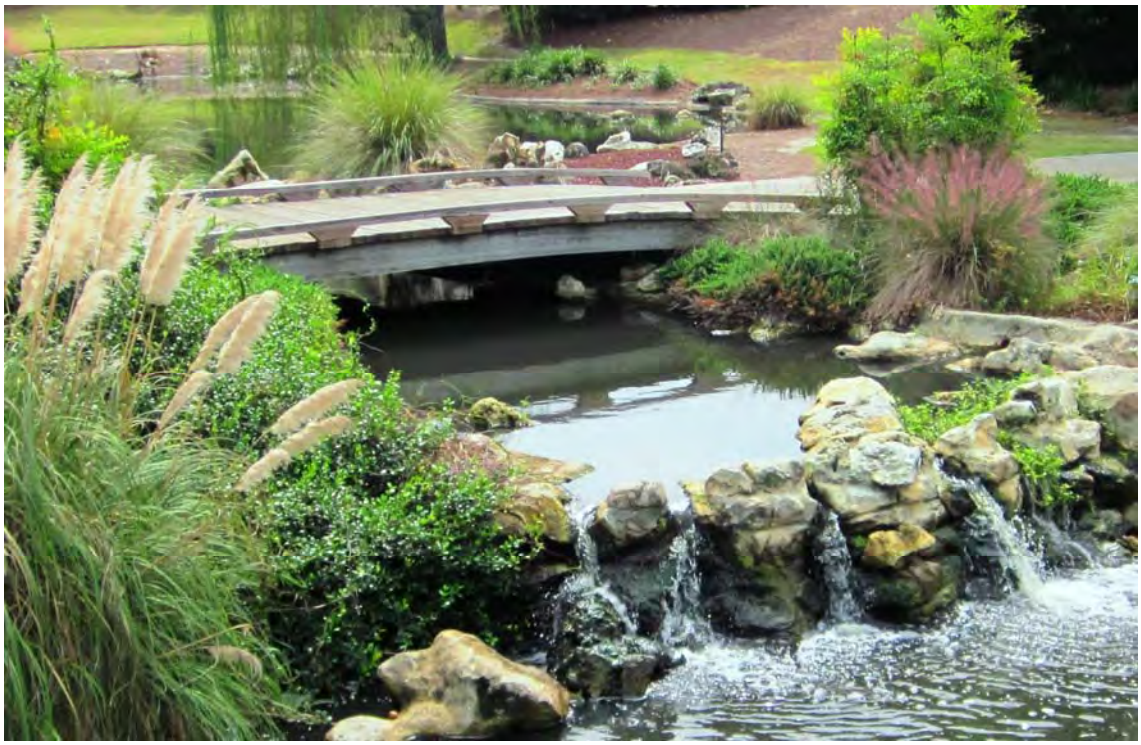

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Basic Financial Statements

September 30, 2011
(With Independent Auditors' Report Thereon)

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Table of Contents

	Page
Financial Section	
Independent Auditors' Report on the Financial Statements	1
Management's Discussion and Analysis (UNAUDITED)	3
Basic Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Balance Sheet - Governmental Funds	11
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	12
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	15
Notes to Basic Financial Statements	16
Other Reports	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*	30
Management Letter	32
Management Response Letter	34

Purvis Gray & Company

INDEPENDENT AUDITORS' REPORT

Board of Supervisors
Village Community Development District No. 3
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. 3 (the District), as of and for the year ended September 30, 2011, 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 these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free 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, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2012, 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.

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 Governmental Accounting Standards Board, who considers it to be an essential part of

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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. 3
The Villages, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

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.

Purvis, Gray and Company, LLP

January 31, 2012
Ocala, Florida

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3
Management's Discussion and Analysis
(UNAUDITED)
September 30, 2011

The Village Community Development District No. 3 (the District) management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the District's financial activities; and (c) identify changes in the District's financial position and its ability to address the next and subsequent year challenges.

