



VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

Basic Financial Statements

September 30, 2010

(With Independent Auditors' Report Thereon)

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Village Community Development District No. 5 (the District), as of and for the year ended September 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and 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 opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2010, and the respective changes in financial position thereof and the budgetary comparison of the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the District adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2010 which provides for clearer fund balance definitions and clarification of uses of governmental funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2011, 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 read in conjunction with this report in considering the results of our audit.

Certified Public Accountants

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

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

INDEPENDENT AUDITORS' REPORT
(Concluded)

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

Parris, Gray and Company, LLP

January 28, 2011
Ocala, Florida

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5
Management's Discussion and Analysis
(UNAUDITED)
September 30, 2010

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

Financial Highlights

- The assets of the District exceeded its liabilities as of September 30, 2010 by \$124,021,573 (net assets). Of this amount, \$8,953,429 of unrestricted net assets may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets decreased by \$2,353,460. This decrease in net assets primarily results from the decrease in capital assets as depreciation expense reflects the using up of these assets over time.
- At the close of the fiscal year, the District's governmental funds reported combined fund balances of \$11,970,957, a net increase of \$1,030,489, compared to the prior year. Of the total, \$4,763,473 is available for spending at the District's discretion as *unassigned fund balance*.
- At the end of the year, unassigned fund balance of the general fund was \$4,763,473, or 183.2 percent of total general fund annual expenditures, a very healthy contingency for unexpected expenditures.
- The District's total long-term bond debt decreased by \$2,589,067 during the current fiscal year. The decrease relates to principal payments made on outstanding revenue bonds less amortization of bond discounts during the year ended September 30, 2010. Including reductions in short term debt and amounts due to the Developer, total liabilities were reduced by \$2,737,026.
- Special assessments are shown as assessments receivable. At the fund level, there is an off-setting line item for deferred revenue pertaining to assessments due in future years. Assessments receivable decreased by \$2,774,075 during the year and has a September 30, 2010 balance of \$45,425,554.

Overview of the Financial Statements

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The **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 and decreases in net assets may serve as a useful indicator of whether the financial position of the Village Community Development District No. 5 is improving or deteriorating.

The **Statement of Activities** presents information showing how the government's net 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 timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected assessments).

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(UNAUDITED)
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Both of the government-wide financial statements distinguish functions of the District that are principally supported by assessments, and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include general government and debt service. The District has no business-type activities. The District also has no component units, as all functions are performed by the primary government.

The government-wide financial statements are provided on pages 9-10 of this report.

The Fund Financial Statements, which report by individual fund, begin on page 11. Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village Community Development District No. 5, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are considered governmental funds. There are no proprietary or fiduciary funds maintained by the District. The fund financial statements present information in more detail than the government-wide financial statements. Governmental Accounting Standards Board (GASB) Statement No. 34 provides the authoritative guidance on the governmental financial reporting model.

Governmental funds. *Governmental funds* are used to account for essentially the same functions as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and debt service fund, both of which are considered to be major funds.

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

The basic governmental fund financial statements can be found on pages 11-15 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 16.

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Management's Discussion and Analysis
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Government-wide Financial Analysis

The District's net assets as of September 30, 2010 and September 30, 2009 were \$124.022 million and \$126.375 million, respectively, representing a decrease of approximately \$2.353 million. The District's revenues for the years ended September 30, 2010 and September 30, 2009, including assessments and investment earnings, were approximately \$6.454 million and \$6.794 million, respectively. The District's expenses for the years ended September 30, 2010 and September 30, 2009 were \$8.807 million and \$9.106 million, respectively. Table 1 reflects the summary statement of net assets for the current year and prior year.

Table 1

	Governmental Activities	
	September 30, 2010	September 30, 2009
Net Assets		
Assets:		
Current and other assets	\$ 13,804,209	12,888,929
Assessments receivable	45,425,554	48,199,629
Capital assets - net	113,376,248	116,607,939
Total assets	<u>172,606,011</u>	<u>177,696,497</u>
Liabilities :		
Current and other liabilities	1,210,733	1,304,796
Long-term liabilities	47,373,705	50,016,668
Total liabilities	<u>48,584,438</u>	<u>51,321,464</u>
Net assets:		
Invested in capital, net of related debt	67,838,409	68,508,871
Restricted for debt service	47,229,735	50,730,773
Unrestricted	8,953,429	7,135,389
Total net assets	<u>\$ 124,021,573</u>	<u>126,375,033</u>

The largest share of the District's net assets (54.7 percent) relates to investments in capital assets, less any related debt outstanding, used to acquire those capital assets. Amounts restricted for debt service represent another 38.1 percent. The resources required to repay the debt must be provided annually from assessments, since the capital assets themselves cannot be liquidated to pay the liabilities.

Table 2, on the next page, reflects the summary statement of Changes in Net Assets for the current year and prior year.

