



**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7**

Basic Financial Statements

September 30, 2013

(With Independent Auditors' Report Thereon)

# VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

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## INDEPENDENT AUDITORS' REPORT

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

### **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. 7 (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. 7  
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 ended 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 27, 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 27, 2014  
Ocala, Florida

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2013

The Village Community Development District No. 7 (the District) management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the District's financial activities; and (c) identify changes in the District's financial position and its ability to address the next and subsequent year challenges.

### Financial Highlights

- The assets and deferred outflows of the District exceeded its liabilities and deferred inflows as of September 30, 2012 by \$80,018,159 (net position). Of this amount, \$2,779,593 of unrestricted net position may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position decreased by \$4,639,145. Of this total, \$1,049,820 reduction 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 life of the bonds. Depreciation of capital assets of \$2,204,181, which reflects the using up of the value of the capital assets over time, accounted for the majority of the remaining reduction.
- At the close of the Fiscal Year, the District's governmental funds reported combined fund balances of \$5,890,847, a net decrease of \$579,511, compared to the prior year. An increase of \$62,424 occurred in the General Fund which was offset by a reduction of \$641,935 in the Debt Service Fund. The Debt Service Fund decrease resulted from the principal payments collected in the prior year being used to pay down the outstanding principal in the current year. Of the total fund balance, \$1,315,883 is available for spending at the District's discretion as *unassigned fund balance*.
- The District's total long-term debt principal payments totaled \$3,745,498 during the current Fiscal Year. The decrease relates to principal payments made on outstanding revenue bonds and the due to developer liability during the year ended September 30, 2013.
- At the end of the year, unassigned fund balance of the General Fund was \$1,315,883 or 71.4 percent of total General Fund annual expenditures, a healthy contingency for unexpected expenditures.
- Special assessments are shown as assessments receivable. At the fund level, there is an offsetting line item for unavailable revenue, a deferred inflow, pertaining to assessments due in future years. Assessments receivable decreased by \$4,634,505 during the year and has a September 30, 2013 balance of \$67,698,581.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village Community Development District No. 7'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 **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 introduce 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

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Management's Discussion and Analysis

(UNAUDITED)

September 30, 2013

decreases in net position may serve as a useful indicator of whether the financial position of the Village Community Development District No. 7 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. 7, 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.

The District adopts an annual appropriated budget for its General and Debt Service Funds. 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.

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7**

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2013

*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 \$80.018 million and \$84.657 million, respectively, representing a decrease of approximately \$4.639 million. As a result of the early implementation of GASB 65, bond issuance costs are no longer treated as deferred charges. This change resulted in the restatement of the beginning net position of the District resulting in a reduction of \$1,049,820 from \$84,657,304 to \$83,607,484. The District's revenues for the years ended September 30, 2013 and September 30, 2012, including assessments and investment earnings, were approximately \$4.342 million and \$6.584 million, respectively. The District's expenses for the years ended September 30, 2013 and September 30, 2012 were \$7.932 million and \$8.102 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>
<b>Assets:</b>		
Current and other assets	\$ 6,352,597	7,972,075
Assessments receivable	67,698,581	72,333,086
Capital assets, net	76,703,109	78,907,290
<b>Total assets</b>	<b>150,754,287</b>	<b>159,212,451</b>
<b>Liabilities:</b>		
Current and other liabilities	1,555,026	1,628,547
Long term debt		
Due within one year	1,555,000	1,520,000
Due in more than one year	67,626,102	71,406,600
<b>Total liabilities</b>	<b>70,736,128</b>	<b>74,555,147</b>
<b>Net position:</b>		
Net investment in capital assets	8,069,885	8,024,989
Restricted for debt service	69,168,681	74,361,250
Unrestricted	2,779,593	2,271,065
<b>Total net position</b>	<b>\$ 80,018,159</b>	<b>84,657,304</b>

The majority of the District's net position (86.4%) are restricted for debt service. The resources required to repay this debt must be provided annually from assessments, since the capital assets themselves cannot be liquidated to

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7**

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2013

pay the liabilities. The District's net position also include amounts invested in capital assets, after related debt is removed, and unrestricted net position.

