are external or internal constraints on the spending of these fund balances. A discussion of each is as follows:

*Non-spendable*: Resources that can not be spent such as for inventories.

*Restricted*: Balances that only can be spent for specific purposes imposed by external sources.

*Committed*: Resources that can only be spent for purposes established by the highest decision making authority in the government.

*Assigned*: Amounts designated for specific purposes, but does not meet the criteria to be designated restricted or committed.

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

Notes to Basic Financial Statements

September 30, 2013

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

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

*Unassigned:* The residual classification for all remaining funds not contained in other classifications.

The District does not currently use *Non-spendable* or *Assigned* categories of fund balance. All *Restricted* fund balances relate to external debt service restrictions. The Board of Supervisors, the highest decision making authority of the District, approves the establishment, increase and reduction in *Committed* fund balances by budget resolutions and amendments. All other fund balances are *Unassigned*. *Restricted* and *Committed* fund balances are always used first for the purposes for which they are designated. Changes to this practice require prior Board of Supervisors approval. A minimum fund balance amount has not been formally adopted.

The following are the District's major governmental funds:

#### **General Fund**

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

#### **Debt Service Fund**

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

The District has no non-major governmental funds.

#### (d) *Budgetary Data*

Legal authority and control are established in accordance with Section 190.008, *Florida Statutes*. Annual budgets, as well as subsequent amendments, are adopted and approved for the General Fund and Debt Service Fund by the Board of Supervisors. Budgets are adopted on a basis consistent with GAAP. All budget amounts presented in the statements reflect the original budget and the amended final budget.

#### (e) *Assets, Liabilities, and Net Position or Equity*

##### **1. 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
- Demand Deposits
- Florida State Board of Administration's Local Government Investment Pool (SBA LGIP).

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

Notes to Basic Financial Statements

September 30, 2013

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

#### (e) Assets, Liabilities, and Net Position or Equity (continued)

##### 1. Deposits and Investments (continued)

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. In December 2010, approximately half of the balance in the FMIvT account was sold and the proceeds were invested in the Florida Local Government Investment Trust sponsored by the Florida Association of Counties and the Florida Association of County Clerks. This transfer was made to further diversify the investment portfolio of the District and to improve liquidity. The investment in both pools is evidenced by shares which are marked to market monthly.

##### 2. Capital Assets

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

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

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

Improvements other than buildings and structures	40 years
Furniture and equipment	5-10 years

##### 3. Bond Issuance Costs

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts, are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. As a result of the early implementation of GASB 65, bond issuance costs are no longer treated as deferred charges. Beginning net position was adjusted for all such costs outstanding and new issuance costs will be expensed in the year of issuance.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the period when the debt is issued. The face amount of debt issued is reported as other financial sources. Premiums are reported as other financial sources, while discounts are reported as other financial uses. Issuance costs are reported as other debt services expenditures.

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5**

Notes to Basic Financial Statements

September 30, 2013

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

*(e) Assets, Liabilities, and Net Position or Equity (continued)*

**4. Assessments**

*Bond Assessments*

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

*Maintenance Assessments*

In addition to the assessment for the repayment of bond obligations, the District has levied an assessment for the maintenance of the infrastructure and the operations of the District. This assessment is a part of the General Fund's annual budget. The maintenance assessment revenue is classified as program revenue and is accounted for in the General Fund.

*Assessment Methodology*

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

*Billing / Collection of Assessments*

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

**(f) Implementation of Governmental Accounting Standards Statements**

The District is implementing the following GASB Statements during the year that ended September 30, 2013. Statement No. 65 is being early implemented so as to implement it at the same time as the implementation of Statement No. 63.

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

Notes to Basic Financial Statements

September 30, 2013

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

#### (f) *Implementation of Governmental Accounting Standards Statements (continued)*

1. Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This Statement provides guidance for certain items formally classified as assets and liabilities. The Statement redefines these as "deferred outflows of resources" (formally assets) and "deferred inflows of resources" (formally liabilities). Each new category must have its own Statement of Net Position section. GASB 63 also requires that the last line of the statements formally called "Net assets" now be titled "Net position" to reflect the new classifications. In addition, "Capital assets, net of debt" will now be titled "Net investment in capital assets" in order to properly present the total of the items.

