

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Basic Financial Statements

September 30, 2005

(With Independent Auditors' Report Thereon)

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

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Independent Auditors' Report

The Board of Supervisors
Sumter Landing Community Development District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Sumter Landing Community Development District (the District) as of and for the year ended September 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of Sumter Landing Community Development District, as of September 30, 2005, and the respective changes in financial position, and where applicable, cash flows thereof, and the budgetary comparison of the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2006 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

January 20, 2006
Certified Public Accountants

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2005

The Sumter Landing Community Development District (the District) management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activities and (c) identify changes in the District's financial position and its ability to address the next and subsequent year challenges.

Financial Highlights:

- The assets of the District exceeded its liabilities at September 30, 2005 by \$10.5 million.
- The District's total debt decreased by \$9.2 million during the fiscal year, due mainly to the Developer's forgiveness of the \$8.5 million payable to Developer.
- On October 1, 2004, the District established three governmental funds to account for its infrastructure-related capital assets and associated bond debt, and transferred net assets in the amount of (\$126,589) from the Sumter Landing Amenities Division business type activities fund into the debt service governmental fund.

Using this Annual Report:

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by assessments (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through fees and charges (business-type activities). The governmental activities of the District relate to its general government functions. The business-type activities of the District include the operation of recreational and other amenities.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2005

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the District can be divided into two categories: governmental funds and proprietary funds.

The District's three governmental funds, the general fund, the debt service fund and the capital projects fund are used to account for the same functions as reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of 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.

The District adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The District maintains one proprietary fund, the Sumter Landing Amenity Division (SLAD). Proprietary funds provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The District as a Whole

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$10.5 million at September 30, 2005, representing an increase of \$10.6 million from the net deficit of approximately \$188,000 at September 30, 2004. The increase in net assets for 2005 is due mainly to capital contributions from the Developer amounting to \$10.9 million during the year ended September 30, 2005.

The District's net assets are categorized as follows at September 30, 2005:

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

Restricted net assets. An additional portion of the District's net assets represents resources that are subject to external restrictions on how they may be used.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2005

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

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

Table 1
Summary Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>September 30,</u>		<u>September 30,</u>		<u>September 30,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<i>Assets:</i>						
Current assets	\$ 70,156	—	454,516	692,352	524,672	692,352
Restricted assets	2,752,194	—	—	2,710,052	2,752,194	2,710,052
Bond issuance costs (net of accumulated amortization)	546,240	—	—	566,043	546,240	566,043
Capital assets (net of accumulated depreciation)	41,474,082	—	104,755	39,981,562	41,578,837	39,981,562
Total assets	44,842,672	—	559,271	43,950,009	45,401,943	43,950,009
<i>Liabilities:</i>						
Current and other liabilities	979,799	—	681,833	1,984,765	1,661,632	1,984,765
Long-term liabilities	33,278,252	—	—	42,153,171	33,278,252	42,153,171
Total liabilities	34,258,051	—	681,833	44,137,936	34,939,884	44,137,936
<i>Net assets (deficit)</i>						
Invested in capital assets, net of related debt	8,742,070	—	104,755	(1,605,566)	8,846,825	(1,605,566)
Restricted	2,752,194	—	—	2,717,855	2,752,194	2,717,855
Unrestricted	(909,643)	—	(227,317)	(1,300,216)	(1,136,960)	(1,300,216)
Total net assets	\$ 10,584,621	—	(122,562)	(187,927)	10,462,059	(187,927)

Governmental Activities

Governmental activities increased the District's net assets by approximately \$10.6 million during the year ended September 30, 2005. The increase relates primarily to Developer capital contributions amounting to \$10.9 million received during 2005.

For the most part, increases in revenues and expenses closely paralleled the growth in demand for services as the number of homeowners in areas served by the District continued to increase.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2005

Business-type Activities

Business-type activities decreased the District's net assets by approximately \$123,000 during the year ended September 30, 2005. The District's business-type activities consist of amenities services provided to District residents.

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

Table 2
Changes in Net Assets (Deficit)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>September 30,</u>		<u>September 30,</u>		<u>September 30,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Program revenues:						
Charges for services	\$ 3,069,534	—	2,916,135	345,228	5,985,669	345,228
Operating contributions	—	—	1,613,745	—	1,613,745	—
Capital grants and contributions	10,862,303	—	—	3,716,362	10,862,303	3,716,362
General revenues:						
Investment earnings	76,159	—	10,317	71,085	86,476	71,085
Total revenues	<u>14,007,996</u>	<u>—</u>	<u>4,540,197</u>	<u>4,132,675</u>	<u>18,548,193</u>	<u>4,132,675</u>
Expenses:						
General government	1,178,654	—	—	—	1,178,654	—
Amenities	—	—	4,601,421	2,641,664	4,601,421	2,641,664
Interest on long-term debt	2,118,132	—	—	1,729,083	2,118,132	1,729,083
Total expenses	<u>3,296,786</u>	<u>—</u>	<u>4,601,421</u>	<u>4,370,747</u>	<u>7,898,207</u>	<u>4,370,747</u>
Transfers:						
Transfer in (out)	(126,589)	—	126,589	—	—	—
Total transfers	<u>(126,589)</u>	<u>—</u>	<u>126,589</u>	<u>—</u>	<u>—</u>	<u>—</u>
Change in net assets	10,584,621	—	65,365	(238,072)	10,649,986	(238,072)
Total net assets (deficit), beginning	—	—	(187,927)	50,145	(187,927)	50,145
Total net assets (deficit), ending	<u>\$ 10,584,621</u>	<u>—</u>	<u>(122,562)</u>	<u>(187,927)</u>	<u>10,462,059</u>	<u>(187,927)</u>