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**

	<b>Governmental Activities</b>	
	<b>September 30, 2013</b>	<b>September 30, 2012</b>
Revenues:		
Special assessments	\$ 4,271,708	5,977,379
Intergovernmental revenue	61,881	91,407
Miscellaneous revenue	449	33,168
Contributions and donations from private sources	-	447,880
Investment income	8,435	33,948
Total revenues	<u>4,342,473</u>	<u>6,583,782</u>
Expenses:		
General government	429,101	401,743
Physical environment	1,406,527	1,370,431
Transportation	125,921	126,260
Interest on long-term debt	3,766,068	3,999,328
Depreciation (unallocated)	<u>2,204,181</u>	<u>2,203,862</u>
Total expenses	<u>7,931,798</u>	<u>8,101,624</u>
Increase (decrease) in net position	<u>\$ (3,589,325)</u>	<u>(1,517,842)</u>

**Revenues**

Revenues include special assessments on District landowners for maintenance and debt service. Intergovernmental revenue from Sumter County for the District's maintaining county road right-of-ways makes up a second category of revenue. Investment earnings on cash balances held during the year make the final source of revenue to the District. Special Assessment revenue in Fiscal Year 2012-2013 was \$4,271,708, as compared to \$5,977,379 in Fiscal Year 2011-2012, reflecting a \$1,705,671 decrease. This resulted primarily from the reduction in assessments as the size of the outstanding bond issue has been reduced through annual principal payments.

Investment income was \$8,435 in Fiscal Year 2012-2013, down from \$33,948 in the prior year. Lower money market interest rates and defensive posturing of the District Bond pools in anticipation of higher interest rates led to the reduction in investment income. Further information can be found in Note 2 of the Notes to Basic Financial Statements.

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2013

### Expenses

General government expenses of the District increased by \$27,358 compared to the prior year. Physical environment expenses, which are mainly for landscaping, irrigation, utilities and maintenance costs, increased by \$36,096. Transportation expenses, which mainly are for electric utility costs for street lighting, declined by \$339 compared to the prior year. Interest on the long-term debt is the amount of interest paid to bondholders pertaining to the District's revenue bonds. It declined by \$233,260 compared to the prior year as the amount of outstanding principal on the District Series 2006 Bonds is being reduced year-by-year. Depreciation expenses, which reflect the using up over time of the District's capital assets, increased by \$319 compared to the prior year, as a small amount of additional capital assets were acquired.

### 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 \$5,890,847, a decrease of \$579,511 in comparison with the end of Fiscal Year 2011-2012. Approximately 22.3 percent of this total amount, \$1,315,883, constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *restricted* or *committed* to indicate that it is not available for new spending because it has already been restricted (\$3,557,358 for debt service), or committed (\$1,017,606 for renewal and replacement).

The General Fund is the chief operating fund of the District. At the end of Fiscal Year 2011-2012, unassigned fund balance was \$1,315,883. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 71.4 percent of annual General Fund expenditures, a healthy contingency.

The Debt Service Fund has a total fund balance of \$3,557,358, all of which is reserved for the payment of debt service. The net decrease in Debt Service Fund balance was \$641,935 as prepayments received in the prior year were used in the current year to pay down bond principal. This fund's revenue is comprised entirely of special assessment proceeds and interest earnings on cash balances. No new debt was acquired by the District in Fiscal Year 2012-2013.

### General Fund Budgetary Highlights

During the year, there was a \$7,000 increase in the appropriations for the General Fund between the original and final budget. The increase was in the professional services line. There was no change in the revenue budget.

### Capital Asset and Debt Administration

**Capital Assets.** The District's capital assets as of September 30, 2013 and September 30, 2012 amounted to \$76,703,109 and \$78,907,290, respectively. This is net of accumulated depreciation and includes land and

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2013

improvements. The decrease resulted from the depreciation expense of \$2,204,181. Additional information regarding the District's capital assets can be found in Note 3 of the Notes to Basic Financial Statements.

**Long-term Debt.** As of September 30, 2013 and September 30, 2012, the District had long-term debt outstanding of \$69,181,102 and \$72,926,600, respectively. Bond debt principal of \$3,745,000 was retired, while \$498 in debt due to the developer was also paid during the year. Most of the debt is special assessment debt and is secured solely by special assessment revenue sources. The developer debt is secured by the proceeds of the Debt Service Reserve Fund maintained by the District's trustee, U.S. Bank. Additional information regarding the District's long-term debt can be found in Note 4 of the Notes to 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 revenue budget has increased by \$46,150 compared to the final budget in Fiscal Year 2012-2013. The increase results from a \$91,657 increase in maintenance assessment revenue due to a 5% increase and an \$11,200 refund from the Village Center Community Development General Fund, offset by a reduction of \$56,707 in the Sumter County right-of-way maintenance reimbursement. Expenses are projected to decrease by \$35,823, primarily as a result of reduction of maintenance and repair expenses.