2. Statement No. 65, "Items Previously Reported as Assets and Liabilities." This statement provides more guidance for the items listed in GASB 63, and adds additional changes. It requires that statements avoid the use of the word "deferred" except as it relates to items that are deferred outflows or are deferred inflows. It addresses the calculation of a deferred outflow or inflow for the refunding of debt. For non-exchange transactions like grants, amounts received before the time period of eligibility are treated as deferred inflows. This Statement also addresses taxes received prior to the period to which they relate. GASB 65 also requires debt issuance costs to be expensed in the period that the debt was issued. In the past, subsequent to the implementation of GASB 34, these costs were amortized over the life of the issue. The effects of this change are required to be disclosed on the statements in the period it is implemented. Losses on debt refundings are not expenses, but rather, treated as deferred outflows. For operating leases, any initial direct costs are recognized in the period incurred, instead of being amortized over the life of the lease. When an asset is recorded in governmental fund statements, but the revenue is not available until a future period, a deferred inflow is reported until the revenue becomes available.

#### (g) *Use of Estimates*

The management of the District has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with GAAP. Examples of major areas where estimates are used include the estimate for useful lives of land improvements. Actual results could differ from those estimates.

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5**

Notes to Basic Financial Statements

September 30, 2013

**(2) Deposits and Investments**

As of September 30, 2013, the District had the following deposits and investments:

<u>Deposits and Investment Type</u>	<u>Fair Value at September 30, 2013</u>	<u>Weighted Average Maturity (Days)</u>	<u>Credit Rating</u>
Demand Deposits, CFB	\$ 237,781	1.0	n/a
Local Government Investment Pool, SBA	1,099,937	44.0	AAAm
U.S. Bank Money Market Mutual Funds, Federated	1,551,681	44.0	AAAm
Florida Local Government Investment Trust	4,438,099	741.0	AAAf/S1
1-3 Year High Quality Bond Fund, FMIvT	4,151,376	554.8	AAA/v2
Total Fair Value	<u>\$ 11,478,874</u>		
Portfolio Weighted Average Maturity (WAM)		353.0	

**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 WAM of its investment portfolio to less than three years. The WAM on September 30, 2013 was 353.0 days.

**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 Standard and Poor's (S&P)). Fitch provides the ratings for FMIvT, while S&P provides the ratings for the U.S. Bank money market funds maintained with Federated Prime Funds 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 cash equivalents and 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 Statutes. 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.

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

Notes to Basic Financial Statements

September 30, 2013

### (2) Deposits and Investments (continued)

#### *Credit Risk (continued)*

- Trust balances related to restricted debt service accounts are maintained with U.S. Bank and are invested in Federated Prime Cash Obligations Fund, a AAAm rated money market mutual funds.
- The District also has investments consisting of funds placed with the Florida League of Cities, Inc. for participation in the Florida Municipal Investment Trust (FMIVT) 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, 2013, the FMIVT had an unrealized loss of \$39,001 and a realized gain of \$37,550. The realization of the loss will only occur from the future sale of underlying shares in the FMIVT.
- The proceeds from the sale of FMIVT shares in December 2010 were invested in shares of the Florida Local Government Investment Trust (FLGIT) operated by the Florida Association of Counties and Florida Association of County Clerks. The pool is an authorized investment consistent with Section 218.415(16)(a), Florida Statutes and the District's investment policy. The transfer was done to further diversify the District's investment portfolio and improve liquidity. FLGIT recognized an unrealized gain of \$14,321 during Fiscal Year 2012-2013.
- In total, the District recognized investment earnings of \$23,786 during the Fiscal Year.

***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

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

Notes to Basic Financial Statements

September 30, 2013

### (2) Deposits and Investments (continued)

#### *Custodial Credit Risk-Deposits. (continued)*

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 Interlocal 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.
- 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.

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5**

Notes to Basic Financial Statements

September 30, 2013

**(3) Capital Assets**

Capital asset activity for the year ended September 30, 2013 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Assets not being depreciated:				
Land	\$ 1,726,410	6,612	-	1,733,022
Assets being depreciated:				
Improvements other than buildings	129,583,203	-	-	129,583,203
Less accumulated depreciation for:				
Improvements other than buildings	(24,316,847)	(3,262,780)	-	(27,579,627)
Total assets being depreciated, net	<u>105,266,356</u>	<u>(3,262,780)</u>	-	<u>102,003,576</u>
Governmental activities, capital assets	\$ <u>106,992,766</u>	<u>(3,256,168)</u>	-	<u>103,736,598</u>