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2005

Capital Assets:

The District's capital assets as of September 30, 2005 and 2004 amounted to \$41,578,837 and \$39,981,562, respectively. This is net of accumulated depreciation and includes improvements other than buildings, furniture and equipment and construction in progress. Additional information regarding the District's capital assets can be found in Note 3 to the financial statements.

Long-term Debt:

At September 30, 2005 and 2004, the District had long-term debt outstanding of \$33,278,252 and \$33,669,201, respectively. All of the debt is special assessment bond debt and is secured solely by revenue sources. Additional information regarding the District's long-term debt can be found in Note 4 to the financial statements.

Request for Information

The District's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional financial information, contact the Sumter Landing Community Development District's Chief Financial Officer at 3231 Wedgewood Lane, Suite A, The Villages, FL 32162, telephone (352) 751-3905.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Statement of Net Assets

September 30, 2005

Assets	Governmental activities	Business-type activities	Total
Cash	\$ 69,011	41,237	110,248
Due from other governments	1,145	25,049	26,194
Due from other districts	—	193,583	193,583
Prepays	—	194,647	194,647
Restricted assets:			
Cash and cash equivalents	38,721	—	38,721
Investments	2,703,718	—	2,703,718
Interest receivable	9,755	—	9,755
Bond issuance costs (net of accumulated amortization)	546,240	—	546,240
Capital assets (net of accumulated depreciation)	41,474,082	104,755	41,578,837
Total assets	<u>44,842,672</u>	<u>559,271</u>	<u>45,401,943</u>
Liabilities			
Accounts payable	15,385	224,931	240,316
Accrued expenses	7,849	72,601	80,450
Accrued interest payable	951,458	—	951,458
Due to other governments	5,107	7,776	12,883
Due to Developer	—	376,525	376,525
Long-term debt:			
Due within one year	425,000	—	425,000
Due in more than one year	32,853,252	—	32,853,252
Total liabilities	<u>34,258,051</u>	<u>681,833</u>	<u>34,939,884</u>
Net Assets			
Invested in capital assets, net of related debt	8,742,070	104,755	8,846,825
Restricted	2,752,194	—	2,752,194
Unrestricted (deficit)	(909,643)	(227,317)	(1,136,960)
Total net assets (deficit)	\$ <u>10,584,621</u>	<u>(122,562)</u>	<u>10,462,059</u>

See accompanying notes to basic financial statements.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Statement of Activities

Year ended September 30, 2005

Functions/Programs	Expenses	Program revenues			Net (expense) revenue and changes in net assets		
		Charges for services	Operating contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities:							
General government	\$ 1,178,654	3,069,534	—	10,862,303	12,753,183	—	12,753,183
Interest on long-term debt	2,118,132	—	—	—	(2,118,132)	—	(2,118,132)
Total governmental activities	3,296,786	3,069,534	—	10,862,303	10,635,051	—	10,635,051
Business-type activities:							
SLAD	4,601,421	2,916,135	1,613,745	—	—	(71,541)	(71,541)
Total business-type activities	4,601,421	2,916,135	1,613,745	—	—	(71,541)	(71,541)
Total primary government	\$ 7,898,207	5,985,669	1,613,745	10,862,303	10,635,051	(71,541)	10,563,510
General revenues:							
Investment earnings					76,159	10,317	86,476
Transfers					(126,589)	126,589	—
Total general revenues and transfers					(50,430)	136,906	86,476
Change in net assets					10,584,621	65,365	10,649,986
Net assets (deficit) – beginning					—	(187,927)	(187,927)
Net assets (deficit) – ending					\$ 10,584,621	(122,562)	10,462,059

See accompanying notes to basic financial statements.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Balance Sheet – Governmental Funds

