KPMG

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

Basic Financial Statements

September 30, 2005

(With Independent Auditors' Report Thereon)

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

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VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

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Independent Auditors' Report of the Financial Statements

The Board of Supervisors
Village Center Community Development District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Village Center 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 Village Center 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

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

Financial Highlights:

- The liabilities of the District exceeded its assets at September 30, 2005 by $3.2 million.
- The District's total debt decreased by $3.5 million during the fiscal year.
- The District issued $4 million of junior lien bonds to finance the remodeling of the Paradise Recreation Center.
- In accordance with the recreational amenities acquisition agreement entered into between the District and the Developer in 2004, the Developer conveyed to the District recreation centers, entry facilities, an EMS station and landscape open areas with a fair value of $9,409,693.

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 public safety functions. The business-type activities of the District include the operation of recreational amenities and two water and sewer utilities.

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 one governmental fund, the general fund, is 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 three proprietary funds: the Recreational Amenity Division, the Village Center Service Area Water and Sewer Fund and the Little Sumter Service Area Water and Sewer Fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the District's three proprietary funds.

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, liabilities exceeded by assets $3.2 million at September 30, 2005, representing a decrease of $2.7 million from the net deficit of approximately $492,000 at September 30, 2004.

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 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.

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

Net Assets

		Governmental Activities		Business-type Activities		Total	
		September 30,		September 30,		September 30,	
		2005	2004	2005	2004	2005	2004
Assets:							
Current assets	$	173,642	393,849	7,004,673	5,778,975	7,178,315	6,172,824
Restricted assets		—	—	22,841,526	20,739,920	22,841,526	20,739,920
Bond issuance costs (net of						—	—
accumulated amortization)		—	—	16,218,043	16,907,674	16,218,043	16,907,674
Capital assets (net of							
accumulated depreciation)		1,695,683	1,680,430	117,141,718	110,853,728	118,837,401	112,534,158
Intangible assets (net of							
accumulated amortization)		—	—	191,254,139	206,239,948	191,254,139	206,239,948
Total assets		1,869,325	2,074,279	354,460,099	360,520,245	356,329,424	362,594,524
Liabilities:							
Current liabilities		141,495	480,481	10,708,831	13,123,959	10,850,326	13,055,050
Long-term liabilities		2,078,107	1,759,246	346,554,248	347,722,451	348,632,355	349,431,087
Total liabilities		2,219,602	2,239,727	357,263,079	360,846,410	359,482,681	362,486,137
Net assets (deficit)							
Invested in capital assets,							
net of related debt		(382,424)	(78,816)	(170,282,618)	(219,909,539)	(211,840,161)	(219,988,355)
Restricted		—	—	20,391,395	17,419,013	20,391,395	17,419,013
Unrestricted		32,147	(86,632)	147,088,243	202,164,361	188,295,509	202,077,729
Total net assets	$	(350,277)	(165,448)	(2,802,980)	(326,165)	(3,153,257)	(491,613)

Governmental Activities

Governmental activities decreased the District's net assets by approximately $185,000 during the year ended September 30, 2005. Key elements of this decrease are as follows:

- The rate of increase in fire and safety expenses was higher than the rate of increase in fire and safety assessments revenues.

- Interest expense and depreciation expense increased during the year.

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.

Business-type Activities

Business-type activities decreased the District's net assets by approximately $2.5 million during the year ended September 30, 2005.

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

Table 2

Changes in Net Assets (Deficit)

	Governmental Activities September 30, 2005	Governmental Activities September 30, 2004	Business-type Activities September 30, 2005	Business-type Activities September 30, 2004	Total September 30, 2005	Total September 30, 2004
Program revenues:						
Charges for services	$ 2,589,771	2,248,044	44,219,598	40,026,658	46,809,369	42,274,702
Operating contributions	27,600	54,490	—	—	44,247,198	54,490
Capital grants and contributions	149,769	50,563	323,580	996,638	473,349	1,047,201
General revenues:						
Investment earnings	4,318	1,676	283,248	101,727	287,566	103,403
Total revenues	2,771,458	2,354,773	44,826,426	41,125,023	91,817,482	43,479,796
Expenses:						
Recreational amenity	—	—	14,721,291	13,817,368	14,721,291	13,817,368
Fire and safety	2,734,650	2,279,181	—	—	2,734,650	2,279,181
Utilities	—	—	4,383,489	3,615,237	4,383,489	3,615,237
Depreciation and amortization	137,925	86,803	10,466,570	9,202,940	10,604,495	9,289,743
Interest on long-term debt	83,712	36,731	17,731,891	15,724,048	17,815,603	15,760,779
Total expenses	2,956,287	2,402,715	47,303,241	42,359,593	50,259,528	44,762,308
Change in net assets	(184,829)	(47,942)	(2,476,815)	(1,234,570)	(2,661,644)	(1,282,512)
Total net assets (deficit), beginning	(165,448)	(117,506)	(326,165)	908,405	(491,613)	790,899
Total net assets (deficit), ending	$ (350,277)	(165,448)	(2,802,980)	(326,165)	(3,153,257)	(491,613)

Capital Assets:

The District's capital assets as of September 30, 2005 and 2004 amounted to $118,837,401 and $112,534,158, respectively. This is net of accumulated depreciation and includes buildings and structures, improvements other than buildings, and machinery and equipment. Additional information regarding the District's capital assets can be found in Note 6 to the financial statements.