### **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 COMMUNITY DEVELOPMENT DISTRICT NO. 7**

Statement of Net Position

September 30, 2013

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 389,753
Investments	5,947,265
Due from other Governments	15,481
Interest receivable	98
Assessments receivable	67,698,581
Capital assets, net of accumulated depreciation	<u>76,703,109</u>
Total assets	<u>150,754,287</u>
<b>Liabilities</b>	
Accounts payable	15,648
Accrued interest payable	1,539,378
Long-term debt:	
Due within one year	1,555,000
Due in more than one year	<u>67,626,102</u>
Total liabilities	<u>70,736,128</u>
<b>Net Position</b>	
Net investment in capital assets	8,069,885
Restricted for debt service	69,168,681
Unrestricted	<u>2,779,593</u>
Total net position	<u>\$ 80,018,159</u>

See accompanying notes to basic financial statements.

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7**

Statement of Activities

Year Ended September 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program revenues</u>			<u>Net (expense) revenue and changes in net assets</u>	
		<u>Charges for services</u>	<u>Operating contributions</u>	<u>Capital grants and contributions</u>	<u>Governmental activities</u>	<u>Total</u>
Governmental activities:						
General government services	\$ 429,101	4,271,708	-	-	3,842,607	3,842,607
Physical environment	1,406,527	-	-	-	(1,406,527)	(1,406,527)
Transportation	125,921	-	61,881	-	(64,040)	(64,040)
Interest on long-term debt	3,766,068	-	-	-	(3,766,068)	(3,766,068)
Depreciation (unallocated)	2,204,181	-	-	-	(2,204,181)	(2,204,181)
Total governmental activities	<u>7,931,798</u>	<u>4,271,708</u>	<u>61,881</u>	<u>-</u>	<u>(3,598,209)</u>	<u>(3,598,209)</u>
Total primary government	<u>7,931,798</u>	<u>4,271,708</u>	<u>61,881</u>	<u>-</u>	<u>(3,598,209)</u>	<u>(3,598,209)</u>
General revenues:						
Miscellaneous Revenue					449	449
Investment earnings					8,435	8,435
Total general revenues					<u>8,884</u>	<u>8,884</u>
Change in net position					(3,589,325)	(3,589,325)
Net position – beginning (as restated)					<u>83,607,484</u>	<u>83,607,484</u>
Net position – ending					<u>\$ 80,018,159</u>	<u>\$ 80,018,159</u>

See accompanying notes to basic financial statements.

**Restatement of Net Position**

<b>Beginning Net Position</b>	<b>\$ 84,657,304</b>
<b>Less Cost of Issuance</b>	<b><u>(1,049,820)</u></b>
<b>Net position - beginning (as restated)</b>	<b><u>\$ 83,607,484</u></b>

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7**

Balance Sheet – Governmental Funds

September 30, 2013

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 389,753	-	389,753
Cash and cash equivalents with fiscal agent	1,943,903	4,003,362	5,947,265
Due from other governments	15,481	-	15,481
Accrued interest receivable	-	98	98
Assessment receivables	-	67,698,581	67,698,581
	<u>2,349,137</u>	<u>71,702,041</u>	<u>74,051,178</u>
Total assets			
Liabilities:			
Accounts payable	14,949	-	14,949
Due to other governments	699	-	699
Due to Developer	-	446,102	446,102
	<u>15,648</u>	<u>446,102</u>	<u>461,750</u>
Total liabilities			
Deferred inflows of resources:			
Unavailable special assessment revenue	-	67,698,581	67,698,581
Fund balances:			
Restricted for debt service	-	3,557,358	3,557,358
Committed for renewal and replacement	1,017,606	-	1,017,606
Unassigned	1,315,883	-	1,315,883
	<u>2,333,489</u>	<u>3,557,358</u>	<u>5,890,847</u>
Total fund balances			
Total liabilities and fund balances	\$ <u>2,349,137</u>	<u>71,702,041</u>	<u>74,051,178</u>

See accompanying notes to basic financial statements.

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7**

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

Total fund balances, governmental funds		\$	5,890,847
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, net of depreciation			76,703,109
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Special assessment revenue bonds	(68,735,000)		
Accrued interest	<u>(1,539,378)</u>		(70,274,378)
Unavailable special assessment revenue reported in the funds is added to the beginning balance of net position restricted for debt service to reflect the revenue as recorded when the total assessment is levied.			
			<u>67,698,581</u>
Net position of governmental activities		\$	<u><u>80,018,159</u></u>

See accompanying notes to basic financial statements.