September 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 69,011	38,721	—	107,732
Investments	—	2,703,718	—	2,703,718
Due from other governments	1,145	—	—	1,145
Interest receivable	—	9,755	—	9,755
Total assets	\$ <u>70,156</u>	<u>2,752,194</u>	<u>—</u>	<u>2,822,350</u>
Liabilities:				
Accounts payable	\$ 15,385	—	—	15,385
Accrued expense	7,849	—	—	7,849
Due to other districts	5,107	—	—	5,107
Total liabilities	<u>28,341</u>	<u>—</u>	<u>—</u>	<u>28,341</u>
Fund balances:				
Reserved for debt service	—	2,752,194	—	2,752,194
Unreserved	41,815	—	—	41,815
Total fund balances	<u>41,815</u>	<u>2,752,194</u>	<u>—</u>	<u>2,794,009</u>
Total liabilities and fund balances	\$ <u>70,156</u>	<u>2,752,194</u>	<u>—</u>	<u>2,822,350</u>

See accompanying notes to basic financial statements.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

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

September 30, 2005

Total fund balances, governmental funds	\$	2,794,009
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		41,474,082
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Special assessment revenue bonds	(33,278,252)	
Accrued interest	(951,458)	(34,229,710)
<hr/>		
Certain long-term assets are not available to pay for current period expenditures and therefore are not included in the funds:		
Unamortized bond issuance costs		546,240
<hr/>		
Net assets of governmental activities	\$	<u>10,584,621</u>

See accompanying notes to basic financial statements.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Statement of Revenues, Expenditures and Changes in
Fund Balances – Governmental Funds

Year ended September 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues:				
Assessments	\$ —	2,662,799	—	2,662,799
Payments in lieu of assessments	406,735	—	—	406,735
Interest income	—	76,159	—	76,159
Total revenues	<u>406,735</u>	<u>2,738,958</u>	<u>—</u>	<u>3,145,693</u>
Expenditures:				
Current – general government	366,353	—	—	366,353
Capital outlay	—	—	2,378,333	2,378,333
Debt service:				
Principal	—	395,000	—	395,000
Interest	—	2,308,186	—	2,308,186
Total expenditures	<u>366,353</u>	<u>2,703,186</u>	<u>2,378,333</u>	<u>5,447,872</u>
Excess (deficiency) of revenues over expenditures	<u>40,382</u>	<u>35,772</u>	<u>(2,378,333)</u>	<u>(2,302,179)</u>
Other financing sources (uses):				
Developer contributions	—	—	2,378,333	2,378,333
Transfer in	1,433	2,716,422	—	2,717,855
Total other financing sources (uses)	<u>1,433</u>	<u>2,716,422</u>	<u>2,378,333</u>	<u>5,096,188</u>
Net change in fund balances	41,815	2,752,194	—	2,794,009
Fund balances, at beginning of year	—	—	—	—
Fund balances, at end of year	\$ <u>41,815</u>	<u>2,752,194</u>	<u>—</u>	<u>2,794,009</u>

See accompanying notes to basic financial statements.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances – Governmental Funds to the Statement of Activities

Year ended September 30, 2005

Net change in fund balances – total governmental funds	\$ 2,794,009
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 by which capital outlay exceeded depreciation expense.	1,585,835
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 bond discount	(4,051)
Change in accrued interest	194,105
Governmental funds report the costs of bond issuance as expenditures. However, in the statement of activities, bond issuance costs are capitalized and allocated over the term of the related bonds as amortization expense. This is the amount of bond issuance cost amortization expense in the current period.	(19,803)
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of reduction in long-term debt.	395,000
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Developer contributions	8,483,970
Transfer of net assets from SLAD	<u>(2,844,444)</u>
Change in net assets of governmental activities	\$ <u><u>10,584,621</u></u>

See accompanying notes to basic financial statements.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

General Fund

Statement of Revenues, Expenditures and Changes in
Fund Balances – Budget and Actual

Year ended September 30, 2005

	Budgeted amounts		Variance with final budget
	Original and final	Actual amounts	Favorable (unfavorable)
Revenues:			
Payments in lieu of assessments	547,909	406,735	(141,174)
Total revenues	<u>547,909</u>	<u>406,735</u>	<u>(141,174)</u>
Expenditures:			
General government:			
Professional services	37,612	37,612	—
Communication and freight	—	235	(235)
Utility services	171,675	95,014	76,661
Repair and maintenance/landscape	338,622	233,421	105,201
Operating supplies	—	71	(71)
Total expenditures	<u>547,909</u>	<u>366,353</u>	<u>181,556</u>
Excess of revenues over expenditures	<u>—</u>	<u>40,382</u>	<u>40,382</u>
Other financing sources:			
Transfers in	—	1,433	1,433
Total other financing sources	<u>—</u>	<u>1,433</u>	<u>1,433</u>
Net change in fund balance	—	41,815	41,815
Fund balances, at beginning of year	<u>—</u>	<u>—</u>	<u>—</u>
Fund balances, at end of year	<u>\$ —</u>	<u>41,815</u>	<u>41,815</u>

See accompanying notes to basic financial statements.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Statement of Net Assets