Long-term Debt:

At September 30, 2005 and 2004, the District had long-term debt outstanding of $348,632,355 and $349,431,087, respectively. All of the debt is special assessment debt and is secured solely by revenue sources. Additional information regarding the District's long-term debt can be found in Note 9 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 Village Center Community Development District's Chief Financial Officer at 3231 Wedgewood Lane, The Villages, Florida 32162, telephone (352) 753-0421.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

Statement of Net Assets

September 30, 2005

Assets		Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	$	393,896	2,873,090	3,266,986
Receivables		—	3,355,602	3,355,602
Due from developer		—	33,196	33,196
Internal balances		(406,820)	406,820	—
Due from other governments		135,937	187,872	323,809
Inventory		—	14,801	14,801
Prepaids		50,629	133,292	183,921
Restricted assets:				
Cash and cash equivalents		—	22,841,526	22,841,526
Capital assets:				
Land		—	10,382,616	10,382,616
Building and structures		—	52,019,091	52,019,091
Improvements other than buildings		—	70,950,866	70,950,866
Machinery and equipment		2,106,488	3,441,914	5,548,402
Construction in progress		—	538,065	538,065
Less accumulated depreciation		(410,805)	(20,190,834)	(20,601,639)
Bond issuance costs (net of accumulated amortization)		—	16,218,043	16,218,043
Intangible assets (net of accumulated amortization)		—	191,254,139	191,254,139
Total assets		1,869,325	354,460,099	356,329,424
Liabilities				
Accounts payable		76,167	1,008,502	1,084,669
Accrued expenses		41,761	915,055	956,816
Accrued interest payable		—	7,396,146	7,396,146
Due to other governments		23,567	13,474	37,041
Unearned revenue		—	1,375,654	1,375,654
Due to developer		—	1,736,750	1,736,750
Long-term debt:				
Due within one year		657,799	6,095,793	6,753,592
Due in more than one year		1,420,308	338,721,705	340,142,013
Total liabilities		2,219,602	357,263,079	359,482,681
Net Assets				
Invested in capital assets, net of related debt		(382,424)	(211,457,737)	(211,840,161)
Restricted		—	20,391,395	20,391,395
Unrestricted		32,147	188,263,362	188,295,509
Total net assets (deficit)	$	(350,277)	(2,802,980)	(3,153,257)

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

Statement of Activities

Year ended September 30, 2005

Functions/Programs		Expenses	Program revenues: Charges for services	Program revenues: Operating contributions	Program revenues: Capital grants and contributions	Net (expense) revenue and changes in net assets: Governmental activities	Net (expense) revenue and changes in net assets: Business-type activities	Total
Governmental activities:								
Fire safety	$	2,872,575	2,589,771	27,600	149,769	(105,435)	—	(105,435)
Interest on long-term debt		83,712	—	—	—	(83,712)	—	(83,712)
Total governmental activities		2,956,287	2,589,771	27,600	149,769	(189,147)	—	(189,147)
Business-type activities:								
RAD		33,733,907	32,434,384	—	—	—	(1,299,523)	(1,299,523)
VCSA Water and sewer		4,986,466	4,783,153	—	304,570	—	101,257	101,257
LSSA Water and sewer		8,582,868	7,002,061	—	19,010	—	(1,561,797)	(1,561,797)
Total business-type activities		47,303,241	44,219,598	—	323,580	—	(2,760,063)	(2,760,063)
Total primary government	$	50,259,528	46,809,369	27,600	473,349	(189,147)	(2,760,063)	(2,949,210)
General revenues:								
Investment earnings						4,318	283,248	287,566
Total general revenues						4,318	283,248	287,566
Change in net assets						(184,829)	(2,476,815)	(2,661,644)
Net assets (deficit) – beginning						(165,448)	(326,165)	(491,613)
Net assets (deficit) – ending						$ (350,277)	(2,802,980)	(3,153,257)

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

Balance Sheet

General Fund

September 30, 2005

Assets		
Cash	$	393,896
Due from other governments		135,937
Due from other funds		97,558
Prepaid items		50,629
Total assets	$	678,020
Liabilities and Fund Balance		
Accounts payable	$	76,167
Due to other governments		23,567
Due to other funds		504,378
Total liabilities		604,112
Fund balances:		
Reserved for prepaids		50,629
Unreserved		23,279
Total fund balances		73,908
Total liabilities and fund balances	$	678,020

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

Reconciliation of the Balance Sheet – General Fund to the Statement of Net Assets

September 30, 2005

Fund balance – general fund			$	73,908
Total net assets reported for governmental activities in the statement of net assets is different because:				
Capital assets used in governmental activities are not financial resources and therefore are not reported in the general fund:				
Capital assets	$	2,106,488		
Less accumulated depreciation		(410,805)		1,695,683
Long–term liabilities are not due and payable in the current period and therefore are not reported in the general fund:				
Leases payable		698,355		
Loans payable		1,379,752		
Compensated absences		41,761		(2,119,868)
Net assets (deficit) of governmental activities			$	(350,277)

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance

General Fund

Year ended September 30, 2005

Revenues:		
Fire assessments	$	1,392,772
Amenities revenue		1,196,999
Grants and contributions		149,769
Other fees		27,600
Interest		4,318
Total revenues		2,771,458
Expenditures:		
Current:		
Fire safety operations		2,741,527
Debt service:		
Interest		83,712
Principal payments		187,086
Capital outlay		153,178
Total expenditures		3,165,503
Deficiency of revenues over expenditures		(394,045)
Other financing sources:		
Proceeds from debt issuance		505,947
Total other financing sources		505,947
Net change in fund balance		111,902
Fund balance (deficit), beginning of year		(37,994)
Fund balance, end of year	$	73,908

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance–General Fund to the Statement of Activities

Year ended September 30, 2005

Net change in fund balance – general fund	$	111,902
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		15,253
Issuance of debt (loans, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This is the amount by which the proceeds from the issuance of long-term debt exceeded payments on long-term debt.		(318,861)
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 the governmental funds:		
Decrease in compensated absences		6,877
Change in net assets of governmental activities	$	(184,829)

