



VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Basic Financial Statements

September 30, 2015

(With Independent Auditors' Report Thereon)

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Table of Contents

	Page
Financial Section	
Independent Auditors' Report on the Financial Statements	1
Management's Discussion and Analysis (UNAUDITED)	3
Basic Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Balance Sheet – Governmental Funds	11
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	15
Notes to Basic Financial Statements	16
Other Reports	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	33
Management Letter	35
Independent Accountants' Report	37
Management Response Letter	38

INDEPENDENT AUDITORS' REPORT

Board of Supervisors
Village Community Development District No. 3
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. 3 (the District) as of and for the year ended September 30, 2015, 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 auditor's 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.

Certified Public Accountants

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Board of Supervisors
Village Community Development District No. 3
The Villages, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

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 September 30, 2015, 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.

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 the Governmental Accounting Standards Board, 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 29, 2016, 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.


January 29, 2016
Ocala, Florida

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2015

The Village Community Development District No. 3 (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 as of September 30, 2015, by \$18,665,129 (net position). Of this amount, \$1,616,801 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 \$563,081. The decrease in net position results primarily from depreciation expenses for capital assets as shown on page 29 of this report. 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 \$1,936,451 a net increase of \$24,704, compared to the prior year. Of the total, \$652,229 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 \$652,229 or 61.8 percent of total General Fund annual expenditures. This provides a healthy contingency for unexpected expenditures.
- The District's total long-term debt decreased by \$824,518 during the current Fiscal Year. The decrease relates to principal payments made on outstanding revenue bonds during the year ended September 30, 2015.
- 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 \$809,179 during the year and has a September 30, 2015, balance of \$5,349,693.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village Community Development District No. 3'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*. 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. 3 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).

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2015

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. 3, 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 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, 2015, and September 30, 2014, were \$18.665 million and \$19.228 million, respectively, representing a decrease of approximately \$0.563 million. The District's revenues for the years ended September 30, 2015, and September 30, 2014, including assessments, donations, and investment

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2015

earnings, were approximately \$1.283 million and \$1.358 million, respectively. The District's expenses for the years ended September 30, 2015, and September 30, 2014, were \$1.846 million and \$1.822 million, respectively.

Table 1 reflects the summary statement of net position for the current year and prior year.

Table 1

Net Position

	Governmental Activities	
	September 30, 2015	September 30, 2014
Assets:		
Current and other assets	\$ 1,964,199	1,954,233
Assessments receivable	5,349,693	6,158,872
Capital assets - net	16,850,205	17,458,652
Total assets	<u>24,164,097</u>	<u>25,571,757</u>
Deferred outflows of resources		
Deferred amount on refunding	<u>38,447</u>	<u>40,766</u>
Liabilities:		
Current and other liabilities	88,072	110,452
Noncurrent liabilities	5,449,343	6,273,861
Total liabilities	<u>5,537,415</u>	<u>6,384,313</u>
Net position:		
Net investment in capital assets	11,439,309	11,225,557
Restricted for debt service	5,466,764	6,294,923
Restricted for capital improvements	142,255	138,537
Unrestricted	1,616,801	1,569,193
Total net position	<u>\$ 18,665,129</u>	<u>19,228,210</u>

The largest share of the District's net position (61.3 percent) relates to net investment in capital assets. Reserves to pay debt service expenses represent another 29.3 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. A small portion of the net position (0.8 percent) is restricted for capital improvements with the remaining net position being unrestricted.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2015

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, 2015	September 30, 2014
Revenues:		
Special assessments	\$ 1,232,775	1,274,336
Other revenues	35,303	75,151
Investment earnings	14,640	8,329
Total revenues	<u>1,282,718</u>	<u>1,357,816</u>
Expenses:		
General government services	310,176	315,530
Physical environment	614,621	565,630
Transportation	145,841	146,836
Interest on long-term debt	156,396	174,621
Depreciation (unallocated)	618,765	619,192
Total expenses	<u>1,845,799</u>	<u>1,821,809</u>
Increase (decrease) in net position	\$ <u>(563,081)</u>	<u>(463,993)</u>

Revenues

Revenues include special assessments on District landowners for maintenance and debt service. Other revenue includes reimbursements from Sumter County for District maintenance of county road right-of-ways. Investment earnings on cash balances held during the year make up the final source of revenue to the District. Special Assessment revenue decreased by \$41,561 in Fiscal Year 2014-2015 compared to Fiscal Year 2013-2014. Investment earnings of \$14,640 marked an increase of 75.8 percent resulting from increases 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 along with the first year of earnings for the Long-Term Investment Portfolio. Further information regarding the District's investments can be found in Note 2 of the Notes to Basic Financial Statements.