Financial Highlights

- The assets of the District exceeded its liabilities as of September 30, 2011 by $19,914,313 (net assets). Of this amount, $1,414,624 of unrestricted net assets may be used to meet the District's ongoing obligations to residents and creditors.
- The District's total net assets decreased by $490,450, compared to the balance as stated in the previous year. This decrease in net assets results from the depreciation expenses for capitalized fixed assets as shown on page 26 of this report. Depreciation expenses are provided to reflect the using up over time of the value of items of capital equipment previously acquired, to allow for the planning of the timely replacement or renovation of these assets when required.
- At the close of the fiscal year, the District's governmental funds reported combined fund balances of $2,425,645, a net increase of $36,641, compared to the prior year. Of the total, $462,593 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 $462,593 or 43.4 percent of total general fund annual expenditures. This provides a healthy contingency for unexpected expenditures.
- The District's total long-term debt decreased by $1,030,000 during the current fiscal year. The decrease relates to principal payments made on outstanding revenue bonds during the year ended September 30, 2011.
- Special assessments are shown as assessments receivable. At the fund level, there is an offsetting line item for deferred revenue pertaining to assessments due in future years. Assessments receivable decreased by $1,128,440 during the year and has a September 30, 2011 balance of $9,300,440.

Overview of the Financial Statements

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The **Statement of Net 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. 3 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).

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

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

The Fund Financial Statements, which report by individual fund, begin on page 11. Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village Community Development District No. 3, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are considered governmental funds. There are no proprietary or fiduciary funds maintained by the District. The fund financial statements present information in more detail than the government-wide financial statements. Governmental Accounting Standards Board (GASB) Statement No. 34 provides the authoritative guidance on the governmental financial reporting model.

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

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

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

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

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

Notes to the Financial Statements

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

Government-wide Financial Analysis

The District's net assets as of September 30, 2011 and September 30, 2010 were $19.914 million and $20.405 million, respectively, representing a decrease of approximately $490,500. The District's revenues for the years ended September 30, 2011 and September 30, 2010, including assessments and investment earnings, were approximately $1.619 million and $1.673 million, respectively. The District's expenses for the years ended September 30, 2011 and September 30, 2010 were $2.110 million and $2.202 million, respectively. Table 1 reflects the summary statement of net assets for the current year and prior year.

Table 1

Net Assets

		Governmental Activities	
		September 30, 2011	**September 30, 2010**
Assets:			
Current and other assets	$	2,952,139	2,826,792
Assessments receivable		9,300,440	10,428,880
Capital assets - net		17,308,708	17,720,052
Total assets		29,561,287	30,975,724
Liabilities:			
Current and other liabilities		258,346	275,813
Due to other governments		123,628	148
Noncurrent liabilities		9,265,000	10,295,000
Total liabilities		9,646,974	10,570,961
Net assets:			
Invested in capital, net of related debt		8,433,685	7,855,921
Restricted for debt service		10,066,004	11,097,621
Unrestricted		1,414,624	1,451,221
Total net assets	$	19,914,313	20,404,763

The largest share of the District's net assets (50.5 percent) relates to reserves to pay debt service expenses. Investments in capital assets, less any related debt outstanding, used to acquire those capital assets represents another 42.3 percent. The resources required to repay the debt must be provided annually from assessments, since the capital assets themselves cannot be liquidated to pay the liabilities. The remaining net assets are unrestricted.

Table 2 below reflects the summary statement of Changes in Net Assets for the current year and prior year.