**(4) Long-term Debt**

Long-term debt consisted of the following as of September 30, 2013:

\$14,790,000 Special Assessment Revenue Bonds, Series 2013  
(Phase 1) principal installments ranging from \$535,000 to  
\$1,015,000 through May 2033 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 3.0% to 4.0%. \$ 14,770,000

\$22,940,000 Special Assessment Revenue Bonds, Series 2013  
(Phase 2) principal installments ranging from \$770,000 to  
\$1,535,000 through May 2034 in accordance with the  
redemption schedule. Interest is due semi-annually on May 1  
and November 1 of each year until redemption or maturity.  
Interest rate range from 3.0% to 4.0%. 22,870,000

Total long-term bond debt 37,640,000  
Plus unamortized bond premium 259,530  
Less current installments of bonds payable (1,305,000)  
Revenue bonds payable less current installments 36,594,530

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5**

Notes to Basic Financial Statements

September 30, 2013

**(4) Long-term Debt (continued)**

The Special Assessment Revenue Bonds are secured by a lien and pledge of revenues under the indentures, which are derived by the District through levy and collection on land within the District specifically benefited. These bonds are additionally secured by amounts on deposit in the funds and accounts created pursuant to the indentures. The annual requirements to amortize the principal and interest of all revenue bonds payable as of September 30 of each year are as follows:

Fiscal Year ending September 30, 2013:

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30,				
2014	\$	1,305,000	1,328,976	2,633,976
2015		1,340,000	1,289,826	2,629,826
2016		1,385,000	1,249,626	2,634,626
2017		1,425,000	1,208,076	2,633,076
2018		1,465,000	1,165,326	2,630,326
2019-2023		8,125,000	5,071,871	13,196,871
2024-2028		9,570,000	3,632,775	13,202,775
2029-2033		11,500,000	1,721,000	13,221,000
2034		1,525,000	61,000	1,586,000
Total	\$	<u>37,640,000</u>	<u>16,728,476</u>	<u>54,368,476</u>

***Changes in Long-term Debt:***

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
Bonds payable	\$ 40,700,000	37,997,097	40,797,567	37,899,530	1,305,000
Subtotal bond debt	<u>40,700,000</u>	<u>37,997,097</u>	<u>40,797,567</u>	<u>37,899,530</u>	<u>1,305,000</u>
Due to Developer	1,010,467	-	1,010,467	-	-
Governmental activities					
Long-term debt	\$ <u>41,710,467</u>	<u>37,997,097</u>	<u>41,808,034</u>	<u>37,899,530</u>	<u>1,305,000</u>

The Special Assessment Revenue Bonds, Series 2002A originally issued in the amount of \$60,535,000 were called and defeased on March 1, 2013. The remaining balance of the 2002A bonds, \$15,205,000, were replaced by the Special Assessment Refunding Revenue Bonds Series 2013 (Phase 1), which were issued in the amount of \$14,790,000 and available funds in the Debt Service Fund. Interest rates on the new bonds range from 3% to 4%. The all-in total interest cost for the refunding bonds is 3.731098% for Phase I with the net present value of savings as a result of the refunding being \$3,718,231.

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5**

Notes to Basic Financial Statements

September 30, 2013

**(4) Long-term Debt (continued)**

The Special Assessment Revenue Bonds, Series 2003A originally issued in the amount of \$69,820,000 were called and defeased on March 1, 2013. The remaining balance of the 2003A bonds, \$23,555,000, were replaced by the Special Assessment Refunding Revenue Bonds Series 2013 (Phase II), which were issued in the amount of \$22,940,000 and available funds in the Debt Service Fund. Interest rates on the new bonds range from 3% to 4%. The all-in total interest cost for the refunding bonds is 3.731652% and the net present value of savings are \$5,018,572.

***Pledged Revenues***

The District has pledged certain benefit special assessment revenue to pay the principal and interest on special assessment bonds issued to pay for infrastructure improvements. These special assessment revenue bonds were outstanding on September 30, 2013 as shown below. The table reports the revenues pledged for each debt issue, the amounts of revenue received in the current year, the current year principal and interest paid on the debt, the approximate percentage of the revenue which is pledged to meet the debt obligation, and the date through which the revenue is pledged under the debt agreement and the total pledged future revenues for each debt, which is the amount of the remaining principal and interest on the bonds as of September 30, 2013.