Expenses

General government expenses of the District decreased between the past Fiscal Year and the current year by \$5,354. Physical environment expenses are mainly for landscaping, irrigation, utilities and maintenance costs. These expenses increased \$48,991 between the past Fiscal Year and the current year. Transportation expenses, which relate primarily to street lighting electric bills, decreased by \$995 from the prior Fiscal Year. Interest expense decreased \$18,225 compared to the prior year. The interest on the long-term debt will continue to

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2015

decrease as the existing bond issues are paid off and due to the lower interest rates on the refunding debt. Depreciation expenses decreased by \$427. Total expenses increased by \$23,990.

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 2014-2015, the District's governmental funds reported combined ending fund balances of \$1,936,451, an increase of \$24,704 in comparison with the end of Fiscal Year 2013-2014. Approximately 33.7 percent of this total amount, \$652,229, 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 to renewal and replacement (\$964,572) or restricted (for debt service of \$177,395 and for capital improvements of \$142,255).

The General Fund is the chief operating fund of the District. At the end of Fiscal Year 2014-2015, unassigned fund balance was \$652,229, while total fund balance reached \$1,759,056. This represents an increase of \$51,326, compared to the balance at the end of Fiscal Year 2013-2014. 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 61.8 percent of total General Fund expenditures, while total fund balance represents 166.6 percent of that same amount.

The Debt Service Fund has a total fund balance of \$177,395, all of which is reserved for the payment of debt service. The net decrease in fund balance was \$26,622. This fund's revenue is comprised entirely of special assessment proceeds and interest earnings on cash balances.

General Fund Budgetary Highlights

During the year, there no changes in the revenue budgeted for the General Fund between the original and final budget. Appropriations increased by \$92,000 during the year, primarily for repairs and maintenance and capital outlays.

Capital Asset and Debt Administration

Capital Assets. The District's capital assets as of September 30, 2015, and September 30, 2014, amounted to \$16,850,205 and \$17,458,652, respectively. These amounts are net of accumulated depreciation, and include land and improvements. Depreciation expenses of \$618,765 between September 30, 2014, and September 30, 2015, were offset by \$10,318 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.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2015

Long-Term Debt. As of September 30, 2015, and September 30, 2014, the District had long-term debt outstanding of \$5,449,343 and \$6,273,861, respectively. Debt principal of \$824,518 was retired. All of the debt is special assessment debt and is secured solely by special assessment revenue sources.

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 6.8 percent in September 2015 which is an increase from a rate of 5.1 percent a year ago. The State's average unemployment rate is 5.2 percent and is above the national average rate of 5.1 percent.
- Inflationary trends in the area are comparable to national indices. The national Consumer Price Index (CPI) annual change for all urban consumers changed favorably from 1.66 percent in September 2014 to a negative (0.04) percent in September 2015.

These factors were considered in preparing the District's budget for the 2015-2016 Fiscal Year. In Fiscal Year 2015-2016, the Board approved an increase in the annual maintenance assessment of 15% which results in an increase of \$151,005. Total annual revenues are projected to increase by \$150,505 in the Fiscal Year 2015-2016 General Fund budget compared to the final Fiscal Year 2014-2015 budget. Total Fiscal Year 2015-2016 expenditures are projected to decrease by \$50,463 compared to the Fiscal Year 2014-2015 final budget, due primarily to decreases in the capital budget expenditures, offset by increases in the repairs and maintenance 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 984 Old Mill Run, The Villages, FL 32162; Telephone (352) 753-0421.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Statement of Net Position