Table 2

Changes in Net Assets

		Governmental Activities	
		September 30, 2011	**September 30, 2010**
Revenues:			
Special assessments	$	1,551,420	1,596,572
Other revenues		55,160	50,755
Investment earnings		12,662	25,837
Total revenues		1,619,242	1,673,164
Expenses:			
General government services		350,319	316,756
Physical environment		489,559	560,299
Transportation		146,181	147,684
Interest on long-term debt		561,330	616,239
Depreciation (unallocated)		562,303	560,787
Total expenses		2,109,692	2,201,765
Increase (decrease) in net assets	$	(490,450)	(528,601)

Revenues

Revenues include special assessments on District landowners for maintenance and debt service. Other revenue includes reimbursements from Sumter County for the District maintaining county road right-of-ways. Investment earnings on cash balances held during the year make the final source of revenue to the District. Special Assessment revenue decreased by $45,152 in FY 2011 compared to FY 2010, largely due to reduction in assessment bond principal outstanding. Investment earnings of $12,662 marked a decrease of 51.0 percent based on significant reductions on investment returns in FY 2011 from all sources compared to the prior year.

At the beginning of the fiscal year, the District maintained its cash balances with Citizens First Bank, its non-trust cash equivalent balances with the State Board of Administration Local Government Investment Pool (SBA) and its trust balances with U.S. Bank, its trustee. U.S. Bank maintains these trust balances in Federated Prime Cash Obligations Fund and Fidelity Prime Fund, both AAAm rated money market funds by Standard & Poor's.

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. As of September 30, 2011, investments in this Pool amount to $530,645. Investments were made in the FMIvT to achieve a greater rate of return on longer term investment balances. In December 2010, the District moved half of its investment balances in FMIvT to the Florida Local Government Investment Trust (FLGIT) sponsored by the Florida Association of Counties

and the Florida Association of County Clerks. As of September 30, 2011, $581,650 was maintained in the FLGIT account. Further information can be found in Note 2 of the Notes to Basic Financial Statements.

Expenses

General government expenses of the District increased between the past fiscal year and the current one by $33,563. Physical environment expenses are mainly for landscaping, irrigation, utilities and maintenance costs. These expenses decreased $70,740 between the past fiscal year and the current one. Transportation expenses, which relate primarily to street lighting electric bills, decreased by $1,503 from the prior fiscal year. Interest on the long-term debt is the amount of interest paid to bondholders pertaining to the District's revenue bonds. Interest expense decreased $54,909 (8.9 percent) compared to the prior year. The interest on the long-term debt will continue to decrease as the existing bond issues are paid off. Total expenses decreased by $92,073.

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 2011, the District's governmental funds reported combined ending fund balances of $2,425,645, an increase of $36,641 in comparison with the end of fiscal year 2010. Approximately 19.1 percent of this total amount, $462,593, constitutes *unassigned fund balance,* which is available for spending at the government's discretion. The remainder of the fund balance is *reserved or committed* to indicate that it is not available for new spending because it has already been committed to renewal and replacement ($952,031) or reserved for debt service ($1,011,021).

The general fund is the chief operating fund of the District. At the end of fiscal year 2011, unassigned fund balance was $462,593, while total fund balance reached $1,414,624. This represents a decrease of $36,597, compared to the balance at the end of fiscal year 2010. 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 43.4 percent of total general fund expenditures, while total fund balance represents 132.8 percent of that same amount.

The debt service fund has a total fund balance of $1,011,021, all of which is reserved for the payment of debt service. The net increase in fund balance was $73,238, will be used to pay future debt service payments in the upcoming year. 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 2011.

General Fund Budgetary Highlights

During the year, there no change in the appropriations or revenue budgeted for the general fund between the original and final budget.

Capital Asset and Debt Administration

Capital Assets. The District's capital assets as of September 30, 2011 and September 30, 2010 amounted to $17,308,708 and $17,720,052, respectively. This is net of accumulated depreciation and includes land and improvements. The reduction of $411,344 between September 30, 2010 and September 30, 2011 resulted from annual depreciation expenses. Additional information regarding the District's capital assets can be found in Note 3 of the Notes to the Basic Financial Statements.