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7**

Statement of Revenues, Expenditures and Changes in

Fund Balances – Governmental Funds

Year Ended September 30, 2013

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Revenues:			
Special assessments	\$ 1,837,645	7,068,568	8,906,213
Intergovernmental revenue	61,881	-	61,881
Miscellaneous revenue	449	-	449
Investment earnings	4,884	3,551	8,435
Total revenues	<u>1,904,859</u>	<u>7,072,119</u>	<u>8,976,978</u>
Expenditures:			
General government services	309,987	119,114	429,101
Physical environment	1,406,527	-	1,406,527
Transportation	125,921	-	125,921
Debt service:			
Principal	-	3,745,000	3,745,000
Interest	-	3,849,440	3,849,440
Miscellaneous bond expense	-	500	500
Total expenditures	<u>1,842,435</u>	<u>7,714,054</u>	<u>9,556,489</u>
Excess (deficiency) of revenues over expenditures	<u>62,424</u>	<u>(641,935)</u>	<u>(579,511)</u>
Net change in fund balances	62,424	(641,935)	(579,511)
Fund balances, at beginning of year	2,271,065	4,199,293	6,470,358
Fund balances, at end of year	\$ <u><u>2,333,489</u></u>	<u><u>3,557,358</u></u>	<u><u>5,890,847</u></u>

See accompanying notes to basic financial statements.

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7**  
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in  
 Fund Balances – Governmental Funds to the Statement of Activities  
 Year Ended September 30, 2013

Net change in fund balances – total governmental funds	\$	(579,511)
Amounts reported for governmental activities in the statement of activities are different because:		
<p>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.</p>		
Depreciation expense	\$ <u>(2,204,181)</u>	(2,204,181)
<p>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:</p>		
Change in accrued interest payable		83,872
<p>Governmental funds report special assessment debt service as revenue when collected, however, in the statement of activities, the revenue is recorded when the total assessment is levied.</p>		
Special assessment receivable as of September 30, 2013	67,698,581	
Special assessment receivable as of September 30, 2012	<u>(72,333,086)</u>	(4,634,505)
<p>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 by which reduction in long-term debt exceeded the proceeds.</p>		
Change in net position of governmental activities	\$ <u><u>3,745,000</u></u>	<u><u>(3,589,325)</u></u>

See accompanying notes to basic financial statements.

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7**

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	\$ 1,833,134	1,833,134	1,837,645	4,511
Local government unit grant, transportation	61,881	61,881	61,881	-
Miscellaneous revenue	-	-	449	449
Investment earnings	3,500	3,500	4,884	1,384
Total revenues	<u>1,898,515</u>	<u>1,898,515</u>	<u>1,904,859</u>	<u>6,344</u>
Expenditures:				
Personnel services	15,213	15,213	13,181	2,032
Professional services	268,336	277,757	274,390	3,367
Accounting and auditing	10,654	10,654	10,654	-
Other contractual services	1,932	1,932	2,241	(309)
Travel and per diem	1,000	1,000	-	1,000
Communication and freight	2,000	2,000	1,729	271
Utilities services	166,466	161,045	147,194	13,851
Insurance	5,500	5,500	5,402	98
Equipment rental	500	500	-	500
Repairs and maintenance/landscape	277,542	279,542	236,720	42,822
Printing and binding	500	500	131	369
Other current charges	1,150,603	1,151,603	1,150,612	991
Operating supplies	500	500	181	319
Total expenditures	<u>1,900,746</u>	<u>1,907,746</u>	<u>1,842,435</u>	<u>65,311</u>
Excess (deficiency) of revenues over expenditures	<u>(2,231)</u>	<u>(9,231)</u>	<u>62,424</u>	<u>71,655</u>
Other financing sources (uses):				
Transfers in (out)	<u>(140,000)</u>	<u>(140,000)</u>	<u>-</u>	<u>140,000</u>
Total other financing sources	<u>(140,000)</u>	<u>(140,000)</u>	<u>-</u>	<u>140,000</u>
Net change in fund balance	<u>(142,231)</u>	<u>(149,231)</u>	<u>62,424</u>	<u>211,655</u>
Fund balances, at beginning of year	<u>2,271,065</u>	<u>2,271,065</u>	<u>2,271,065</u>	<u>-</u>
Fund balances, at end of year	<u>\$ 2,128,834</u>	<u>2,121,834</u>	<u>2,333,489</u>	<u>211,655</u>

See accompanying notes to basic financial statements.