September 30, 2015

Assets	Governmental Activities
Cash and cash equivalents	\$ 524,607
Investments	1,431,779
Due from other governments	7,793
Accrued interest receivable	20
Assessments receivable	5,349,693
Capital assets:	
Non-depreciable	432,605
Depreciable (net of accumulated depreciation)	<u>16,417,600</u>
Total assets	<u>24,164,097</u>
Deferred outflows of resources	
Deferred amount on refunding	<u>38,447</u>
Liabilities	
Accounts payable	21,256
Accrued interest payable	60,324
Due to other governments	266
Due to fiscal agent	6,226
Long-term debt:	
Due within one year	575,236
Due in more than one year	<u>4,874,107</u>
Total liabilities	<u>5,537,415</u>
Net position	
Net investment in capital assets	11,439,309
Restricted for debt service	5,466,764
Restricted for capital improvements	142,255
Unrestricted	<u>1,616,801</u>
Total net position	<u>\$ 18,665,129</u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Statement of Activities
Year ended September 30, 2015

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	\$ 310,176	1,232,775	-	-	922,599	922,599
Physical environment	614,621	-	-	-	(614,621)	(614,621)
Transportation	145,841	-	31,173	-	(114,668)	(114,668)
Interest on long-term debt	156,396	-	-	-	(156,396)	(156,396)
Depreciation (unallocated)	618,765	-	-	-	(618,765)	(618,765)
Total governmental activities	\$ <u>1,845,799</u>	<u>1,232,775</u>	<u>31,173</u>	<u>-</u>	<u>(581,851)</u>	<u>(581,851)</u>
General revenue:						
Other revenues					4,130	4,130
Investment earnings					14,640	14,640
Total general revenues					<u>18,770</u>	<u>18,770</u>
Change in net position					(563,081)	(563,081)
Net position – beginning					19,228,210	19,228,210
Net position – ending					\$ <u>18,665,129</u>	<u>18,665,129</u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Balance Sheet – Governmental Funds

September 30, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 347,231	177,376	524,607
Investments	1,431,779	-	1,431,779
Due from other governments	7,793	-	7,793
Accrued interest receivable	1	19	20
Assessments receivable	-	5,349,693	5,349,693
Total assets	<u>1,786,804</u>	<u>5,527,088</u>	<u>7,313,892</u>
Liabilities:			
Accounts payable	21,256	-	21,256
Due to other governments	266	-	266
Due to fiscal agent	6,226	-	6,226
Total liabilities	<u>27,748</u>	<u>-</u>	<u>27,748</u>
Deferred inflows of resources:			
Unavailable special assessment revenue	-	5,349,693	5,349,693
Fund balances:			
Restricted for debt service	-	177,395	177,395
Restricted for capital improvements	142,255	-	142,255
Committed for renewal and replacement	964,572	-	964,572
Unassigned	652,229	-	652,229
Total fund balances	<u>1,759,056</u>	<u>177,395</u>	<u>1,936,451</u>
Total liabilities and fund balances	<u>\$ 1,786,804</u>	<u>5,527,088</u>	<u>7,313,892</u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

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

September 30, 2015

Total fund balances, governmental funds		\$	1,936,451
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	\$	24,833,772	
Less accumulated depreciation		<u>(7,983,567)</u>	16,850,205
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Special assessment revenue bonds		(5,449,343)	
Including: Deferred amount on refunding (to be amortized as an increase in interest expense)		38,447	
Accrued interest payable		<u>(60,324)</u>	(5,471,220)
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>5,349,693</u>
Net position of governmental activities		\$	<u><u>18,665,129</u></u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Statement of Revenues, Expenditures and Changes in