Long-term Debt. As of September 30, 2011 and September 30, 2010, the District had long-term debt outstanding of $9,285,000 and $10,315,000, respectively. Debt principal of $1,030,000 was retired, while no new debt was issued by the District during the year. All of the debt is special assessment debt and is secured solely by special assessment revenue sources. Additional information regarding the District's long-term debt can be found in Note 5 of the Notes to the Basic Financial Statements.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate in Sumter County where the District is located was 8.1 percent in September 2011 which is a small increase from an adjusted rate of 9.2 percent a year ago. This compares favorably with the State's average unemployment rate of 10.6 percent and is below the national average rate of 9.1 percent.

- Inflationary trends in the area are comparable to national indices. The national Consumer Price Index (CPI) annual increase for all urban consumers moved significantly higher from 1.14 percent in September 2010 to 3.87 percent in September 2011.

These factors were considered in preparing the Districts' budget for the 2012 fiscal year. In FY 2012, the annual maintenance assessment is unchanged from the FY 2011 amounts and the debt service assessments have been reduced slightly as more of the bond issues have been paid down. Total annual revenues are projected to increase by $1,614 in the FY 2012 budget compared to the final FY 2011 budget. This increase results from management's estimate of slightly higher interest earnings and a CPI increase to right-of-way maintenance funds received from Sumter County in the FY 2012 budget. Total FY 2012 expenditures are projected to decrease by $115,742, compared to the FY 2011 final budget due to decreases in the capital budget, offset in part by increased maintenance and repair expenditures.

Requests for Information

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

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

Statement of Net Assets

September 30, 2011

		Governmental Activities
Assets		
Cash and cash equivalents	$	1,436,830
Investments		1,112,295
Accounts receivable		12,948
Accrued interest receivable		87
Assessments receivable		9,300,440
Unamortized bond issuance costs		389,979
Capital assets, net of accumulated depreciation		17,308,708
Total assets		29,561,287
Liabilities		
Accounts payable		12,888
Accrued interest payable		225,458
Due to other governments		123,628
Long-term debt:		
Due to Developer		20,000
Due within one year		545,000
Due in more than one year		8,720,000
Total liabilities		9,646,974
Net Assets		
Invested in capital assets, net of related debt		8,433,685
Restricted for debt service		10,066,004
Unrestricted		1,414,624
Total net assets	$	19,914,313

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3
Statement of Activities
Year ended September 30, 2011

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: Total
Governmental activities:						
General government services	$ 350,319	1,551,420	-	-	1,201,101	1,201,101
Physical environment	489,559	-	-	175	(489,384)	(489,384)
Transportation	146,181	-	51,793	-	(94,388)	(94,388)
Interest on long-term debt	561,330	-	-	-	(561,330)	(561,330)
Depreciation (unallocated)	562,303	-	-	-	(562,303)	(562,303)
Total governmental activities	$ 2,109,692	1,551,420	51,793	175	(506,304)	(506,304)
General revenue:						
Other revenues					3,192	3,192
Investment earnings					12,662	12,662
Total general revenues					15,854	15,854
Change in net assets					(490,450)	(490,450)
Net assets – beginning					20,404,763	20,404,763
Net assets – ending					$ 19,914,313	19,914,313

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3
Balance Sheet – Governmental Funds
September 30, 2011

		General	Debt Service	Total
Assets:				
Cash and cash equivalents	$	421,551	-	421,551
Cash with fiscal agent		-	1,015,280	1,015,280
Investments		1,112,295	-	1,112,295
Accounts receivable		12,948	-	12,948
Accrued interest receivable		6	81	87
Assessments receivable		-	9,300,440	9,300,440
Total assets		1,546,800	10,315,801	11,862,601
Liabilities:				
Accounts payable		8,548	4,340	12,888
Due to other governments		123,628	-	123,628
Deferred assessment revenue		-	9,300,440	9,300,440
Total liabilities		132,176	9,304,780	9,436,956
Fund balances:				
Restricted for debt service		-	1,011,021	1,011,021
Committed for renewal and replacement		952,031	-	952,031
Unassigned		462,593	-	462,593
Total fund balances		1,414,624	1,011,021	2,425,645
Total liabilities and fund balances	$	1,546,800	10,315,801	11,862,601