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Notes to Basic Financial Statements

September 30, 2013

### (1) Summary of Significant Accounting Policies

#### (a) Reporting Entity

Village Community Development District No. 7 (the District) was established on October 1, 2004 for the purpose of planning, financing, constructing, operating, and maintaining certain community-wide infrastructure for a community development district located entirely within Sumter County, Florida. The District was created by Sumter County Commission Ordinance No. 04-35 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, four members of the Board of Supervisors were elected by qualified electors of the District (registered voters). The remaining Supervisor was elected by the landholders based on one vote per acre or part thereof. The final landowner elected supervisor position will transition to election by qualified electors in November 2014.

The District boundary consists of approximately 976 acres in the northeast corner of the county. Planned development includes construction of 4,765 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. 7 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. 7.

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

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Notes to Basic Financial Statements

September 30, 2013

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

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

- Brownwood CDD (Sumter County) – 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 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 I

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Notes to Basic Financial Statements

September 30, 2013

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

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

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.

Program revenues in the Statement of Activities consist primarily of special assessment revenues. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

*Net investment in capital assets* is intended to reflect the portion of net position which is 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 will be expensed in the current year and will no longer be amortized over the life of the debt.

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Notes to Basic Financial Statements

September 30, 2013

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

#### (b) Basic Financial Statements (continued)

##### Government-wide and Fund Financial Statements (continued)

*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.

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

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

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

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

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)*

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.

#### (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 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 Assets 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)

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 and 0-2 Year High

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7**

Notes to Basic Financial Statements

September 30, 2013

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

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

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

Quality Bond Fund. In September and December of 2010 approximately half of the balances in the FMIvT were transferred to the Florida Local Government Investment Trust operated by the Florida Association of Counties and the Florida Association of County Clerks. This transfer was made to further diversify the District's investments and improve liquidity. In March 2013, the funds in the FMIvT 0-2 Year High Quality Bond Fund were liquidated and moved into the FMIvT 1-3 Year High Quality Bond Fund. 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. This change resulted in the restatement of the beginning net position of the District resulting in a reduction of \$1,049,820 from \$84,657,304 to \$83,607,484. All 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. 7

Notes to Basic Financial Statements

September 30, 2013

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

#### (e) Assets, Liabilities, and Net Assets 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 assessments 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 as 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.

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

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7**

Notes to Basic Financial Statements

September 30, 2013

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

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

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 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.

**(2) Deposits and Investments**

As of September 30, 2013, the District had the following 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	\$ 147,497	1.0	n/a
Local Government Investment Pool, SBA	242,255	44.0	AAAm
U.S. Bank Money Market Mutual Funds, Federated	4,003,362	44.0	AAAm
Florida Local Government Investment Trust	1,032,379	741.0	AAAf/S1
1-3 Year High Quality Bond Fund, FMIvT	911,525	554.8	AAA/v2
Total Fair Value	<u>\$ 6,337,018</u>		
Portfolio Weighted Average Maturity (WAM)		230.0	

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Notes to Basic Financial Statements

September 30, 2013

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

**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 230.0 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 the Florida Municipal Investment Trust (FMIVT) 1-3 Year High Quality Bond Fund, while S&P provides the ratings for the U.S. Bank money market, Florida Local Government Investment Trust (FLGIT), and the State Board of Administration (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.
- Trust balances related to restricted debt service accounts are maintained with U.S. Bank and are invested in Federated Prime Money Market 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 (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 pool operated by the FMIVT. GASB 31 requires all governments to mark to market the unrealized gains and losses incurred in its investments. In the year ended September 30, 2013, the FMIVT had incurred unrealized losses of \$3,695 and realized gains of \$3,077, for a net loss of \$618. The unrealized losses will not be recognized until the sale of underlying shares in the FMIVT pool.
- The District initiated investments in the Florida Local Government Investment Trust (FLGIT), a pool sponsored by the Florida Association of Counties and the Florida Association of County Clerks, on September 2, 2010. Initially amounts were moved from the FMIVT 0-2 Year High Quality Bond Fund to establish the FLGIT investment. In December 2010, approximately half of the balances in the FMIVT 1-3 Year High Quality Bond Fund were transferred to FLGIT. The pool is an authorized investment consistent with

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7

Notes to Basic Financial Statements

September 30, 2013

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

#### *Credit Risk. (continued)*

Section 218.415(16)(a), Florida Statutes and the District's investment policy. GASB 31 requires all governments to mark to market the unrealized gains and losses incurred in its investments. As of September 30, 2013, the FLGIT account had achieved unrealized gains of \$3,177.