Fund Balances – Governmental Funds

Year ended September 30, 2015

		Debt	
	General	Service	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Special assessments	\$ 1,010,017	1,031,937	2,041,954
Other revenue	35,303	-	35,303
Investment revenue	14,446	194	14,640
Total revenues	<u>1,059,766</u>	<u>1,032,131</u>	<u>2,091,897</u>
Expenditures:			
General government services	285,053	24,123	309,176
Physical environment	614,621	-	614,621
Transportation	145,841	-	145,841
Capital outlay	10,318	-	10,318
Debt service:			
Principal	-	824,518	824,518
Interest	-	161,719	161,719
Miscellaneous bond expense	-	1,000	1,000
Total expenditures	<u>1,055,833</u>	<u>1,011,360</u>	<u>2,067,193</u>
Excess (deficiency) of revenues over expenditures	<u>3,933</u>	<u>20,771</u>	<u>24,704</u>
Other financing sources (uses):			
Transfer in (out)	47,393	(47,393)	-
Total other financing sources (uses)	<u>47,393</u>	<u>(47,393)</u>	<u>-</u>
Net change in fund balances	51,326	(26,622)	24,704
Fund balances, beginning	<u>1,707,730</u>	<u>204,017</u>	<u>1,911,747</u>
Fund balances, ending	\$ <u><u>1,759,056</u></u>	<u><u>177,395</u></u>	<u><u>1,936,451</u></u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in
 Fund Balances – Governmental Funds to the Statement of Activities
 Year ended September 30, 2015

Net change in fund balances – total governmental funds	\$	24,704
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 netted from capital outlay in the current period.		
Capital outlay	\$ 10,318	
Depreciation	<u>(618,765)</u>	(608,447)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Amortization of deferred amount on refunding	(2,319)	
Change in accrued interest payable	<u>7,642</u>	5,323
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, 2015	5,349,693	
Deferred assessment revenue as of September 30, 2014	<u>(6,158,872)</u>	(809,179)
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal payments		824,518
Change in net position of governmental activities	\$	<u><u>(563,081)</u></u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual

General Fund

Year ended September 30, 2015

	Budgeted Amount		Actual Amounts	Variance with final budget
	Original	Final		
Revenues:				
Special assessments, charges for public services	\$ 1,006,694	1,006,694	1,010,017	3,323
Local government unit grant - transportation	31,172	31,172	31,172	-
Other general government charges and fees	1,000	1,000	4,131	3,131
Investment earnings	1,100	1,100	14,446	13,346
Total revenues	<u>1,039,966</u>	<u>1,039,966</u>	<u>1,059,766</u>	<u>19,800</u>
Expenditures:				
Personnel services	17,270	17,270	13,599	3,671
Professional services	257,078	257,078	248,810	8,268
Accounting and auditing	10,654	10,654	10,240	414
Other contractual services	477	977	675	302
Travel and per diem	800	1,300	1,280	20
Communication and freight	100	1,867	1,467	400
Utility services	176,008	176,008	163,028	12,980
Rental and leases	3,000	3,000	-	3,000
Insurance	5,950	5,950	5,652	298
Repair and maintenance/landscape	658,950	695,183	597,365	97,818
Printing and binding	500	1,000	685	315
Other current charges	3,250	3,750	2,645	1,105
Operating supplies	500	500	69	431
Capital outlay	51,206	103,206	10,318	92,888
Total expenditures	<u>1,185,743</u>	<u>1,277,743</u>	<u>1,055,833</u>	<u>221,910</u>
Excess (deficiency) of revenues over expenditures	<u>(145,777)</u>	<u>(237,777)</u>	<u>3,933</u>	<u>241,710</u>
Other financing sources:				
Transfers in	56,274	56,274	47,393	(8,881)
Transfers out	(40,000)	(40,000)	-	40,000
Total other financing sources	<u>16,274</u>	<u>16,274</u>	<u>47,393</u>	<u>31,119</u>
Net change in fund balance	<u>(129,503)</u>	<u>(221,503)</u>	<u>51,326</u>	<u>272,829</u>
Fund balance, beginning	<u>1,707,730</u>	<u>1,707,730</u>	<u>1,707,730</u>	<u>-</u>
Fund balance, ending	<u>\$ 1,578,227</u>	<u>1,486,227</u>	<u>1,759,056</u>	<u>272,829</u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2015

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

Village Community Development District No. 3 (the District) was established in 1998 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. 98-10 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, 2015, each member of the Board of Supervisors is an elected resident of the District.

The District boundary consists of approximately 894 acres in the northeast corner of the county. Development includes construction of 3,762 residential units. The land within the District is part of the active adult retirement community known as “The Villages”. The Villages consists of approximately 22,601 acres spanning the borders of Lake, Sumter and Marion Counties, the City of Wildwood, the City of Fruitland Park and the Town of Lady Lake, Florida, and when fully developed is expected to include approximately 58,789 residences and 111,699 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. 3 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. 10 and 11, south of District No. 3.