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

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

September 30, 2011

Total fund balances, governmental funds		$	2,425,645
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	$ 22,826,125		
Less accumulated depreciation	(5,517,417)		17,308,708
Long–term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Special assessment revenue bonds	(9,265,000)		
Payable to Developer	(20,000)		
Accrued interest payable	(225,458)		(9,510,458)
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.			9,300,440
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			389,978
Net assets of governmental activities		$	19,914,313

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3
Statement of Revenues, Expenditures and Changes in
Fund Balances – Governmental Funds
Year ended September 30, 2011

		General	Debt Service	Total
Revenues:				
Special assessments	$	961,820	1,718,040	2,679,860
Other revenue		54,985	-	54,985
Investment revenue		11,380	1,282	12,662
Total revenues		1,028,185	1,719,322	2,747,507
Expenditures:				
General government services		278,259	29,971	308,230
Physical environment		489,559	-	489,559
Transportation		146,181	-	146,181
Capital outlay		150,783	-	-
Debt service:		-	-	-
Principal		-	1,030,000	1,030,000
Interest		-	584,913	584,913
Other bond expenses		-	1,200	1,200
Total expenditures		1,064,782	1,646,084	2,710,866
Excess (deficiency) of revenues over expenditures		(36,597)	73,238	36,641
Other financing sources (uses):				
Transfer in (out)		-	-	-
Total other financing sources (uses)		-	-	-
Net change in fund balances		(36,597)	73,238	36,641
Fund balances, beginning		1,451,221	937,783	2,389,004
Fund balances, ending	$	1,414,624	1,011,021	2,425,645

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3

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

Year ended September 30, 2011

Net change in fund balances – total governmental funds		$ 36,641
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 that exceeds capital outly in the current period.		
Capital outlay	$ 150,783	
Donated capital	175	
Depreciation	(562,303)	(411,345)
Governmental funds report the costs of bond issuance as expenditures. However, in the statement of activities, bond issuance costs are capitalized and allocated over the term of the related bonds as amortization expense. This is the amount of bond issuance cost amortization expense in the current period.		(40,889)
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 payable		23,583
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, 2011	9,300,440	
Deferred assessment revenue as of September 30, 2010	(10,428,880)	(1,128,440)
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		1,030,000
Change in net assets of governmental activities		$ (490,450)

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 3
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
Year ended September 30, 2011

		Budgeted Amount		Actual	Variance with
		Original	Final	Amounts	final budget
Revenues:					
Special assessments, charges for public services	$	958,757	958,757	961,820	3,063
Local government unit grant - transportation		51,788	51,788	51,793	5
Other general government charges and fees		500	500	3,192	2,692
Investment earnings		950	950	11,380	10,430
Total revenues		1,011,995	1,011,995	1,028,185	16,190
Expenditures:					
General government:					
Personnel services		13,946	13,946	11,252	(2,694)
Professional services		234,784	252,084	249,030	(3,054)
Accounting and auditing		10,654	10,654	10,344	(310)
Other contractual services		183	183	183	-
Travel and per diem		800	800	-	(800)
Communication and freight		2,500	2,500	842	(1,658)
Utility services		177,000	163,450	161,965	(1,485)
Rental and leases		1,500	2,550	2,866	316
Insurance		4,500	4,500	4,500	-
Repair and maintenance/landscape		503,550	498,450	470,258	(28,192)
Printing and binding		500	500	210	(290)
Other current charges		2,450	2,450	1,898	(552)
Operating supplies		13,500	13,800	651	(13,149)
Capital outlay:		155,408	155,408	150,783	(4,625)
Total expenditures		1,121,275	1,121,275	1,064,782	(56,493)
Excess (deficiency) of revenues over expenditures		(109,280)	(109,280)	(36,597)	72,683
Fund balance, beginning		1,451,221	1,451,221	1,451,221	-
Fund balance, ending	$	1,341,941	1,341,941	1,414,624	72,683