- In total, the District recognized investment earnings of \$8,435 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.

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:

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7**

Notes to Basic Financial Statements

September 30, 2013

**(2) Deposits and Investments (continued)**

*Investment Policy (continued)*

- 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 depositories, 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.

**(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	\$ 582,140	-	-	582,140
Assets being depreciated:				
Improvements other than buildings	87,604,378	-	-	87,604,378
Less accumulated depreciation for:				
Improvements other than buildings	(9,279,228)	(2,204,181)	-	(11,483,409)
Total assets being depreciated, net	78,325,150	(2,204,181)	-	76,120,969
 Total governmental capital assets	 \$ 78,907,290	 (2,204,181)	 -	 76,703,109

The only capital asset activity during Fiscal Year 2012-2013 for the District was the application of \$2,204,181 in depreciation expense which reduced the value of the capital assets.

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7**

Notes to Basic Financial Statements

September 30, 2013

**(4) Long-term Debt**

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

\$89,570,000 Special Assessment Revenue Bonds, Series 2006, annual principal installments ranging from \$1,520,000 to \$5,235,000 through May 2036 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 is 5.375%.	\$	68,735,000
Less current installments of bonds payable		<u>(1,555,000)</u>
Revenue bonds payable less current installments	\$	67,180,000
Due to developer		446,102
Total long-term debt	\$	<u><u>67,626,102</u></u>

The Special Assessment Revenue Bonds are secured by a lien and pledge of revenues under the indentures, which are derived by the District through levy and collection on land within the District specifically benefited. These bonds are additionally secured by amounts on deposit in the funds and accounts created pursuant to the indentures. Payments were made of \$3,745,000 in Fiscal Year 2012-2013 on the principal of the Special Assessment Revenue Bonds and \$498 in Fiscal Year 2012-2013 on the Due to the Developer, leaving a balance of \$68,735,000 in Assessment Bonds and \$446,102 in debt to the Developer outstanding on September 30, 2013.

The Due to Developer results from the delivery of capital assets in prior years that exceeded the construction funds available. The debt service reserve fund of the District, once released, will be used to retire this indebtedness.

The annual requirements to amortize the principal and interest of all revenue bonds payable as of September 30, 2013 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30,			
2014	1,555,000	3,694,506	5,249,506
2015	1,640,000	3,610,925	5,250,925
2016	1,730,000	3,522,775	5,252,775
2017	1,825,000	3,429,787	5,254,787
2018	1,925,000	3,331,694	5,256,694
2019-2023	11,355,000	14,985,769	26,340,769
2024-2028	14,845,000	11,579,094	26,424,094
2029-2033	19,430,000	7,123,487	26,553,487
2034-2036	14,430,000	1,578,907	16,008,907
Total	<u>\$ 68,735,000</u>	<u>52,856,944</u>	<u>121,591,944</u>

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7**

Notes to Basic Financial Statements

September 30, 2013

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

***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	\$ 72,480,000	-	3,745,000	68,735,000	1,555,000
Due to developer	446,600	-	498	446,102	-
Governmental activities:					
Long-term debt	\$ <u>72,926,600</u>	<u>-</u>	<u>3,745,498</u>	<u>69,181,102</u>	<u>1,555,000</u>

***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 as of 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 each 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 2006	Special Assessments	\$ 7,072,119	\$ 7,594,440	100%	\$ 121,591,944	2036

**(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 Districts by the District for such services totaled \$163,245 for the year ended September 30, 2013.

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. 7. These costs for the year ended September 30, 2013 were \$13,839.

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. As of September 30, 2013, the District was indebted to the Developer in the amount of \$446,102 used for the purchase of these assets.

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 7**

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. 7 and Village Community Development District Nos. 1-6, and 8 and 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 \$34,104. Refunds actually paid in Fiscal Year 2012-2013 were \$20,503.

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

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

We have audited, 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. 7 (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 27, 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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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Supervisors  
Village Community Development District No. 7  
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 27, 2014  
Ocala, Florida

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## MANAGEMENT LETTER

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Village Community Development District No. 7 (the District) as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated January 27, 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 27, 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. 7  
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 condition(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 27, 2014  
Ocala, Florida



January 28, 2014

Board of Supervisors  
Village Community Development District No. 7  
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. 7. We are proud to report that this audit has an unqualified 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. 7 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. 7  
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