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Table 2

Changes in Net Assets

	Governmental Activities	
	September 30, 2010	September 30, 2009
Revenues:		
Special assessments	\$ 6,146,278	6,316,470
Intergovernmental revenue	195,267	196,051
Miscellaneous revenue	107	43,452
Investment earnings	111,969	238,033
Total revenues	<u>6,453,621</u>	<u>6,794,006</u>
Expenses:		
General government	5,866,930	5,995,089
Interest on long-term debt	2,940,151	3,111,344
Total expenses	<u>8,807,081</u>	<u>9,106,433</u>
Change in net assets	<u>\$ (2,353,460)</u>	<u>(2,312,427)</u>

Revenues

Revenues include assessments on District landowners for maintenance and debt service. Other revenue includes reimbursements from Sumter County for the District maintaining county road rights-of-way. Investment earnings on cash balances held during the year make the final source of revenue to the District. Special Assessment revenue decreased by \$170,192 in FY 2010 compared to FY 2009, caused by the smaller size of the outstanding debt. Investment earnings decreased by \$126,064 due to the lowering of interest rates in the general economy.

At the beginning of the fiscal year, the District maintained its cash balances with Citizens First Bank, its non-trust investment balances with the State Board of Administration (SBA) Local Government Investment Pool and its trust balances with U.S. Bank, its trustee. In August 2010, the District directed its trustee, U.S. Bank, to move its trust investments from the First American Government Obligation Fund to Federated Prime Cash Obligations Fund and Fidelity Prime Money Market Portfolio Fund. This change resulted from fourteen consecutive months of zero earnings on the First American Fund. The trust accounts are now earning small returns from the new investments.

The District, under the guidance of the Investment Advisory Committee, joined the Florida Municipal Investment Trust (FMIVT), sponsored by the Florida League of Cities in May 2008. The initial investment was made in the 1-3 Year High Quality Bond Fund. In September 2009, an investment was also made in the 0-2 Year High Quality Bond Fund, another pool sponsored by the FMIVT. As of September 30, 2010, investments in this Pool amounted to \$4,842,193. Investments were made in the FMIVT to achieve a greater rate of return on long-term

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investment balances. During the year ended September 30, 2010, the FMIvT recorded net unrealized gains of \$71,684 and realized gains of \$27,400. Further information can be found in Note 2 of the Notes to Basic Financial Statements.

Expenses

General government expenses of the District are mainly for landscaping, irrigation, utilities and maintenance costs. Interest on the long-term debt is the amount of interest paid to bondholders pertaining to the District's revenue bonds. Both decreased compared to the prior year, with a reduction of \$128,159 in governmental expenses and a decrease of \$171,193 in annual interest expenses. The interest on the long-term debt will continue to decrease as the existing bond issues are paid off.

Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year. As of the end of fiscal year 2010, the District's governmental funds reported combined ending fund balances of \$11,970,957, an increase of \$1,030,489 in comparison with the end of fiscal year 2009. Approximately 39.8 percent of this total amount (\$4,763,473) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *restricted or committed* to indicate that it is not available for new spending because it has already been restricted for debt service (\$4,030,608) or committed for renewal and replacement (\$3,176,876).

The general fund is the chief operating fund of the District. At the end of fiscal year 2010, unassigned fund balance was \$4,763,473, while total fund balance reached \$7,940,473. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 183.2 percent of total general fund expenditures, while total fund balance represents 305.4 percent of that same amount.

The debt service fund has a total fund balance of \$4,030,608, all of which is restricted for the payment of debt service. The net increase in fund balance was \$225,529, during fiscal year 2010. This fund's revenue is comprised entirely of special assessment proceeds and interest earnings on cash balances. No new debt was issued by the District during fiscal year 2010.

General Fund Budgetary Highlights

During the year, there was no change in the appropriations for the general fund between the original and final budget. The revenue budget also was unchanged between the original and final budget.

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Capital Asset and Debt Administration

Capital Assets. The District's capital assets as of September 30, 2010 and September 30, 2009 amounted to \$113,376,248 and \$116,607,939, respectively. This is net of accumulated depreciation and includes land and improvements. The reduction of \$3,231,691 resulted from annual depreciation expenses offset by \$20,205 in new capital assets. Additional information regarding the District's capital assets can be found in Note 3 to the financial statements.

Long-term Debt. As of September 30, 2010 and September 30, 2009, the District had long-term debt outstanding of \$47,373,705 and \$50,016,668, respectively. Debt principal of \$2,642,963 was retired, while no new debt was issued by the District during the year. Most of the debt is special assessment debt and is secured solely by special assessment revenue sources. Additional information regarding the District's long-term debt can be found in Note 4 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate in Sumter County where the District is located was 9.8 percent in September 2010 which is a small increase from a rate of 9.5 percent a year ago. This compares favorably with the State's average unemployment rate of 12.1 percent and is close to the national average rate of 9.6 percent.
- Inflationary trends in the area are comparable to national indices. The national Consumer Price Increase (CPI) annual increase for all urban consumers changed from a negative (1.29) percent in September 2009 to a more normal 1.14 percent positive increase in September 2010.