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

General Fund

Year ended September 30, 2005

	Budgeted amount Original and final	Actual amounts	Variance with final budget Favorable (unfavorable)
Revenues:			
Fire assessments	$ 1,834,801	1,392,772	(442,029)
Amenities revenue	977,365	1,196,999	219,634
Grants and contributions	—	149,769	149,769
Other fees	—	27,600	27,600
Interest	1,200	4,318	3,118
Total revenues	2,813,366	2,771,458	(41,908)
Expenditures:			
Current			
Fire safety operations	2,626,209	2,741,527	(115,318)
Debt service:			
Interest	67,276	83,712	(16,436)
Principal payments	142,961	187,086	(44,125)
Capital outlay	50,000	153,178	(103,178)
Total expenditures	2,886,446	3,165,503	(279,057)
Deficiency of revenues over expenditures	(73,080)	(394,045)	(320,965)
Other financing sources:			
Proceeds from debt issuance	—	505,947	505,947
Total other financing sources	—	505,947	505,947
Net change in fund balance	(73,080)	111,902	184,982
Fund balance (deficit), beginning of year	(37,994)	(37,994)	—
Fund balance (deficit), end of year	$ (111,074)	73,908	184,982

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

Statement of Net Assets

Proprietary Funds

September 30, 2005

Assets		**RAD**	**VCSA Water and Sewer**	**LSSA Water and Sewer**	**Total**
Current assets:					
Cash and cash equivalents	$	202,368	1,587,168	1,083,554	2,873,090
Restricted cash and cash equivalents		—	—	713,381	713,381
Accounts receivable		1,960,839	535,369	859,394	3,355,602
Due from developer		33,196	—	—	33,196
Due from other funds		561,465	400,000	32,220	993,685
Due from other governments		187,872	—	—	187,872
Inventory		—	9,649	5,152	14,801
Prepaid expenses		133,292	—	—	133,292
Total current assets		3,079,032	2,532,186	2,693,701	8,304,919
Non-current assets:					
Restricted cash and cash equivalents		14,331,863	1,783,640	6,012,642	22,128,145
Capital assets:					
Land		9,227,525	1,029,479	125,612	10,382,616
Buildings and structures		45,354,104	1,539,423	5,125,564	52,019,091
Improvements other than buildings		8,169,807	30,626,761	32,154,298	70,950,866
Machinery and equipment		2,111,548	1,014,847	315,519	3,441,914
Construction in progress		538,065	—	—	538,065
Less accumulated depreciation		(9,693,276)	(7,789,940)	(2,707,618)	(20,190,834)
Bond issuance costs (net of accumulated amortization)		11,147,194	2,200,871	2,869,978	16,218,043
Intangible assets (net of accumulated amortization)		150,079,020	—	41,175,119	191,254,139
Total non-current assets		231,265,850	30,405,081	85,071,114	346,742,045
Total assets		234,344,882	32,937,267	87,764,815	355,046,964
Liabilities					
Current liabilities:					
Accounts payable		374,752	212,484	421,266	1,008,502
Accrued expenses		201,674	—	713,381	915,055
Accrued interest payable		4,679,845	662,616	2,053,685	7,396,146
Due to other governments		13,474	—	—	13,474
Due to other funds		497,558	56,400	32,907	586,865
Deferred revenue		1,375,654	—	—	1,375,654
Current installments of revenue bonds payable		4,395,793	880,000	820,000	6,095,793
Total current liabilities		11,538,750	1,811,500	4,041,239	17,391,489
Noncurrent liabilities:					
Revenue bonds payable, net		227,173,118	25,690,000	85,858,587	338,721,705
Due to developer		1,736,750	—	—	1,736,750
Total noncurrent liabilities		228,909,868	25,690,000	85,858,587	340,458,455
Total liabilities		240,448,618	27,501,500	89,899,826	357,849,944
Net assets					
Invested in capital assets, net of related debt		(164,713,944)	2,051,441	(48,795,234)	(211,457,737)
Restricted for:					
Debt service		8,417,712	1,552,099	5,716,691	15,686,502
Capital projects		3,466,750	—	—	3,466,750
Renewal and replacement		710,651	231,541	295,951	1,238,143
Unrestricted		146,015,095	1,600,686	40,647,581	188,263,362
Total net assets (deficit)	$	(6,103,736)	5,435,767	(2,135,011)	(2,802,980)

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

Year ended September 30, 2005

	RAD	VCSA Water and Sewer	LSSA Water and Sewer	Total
Operating revenues:				
Charges for services:				
Water revenue	$ —	1,994,714	3,210,328	5,205,042
Sewer revenue	—	2,751,724	3,680,077	6,431,801
Recreational amenity fees	27,555,566	—	—	27,555,566
Other income	4,878,818	341,285	130,666	5,350,769
Total operating revenues	32,434,384	5,087,723	7,021,071	44,543,178
Operating expenses:				
Water and sewer	—	2,429,854	1,953,635	4,383,489
Recreational amenity	12,329,554	—	—	12,329,554
General and administrative	2,390,086	—	—	2,390,086
Depreciation	1,677,229	1,105,107	1,372,182	4,154,518
Amortization	5,060,825	121,707	1,129,520	6,312,052
Total operating expenses	21,457,694	3,656,668	4,455,337	29,569,699
Operating income	10,976,690	1,431,055	2,565,734	14,973,479
Nonoperating revenue (expenses):				
Interest income	128,500	44,049	110,699	283,248
Interest expense	(12,274,562)	(1,329,798)	(4,127,531)	(17,731,891)
Loss on disposal of capital assets	(1,651)	—	—	(1,651)
Total nonoperating revenue (expenses)	(12,147,713)	(1,285,749)	(4,016,832)	(17,450,294)
Change in net assets	(1,171,023)	145,306	(1,451,098)	(2,476,815)
Total net assets (deficit), beginning	(4,932,713)	5,290,461	(683,913)	(326,165)
Total net assets (deficit), ending	$ (6,103,736)	5,435,767	(2,135,011)	(2,802,980)

See accompanying notes to basic financial statements.