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

Village Community Development District No. 3 (the District) was established in 1998 for the purpose of planning, financing, constructing, operating, and maintaining certain community-wide infrastructure for a community development district located entirely within Sumter County, Florida. The District was created by Sumter County Commission Ordinance No. 98-10 pursuant to the provisions of Chapter 190.005, Florida Statutes, and operates within the criteria established by Chapter 190. The District is governed by a five member Board of Supervisors. As of September 30, 2011, each member of the Board of Supervisors is an elected resident of the District.

The District boundary consists of approximately 894 acres in the northeast corner of the county. Planned development includes construction of 3,762 residential units. The land within the District is part of the active adult retirement community known as "The Villages". The Villages consists of approximately 21,458 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 55,761 residences and 106,000 residents. The Villages of Lake-Sumter, Inc. was the developer and initial owner of the property within the District. All of the residential units in Village Community Development District No. 3 have been completed by the developer and sold to the current residents of the District. The Villages continues to be developed by the developer, a family-owned business established for the single purpose of developing The Villages. Most current development is being performed in District Nos. 8 and 9, south of District No. 3.

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

There are no component units that are legally separate from the District. There are 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

(1) Summary of Significant Accounting Policies (continued)

(a) Reporting Entity (continued)

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

- Village CDD No. 1 (Sumter County) – This CDD's boundary consists of approximately 993 acres in the northeast corner of the county. The development included construction of 3,420 residential units.
- Village CDD No. 2 (Sumter County) – This CDD's boundary consists of approximately 990 acres in the northeast corner of the county. The development included construction of 3,668 residential units.
- Village CDD No. 3 (Sumter County) – This CDD's boundary consists of approximately 894 acres in the northeast corner of the county. The development included construction of 3,762 residential units.
- Village CDD No. 4 (Marion County) – This CDD's boundary consists of approximately 1,186 acres in the southern portion of the county. The development included construction of 5,132 residential units.
- Village CDD No. 5 (Sumter County) – This CDD's boundary consists of approximately 1,407 acres in the northeast corner of the county. The development included construction of 6,399 residential units.
- Village CDD No. 6 (Sumter County) – This CDD's boundary consists of approximately 1,497 acres in the northeast corner of the county. The development included construction of 6,697 residential units, of which 24 remain unsold.
- Village CDD No. 7 (Sumter County) – This CDD's boundary consists of approximately 976 acres in the northeast corner of the county. The development included construction of 4,765 residential units.
- Village CDD No. 8 (Sumter County) – This CDD's boundary consists of approximately 1,098 acres in the northeast corner of the county. Planned development includes construction of 5,193 residential units. Construction is now underway.
- Village CDD No. 9 (Sumter County) – This CDD's boundary consists of approximately 1,280 acres in the northeast corner of the county. Planned development includes construction of 5,376 residential units. Construction is now underway.
- Village CDD No. 10 (Sumter County) – This CDD's boundary consists of approximately 1,398 acres in the northeast corner of the county. This CDD has been formed, but is not yet being developed as of September 30, 2011.

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

(1) Summary of Significant Accounting Policies (continued)

(a) Reporting Entity (continued)

within The Villages will be undertaken by these community development districts and/or community development districts that will be created in the future, for which special assessments may be imposed on residences in The Villages and lands owned by the Developer.

(b) Basic Financial Statements

Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the District as a whole) and fund financial statements. The government-wide financial statements (i.e. the statement of net 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. Both funds of the District, the General Fund and the Debt Service Fund meet this definition and are designated as 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.

(1) Summary of Significant Accounting Policies (continued)

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

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

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

The following are the District's major governmental funds:

General Fund

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

Debt Service Fund

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

The District has no non-major governmental funds.

(d) Budgetary Data

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

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

(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.