These factors were considered in preparing the Districts' budget for the 2011 fiscal year. In the upcoming FY 2011 budget, revenues are projected to decline by \$3,714. This decrease results from lower expectations in investment earnings, offset in part by anticipated increases in Sumter County reimbursement for road right-of-way maintenance. Expenditures are projected to increase by \$373,645 with large reductions in the maintenance and repair, professional services, and utilities offset by a new \$450,000 transfer to the Villa Roads Renewal and Replacement account.

Requests for Information

The District's financial statements are designed to present users (residents, taxpayers, customers, investors and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional financial information, please contact the Village Community Development Districts, Finance Department at 3201 Wedgewood Lane, The Villages, FL 32162; Telephone (352) 753-0421.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

Statement of Net Assets

September 30, 2010

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 5,422,741
Interest receivable	980
Due from other governments	48,817
Investments	7,515,649
Assessments receivable	45,425,554
Unamortized bond issuance costs	816,022
Capital assets, net	
Non-depreciable	1,715,195
Depreciable, net of depreciation	<u>111,661,053</u>
Total assets	<u>172,606,011</u>
Liabilities	
Accounts payable	4,150
Accrued interest expense	1,206,583
Long-term debt:	
Due within one year	915,000
Due in more than one year	<u>46,458,705</u>
Total liabilities	<u>48,584,438</u>
Net Assets	
Invested in capital, net of related debt	67,838,409
Restricted for debt service	47,229,735
Unrestricted	<u>8,953,429</u>
Total net assets	<u>\$ 124,021,573</u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

Statement of Activities

Year Ended September 30, 2010

Functions/Programs	Expenses	Program revenues			Net (expense) revenue and changes in net assets	
		Charges for services	Operating contributions	Capital grants and contributions	Governmental activities	Total
Governmental activities:						
General government	\$ 5,866,930	6,146,278	—	—	279,348	279,348
Interest on long-term debt	2,940,151	—	—	—	(2,940,151)	(2,940,151)
Total governmental activities	8,807,081	6,146,278	—	—	(2,660,803)	(2,660,803)
Total primary government	8,807,081	6,146,278	—	—	(2,660,803)	(2,660,803)
General revenues:						
Intergovernmental revenue					195,267	195,267
Miscellaneous revenue					107	107
Investment earnings					111,969	111,969
Total general revenues					307,343	307,343
Change in net assets					(2,353,460)	(2,353,460)
Net assets – beginning					126,375,033	126,375,033
Net assets – ending					\$ 124,021,573	\$ 124,021,573

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

Balance Sheet – Governmental Funds

September 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 380,000	5,042,741	5,422,741
Interest receivable	33	947	980
Due from other governments	48,817	—	48,817
Investments	7,515,649	—	7,515,649
Assessments receivable	—	45,425,554	45,425,554
Total assets	<u>7,944,499</u>	<u>50,469,242</u>	<u>58,413,741</u>
Liabilities:			
Accounts payable	4,150	—	4,150
Due to developer	—	1,013,080	1,013,080
Deferred assessment revenue	—	45,425,554	45,425,554
Total liabilities	<u>4,150</u>	<u>46,438,634</u>	<u>46,442,784</u>
Fund balances:			
Restricted for debt service	—	4,030,608	4,030,608
Committed for renewal and replacement	3,176,876	—	3,176,876
Unassigned	4,763,473	—	4,763,473
Total fund balances	<u>7,940,349</u>	<u>4,030,608</u>	<u>11,970,957</u>
Total liabilities and fund balances	<u>\$ 7,944,499</u>	<u>50,469,242</u>	<u>58,413,741</u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

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

September 30, 2010

Total fund balances, governmental funds		\$	11,970,957
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:			
Capital assets	\$	131,178,479	
Less accumulated depreciation		<u>(17,802,231)</u>	113,376,248
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Special assessment revenue bonds		(46,360,625)	
Accrued interest		<u>(1,206,583)</u>	(47,567,208)
Deferred revenue reported in the funds is added to the balance of net assets restricted for debt service to reflect the revenue as recorded when the total assessment is levied.			45,425,554
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			<u>816,022</u>
Net assets of governmental activities	\$		<u><u>124,021,573</u></u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

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

Year Ended September 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Revenues:			
Special assessments	\$ 3,099,757	5,820,596	8,920,353
Intergovernmental revenue	195,267	-	195,267
Miscellaneous revenue	107	-	107
Investment earnings	109,966	2,003	111,969
Total revenues	<u>3,405,097</u>	<u>5,822,599</u>	<u>9,227,696</u>
Expenditures:			
General government	2,600,137	-	2,600,137
Debt service:			
Principal	-	2,590,000	2,590,000
Interest	-	3,006,570	3,006,570
Miscellaneous Bond Expense	-	500	500
Total expenditures	<u>2,600,137</u>	<u>5,597,070</u>	<u>8,197,207</u>
Excess (deficiency) of revenues over expenditures	<u>804,960</u>	<u>225,529</u>	<u>1,030,489</u>
Other financing sources (uses):			
Transfer in	-	-	-
Transfer out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	804,960	225,529	1,030,489
Fund balances, at beginning of year	<u>7,135,389</u>	<u>3,805,079</u>	<u>10,940,468</u>
Fund balances, at end of year	<u>\$ 7,940,349</u>	<u>4,030,608</u>	<u>11,970,957</u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in
 Fund Balances – Governmental Funds to the Statement of Activities
 Year Ended September 30, 2010