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

Statement of Cash Flows

Proprietary Funds

Year ended September 30, 2005

		RAD	VCSA Water and Sewer	LSSA Water and Sewer	Total
Cash flows from operating activities:					
Receipts from customers	$	31,636,882	5,089,810	6,850,757	43,577,449
Payments to suppliers		(10,638,637)	(2,942,020)	(4,387,706)	(17,968,363)
Payments to employees		(4,335,841)	—	—	(4,335,841)
Net cash provided by operating activities		16,662,404	2,147,790	2,463,051	21,273,245
Cash flows from capital and related financing activities:					
Proceeds from bond issuance		4,000,000	—	—	4,000,000
Payment of loan		—	(156,167)	(156,167)	(312,334)
Payment of bond issue costs		(9,550)	—	—	(9,550)
Principal payments on bonds		(3,815,000)	(850,000)	(405,000)	(5,070,000)
Interest paid		(12,063,438)	(1,346,391)	(4,117,325)	(17,527,154)
Net cash used in capital and related financing activities		(11,887,988)	(2,352,558)	(4,678,492)	(18,919,038)
Cash flows from investing activities:					
Payment for capital assets		(773,234)	(348)	(264,329)	(1,037,911)
Proceeds from sale of fixed assets		3,445	—	—	3,445
Interest received		128,500	44,049	110,699	283,248
Net cash provided by investing activities		(641,289)	43,701	(153,630)	(751,218)
Net increase (decrease) in cash and cash equivalents		4,133,127	(161,067)	(2,369,071)	1,602,989
Cash and cash equivalents, beginning of year		10,401,104	3,531,875	10,178,648	24,111,627
Cash and cash equivalents, end of year	$	14,534,231	3,370,808	7,809,577	25,714,616
Reconciliation of cash and cash equivalents per statement of cash flows to the statement of net assets:					
Cash per statement of net assets:					
Unrestricted cash and cash equivalents	$	202,368	1,587,168	1,083,554	2,873,090
Restricted cash and cash equivalents – current		—	—	713,381	713,381
Restricted cash and cash equivalents – noncurrent		14,331,863	1,783,640	6,012,642	22,128,145
Cash and cash equivalents	$	14,534,231	3,370,808	7,809,577	25,714,616

(Continued)

VILLAGE CENTER COMMUNITY DEVELOPMENT DISTRICT

Statement of Cash Flows

Proprietary Funds

Year ended September 30, 2005

		RAD	VCSAWater and Sewer	LSSA Water and Sewer	Total
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	$	10,976,690	1,431,055	2,565,734	14,973,479
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation		1,677,229	1,105,107	1,372,182	4,154,518
Amortization		5,026,692	121,707	1,129,520	6,277,919
Cash provided by (used in) changes in:					
Accounts receivable		(1,867,403)	(2,087)	(170,314)	(2,039,804)
Due from/to Developer (net)		54,216	—	—	54,216
Interfund balances (net)		236,224	(500,120)	156,841	(107,055)
Intergovernmental balances (due from/to, net)		(125,047)	(4,516)	—	(129,563)
Inventory		—	(3,530)	(2,106)	(5,636)
Prepaid expenses		73,607	—	—	73,607
Accounts payable and accrued liabilities		(459,705)	174	(2,588,806)	(3,048,337)
Deferred revenue		1,069,901	—	—	1,069,901
Net cash provided by operating activities	$	16,662,404	2,147,790	2,463,051	21,273,245
Noncash capital activities:					
Conveyance of capital assets by Developer	$	9,409,693	—	—	9,409,693

See accompanying notes to basic financial statements

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The Village Center Community Development District (the District) was established in 1992 to manage and finance basic services for a community development district located in The Villages, Florida. The District is governed by a five member board of supervisors who are elected on a rotating basis by the landowners within the District for terms from two to four years. The District was created by the Town of Lady Lake, Florida, Ordinance No. 92-06 pursuant to the provisions of Chapter 190.005 of the *Florida Statutes*, and operates within the criteria established by Chapter 190.

The District provides water and sewer utility services and 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. At September 30, 2005, all supervisors of the District are employees of the Developer or related to the Developer.

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

There are no component units of the District.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues, including recreational amenities fees and utilities charges, are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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 with 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due and compensated absences are recognized to the extent they have matured.

The District's only governmental fund is the general fund, which is the general operating fund of the District and is used to account for all financial resources of the general government (fire and safety department).

Proprietary funds report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The District uses enterprise funds to account for the operations and maintenance of the water and sewer utility systems and the recreational amenities division (RAD) that are financed and operated in a manner similar to private business enterprises, where the costs of providing services on a continuing basis are financed through user charges.

The District reports the following major proprietary funds: the Recreational Amenities Division (RAD) Fund, the Village Center Service Area (VCSA) Water and Sewer Fund and the Little Sumter Service Area (LSSA) Water and Sewer Fund. 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 enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, depreciation on capital assets, and amortization of amenity fees. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(c) 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.

(d) 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 equivalents, for purposes of the statement of cash flows.

(e) 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 both the utility and recreational revenue bonds require that the District establish sinking fund and reserve accounts in amounts that equal the Reserve Account Requirements, which are defined in the Bond Trust Indentures.

In addition, the bond resolutions require that a renewal and replacement reserve be established. The renewal and replacement reserve deposits are maintained as restricted assets until such time as needed to fund those necessary water and sewer system renewals and replacements.

(Continued)

The utility bond resolutions further require that the District deposit all system development charges promptly, upon receipt thereof, in the system development charges fund. These funds shall be accumulated and applied by the District in accordance with the provisions of Bond Trust Indenture.