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 fourteen 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 services, security services, fire protection, and paramedic services to the residents. The cost of operations is funded by amenity and utility fees that residents pay monthly. This CDD also provides for the maintenance of common areas and roadways for the commercial areas within the CDD boundaries. The cost of maintenance in the commercial areas is funded through commercial maintenance assessments.
- Sumter Landing CDD (Sumter County) – This CDD provides recreation and security services to the residents. The cost of operations is funded by amenity fees that residents pay monthly. This CDD also provides for the maintenance of common areas

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2015

(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) – Brownwood CDD (Sumter County) – This CDD was 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 1 remains unsold as of September 30, 2015.
- 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 included construction of 5,376 residential units.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2015

(1) Summary of Significant Accounting Policies (continued)

(a) Reporting Entity (continued)

- 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. Construction is now underway with 4,503 homes closed as of September 30, 2015.
- Village CDD No. 11 (Lake County) – This CDD’s boundary consists of approximately 693 acres within the city limits of Fruitland Park in the western portion of Lake County. Planned development includes construction of 2,050 residential units. Construction is now underway with 99 homes closed as of September 30, 2015.

Some 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.

In addition to the above there is one dependent district of Sumter County that is part of the family of Districts that comprise the local government of The Villages.

- North Sumter County Utility Dependent District (NSCUDD) (Sumter and Marion Counties) – The dependent district was established in July 2010 to manage and finance basic potable water, wastewater treatment and reclaimed water services for approximately 7,721 acres of land located in unincorporated Sumter County in The Villages, Florida. The District was created on July 13, 2010, by Sumter County, Florida, in Ordinance No. 2010-10, pursuant to the provisions of Chapter 189 of the Florida Statutes, and operates within the criteria established by Chapter 189. The service area of NSCUDD was expanded to include solid waste collection services for the entire Sumter County portion of The Villages. The City of Wildwood and Marion County entered into interlocal agreements with the District on November 20, 2012, authorizing the District to provide solid waste collection services in portions of their jurisdictions, including Brownwood District and District No. 4. The City of Fruitland Park entered into an interlocal agreement with the District on June 12, 2014, authorizing the District to provide solid waste collection services in the portion of their jurisdiction that lies within The Villages.

(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.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2015

(1) Summary of Significant Accounting Policies (continued)

(b) *Basic Financial Statements (continued)*

Government-wide and Fund Financial Statements (continued)

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. The statement of net position also addresses deferred inflows and deferred outflows. 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.

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.

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 represents 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 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.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2015

(1) Summary of Significant Accounting Policies (continued)

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

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 cannot 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.

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 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.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2015

(1) Summary of Significant Accounting Policies (continued)

(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, Florida Prime™

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 Court Clerks & Comptrollers. 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.

During the Board meetings in August and September of 2014, the District Board adopted a Long-Term Investment Policy. The initial funds were subsequently transferred from the Short-Term Portfolio to the Long-Term Investment Portfolio (LTIP) on October 3, 2014. The funds transferred for the District totaled \$206,338. The main investment objective of the LTIP is to achieve long-term growth of LTIP assets by maximizing long-term rate of return on investments and minimizing risk of loss to fulfill the District's obligations with an investment horizon of 5-10 years. Investments in the portfolio include fixed income and equity mutual funds, and money market funds. The new policy was developed in accordance with Section 218.415, Florida Statutes. Investments are reported at fair value.

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:

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2015

(1) Summary of Significant Accounting Policies (continued)

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

2. Capital Assets (continued)

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.

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.

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

Maintenance Assessments

In addition to the assessment for the repayment of bond obligations, the District has levied an assessment for the maintenance of the infrastructure and the operations of the District. This assessment is 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.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2015

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

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

4. Assessments (continued)

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. They are collected by the county under the uniform tax collection process and then remitted to the District.