Proprietary Fund

September 30, 2005

Assets	SLAD
Current assets:	
Cash	\$ 41,237
Due from other governments	25,049
Due from other districts	193,583
Prepaid expenses	194,647
Total current assets	<u>454,516</u>
Non-current assets:	
Capital assets (net of accumulated depreciation)	<u>104,755</u>
Total non-current assets	<u>104,755</u>
Total assets	<u>559,271</u>
Liabilities	
Current liabilities:	
Accounts payable	224,931
Accrued expenses	72,601
Due to other governments	7,776
Due to Developer	376,525
Total liabilities	<u>681,833</u>
Net assets	
Invested in capital assets, net of related debt	104,755
Unrestricted (deficit)	<u>(227,317)</u>
Total net assets (deficit)	<u>\$ (122,562)</u>

See accompanying notes to basic financial statements.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Fund

Year ended September 30, 2005

	<u>SLAD</u>
Operating revenues:	
Charges for services:	
Management fees	\$ 1,995,272
Amenities fees	679,803
Other income	241,060
Total operating revenues	<u>2,916,135</u>
Operating expenses:	
General and administrative	<u>4,601,421</u>
Total operating expenses	<u>4,601,421</u>
Operating loss	<u>(1,685,286)</u>
Nonoperating revenue:	
Developer contributions	1,613,745
Interest income	10,317
Transfers	126,589
Total nonoperating revenue	<u>1,750,651</u>
Change in net assets	65,365
Total net assets (deficit), beginning	<u>(187,927)</u>
Total net assets (deficit), ending	<u>\$ (122,562)</u>

See accompanying notes to basic financial statements.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Statement of Cash Flows

Proprietary Fund

Year ended September 30, 2005

	<u>SLAD</u>
Cash flows from operating activities:	
Receipts from customers	\$ 2,916,135
Payments to suppliers	(3,008,917)
Payments to employees	(1,662,114)
	<u>(1,754,896)</u>
Net cash used by operating activities	
Cash flows from capital and related financing activities:	
Purchase of capital assets	(45,636)
Proceeds from sale of capital assets	8,933
Developer contributions	1,613,745
Transfer to debt service fund	(2,710,052)
	<u>(1,133,010)</u>
Net cash used in capital and related financing activities	
Cash flows from investing activities:	
Interest received	<u>10,317</u>
	<u>10,317</u>
Net cash provided by investing activities	
Net decrease in cash and cash equivalents	(2,877,589)
Cash and cash equivalents, beginning of year	<u>2,918,826</u>
Cash and cash equivalents, end of year	<u>\$ 41,237</u>

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Statement of Cash Flows

Proprietary Fund

Year ended September 30, 2005

	<u>SLAD</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (1,685,286)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	25,263
Cash provided by (used in) changes in:	
Due from/to Developer (net)	676,840
Due from/to other districts	(193,583)
Intergovernmental balances (due from/to, net)	101,177
Prepaid expenses	(99,371)
Accounts payable and accrued liabilities	<u>(579,936)</u>
Net cash used in operating activities	<u>\$ (1,754,896)</u>

See accompanying notes to basic financial statements

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Notes to Basic Financial Statements

September 30, 2005

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

Sumter Landing Community Development District (the District) was established in 2002 to manage and finance basic services for a development district located in The Villages, Florida. The District is governed by a five member board of supervisors who are elected on a rotating basis by the landowners within the District for terms from two to four years. The District was created by Sumter County Commission Ordinance No. 02-06 pursuant to the provisions of Chapter 190.005 of the Florida Statutes and operates within the criteria established by Chapter 190.

The District provides recreation and security services to the residents of a retirement community known as The Villages, located in The Villages, Florida. The Villages of Lake-Sumter, Inc. (Developer) developed The Villages. As of September 30, 2005, each of the five members of the board of supervisors was an employee or affiliate of the Developer.

The financial statements of the District have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary fund in accordance with GASB Statement No. 20. The District's more significant accounting policies are described below.

There are no component units of the District.

(b) Basic Financial Statements

Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the District as a whole) and fund financial statements. The government-wide financial statements (i.e. the statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of internal activity has been removed from these statements.

The financial reporting model focus is on either the District as a whole, or major individual funds. The government-wide statement of net assets reports the governmental activities of the District (a) on a consolidated basis and (b) on a full accrual basis, using the economic resources measurement focus, which incorporates long-term assets and receivables as well as long-term debt and obligations. The statement of activities reflects the expenses of a given function or segment, which are offset by program 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.

Net assets are categorized as invested in capital assets, net of related debt, restricted and unrestricted.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Notes to Basic Financial Statements

September 30, 2005

Invested in capital assets, net of related debt is intended to reflect the portion of net assets which are associated with capital assets net of accumulated depreciation less outstanding capital asset related debt. The net related debt is the debt less any associated unamortized issuance costs.