(f) Capital Assets

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

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

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

Buildings and structures	15-40 years
Improvements other than buildings	10-40 years
Machinery and equipment	5-10 years

(g) Intangible Assets

Intangible assets represent the discounted value of future amenity fees or utilities assessments acquired from the Developer, and are capitalized at cost at the date of acquisition. Intangible assets are amortized on a straight-line basis over an estimated useful life of 40 years.

(h) Compensated Absences

It is the District's policy to accumulate earned but unused vacation benefits. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. 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.

(i) Net Assets

Net assets are reported as one of three types as follows:

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 that have third party (statutory, bond covenant or granting agency) or enabling legislation limitations 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.

(Continued)

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

(j) Bond Discounts, Bond Premiums and Issuance Costs

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

(k) 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.

(2) RAD Transfer

In accordance with the recreational amenities acquisition agreement entered into between the District and the Developer in 2004, on August 1, 2005, the Developer conveyed to the District recreation centers, entry facilities, an EMS station and landscape open areas. The transferred assets were recorded as capital assets and as a reduction in intangible assets in the statement of net assets, at the Developer’s depreciated cost of $9,409,693, which approximated fair value. As part of the transfer, the District also received an assignment from the Developer of the Developer’s right to collect monthly amenity fees from the residences benefited by the transferred assets.

(3) Fire Assessments

Fire assessments are levied as non-ad valorem assessments by the respective Board of County Commissioners. The assessments are billed on the annual property tax bill sent out each November. The assessments become due and payable on November 1 of each year and are delinquent on April 1 of the following year. Discounts are allowed for payments made prior to the April 1 delinquent date. There is no exemption for non-ad valorem assessments.

Important dates in the assessment cycle are as follows:

(a) November 1 – Taxes due and payable (levy date)

(b) November 30 - Assessments payable (maximum discount of 4%)

(c) March 31 – Due Date

(d) April 1 – Assessments become delinquent (lien date)

(4) Stewardship, Compliance And Accountability

Deficit Fund Equity

The District's LSSA Water and Sewer fund reported an accumulated deficit and net loss as of and for the year ended September 30, 2005 of $2,135,011 and $1,451,098, respectively. Management believes that as the utility's service area is built out, the net deficit will be reversed through added charges for services. Management also believes that the LSSA Water and Sewer fund's cash flows will be sufficient to fund it operations and debt requirements.

(5) Cash and Cash Equivalents

Deposits with Financial Institutions

At September 30, 2005, the carrying amount and bank balance of the District's demand deposits was $3,261,212 and 3,733,094, respectively. Petty cash as of September 30, 2005 was $5,774.

Cash Equivalents

The District's cash equivalents at September 30, 2005 totaling $22,841,526 consist of money market mutual funds with a credit rating of AAAm, and a weighted average maturity of 22 days.

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.

Money market mutual funds are also held by a qualified public depository.

Credit Risk

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

(a) 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.

(b) Securities and Exchange Commission registered money market mutual funds with the highest credit quality rating from a nationally recognized rating agency.

(c) Interest-bearing time deposits or savings accounts in qualified public depositories as defined in section 280.02.

(d) Direct obligations of the United States Treasury.

(e) Federal agencies and instrumentalities.

(f) 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. ss. 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 don't address custodial credit risk or concentration of credit risk.

(6) Capital Assets

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

	Beginning balance	Increases	Decreases	Ending balance
Governmental activities:				
Assets being depreciated:				
Machinery and equipment	$ 1,953,310	153,178	—	2,106,488
Less accumulated depreciation for:				
Machinery and equipment	(272,880)	(137,925)	—	(410,805)
Governmental activities, capital assets, net	$ 1,680,430	15,253	—	1,695,683
Business-type activities:				
Assets not being depreciated:				
Land	$ 9,462,666	919,950	—	10,382,616
Construction in progress	10,902	538,065	(10,902)	538,065
Assets being depreciated:				
Buildings and structures	43,358,713	8,660,378	—	52,019,091
Improvements other than buildings	70,844,883	105,983	—	70,950,866
Machinery and equipment	3,225,570	282,630	(66,286)	3,441,914
Total	126,902,734	10,507,006	(77,188)	137,332,552
Less accumulated depreciation for:				
Buildings and structures	(5,150,225)	(1,215,913)	(12,690)	(6,353,448)
Improvements other than buildings	(9,267,065)	(2,521,110)	—	(11,788,175)
Machinery and equipment	(1,631,716)	(417,495)	—	(2,049,211)
Total accumulated depreciation	(16,049,006)	(4,154,518)	(12,690)	(20,190,834)
Business-type activities capital assets, net	$ 110,853,728	6,352,488	(89,878)	117,141,718

(Continued)

	Beginning balance	Increases	Decreases	Ending balance
RAD:				
Assets not being depreciated:				
Land	$ 8,307,575	919,950	—	9,227,525
Construction in progress	10,902	538,065	(10,902)	538,065
Assets being depreciated:				
Buildings and structures	36,744,611	8,609,493	—	45,354,104
Improvements other than buildings	8,126,620	43,187	—	8,169,807
Machinery and equipment	2,046,200	83,134	(17,786)	2,111,548
Total	55,235,908	10,193,829	(28,688)	65,401,049
Less accumulated depreciation for:				
Buildings and structures	(4,463,794)	(951,606)	—	(5,415,400)
Improvements other than buildings	(2,521,434)	(438,934)	—	(2,960,368)
Machinery and equipment	(1,043,509)	(286,689)	(12,690)	(1,317,508)
Total accumulated depreciation	(8,028,737)	(1,677,229)	(12,690)	(9,693,276)
RAD capital assets, net	$ 47,207,171	8,516,600	15,998	55,707,773
VCSA Water and Sewer:				
Assets not being depreciated:				
Land	$ 1,029,479	—	—	1,029,479
Assets being depreciated:				
Buildings and structures	1,539,423	—	—	1,539,423
Improvements other than buildings	30,618,044	8,717	—	30,626,761
Machinery and equipment	1,023,216	40,131	(48,500)	1,014,847
Total	34,210,162	48,848	(48,500)	34,210,510
Less accumulated depreciation for:				
Building and structures	(541,923)	(90,815)	—	(632,738)
Improvements other than buildings	(5,554,703)	(920,810)	—	(6,475,513)
Machinery and equipment	(588,207)	(93,482)	—	(681,689)
Total accumulated depreciation	(6,684,833)	(1,105,107)	—	(7,789,940)
VC SA Water and Sewer capital assets, net	$ 27,525,329	(1,056,259)	(48,500)	26,420,570