Net change in fund balances – total governmental funds	\$	1,030,489
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures.		
However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in the current period net of capital outlays.		
Capital outlays	\$ 20,205	
Depreciation expense	<u>(3,251,896)</u>	(3,231,691)
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 amortization expense in the current period.		
		(34,602)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Change in accrued interest	67,352	
Amortization of bond discount/premium	<u>(933)</u>	66,419
Governmental funds report special assessment debt service revenue when collected, however, in the statement of activities the revenue is recorded when the total assessment is levied.		
Deferred assessment revenue as of September 30, 2010	45,425,554	
Deferred assessment revenue as of September 30, 2009	<u>(48,199,629)</u>	(2,774,075)
Bond and loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		<u>2,590,000</u>
Change in net assets of governmental activities	\$	<u><u>(2,353,460)</u></u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5

Statement of Revenues, Expenditures and Changes in
Fund Balances – Budget and Actual
General Fund
Year Ended September 30, 2010

	Budgeted Amounts		Actual amounts	Variance with final budget
	Original	Final		
Revenues:				
Special assessments	\$ 3,090,250	3,090,250	3,099,757	9,507
Sumter County Road Agreement	195,028	195,028	195,267	239
Miscellaneous revenue	—	—	107	107
Investment earnings	12,200	12,200	109,966	97,766
Total revenues	3,297,478	3,297,478	3,405,097	107,619
Expenditures:				
General government:				
Professional services	344,411	348,911	337,514	11,397
Accounting and audit	30,588	30,588	30,278	310
Other contractual services	183	183	183	—
Travel & per diem	1,000	4,000	3,672	328
Communication and freight	500	1,700	1,637	63
Utility services	351,000	342,300	292,962	49,338
Equipment rental	500	500	—	500
Insurance	18,500	18,500	8,864	9,636
Repair and maintenance/landscape	408,950	408,950	346,123	62,827
Printing and binding	—	—	208	(208)
Other current charges	1,558,410	1,558,410	1,558,161	249
Operating supplies	500	500	330	170
Capital outlay	77,250	77,250	20,205	57,045
Total expenditures	2,791,792	2,791,792	2,600,137	191,655
Excess of revenues over expenditures	505,686	505,686	804,960	299,274
Other financing sources:				
Transfers in	—	—	—	—
Total other financing sources	—	—	—	—
Net change in fund balance	505,686	505,686	804,960	299,274
Fund balances, at beginning of year	7,135,389	7,135,389	7,135,389	—
Fund balances, at end of year	\$ 7,641,075	7,641,075	7,940,349	299,274

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5
Notes to Basic Financial Statements
September 30, 2010

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

(a) ***Reporting Entity***

Village Community Development District No. 5 (the District) was established in 2002 for the purpose of planning, financing, constructing, operating, and maintaining certain community-wide infrastructure for a community development district located entirely within Sumter County, Florida. The District was created by Sumter County Commission Ordinance No. 02-05 pursuant to the provisions of Chapter 190.005, Florida Statutes, and operates within the criteria established by Chapter 190. The District is governed by a five-member Board of Supervisors. As of September 30, 2010, each member of the Board of Supervisors is an elected resident of the District.

The District boundary consists of approximately 1,407 acres in the northeast corner of the county. Planned development includes construction of 6,399 residential units. The land within the District is part of the active adult retirement community known as "The Villages". The Villages consists of approximately 23,000 acres spanning the borders of Lake, Sumter and Marion Counties, the City of Wildwood and the Town of Lady Lake, Florida, and when fully developed is expected to include approximately 56,508 residences and 107,000 residents. The Villages of Lake-Sumter, Inc. was the developer and initial owner of the property within the District. The Villages continues to be developed by the developer, a family-owned business established for the single purpose of developing The Villages. Development in District No. 5 is complete. Most current development is being performed in District No. 8, south of District No. 5.

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

There are no component units that are legally separate from the District. There are twelve Community Development Districts (CDD) in the total structure of The Villages, each being a separate government entity established pursuant to Chapter 190, Florida Statutes.