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

Unrestricted net assets represent net assets not included in invested in capital assets, net of related debt or restricted net assets.

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days 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 only recorded when payment is due.

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.

Capital Projects Fund

The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities or community-wide infrastructure.

Proprietary funds report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The District uses an enterprise fund to account for the operations and maintenance of the Sumter Landing Amenities Division (SLAD) which are financed

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Notes to Basic Financial Statements

September 30, 2005

and operated in a manner similar to private business enterprises, where the costs of providing services on a continuing basis are financed through user charges. Amenities provided include

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges to customers for amenities services. Operating expenses for the enterprise fund include the cost of services, administrative expenses and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(d) Budgetary Data

Legal authority and control are established in accordance with Section 190.008 of *Florida Statutes*. Annual budgets are adopted and approved by the board of supervisors. Annual budgets, as well as subsequent amendments, are adopted for the general fund on a basis consistent with GAAP and are approved by the Board of Supervisors. Budgetary control is established by the District through nonappropriated budgets. These budgets are financial plans approved in the manner authorized by law, but not subject to appropriation.

All budget amounts presented in the statements reflect the original budget and the amended budget if so amended.

(e) Cash Equivalents

The District considers cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition to be cash and cash equivalents, for purposes of the statement of cash flows.

(f) Investments

The District's investments are in U.S. Treasury securities, which are stated at fair value. Income from investments owned by the individual funds is recorded in the respective funds as earned.

(g) Restricted Assets

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Restricted assets in the form of cash and cash equivalents that will be used to pay current liabilities are classified as current assets in the accompanying statement of net assets.

The resolutions authorizing revenue bonds require that the District establish sinking fund and reserve accounts in amounts that equal the Reserve Account Requirements, which are defined in the Bond Trust Indentures.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Notes to Basic Financial Statements

September 30, 2005

(h) Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. As defined by the District, capital assets are assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

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

Depreciation of capital assets is computed using the straight-line method. Estimated useful lives of the assets are as follows:

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

(i) Compensated Absences

It is the District's policy to accumulate earned but unused vacation benefits. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental fund only if they have matured, for example, as a result of employee resignations or retirements.

(j) Payments in Lieu of Assessments

Payments in lieu of assessments represent maintenance fees charged to the Developer as a District landowner, and are recognized as earned by the District.

(k) Bond Discounts and Issuance Costs

In the government-wide financial statements, bond discounts and issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of the revenue bonds payable, whereas issuance costs are recorded as assets. In the fund statements, bond issuance costs are recorded as expenditures when incurred.

(l) Use of Estimates

The preparation of financial statements requires management of the District to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Notes to Basic Financial Statements

September 30, 2005

(2) Cash, Cash Equivalents and Investments

Deposits with Financial Institutions

At September 30, 2005, the carrying amount and bank balance of the District's demand deposits was \$110,248 and \$335,471, respectively. The bank balances were covered by federal depository insurance and by deposits held in banks that are members of the State of Florida's Collateral Pool.

Cash Equivalents

The District's cash equivalents, totaling \$38,721 at September 30, 2005, consist of an investment in a money market mutual fund with a credit rating of AAAM, and a weighted average maturity of 22 days.

Investments

The District's investments, totaling \$2,703,718 at September 30, 2005, consist of U.S. Treasury securities with a weighted average maturity of 35 days.

Interest Rate Risk

The District manages its exposure to declines in fair values by investing in short-term securities.

Custodial Credit Risk

As of September 30, 2005, the District's deposits were entirely covered by federal depository insurance or by collateral pledged with the State Treasurer pursuant to Chapter 280, *Florida Statutes*. Under this chapter, in the event of default by a participating financial institution (a qualified public depository), all participating institutions are obligated to reimburse the governmental entity for the loss. This pool is provided as additional insurance to the federal depository insurance and allows for additional assessments against the member institutions, providing full insurance for public deposits. The District had deposits only with qualifying institutions as of September 30, 2005, or with banks in which depository insurance was sufficient to cover the deposit balance.

Credit Risk

The District is authorized to invest in those financial instruments as established by Florida Statute 218.415. The authorized investments consist of:

- The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in section 163.01.
- Securities and Exchange Commission registered money market mutual funds with the highest credit quality rating from a nationally recognized rating agency.
- Interest-bearing time deposits or savings accounts in qualified public depositories as defined in section 280.02.
- Direct obligations of the United States Treasury.

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Notes to Basic Financial Statements

September 30, 2005

- Federal agencies and instrumentalities.
- Securities of, or other interests in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. sections 80a-1 et seq., as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof, and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.

The District's investment policies follow *Florida Statutes* which do not address interest rate risk, custodial credit risk or concentration of credit risk.