(Continued)

	Beginning balance	Increases	Decreases	Ending balance
LSSA Water and Sewer:				
Assets not being depreciated:				
Land	$ 125,612	—	—	125,612
Assets being depreciated:				
Buildings and structures	5,074,679	50,885	—	5,125,564
Improvements other than buildings	32,100,219	54,079	—	32,154,298
Machinery and equipment	156,154	159,365	—	315,519
Total	37,456,664	264,329	—	37,720,993
Less accumulated depreciation for:				
Buildings and structures	(144,508)	(173,492)	—	(318,000)
Improvements other than buildings	(1,190,928)	(1,161,366)	—	(2,352,294)
Machinery and equipment	—	(37,324)	—	(37,324)
Total accumulated depreciation	(1,335,436)	(1,372,182)	—	(2,707,618)
LSSA Water and Sewer capital assets, net	$ 36,121,228	(1,107,853)	—	35,013,375

(7) Intangible Assets

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

	Beginning balance	Increases	Decreases	Ending balance
Business-type activities:				
Discounted value of amenity fees	$ 182,489,911	—	(9,409,693)	173,080,218
Discounted value of utilities charges	43,338,051	—	—	43,338,051
Less accumulated amortization	(19,588,014)	(5,576,116)	—	(25,164,130)
Intangible assets, net	$ 206,239,948	(5,576,116)	(9,409,693)	191,254,139
RAD:				
Discounted value of amenity fees	$ 182,489,911	—	(9,409,693)	173,080,218
Less accumulated amortization	(18,508,638)	(4,492,560)	—	(23,001,198)
Intangible assets, net	$ 163,981,273	(4,492,560)	(9,409,693)	150,079,020
LSSA:				
Discounted value of utilities charges	$ 43,338,051	—	—	43,338,051
Less accumulated amortization	(1,079,376)	(1,083,556)	—	(2,162,932)
Intangible assets, net	$ 42,258,675	(1,083,556)	—	41,175,119

(8) Interfund Balances

The composition of interfund balances as of September 30, 2005 is as follows:

Receivable fund	Payable fund			
General	RAD	Interfund billing for services	$	97,558
RAD	General	Interfund billing for services		504,378
RAD	VCSA water and sewer	Interfund billing for services		24,180
LSSA Water and Sewer	VCSA water and sewer	Interfund billing for services		32,220
VCSA Water and Sewer	RAD	Interfund billing for services		400,000
RAD	LSSA water and sewer	Interfund billing for services		32,907

(9) Long-term Debt

Revenue Bonds Payable

Revenue bonds payable consisted of the following:

$60,175,000 Recreational Revenue Refunding Bonds, Series 1998A due in annual principal installments ranging from $1,595,000 to $3,640,000 through November 2022 in accordance with the redemption schedule. Interest is due semi-annually on May 1 and November 1 of each year until redemption or maturity. Interest rates range from 4.10% to 5.50%.	$	48,365,000
$14,220,000 Recreational Revenue Bonds, Series 1999A due in annual principal installments ranging from $45,000 to $5,035,000 through November 2023 in accordance with the redemption schedule. Interest is due semi-annually on May 1 and November 1 of each year until redemption or maturity. Interest rates range from 3.9% to 5%.		13,795,000
$36,455,000 Recreational Revenue Bonds, Series 2001A due in annual principal installments ranging from $550,000 to $7,310,000 through November 2025 in accordance with the redemption schedule. Interest rates range from 3.25% to 5.20% and interest is due semi-annually on May 1 and November 1 of each year until redemption or maturity.		34,605,000
$57,250,000 Recreational Revenue Bonds, Series 2003A due in annual principal installments ranging from $3,535,000 to $10,110,000 through November 2032 in accordance with the redemption schedule. Interest rate is 5.0% and interest is due semi-annually on May 1 and November 1 of each year until redemption or maturity.		57,250,000

$39,425,000 Recreational Revenue Bonds, Series 2004A due in annual principal installments ranging from $4,895,000 to $12,110,000 through November 2036 in accordance with the redemption schedule. Interest rates are 5.125-5.375% and interest is due semi-annually on May 1 and November 1 of each year until redemption or maturity.	39,425,000
$5,755,000 Subordinate Recreational Revenue Bonds, Series 1998B due in annual principal installments ranging from $170,000 to $470,000 through January 2017 in accordance with the redemption schedule. Interest at 8.25% is due semi-annually on January 1 and July 1 of each year until redemption or maturity.	4,105,000
$5,340,000 Subordinate Recreational Revenue Bonds, Series 1998C due in annual principal installments ranging from $80,000 to $1,005,000 through January 2019 in accordance with the redemption schedule. Interest at 7.375% is due semi-annually on January 1 and July 1 of each year until redemption or maturity.	4,690,000
$7,665,000 Subordinate Recreational Revenue Bonds, Series 1999B due in annual principal installments ranging from $125,000 to $1,065,000 through January 2013 in accordance with the redemption schedule. Interest at 6.25% is due semi-annually on January 1 and July 1 of each year until redemption or maturity.	6,935,000
$2,010,000 Subordinate Recreational Revenue Bonds, Series 2001B due in annual principal installments ranging from $90,000 to $630,000 through January 2007 in accordance with the redemption schedule. Interest at 6.30% is due semi-annually on January 1 and July 1 of each year until redemption or maturity.	1,020,000
$7,005,000 Subordinate Recreational Revenue Bonds, Series 2003B due in annual principal installments ranging from $140,000 to $2,420,000 through January 2018 in accordance with the redemption schedule. Interest at 6.35% is due semi-annually on January 1 and July 1 of each year until redemption or maturity.	7,005,000
$11,160,000 Subordinate Recreational Revenue Bonds, Series 2004B due in annual principal installments ranging from $180,000 to $2,475,000 through January 2015 in accordance with the redemption schedule. Interest at 5.875% is due semi-annually on January 1 and July 1 of each year until redemption or maturity.	10,980,000
$4,000,000 Recreational Revenue Bonds, Series 2005 Junior Lien Bonds, due in ten annual principal installments of $291,792 and one final principal installment in year eleven (2016) of $1,430,327. Interest at 3.90% due annually on August 1. These bonds are subordinate to the Senior and Subordinate Revenue Bonds previously issued.	4,000,000