(f) ***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**

Short-Term Portfolio

As of September 30, 2015, the District had the following deposits and investments:

<u>Deposits and Investment Type</u>	<u>Fair Value at September 30, 2015</u>	<u>Weighted Average Maturity (Days)</u>	<u>Credit Rating</u>
Demand Deposits, CFB	\$ 223,603	1.0	n/a
State Board of Administration, Florida Prime TM	123,628	29.0	AAAm
U.S. Bank Money Market Mutual Funds, Federated	47,989	27.0	AAAm
U.S. Bank Money Market Mutual Funds, Fidelity	129,387	29.0	AAAm
Florida Local Government Investment Trust	604,956	518.3	AAAf/S1
1-3 Year High Quality Bond Fund, FMIvT	618,815	489.1	AAA/v2
Total Fair Value	<u>\$ 1,748,378</u>		
Portfolio Weighted Average Maturity (WAM)		357.5	

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, 2015, was 357.5 days.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2015

(2) Deposits and Investments (continued)

Short-Term Portfolio (continued)

Credit Risk. GASB 40 requires disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed income securities. Investments may be aggregated by ratings categories within the disclosure. Ratings are set by nationally recognized statistical rating organizations (Fitch, Moody's, and 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 Fidelity and Federated Prime Funds, FMIvT, and the Florida PrimeTM.

Operating cash is maintained with Citizens First Bank, a Qualified 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 Investment Pool (Florida PrimeTM) 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 Florida PrimeTM, a Securities and Exchange Commission Rule 2a7-like external investment pool, are reported at fair value which is amortized cost. The District recognized \$3,014 in earnings from Florida PrimeTM during the 2014-2015 Fiscal Year.
- Trust balances related to restricted debt service accounts are maintained with U.S. Bank and are invested in Federated Prime Cash Obligations Fund and Fidelity Prime Fund, both 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 short-term 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. As of September 30, 2015, the FMIvT had unrealized gains of \$4,417. The realization of these gains 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 Court Clerks & Comptrollers. The pool is an authorized investment consistent with Section 218.415(16)(a), Florida Statutes, and the District's short-term investment policy. The transfer was done to further diversify the District's investment portfolio and improve liquidity. FLGIT recognized an unrealized gain of \$5,291 during Fiscal Year 2014-2015. The realization of these gains will only occur from the future sale of underlying shares in the FLGIT.
- In total, the District recognized investment earnings of \$12,776 on the short-term portfolio during the Fiscal Year.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2015

(2) Deposits and Investments (continued)

Short-Term Portfolio (continued)

Concentration of Credit Risk. The District's short-term 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 Qualified 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 as provided by the Federal Deposit Insurance Corporation (FDIC), the District's deposits are provided the 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 Qualified 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.

Short-Term Investment Policy

The District is authorized to invest in those financial instruments as established by the short-term investment policy of the District. This policy allows investments authorized under Section 218.415, Florida Statutes, 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.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2015

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

Short-Term Investment Portfolio (continued)

Short-Term Investment Policy (continued)

- Direct obligations of the United States Treasury.
- Federal agencies and instrumentalities.
- Repurchase agreements with financial institutions approved as public depositors, provided that the underlying collateral consists 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.

Long-Term Portfolio

In August of 2014, the District adopted a Long-Term Investment Policy (LTIP). Implementation of the LTIP occurred in October of 2014. Investments in fixed income and equity mutual funds, and money market funds, as authorized in the LTIP, are reported at fair value as of September 30, 2015, as follows:

<u>Long Term Investment Portfolio</u>	<u>Fair Value at September 30, 2015</u>	<u>Average Maturity (years)</u>	<u>Credit Rating</u>
Domestic Equity			
Vanguard Total Stock Market Index	\$ 68,741	N/A	N/A
Vanguard Dividend Growth	11,993	N/A	N/A
International Equity			
Vanguard Developed Markets Index	35,244	N/A	N/A
Oppenheimer International Small Company	8,727	N/A	N/A
Fixed Income			
Metropolitan West Total Return	23,145	7.84	AA
Baird Core Plus	23,075	6.98	A
Vanguard Intermediate-Term Investment Grade	21,473	6.40	A
Federated Ultra-Short Bond	7,529	0.80	AA
Inflation Hedge			
Vanguard Inflation Protected Fund	7,302	8.60	AAA
Cash Equivalent			
First American Government Obligation	779	N/A	N/A
Total Fair Value	\$ <u>208,008</u>		

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2015

(2) Deposits and Investments (continued)

Long-Term Portfolio (continued)

The District's LTIP allocations seek to have up to 60% in equities with the remainder in fixed income and/or cash and cash equivalents. The District contracts with qualified investment managers to whom authority is delegated to invest and reinvest assets in accordance with the LTIP. The District's LTIP does not place specific limits on maturities. During the current Fiscal Year, the Long-Term Investment Portfolio had an unrealized gain of \$1,670. The realization of the gain will only occur from the future sale of underlying shares in the portfolio.