(3) Capital Assets

Capital asset activity for the year ended September 30, 2005 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Assets not being depreciated:				
Construction in progress	\$ 39,888,247	2,378,333	42,266,580	\$ —
Assets being depreciated				
Improvements other than buildings	—	42,266,580	—	42,266,580
Less accumulated depreciation for:				
Improvements other than buildings	—	(792,498)	—	(792,498)
Governmental activities, capital assets, net	<u>\$ 39,888,247</u>	<u>43,852,415</u>	<u>42,266,580</u>	<u>\$ 41,474,082</u>
Business-type activities:				
Assets being depreciated:				
Furniture and equipment	103,103	45,636	11,652	137,087
Total	<u>103,103</u>	<u>45,636</u>	<u>11,652</u>	<u>137,087</u>
Less accumulated depreciation for:				
Furniture and equipment	(9,788)	(25,263)	2,719	(32,332)
Total accumulated depreciation	<u>(9,788)</u>	<u>(25,263)</u>	<u>2,719</u>	<u>(32,332)</u>
Business-type activities, capital assets, net	<u>\$ 93,315</u>	<u>20,373</u>	<u>8,933</u>	<u>\$ 104,755</u>

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Notes to Basic Financial Statements

September 30, 2005

(4) Long-term Debt

Long-term debt consisted of the following at September 30, 2005:

\$34,160,000 Special Assessment Revenue Bonds, Series 2003 due in annual principal installments ranging from \$395,000 to \$2,605,000 through May 2033 in accordance with the redemption schedule. Interest is due semi-annually on May 1 and November 1 of each year until redemption or maturity. Interest rates range from 6.25% to 6.95%.	\$ 33,390,000
Less bond discount	(111,748)
Less current installments of bonds payable	<u>(425,000)</u>
Revenue bonds payable less current installments	<u><u>\$ 32,853,252</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 the revenue bonds payable as of September 30, 2005 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30:			
2006	\$ 425,000	2,283,498	2,708,498
2007	450,000	2,256,936	2,706,936
2008	480,000	2,228,812	2,708,812
2009	510,000	2,198,812	2,708,812
2010	545,000	2,166,936	2,711,936
2011 - 2015	3,300,000	10,166,394	13,466,394
2016 - 2020	4,620,000	8,837,377	13,457,377
2021 - 2025	6,525,000	6,937,605	13,462,605
2026 - 2030	9,235,000	4,229,944	13,464,944
2031 - 2033	7,300,000	1,851,122	9,151,122
Total	<u><u>\$ 33,390,000</u></u>	<u><u>43,157,436</u></u>	<u><u>76,547,436</u></u>

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Notes to Basic Financial Statements

September 30, 2005

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended September 30, 2005:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Bonds payable	\$ 33,785,000		(395,000)	33,390,000	\$ 425,000
Less bond discount	<u>(115,799)</u>		<u>4,051</u>	<u>(111,748)</u>	<u>—</u>
Total long-term debt	<u>\$ 33,669,201</u>	<u>—</u>	<u>(390,949)</u>	<u>33,278,252</u>	<u>\$ 425,000</u>

(5) Transfers

On October 1, 2004, the District established three governmental funds to account for its infrastructure-related capital assets and the associated bond debt, and transferred net assets in the amount of (\$126,589) from the Sumter Landing Amenities Division business-type activities fund into the debt service governmental fund.

(6) Interlocal Agreements

The District entered into interlocal agreements to provide Village Community Development District No. 5 (District No. 5), Village Community Development District No. 6 (District No. 6), Village Community Development District No. 7 (District No. 7) and Village Community Development District No. 8 (District No. 8) certain management, finance, and administrative services for fees of \$246,950, \$205,103, \$19,003 and \$19,003, respectively, for the year ended September 30, 2005. Upon action by their respective boards of supervisors, District No. 5, District No. 6, District No. 7 and District No. 8 may request additional services as they deem necessary for the efficient and effective management of their respective districts. Such additional services are billed to the benefiting district at the District's cost.

(7) Commitments and Contingencies

Operating Lease

The District entered into a non-cancelable, five year operating lease in June 2004 with the Developer, for its office building. The lease is renewable every five years. Rent expense recognized under the lease amounted to \$101,238 for the year ended September 30, 2005. Future minimum lease payments for this lease are as follows:

Year Ending September 30:	
2006	\$ 101,238
2007	101,238
2008	101,238
2009	<u>67,494</u>
	<u>\$ 371,208</u>

SUMTER LANDING COMMUNITY DEVELOPMENT DISTRICT

Notes to Basic Financial Statements

September 30, 2005

(8) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance.



KPMG LLP
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Orlando, FL 32802

**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***

The Board of Supervisors
Sumter Landing Community Development District:

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Sumter Landing Community Development District (the District) as of and for the year ended September 30, 2005, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated January 20, 2006.