$25,465,000 Utility Revenue Refunding Bonds, Series 1998A, due in annual principal installments ranging from $620,000 to $1,720,000 through October 2023 in accordance with the redemption schedule. Interest is due semi-annually on April 1 and October 1 of each year until redemption or maturity. Interest rates range from 3.60% to 5.25%.		21,735,000
$86,400,000 Utility Revenue Bonds, Series 2003, due in annual principal installments ranging from $405,000 to $5,230,000 through October 2036 in accordance with the redemption schedule. Interest is due semi-annually on April 1 and October 1 of each year until redemption or maturity. Interest rates range from 5.00% to 5.25%.		85,995,000
$5,690,000 Subordinate Utility Revenue Bonds, Series 1998B due in annual principal installments ranging from $140,000 to $385,000 through October 2023 in accordance with the redemption schedule. Interest rates range from 3.65% to 5.25% and interest is due semi-annually on April 1 and October 1 of each year until redemption or maturity.		4,835,000
Total revenue bonds payable		344,740,000
Plus bond premium		1,082,816
Less bond discount		(1,005,318)
Less current installments of revenue bonds payable		(6,095,793)
Revenue bonds payable less current installments	$	338,721,705

The Recreational Revenue Bonds, Series 1998A, 1998B, 1998C, 1999A, 1999B, 2001A, 2001B, 2003A, 2003B, 2004A, 2004B and 2005 are secured by a lien and pledge of revenues under the indentures which are derived by the District from the users of the recreational facilities. These bonds and notes are additionally secured by amounts on deposit in the funds and accounts created pursuant to the indentures. The Recreational Revenue Bonds, Series 1998B, 1998C, 1999B, 2001B, 2003B and 2004B are secured by a lien and pledge of revenues which is junior and subordinate to the lien and pledge of revenues on the Recreational Revenue Bonds, Series 1998A, 1999A, 2001A, 2003A and 2004A. The Recreational Bonds Series 2005 are secured by a lien and pledge of revenues which is junior and subordinate to the liens and pledges of revenue or all of the other Recreational Revenue Bonds issued by the District.

The Utility Revenue Bonds, Series 1998A and 1998B are secured by a lien and pledge of the revenues under the indenture which are derived by the District from the fees and charges for water and wastewater services in the VCSA (Village Center Service Area). The Utility Revenue Bonds, Series 1998B are secured by a lien and pledge of revenues which is junior and subordinate to the lien and pledge of revenues on the Utility Revenue Bonds, Series 1998A.

The Utility Revenue Bond, Series 2003 is secured by a lien and pledge of the revenues under the indenture which is derived by the District from the fees and charges for water and wastewater services in the Little Sumter service area.

The annual requirements to amortize the principal and interest of all revenue bonds payable as of September 30, 2005 are as follows:

		Principal	Interest	Total
Fiscal year ending September 30:				
2006	$	6,095,793	17,535,843	23,631,636
2007		6,941,088	17,246,990	24,188,078
2008		6,561,193	16,940,755	23,501,948
2009		7,772,292	16,596,878	24,369,170
2010		8,343,231	16,192,998	24,536,229
2011 – 2015		51,231,403	73,731,179	124,962,582
2016 – 2020		52,795,000	58,918,051	111,713,051
2021 – 2025		52,370,000	45,488,526	97,858,526
2026 – 2030		52,550,000	32,533,725	85,083,725
2031 – 2035		66,255,000	17,180,156	83,435,156
2036 – 2037		33,825,000	1,742,524	35,567,524
Total	$	344,740,000	314,107,625	658,847,625

Due to Developer

In order to fund the Subordinate Reserve Requirement, the District borrowed money from the proceeds of the Series 1998B Bonds, the Series 1998C Bonds, the Series 1999B Bonds, the Series 2001B Bonds, the Series 2003B Bonds and the Series 2004B Bonds. The Subordinate Reserve Requirement is defined as an amount equal to 5% of the outstanding subordinate bonds and bonds on a parity therewith. Any excess over and above the Subordinate Reserve Requirement shall be paid to the Developer to the extent the Developer is owed additional moneys in connection with the acquisition by the District of the applicable Project. Amounts due to the Developer at September 30, 2005 were $1,736,750.

Capital Leases

The District is obligated under capital leases covering machinery and equipment that expire at various dates through 2014. At September 30, 2005, the gross amount of machinery and equipment recorded under capital leases was $909,738 with accumulated amortization of $260,036.