The Developer has formed the following community development districts:

- Village Center CDD (Lake, Marion and Sumter Counties) – This CDD provides water and sewer utility services, recreation and security services, and fire protection and paramedic services to the residents. The cost of operations is funded by amenity and utility fees that residents pay monthly. This CDD also provides for the maintenance of common areas and roadways for the commercial areas within the CDD boundaries. The cost of maintenance in the commercial areas is funded through commercial maintenance assessments.
- Sumter Landing CDD (Sumter County) – This CDD provides recreation and security services to the residents. The cost of operations is funded by amenity fees that residents pay monthly. This CDD also provides for the maintenance of common areas and roadways for the commercial areas within the CDD boundaries. The cost of maintenance in the commercial areas is funded through commercial maintenance assessments.
- Village CDD No. 1 (Sumter County) – This CDD's boundary consists of approximately 993 acres in the northeast corner of the county. The development includes construction of 3,420 residential units.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5
Notes to Basic Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies (continued)

(a) Reporting Entity (continued)

- Village CDD No. 2 (Sumter County) – This CDD’s boundary consists of approximately 990 acres in the northeast corner of the county. The development includes construction of 3,668 residential units.
- Village CDD No. 3 (Sumter County) – This CDD’s boundary consists of approximately 894 acres in the northeast corner of the county. The development includes construction of 3,762 residential units.
- Village CDD No. 4 (Marion County) – This CDD’s boundary consists of approximately 1,187 acres in the southern portion of the county. The development includes construction of 5,132 residential units.
- Village CDD No. 5 (Sumter County) – This CDD’s boundary consists of approximately 1,407 acres in the northeast corner of the county. The development includes construction of 6,399 residential units.
- Village CDD No. 6 (Sumter County) – This CDD’s boundary consists of approximately 1,497 acres in the northeast corner of the county. Planned development includes construction of 6,697 residential units.
- Village CDD No. 7 (Sumter County) – This CDD’s boundary consists of approximately 976 acres in the northeast corner of the county. Planned development includes construction of 4,765 residential units.
- Village CDD No. 8 (Sumter County) – This CDD’s boundary consists of approximately 1,070 acres in the northeast corner of the county. Planned development includes construction of 5,193 residential units.
- Village CDD No. 9 (Sumter County) – This CDD’s boundary consists of approximately 946 acres in the northeast corner of the county. This CDD has been formed, but is not yet being developed as of September 30, 2010.
- Village CDD No. 10 (Sumter County) – This CDD’s boundary consists of approximately 999 acres in the northeast corner of the county. This CDD has been formed, but is not yet being developed as of September 30, 2010.

Certain of these community development districts have issued special assessment revenue bonds to finance various infrastructure improvements in their respective boundaries that are secured by special assessments levied on benefited lands in each district. It is anticipated that additional infrastructure improvements within The Villages will be undertaken by these community development districts and/or community development districts that will be created in the future, for which special assessments may be imposed on residences in The Villages and lands owned by the Developer.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5
Notes to Basic Financial Statements
September 30, 2010

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

(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 non-fiduciary activities of the District. For the most part, the effect of internal activity has been removed from these statements.

The financial reporting model focus is on either the District as a whole, or major individual funds. The government-wide statement of net assets reports the governmental activities of the District (a) on a government-wide basis and (b) on a full accrual basis, using the economic resources measurement focus, which incorporates long-term assets and receivables as well as long-term debt and obligations. The statement of activities reflects the expenses of the District, which are offset by revenues. Program revenues are defined as charges for services, operating grants and contributions, and capital grants and contributions directly associated with a given function.

The District's major funds are presented in separate columns on the fund financial statements. The definition of a major fund is one that meets certain criteria set forth in GASB 34. The General Fund and the Debt Service Fund meet this definition and are designated as major funds. The District has no non-major funds.

Program revenues in the Statement of Activities consist primarily of special assessment revenues.

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

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. 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 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*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments are recognized as revenues in the year in which the related debt is issued and the assessments established.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5
Notes to Basic Financial Statements
September 30, 2010

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The following are the District's major governmental funds. There are no non-major funds.

General Fund

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

Debt Service Fund

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

(d) **Budgetary Data**

Legal authority and control are established in accordance with Section 190.008, *Florida Statutes*. Annual budgets, as well as subsequent amendments, are adopted and approved for the general fund by the Board of Supervisors. Budgets are adopted on a basis consistent with GAAP.

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

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

1. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

- Money Market Mutual Funds
- Demand Deposits
- Florida State Board of Administration's Local Government Investment Pool (SBA LGIP)

The money market mutual funds are stated at cost which approximates fair value.

In May 2008, the District transferred amounts approximately equal to its long-term reserved fund balances (less debt service reserves maintained with the bond trustee) into the Florida Municipal

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5
Notes to Basic Financial Statements
September 30, 2010

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

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

1. Deposits and Investments (continued)

Investment Trust (FMIVT) operated by the Florida League of Cities. The investment was placed into the FMIVT's 1-3 Year High Quality Bond Fund. In September 2009, the District placed additional investment balances into the FMIVT's 0-2 Year High Quality Bond Fund. In September 2010, the District opened an account with the Florida Local Government Investment Trust (FLGIT), sponsored by the Florida Association of Counties and the Florida Association of County Clerks. Approximately half of the balances in the FMIVT 0-2 Year High Quality Bond Fund were transferred to the FLGIT fund. The FLGIT fund has an investment portfolio similar in duration to the FMIVT 1-3 Year High Quality Bond Fund. This change was done to improve liquidity, enhance diversification and slightly improve yield. The investment in these pools is evidenced by shares which are marked to market monthly.

2. Capital Assets

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

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

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

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

3. Bond Issuance Costs

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the term of the related debt.