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

KPMG LLP

January 20, 2006
Certified Public Accountants



KPMG LLP
Suite 1600
111 North Orange Avenue
PO Box 3031
Orlando, FL 32802

Management Letter

Board of Supervisors
Sumter Landing Community Development District:

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Sumter Landing Community Development District (the District) as of and for the year ended September 30, 2005, and have issued our report thereon dated January 20, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have also issued our report dated January 20, 2006, 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. Disclosures in that report, if any, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of governmental audits performed in the State of Florida and require that certain items be addressed in this letter. The *Rules of the Auditor General* Section 10.554(1)(h)(1) require that, unless otherwise required to be reported in the auditors' report on internal control over financial reporting and compliance and other matters, a management letter shall include a statement as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. The status of the significant findings and recommendations made in the preceding annual financial audit have been addressed in Exhibit B.

The *Rules of the Auditor General* Section 10.554(1)(h)(2) require that we determine whether or not the District complied with Section 218.415, *Florida Statutes*, regarding the investment of public funds. As of September 30, 2005, the District was in compliance with Section 218.415, *Florida Statutes* as it relates to the investment of public funds.

The *Rules of the Auditor General*, Section 10.554(1)(h)(3) require that we report any recommendations to improve the District's financial management, accounting procedures, and internal controls. Recommendations to improve the District's financial management, accounting procedures, and internal controls are included in Exhibit A.

The *Rules of the Auditor General*, Section 10.554(1)(h)(4) state that, if not already reported in the auditors' report on internal control over financial reporting and compliance and other matters, the management letter shall include, unless clearly inconsequential, the following:

- (a) Violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and were discovered within the scope of the audit.



- (b) Improper or illegal expenditures discovered within the scope of the audit that may not materially affect the financial statements.
- (c) Deficiencies in internal control that are not reportable conditions, including, but not limited to:
 - (1) Improper or inadequate accounting procedures (i.e., the omission of required disclosures from the annual financial statements).
 - (2) Failures to properly record financial transactions.
 - (3) Other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

The results of our audit disclosed no violations of laws, rules, regulations or contractual provisions or abuse, no improper or illegal expenditures, or other deficiencies in internal control.

The *Rules of the Auditor General* Section 10.554(1)(h)(5) also require that we report on the District's name or official title and legal authority. The disclosure of this information is included in the notes to the financial statements.

As required by the *Rules of Auditor General* Section 10.554(1)(h)(6)(a), the scope of our audit included a review of the provisions of Section 218.503(1), *Florida Statutes*, regarding financial emergencies. In connection with our audit, we determined that the District is not in a state of financial emergency as a consequence of the conditions described in Section 218.503(1), *Florida Statutes*.

As required by the *Rules of the Auditor General* Section 10.554(1)(h)(6)(b), we determined that the annual financial report for the District for the fiscal year ended September 30, 2005, to be filed with the Florida Department of Financial Services pursuant to Section 218.32, *Florida Statutes*, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2005.

As required by the *Rules of the Auditor General* Sections 10.554(h)(6)(c) and 10.556(7), 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.

* * * * *

This management letter is intended solely for the information and use of the District, management, and the Auditor General of the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 20, 2006

CURRENT YEAR OBSERVATIONS AND RECOMMENDATIONS

Distribution of Accounting and Finance Policies

Criteria

During 2005, management began compiling a single, comprehensive accounting and finance procedures book to provide guidance to District personnel in performing various accounting and finance tasks. While the accounting procedures book is made available to District personnel, the book is not distributed to each employee with accounting or finance responsibility.

Condition

During our audit, we noted that some District personnel were not aware of or not following District accounting and finance policies, specifically:

- Some District departments are purchasing goods prior to the issuance of a purchase order, or in some cases, departments are purchasing products without a purchase order being issued; and,
- A department director applied for an unauthorized line of credit on behalf of the District.

Effect

Formal, documented accounting and finance policies provide increased standardization of the District's accounting and finance functions, clarifying responsibilities between departments and providing guidance for consistent application of management's directives, policies and procedures. In addition, preparing formal, documented accounting and finance policies may reveal procedures which are inefficient or duplicated elsewhere. When compiled into a widely-distributed manual, accounting and finance policies can serve as a ready reference source for employees and provide a sound basis to continually monitor and assess the District's accounting and finance operations.

Recommendation

A copy of the District's accounting procedures book should be provided to each District employee with an accounting or purchasing role to help ensure that the District's policies and procedures are adequately disseminated. To reduce the cost of distribution, management should consider providing the accounting procedures book to employees electronically, via the District's computer network, e-mail or through a District intranet site.

Management Response

Management agrees and will implement the recommendation.

Review of Pay Rate Input

Criteria

The District currently utilizes ADP to process its employee payroll. Changes to and additions of employee pay data are managed by the District's human resources department.

Condition

After management approval, a clerk from the District's human resources department inputs employee pay data, including rate of pay, into the ADP system. Once the data has been input into the ADP system, it is not independently reviewed for accuracy. During the audit, management was notified that the bi-weekly pay rate for an employee was erroneously entered into ADP as an hourly rate. The error was not discovered until after the employee had been erroneously paid and subsequently notified the District.