<u>Description of Debt</u>	<u>Pledged Revenue</u>	<u>Revenue Received</u>	<u>Principal and Interest Paid</u>	<u>Estimated Percent Pledged</u>	<u>Outstanding Principal and Interest</u>	<u>Pledged Through</u>
Special Assessment Revenue Bonds, Series 2013, Phase I	Special Assessments Phase I	\$ 1,602,238	\$ 2,202,969	100%	\$ 21,081,463	2033
Special Assessment Revenue Bonds, Series 2013, Phase II	Special Assessments Phase II	\$ 2,454,645	\$ 2,905,207	100%	\$ 33,287,013	2034

**(5) Related Parties**

The District has no employees. For certain management, finance, and administrative services, the District entered into an interlocal agreement with Village Center Community Development District (Center District), a community development district created under Florida Statute 190. Under the agreement, fees accrued to Center District by the District for such services totaled \$157,578 for the year ended September 30, 2013. There is an additional agreement for deed compliance services and the amount for 2012-2013 was \$55,505.

The Developer provided to the Center District at no cost information system support, including software, hardware, computer programming and internal mailroom operations. The Center District then passed on this benefit to the District. In March 2012, a new company was formed, Villages Technology Services Group, to assume the information system support previously provided by the Developer. In Fiscal Year 2011-2012, the Center District began paying for information system support, with these expenses then passed on in a prorated basis to District No. 5. These costs for the year ended September 30, 2013 were \$13,526.

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 previous years.

## **VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5**

Notes to Basic Financial Statements

September 30, 2013

### **(6) Risk Management**

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. 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 three years.

### **(7) Contingent Liability**

In July 2012, it was discovered that District No. 5 and Village Community Development District Nos. 1-4 and 6-9 had been incorrectly computing the amount of interest due on the final annual installment of Special Assessment Debt, when a property owner paid off the outstanding assessment in full. This error resulted from the fact that assessment payoffs often occurred after the annual assessment rolls had been submitted to the County Tax Collector each year for billing. The District established a refund application process in November 2012 for those individuals that have overpaid their final interest installment. The exact amount of refunds that will be made is unknown, but the maximum estimated cost of these refunds to the District is \$64,453. Fiscal Year 2012-2013 refunds paid were \$40,773.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Board of Supervisors  
Village Community Development District No. 5  
The Villages, Florida

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of Village Community Development District No. 5 (the District) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 30, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* 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, and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected, and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Certified Public Accountants**

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Board of Supervisors  
Village Community Development District No. 5  
The Villages, Florida

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS  
(Concluded)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Purvis, Gray and Company, LLP*

January 30, 2014  
Ocala, Florida

## MANAGEMENT LETTER

Board of Supervisors  
Village Community Development District No. 5  
The Villages, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of Village Community Development District No. 5 (the District) as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated January 30, 2014.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Chapter 10.550, *Rules of the Florida Auditor General*. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, and Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports which are dated January 30, 2014, 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 governs 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:

- 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. There were no findings or recommendations made in the preceding audit report.
- Section 10.554(1)(i)2., *Rules of the Auditor General*, requires our audit to include a review of the provision of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit we determined that the District complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve the District's financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

### Certified Public Accountants

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Board of Supervisors  
Village Community Development District No. 5  
The Villages, Florida

**MANAGEMENT LETTER**  
*(Concluded)*

- Section 10.554(1)(i)5., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government be disclosed in this management letter, unless disclosed in the notes to the financial statements (see Note 1 of the September 30, 2013, the District's basic financial statements for this information).
- Section 10.554(1)(i)6.(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), 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)6.(b)., *Rules of the Auditor General*, requires that we determine whether the annual financial report for the District for the fiscal year ended September 30, 2013, filed with the Florida 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, 2013. In connection with our audit, we determined that these two reports agree.
- Pursuant to Sections 10.554(1)(i)6.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.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, and applicable management, 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*

January 30, 2014  
Ocala, Florida



February 4, 2014

Board of Supervisors  
Village Community Development District No. 5  
The Villages, Florida 32162

RE: Management Response Letter

Dear Supervisors:

Attached is the completed audit for fiscal year 2012-2013 for Village Community Development District No. 5. We are proud to report that this audit has an unmodified opinion.

There are no internal control deficiencies, material weaknesses or compliance issues identified and reported. No prior year comments were identified as all have been corrected in previous years and no new comments have been identified.

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 Village Community Development District No. 5 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 Villages 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

**Village Community Development District No. 5**  
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