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

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5
Notes to Basic Financial Statements
September 30, 2010

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

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

4. Assessments

Bond Assessments

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

Maintenance Assessments

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

Assessment Methodology

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

Billing / Collection of Assessments

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

(f) *Advance implementation of GASB 54*

The Governmental Accounting Standards Board (GASB) has promulgated Statement No. 54, entitled Fund Balance Reporting and Governmental Fund Type Definitions. This new standard makes two major changes to the accounting for governmental funds. It is effective for all fiscal periods beginning after June 15, 2010. The District is advance implementing this standard for the current fiscal year. The statement is designed to do two things. First, it clarifies the definition of what activities are to be reported within different types of governmental funds (general fund, special revenue fund type, capital project fund type, debt service fund type and permanent fund type). No changes were required by the District based on this standard clarification.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5
Notes to Basic Financial Statements
September 30, 2010

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

(f) *Advance implementation of GASB 54 (continued)*

Second, it provides clearer fund balance definitions that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds as follows:

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

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

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

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

Unassigned: The residual classification for all remaining balances not included above.

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

(g) *Use of Estimates*

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

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5
Notes to Basic Financial Statements
September 30, 2010

(2) **Deposits and Investments**

As of September 30, 2010, the District had the following deposits and investments:

<u>Deposits and Investment Type</u>	<u>Fair Value at September 30, 2010</u>	<u>Weighted Average Maturity (Days)</u>	<u>Credit Rating</u>
Demand Deposits, CFB	\$ 380,000	1.0	n/a
Local Government Investment Pool, SBA	694,286	52.0	AAAm
U.S. Bank Money Market Mutual Funds, Federated	1,777,461	41.5	AAAm
U.S. Bank Money Market Mutual Funds, Fidelity	3,265,280	51.0	AAAm
Florida Local Government Investment Trust	1,979,170	693.5	AAAf/S1
0-2 Year High Quality Bond Fund, FMIVT	1,981,908	284.7	AAAf/S1
1-3 Year High Quality Bond Fund, FMIVT	2,860,285	547.5	AAA/v2
Total Fair Value	<u>\$ 12,938,390</u>		
Portfolio Weighted Average Maturity (WAM)		292.1	

Interest Rate Risk. Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. GASB 40 requires that interest rate risk be disclosed using one of the five approved methods. The five methods are: segmented time distribution, specific identification, Weighted Average Maturity (WAM), duration, and simulation model. The District has used the WAM method in the above chart. In accordance with the District's investment policy, the government manages its exposure to decline in fair values by limiting the WAM of its investment portfolio to less than three years. The WAM on September 30, 2010 was 292.1 days.

Credit Risk. GASB 40 requires disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed income securities. Investments may be aggregated by ratings categories within the disclosure. Ratings are set by nationally recognized statistical rating organizations (Fitch, Moody's, and Standard & Poor's (S&P)). Fitch provides the ratings for FMIVT 1-3 Year High Quality Bond Fund, while S&P provides the ratings for the FMIVT 0-2 Year High Quality Bond Fund, the U.S. Bank money market funds, FLGIT, and the SBA investment pool.

Operating cash is maintained with Citizens First Bank, an authorized Public Depository, pursuant to Chapter 280, Florida Statutes.

The District's cash equivalents and investments consist of funds placed with four entities:

- The State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pool created by Section 218.415, Florida Statutes. This investment pool operates under investment guidelines established by Section 215.47, Florida Statutes. The District's investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, are reported at fair value which is amortized cost.
- Trust balances related to restricted debt service accounts are maintained with U.S. Bank and are invested in Federated Prime Cash Obligations Fund and Fidelity Prime Money Market Portfolio Fund since August 1, 2010. The prior investments by the trustee in First American Government Obligation Fund Class Y, a money market mutual fund, were fully liquidated on August 1, 2010.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5
Notes to Basic Financial Statements
September 30, 2010

(2) Deposits and Investments (continued)

Credit Risk. (continued)

- The District has investments consisting of funds placed with the Florida League of Cities, Inc. for participation in the Florida Municipal Investment Trust (FMIVT) investment pool. The pool is an authorized investment consistent with Section 218.415(16)(a), Florida Statutes and the District's investment policy. The District owns shares in the 0-2 Year High Quality Bond Fund and the 1-3 Year High Quality Bond Fund, pools operated by the FMIVT. GASB 31 requires all governments to mark to market the unrealized gains and losses incurred in its investments. As of September 30, 2010, the FMIVT had recognized in the current fiscal year unrealized gains of \$71,684 and realized gains of \$27,400. The unrealized gains would only be realized if the underlying shares in the FMIVT pools are sold.
- In total, the District recognized investment earnings of \$111,969 during the fiscal year.

Concentration of Credit Risk. The District's investment policy requires the diversification of its investment portfolio. Investments may be diversified by:

- Limiting investments to avoid over-concentration in securities from a specific issuer or business sector;
- Limiting investments in securities with higher credit risks;
- Investment in securities with varying maturities; and
- Continuously investing a portion of the portfolio in readily available funds, such as the Local Government Investment Pool, money market funds, or overnight repurchase agreements to ensure the appropriate liquidity is maintained to meet ongoing obligations.