Effect

The erroneous entry of pay rates into the ADP system could result in financial loss to the District and in the misstatement of payroll expense in District's financial statements.

Recommendation

District data entered into the ADP payroll system should be independently reviewed for accuracy.

Management Response

Management agrees and will implement the recommendation.

System Access to Journal Entries

Criteria and Condition

Accounting System access for the inputting and posting of journal entries has been granted to non-accounting personnel, including customer service representatives, administrative staff, staff no longer with the District and accounting personnel from the Developer.

Condition

Access to inputting and posting journal entries should be restricted to authorized accounting personnel according to job responsibilities and business policy.

Effect

Improper system access controls can result in unauthorized changes to the District's accounting records and the potential manipulation of the District's financial results.

Recommendation

KPMG recommends system access to journal entries be reviewed and updated periodically by management. Any changes to system access should be documented in writing and approved by management.

Management Response.

Management agrees and will implement the recommendation.

STATUS OF PRIOR YEAR OBSERVATIONS AND RECOMMENDATIONS

District Accounting Software

Criteria

The District currently uses the JD Edwards accounting software for its accounting general ledger. Recently acquired by Oracle/Peoplesoft, JD Edwards provides a robust accounting platform that is widely used throughout the public sector as well as in non-governmental industries.

Condition

During our audit, we noted that the District's accounting personnel experienced significant difficulties in performing day-to-day and period-end accounting tasks within the JD Edwards system. We also noted a general discomfort among accounting personnel with the use of the JD Edwards system.

Effect

The efficiency of District accounting personnel is significantly reduced by the difficulties encountered in using the JD Edwards system for the District's accounting needs. The quality and timeliness of the District's financial reporting is also negatively impacted as accounting personnel struggle with the use of the JD Edwards system.

Recommendation

KPMG recommends that the District engage an accounting systems consultant with significant experience in the design, implementation and training of JD Edwards accounting systems, to perform a system needs analysis and related training. The consultant should be tasked with ensuring that:

- a) The JD Edwards system as currently implemented is structured and utilized properly for the District's accounting needs; and,
- b) District accounting personnel have the JD Edwards-specific training necessary to perform their accounting tasks efficiently and accurately.

Management Response

Generally, the District has had a degree of difficulty in utilizing some components of the JD Edwards accounting package; however the District will ensure that new staff will attend the weeklong training program and will stay current with continuing training and education with that system. While the District has new staff scheduled for J.D. Edwards training sessions, we have also requested our Information Services Department to help us identify a qualified J.D. Edwards trainer who is resident to Florida in order to establish a continuing training and education program for current or new staff. As part of that search, staff will also attempt to find a trainer who is familiar with the utilization of JD Edwards in a governmental environment.

Status of Recommendation

Implemented during the year ended September 30, 2005.

Compensated Absences

Criteria

The District does not maintain formal compensated absence accounting records.

Condition

Full-time employees of the District are eligible for paid vacation after certain tenure requirements are met. We noted during our audit that the District did not formally account for its compensated absence liability and that no formal records of vacation time earned and vacation time used by employees were maintained.

Effect

The lack of formal accounting records for compensated absences could result in the District misstating its compensated absence liability, and could result in the District incorrectly granting or denying vacation benefits to employees.

Recommendation

KPMG recommends that the District engage its current payroll services provider to track and maintain records of employee vacation hours earned and used.

Management Response

The District staff has incorporated annual leave records as part of the ADP Payroll System each pay period. This became effective as of January 1, 2005.

Status of Recommendation

Implemented during the year ended September 30, 2005.

Reconciliation of Due to/from Accounts

Criteria

The District maintains certain accounts due to and due from the Villages of Lake-Sumter, Inc. (the Developer). Because of the nature of and ongoing interactions with the Developer, and the significance of such transactions to the District, the reconciliation of accounts due to/from the Developer is an important procedure in accurately determining District assets and liabilities.

Condition

We noted during our audit that accounts due to/from the Developer were not regularly reconciled with the Developer's records.

Effect

Not regularly reconciling accounts due/to from third parties with records maintained by those third parties can result in the over payment of amounts due others, or in the understatement of amounts due from others.

Recommendation

KPMG recommends that the District implement a policy requiring the periodic reconciliation and review of amounts due to/from third parties with the records of the respective third parties. For the appropriate segregation of duties, the performer and the reviewer of account reconciliations should be separate personnel.

Management Response

The CFO will be restructuring the accounting department to assure monthly review and reconciliation of due to/from accounts and the contract from which those obligations generate. The District Manager is establishing a master list of contractual obligations and receivables with trigger dates published on a

monthly calendar. This master list will include non-financial obligations, i.e., reports, studies, analyses, to other regulatory agencies.

Status of Recommendation

Implemented during the year ended September 30, 2005.