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. The District's LTIP addresses managing its exposure for changes in interest rate through maintaining diversification of its investments to minimize the impact of downturns in the market.

Credit Risk. GASB 40 requires disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, fixed income mutual funds, money market funds, and other pooled investments of fixed income securities. The District's LTIP stipulates that the average credit rating of the overall fixed income portfolio should be investment grade, based on the rating of one Nationally Recognized Statistical Rating Organization (NRSRO), such as Fitch, Moody's, Standard and Poor's (S&P), etc..

Concentration of Credit Risk. The District's LTIP requires the diversification of its portfolio. The LTIP contains an Asset Allocation Target with the objective of achieving an average total rate of return that is equal to or greater than the portfolio's target rate of return over the long-term. The Asset Allocation Targets are as follows:

<u>Asset Classes</u>	<u>Asset Weightings</u>	
	<u>Range</u>	<u>Target</u>
Growth Assets		
Domestic Equity	20% - 60%	40%
International Equity	0% - 40%	20%
Other	0% - 20%	0%
Income Assets		
Fixed Income	20% - 60%	40%
Other	0% - 20%	0%
Real Return Assets		
	0% - 20%	0%
Cash Equivalents		
	0% - 20%	0%

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.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2015

(2) Deposits and Investments (continued)

Long-Term Portfolio (continued)

Long-Term Investment Policy

The District is authorized to invest in those financial instruments as established by the LTIP of the District. The LTIP was developed in accordance with Section 218.415, Florida Statutes, and prohibits direct investment in derivative-type investments. The authorized investments consist of:

- Domestic and International Equities
- Fixed Income Securities
- Other Assets (Alternatives)
 - Real Estate Investment Trust (REIT)
 - Treasury Inflation Protected Securities (TIPS)
- Cash Equivalents

The objectives of the LTIP are to diversify investments in order to minimize the impact of large losses from individual investments; provide funding for anticipated withdrawals; enhance the value of the portfolio in real terms over the long-term through asset appreciation and income generation, while maintaining a reasonable investment risk profile; minimize principal fluctuations over the time horizon (five years or longer); and achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding the performance expectation (an average total annual rate of return that is equal to or greater than the portfolio's hurdle rate of 5%).

The time horizon for the LTIP is five years or longer.

Foreign Currency Risk. The District's LTIP does not allow for direct investments in foreign currency.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2015

(3) Capital Assets

Capital asset activity for the year ended September 30, 2015, was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Governmental activities:				
Assets not being depreciated:				
Land	\$ 432,605	-	-	432,605
Assets being depreciated:				
Furniture & equipment	8,034	-	-	8,034
Improvements other than buildings	24,382,815	10,318	-	24,393,133
Total assets being depreciated	24,390,849	10,318	-	24,401,167
Less accumulated depreciation for:				
Furniture & equipment	(4,619)	(803)	-	(5,422)
Improvements other than buildings	(7,360,183)	(617,962)	-	(7,978,145)
Total depreciation	(7,364,802)	(618,765)	-	(7,983,567)
Total assets being depreciated, net	17,026,047	(608,447)	-	16,417,600
Governmental activities, capital assets	\$ 17,458,652	(608,447)	-	16,850,205

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2015

(4) Long-term Debt

Long-term debt consisted of the following as of September 30, 2015:

\$3,130,000 Special Assessment Refunding Revenue Bonds, Series 2012 principal installments ranging from \$400,236 to \$422,064 through May 2019 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 1.77%.	\$ 1,644,343
\$4,405,000 Special Assessment Refunding Revenue Bonds, Series 2013 principal installments ranging from \$175,000 to \$280,000 through May 2032 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 3.04%.	<u>3,805,000</u>
Total long-term bond debt	5,449,343
Less current installments of bonds payable	<u>(575,236)</u>
Long-term debt less current installments	\$ <u><u>4,874,107</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. 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, 2015:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	575,236	144,777	720,013
2017	587,384	132,373	719,757
2018	599,659	119,690	719,349
2019	612,064	106,727	718,791
2020	195,000	93,480	288,480
2021-2025	1,075,000	374,528	1,449,528
2026-2030	1,250,000	200,792	1,450,792
2031-2032	555,000	25,384	580,384
Total	\$ <u><u>5,449,343</u></u>	<u><u>1,197,751</u></u>	<u><u>6,647,094</u></u>

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Notes to Basic Financial Statements

September 30, 2015

(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	\$ 6,273,861	-	824,518	5,449,343	575,236
Long-term debt	\$ 6,273,861	-	824,518	5,449,343	575,236

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, 2015, 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, 2015.

<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 2012	Special Assessments Phase I	\$ 566,833	\$ 567,509	100%	\$ 1,717,749	2019
Special Assessment Revenue Bonds, Series 2013	Special Assessments Phase II	\$ 465,104	\$ 418,728	100%	\$ 4,929,344	2032

(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 \$157,586 for the year ended September 30, 2015.

The Village Center Community Development District (VCCDD) pays the Villages Technology Services Group (TSG) each month for information system support, including software, hardware, computer programming and internal mail room operations. TSG was owned by the Developer until March 2012. These costs are passed on from the VCCDD to District 3 on a proportional basis and for the year ended September 30, 2015, were \$9,858.

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. 3

Notes to Basic Financial Statements

September 30, 2015

(7) Risk Management

The District is exposed to various risk 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.

**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. 3
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. 3 (the District) as of and for the year ended September 30, 2015, 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 29, 2016.

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.

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 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. 3
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 District'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 29, 2016
Ocala, Florida

MANAGEMENT LETTER

Board of Supervisors
Village Community Development District No. 3
The Villages, Florida

Report on the Financial Statements

We have audited the financial statements of Village Community Development District No. 3 (the District) as of and for the fiscal year ended September 30, 2015, and have issued our report thereon dated January 29, 2016.

Auditors' Responsibility

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*.

Other Reports

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountants' Report on an examination conducted in accordance with American Institute of Certified Public Accountants Professional Standards, Section 601, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports, which are dated January 29, 2016, should be considered in conjunction with this management letter.

Prior Audit Findings

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.

Official Title and Legal Authority

Section 10.554(1)(i)4., *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 District's September 30, 2015 basic financial statements, for this information).

Financial Condition

Section 10.554(1)(i)5.a. and 10.556 (7), *Rules of the Auditor General*, requires that we apply appropriate procedures and report the results of our determination as to whether or not the District 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.

Certified Public Accountants

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Board of Supervisors
Village Community Development District No. 3
The Villages, Florida

MANAGEMENT LETTER
(Concluded)

Financial Condition (Concluded)

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), *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.

Annual Financial Report

Sections 10.554(1)(i)5.b. and 10.556(7), *Rules of the Auditor General*, requires that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 2015, 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, 2015. In connection with our audit, we determined that these two reports agree.

Other Matters

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)3., *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.

Purpose of this Letter

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, Board of Supervisors 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.



January 29, 2016
Ocala, Florida

INDEPENDENT ACCOUNTANTS' REPORT

Board of Supervisors
Village Community Development District No. 3
The Villages, Florida

We have examined Village Community Development District No. 3 (the District)'s compliance with the requirements of Section 218.415, Florida Statutes, with regards to the District's investments during the year ended September 30, 2015. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2015.

Purvis, Gray and Company, LLP

January 29, 2016
Ocala, Florida

Certified Public Accountants

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January 29, 2016

Board of Supervisors
Village Community Development District No. 3
The Villages, FL 32162

RE: Management Response Letter

Dear Supervisors:

Attached is the completed audit for Fiscal Year 2014 – 2015 for the Village Community Development District No. 3. 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 in the current audit report.

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. 3 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,

Sarah C. Koser, CPA, CGFO, CPFO
Interim Finance Director

Janet Y. Tutt
District Manager