Custodial Credit Risk-Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District invests its operating cash solely in Guaranteed Public Depositories that meet the requirements of Chapter 280, Florida Statutes. In addition to protection of up to \$250,000 for its deposits with a single bank being provided by the Federal Deposit Insurance Corporation (FDIC), the District's deposits are provided an extra level of security afforded by using a public depository that meets the requirements of Chapter 280. This includes the provision by the public depository of collateral based on the amount of public deposits maintained at the institution and the ability of the State of Florida to levy other public depositories for shortages in collateral in the event of the failure of a public depository. The Citizens First Bank is a Guaranteed Public Depository.

Custodial Credit Risk-Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. All investments are held in the name of the District by a custodian or a Trustee for the District.

Investment Policy

The District is authorized to invest in those financial instruments as established by the Investment Policy of the District. This policy allows investments authorized under *Florida Statutes* 218.415 amended to include Repurchase Agreements and prohibiting derivative type investments. The authorized investments are:

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5
Notes to Basic Financial Statements
September 30, 2010

(2) Deposits and Investments (continued)

Investment Policy (continued)

- The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01 Florida Statutes.
- Securities and Exchange Commission registered money market mutual funds with the highest credit quality rating from a nationally recognized rating agency.
- Interest-bearing time deposits or savings accounts in qualified public depositories as defined in Section 280.02 Florida Statutes.
- Direct obligations of the United States Treasury.
- Federal agencies and instrumentalities.
- Repurchase agreements with financial institutions approved as public depositories, provided that the underlying collateral consist of obligations of the United States Government, its agencies and instrumentalities. The repurchase agreement shall be collateralized equal to at least 102 percent of the value of the District's investment.

(3) Capital Assets

Capital asset activity for the year ended September 30, 2010 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Assets not being depreciated:				
Land	\$ 1,715,195	-	-	1,715,195
Assets being depreciated:				
Infrastructure	129,443,079	20,205	-	129,463,284
Less accumulated depreciation for:				
Improvements other than buildings	(14,550,335)	(3,251,896)	-	(17,802,231)
Total assets being depreciated, net	<u>114,892,744</u>	<u>(3,231,691)</u>	<u>-</u>	<u>111,661,053</u>
Governmental activities, capital assets	<u>\$ 116,607,939</u>	<u>(3,231,691)</u>	<u>-</u>	<u>113,376,248</u>

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5
Notes to Basic Financial Statements
September 30, 2010

(4) Long-term Debt

Long-term debt consisted of the following as of September 30, 2010:

\$60,535,000 Special Assessment Revenue Bonds, Series 2002 A/B principal installments ranging from \$370,000 to \$1,480,000 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 rate is 6.50%.	\$ 18,575,000
\$69,820,000 Special Assessment Revenue Bonds, Series 2003 A/B principal installments ranging from \$545,000 to \$2,105,000 through May 2034 in accordance with the redemption schedule. Interest is due semi-annually on May 1 and November 1 of each year until redemption or maturity. Interest rate range from 6.0% to 6.10%.	<u>27,830,000</u>
Total long-term bond debt	46,405,000
Less bond discount	(44,375)
Less current installments of bonds payable	<u>(915,000)</u>
Revenue bonds payable less current installments	<u>45,445,625</u>
Due to developer	1,013,080
Total long-term debt	<u>\$ 46,458,705</u>

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

The Special Assessment Revenue Bonds are secured by a lien and pledge of revenues under the indentures, which are derived by the District through levy and collection on land within the District specifically benefited. These bonds are additionally secured by amounts on deposit in the funds and accounts created pursuant to the indentures. The annual requirements to amortize the principal and interest of all revenue bonds payable as of September 30, 2010 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30,			
2011	\$ 915,000	2,895,800	3,810,800
2012	975,000	2,839,050	3,814,050
2013	1,035,000	2,778,575	3,813,575
2014	1,100,000	2,714,375	3,814,375
2015	1,170,000	2,646,125	3,816,125
2016-2020	7,010,000	12,049,700	19,059,700
2021-2025	9,470,000	9,584,385	19,054,385
2026-2030	12,830,000	6,223,625	19,053,625
2031-2034	11,900,000	1,766,805	13,666,805
Total	<u>\$ 46,405,000</u>	<u>43,498,440</u>	<u>89,903,440</u>

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5
Notes to Basic Financial Statements
September 30, 2010

(4) Long-term Debt (continued)

Changes in Long-term Debt

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
Bonds payable	\$ 48,995,000	-	(2,590,000)	46,405,000	915,000
Less bond discount	(45,308)	-	933	(44,375)	-
Subtotal bond debt	48,949,692	-	(2,589,067)	46,360,625	915,000
Due to developer	1,066,976	-	(53,896)	1,013,080	-
Governmental activities					
Long-term debt	\$ 50,016,668	-	(2,642,963)	47,373,705	915,000

Pledged Revenues

The District has pledged certain benefit special assessment revenue to pay the principal and interest on special assessment bonds issued to pay for infrastructure improvements. These special assessment revenue bonds were outstanding on September 30, 2010 as shown below. The table reports the revenues pledged for each debt issue, the amounts of revenue received in the current year, the current year principal and interest paid on the debt, the approximate percentage of each revenue which is pledged to meet the debt obligation, and the date through which the revenue is pledged under the debt agreement and the total pledged future revenues for each debt, which is the amount of the remaining principal and interest on the bonds as of September 30, 2010.