Future minimum lease payments (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of September 30, 2005 are:

Year ending September 30,		Capital leases
2006	$	141,222
2007		141,222
2008		117,468
2009		117,468
2010		90,368
2011 – 2014		217,260
Total minimum lease payments		825,008
Less interest		126,653
Net present value	$	698,355

Loans Payable

District loans payable related to the District's governmental activities consisted of the following:

Loan payable to bank, secured by fire and safety equipment, principal and interest payments due monthly, interest at the lender's prime rate (4.38 % at September 30, 2005), maturing September 1, 2009.	$	145,698
Loan payable to bank, secured by fire and safety equipment, principal and interest payments due monthly, interest fixed at 4.30%, maturing February 28, 2010.		71,882
Loan payable to bank, secured by fire and safety equipment, principal and interest payments due monthly, interest fixed at 4.30% for five years and then adjusted to 70% of lenders prime rate, maturing February 28, 2015.		762,172
Loan payable to Village Community Development District #6, interest of $10,000 and principal of $400,000 due March 20, 2006.		400,000
	$	1,379,752

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

		Principal	Interest	Total
Fiscal year ending September 30:				
2006	$	516,577	49,664	566,241
2007		121,717	34,523	156,240
2008		127,085	29,155	156,240
2009		139,462	23,551	163,013
2010		85,872	—	85,872
2011 - 2015		389,039	56,725	445,764
Total	$	1,379,752	193,618	1,573,370

Changes in Long-Term Debt

		Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities:						
Loans payable	$	956,037	505,947	82,232	1,379,752	516,577
Capital leases		803,209	—	104,854	698,355	141,222
Governmental activities long-term debt	$	1,759,246	505,947	187,086	2,078,107	657,799
Business–type activities:						
Bonds payable						
RAD	$	231,990,000	4,000,000	3,815,000	232,175,000	4,395,793
VCSA Water and Sewer		27,420,000	—	850,000	26,570,000	880,000
LSSA Water and Sewer		86,400,000	—	405,000	85,995,000	820,000
Less bond discount and deferred amounts		62,341	15,157	—	77,498	—
Total bonds payable		345,872,341	4,015,157	5,070,000	344,817,498	6,095,793
Due to developer – RAD		1,799,500	—	62,750	1,736,750	—
Total business – type activities long-term liabilities	$	347,671,841	4,015,157	5,132,750	346,554,248	6,095,793

(10) Interlocal Agreements

The District entered into interlocal agreements to provide Village Community Development District No. 1 (District No. 1), Village Community Development District No. 2 (District No. 2), Village Community Development District No. 3 (District No. 3), Village Community Development District No. 4 (District No. 4), Sumter Landing Community Development District (Sumter Landing), Village Community Development District No. 5 (District No.5), and Village Community Development District No. 6 (District No. 6) certain management, finance, and administrative services for fees of $122,854, $122,854, $122,854, $122,854, $274,312, $42,779 and $33,147, respectively, for the fiscal year ended September 30, 2005, which are reflected in other revenue. Upon action by their respective Boards of Supervisors, District No. 1, District No. 2, District No. 3, District No. 4, Sumter Landing, District No. 5 and District No. 6 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.

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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 Center Community Development District:

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Village Center 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

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Orlando, FL 32802

Management Letter

Board of Supervisors
Village Center Community Development District:

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Village Center 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 District. The disclosure of this information is 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

Exhibit A

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 polices, 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 polices 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.

Exhibit B

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 is 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.

Capital Asset Accounting System

Criteria
The District currently accounts for its capital assets outside of the JD Edwards accounting system, in an Excel spreadsheet. A journal entry, to record capital asset acquisitions and disposals as well as depreciation expense, is prepared and posted to the District's trial balance each year using data from the capital assets spreadsheet.

Condition
During our audit we noted that some capital assets acquired during the year ended September 30, 2004 had not been recorded in the District's capital assets spreadsheet, and as a result, had been excluded from the District's balance sheets. Management also noted upon reviewing the capital assets spreadsheet as part of the annual closing procedures that the spreadsheet was calculating depreciation incorrectly, and that depreciable lives for various classes of capital assets were not consistent.

Effect
Formalizing the District's capital asset accounting system and integrating the system with the District's financial accounting software can prevent the exclusion of capital assets from the District's financial statements, and help prevent future errors in the calculation of depreciation expense.

Recommendation
KPMG recommends that the District acquire and integrate a formal capital asset accounting system into its current financial accounting software to help ensure that the District's capital asset records are complete, and that depreciation is calculated consistently and correctly.

Management Response
In line with the comment in the previous item, accounting staff will ensure that assets are recorded within 30 days of acquisition. Staff recognizes the requirement for timely recording of the assets to allow inclusion in the District's financial statements, as well as ensuring that adequate property insurance coverage is in place.

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 on January 1, 2005.

Status of Recommendation

Implemented during the year ended September 30, 2005.

Cash Account Reconciliations

Criteria
The District's recreational amenities district cash accounting records were not correctly reconciled to the respective bank records during the last quarter of the year ended September 30, 2004.

Condition
During the District's year-end accounting close procedures, accounting personnel spent significant time correcting previously prepared monthly cash reconciliations for the recreational amenities district cash accounts. Several significant errors were noted in the cash reconciliations, including several transactions that were noted in the bank records but were not recorded in the District's accounting records.

Effect
Improperly reconciling cash accounts can prevent the District from effectively managing its cash balances and can result in the misstatement of cash balances in the District's financial reports. Improper reconciliations can also prevent the District from exercising effective control procedures over the receipt and disbursement of cash and the maintenance of its cash balances.

Recommendation
KPMG recommends that the District implement a policy requiring that monthly reconciliations of each District cash account be performed and reviewed within two weeks after each month end, and that any errors noted are promptly resolved. For the appropriate segregation of duties, the performer and the reviewer of cash account reconciliations should be separate personnel.

Management Response
Administrative direction of the Finance and Accounting Department of the District is being transferred to a new CFO.

Cash reconciliation will occur monthly within 10 working days of the end of the month. Staff absences for illness and termination resulted in creating a delay in the preparation of monthly financial statements and cash reconciliation, which the new CFO is currently addressing and correcting.

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 (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 new 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.