Description of Debt	Pledged Revenue	Revenue Received	Principal and Interest Paid	Estimated Percent Pledged	Outstanding Principal and Interest	Pledged Through
Special Assessment Revenue Bonds, Series 2002	Special Assessments Phase I	\$ 2,505,712	\$ 2,381,613	100%	\$ 36,292,050	2033
Special Assessment Revenue Bonds, Series 2003	Special Assessments Phase II	\$ 3,316,887	\$ 3,214,958	100%	\$ 53,611,390	2034

(5) Related Parties

The District has no employees. For certain management, finance, payroll and administrative services, the District entered into an interlocal agreement with Village Center Community Development District, a community development district created under Florida Statute 190. Under the agreement, fees accrued to the Village Center District by District No. 5 for such services totaled \$174,285 for the year ended September 30, 2010.

The Developer provides to Village Center District at no cost information system support, including software, hardware, computer programming and internal mailroom operations. The Village Center District then passes on this benefit to the District.

Substantially all capital costs for infrastructure were acquired from the Developer or paid on contracts that were assigned to the District by the Developer using bond proceeds in previous years.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 5
Notes to Basic Financial Statements
September 30, 2010

(6) Risk Management

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. The District generally carries insurance for these risks, however, the District retains risk for certain property coverage and for losses in excess of coverage limits. There have been no claims in excess of coverage limits for the past three years.

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

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

We have audited the financial statements of the governmental activities and each major fund of Village Community Development District No. 5 (the District), as of and for the year ended September 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 28, 2011. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

Certified Public Accountants

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

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

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

Purvis, Gray and Company, LLP

January 28, 2011
Ocala, Florida

MANAGEMENT LETTER

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Village Community Development District No. 5 (the District), as of and for the fiscal year ended September 30, 2010, and have issued our report thereon dated January 28, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our report on internal control over financial reporting and compliance and other matters. Disclosures in those reports, which are dated January 28, 2011, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, *Rules of the Auditor General*, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' report:

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective action has been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires our audit to include a review of provision of Section 218.415, Florida Statutes, regarding investment of public funds. In connection with our audit we determined that the District complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve the District's financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that we address violations of provisions of contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., *Rules of the Auditor General*, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse; and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

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

MANAGEMENT LETTER
(Concluded)

Section 10.554(1)(i)6., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government be disclosed in the management letter, unless disclosed in the notes to the financial statements. See Note 1 of the September 30, 2010, the District's basic financial statements for this information.

Section 10.554(1)(i)7.(a.), *Rules of the Auditor General*, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions(s) met. In connection with our audit, we determined that the District did not meet any conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.(b.), *Rules of the Auditor General*, requires that we determine whether the annual financial report for the District for the fiscal year ended September 30, 2010, filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2010. In connection with our audit, we determined that these two reports agree.

Pursuant to Sections 10.554(1)(i)7.(c) and 10.556(7), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to take this opportunity to thank you and your staff for the cooperation and courtesies extended to us during the course of our audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or other matters.

Purvis, Gray and Company, LLP

January 28, 2011
Ocala, Florida

MANAGEMENT LETTER COMMENTS

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

Status of Prior Year Comments and Recommendations

The Village Community Development District No. 5 has addressed all prior year comments and recommendations.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to express our appreciation for the courtesies that have been extended to our staff. If you have any questions or comments about the contents of this letter, please do not hesitate to contact us.

Purvis, Gray and Company, LLP

January 28, 2011
Ocala, Florida

Certified Public Accountants

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**COMMUNITY
DEVELOPMENT
DISTRICT 5**

February 7, 2011

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

RE: Management Response Letter

Dear Supervisors:

Attached is the completed audit for fiscal year 2009-2010 for Village Community Development District No. 5. We are proud to report that this audit has an unqualified opinion.

There are no internal control comments, material weaknesses or compliance issues identified and reported. All prior year comments have now been corrected to the satisfaction of the auditors and no new comments have been identified.

Your District staff has worked hard to assure you as supervisors that the management of the District's funds is conducted professionally, consistent with generally accepted accounting principles and governing Florida Statutes.

We believe that Village Community Development District No. 5 continues to set an example for the appropriate management of Community Development Districts as conceived in Chapter 190, Florida Statutes. We would particularly like to commend the staff of the Villages District Finance Department for their diligent efforts in recording and maintaining the financial records of the District.

We would be happy to entertain any questions members of the Board of Supervisors may have on the audit report or the management of District resources.

Sincerely,



David R. Miles, CGFO
Finance Director



Janet Y. Tutt
District Manager

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