(1) Summary of Significant Accounting Policies (continued)

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

1. Deposits and Investments (Continued)

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

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

In May 2008, the District transferred amounts approximately equal to its long-term reserved fund balances (less debt service reserves maintained with the bond trustee) into the Florida Municipal Investment Trust (FMIvT) operated by the Florida League of Cities. The investment was placed into the FMIvT's 1-3 Year High Quality Bond Fund. In December 2010, approximately half of the balance in the FMIvT account was sold and the proceeds were invested in the Florida Local Government Investment Trust sponsored by the Florida Association of Counties and the Florida Association of County Clerks. This transfer was made to further diversify the investment portfolio of the District and to improve liquidity. The investment in both pools is evidenced by shares which are marked to market monthly.

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

(1) Summary of Significant Accounting Policies (continued)

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

3. Bond Issuance Costs (continued)

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.

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

Maintenance Assessments

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

Assessment Methodology

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

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.

(1) Summary of Significant Accounting Policies (continued)

(f) 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 advance implemented this standard in the past 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.

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 funds not contained in other classifications.

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

(g) Use of Estimates

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

(2) Deposits and Investments

As of September 30, 2011, the District had the following investments:

Deposits and Investment Type		Fair Value at September 30, 2011	Weighted Average Maturity (Days)	Credit Rating
Demand Deposits, CFB	$	227,997	1.0	n/a
Local Government Inivestment Pool, SBA		193,552	38.3	AAAm
U.S. Bank Money Market Mutual Funds, Federated		464,861	33.0	AAAm
U.S. Bank Money Market Mutual Funds, Fidelity		550,420	41.0	AAAm
Florida Local Government Investment Trust		581,650	620.5	AAAf/S1
1-3 Year High Quality Bond Fund, FMIvT		530,645	598.6	AAA/v2
Total Fair Value	$	2,549,125		
Portfolio Weighted Average Maturity (WAM)			284.1	

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, 2011 was 284.1 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 and Poor's (S&P)). Fitch provides the ratings for FMIvT, while S&P provides the ratings for the U.S. Bank money market funds maintained with Fidelity and Federated Prime Funds 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 Statues. 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.

(2) Deposits and Investments (continued)

Credit Risk (continued)

- Trust balances related to restricted debt service accounts are maintained with U.S. Bank and are invested in Federated Prime Cash Obligations Fund and Fidelity Prime Fund, both AAAm rated money market mutual funds.
- The District also has investments consisting of funds placed with the Florida League of Cities, Inc. for participation in the Florida Municipal Investment Trust (FMIvT) investment pool. The pool is an authorized investment consistent with Section 218.415(16)(a), Florida Statutes and the District's investment policy. The District owns shares in the 1-3 Year High Quality Bond Fund, a pool operated by the FMIvT. GASB 31 requires all governments to mark to market the unrealized gains and losses incurred in its investments. As of September 30, 2011, the FMIvT had incurred unrealized losses of $30,881, and realized gains of $35,513 for a net gain of $4,632 during the year. The realization of these gains resulted from the sale of underlying shares in the FMIvT in December 2010.
- The proceeds from the sale of the FMIvT shares in December 2010 were invested in shares of the Florida Local Government Investment Trust (FLGIT) operated by the Florida Association of Counties and Florida Association of County Clerks. The pool is an authorized investment consistent with Section 218.415(16)(a), Florida Statutes and the District's investment policy. The transfer was done to further diversify the District's investment portfolio and improve liquidity. FLGIT recognized an unrealized gain of $5,550 during FY 2010-2011.
- In total, the District recognized investment earnings of $12,662 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

(2) Deposits and Investments (continued)

Custodial Credit Risk-Deposits. (continued)

maintained at the institution and the ability of the State of Florida to levy other public depositories for shortages in collateral in the event of the failure of a public depository. The Citizens First Bank is a Guaranteed Public Depository.

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

Investment Policy

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

- 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 depositors, 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, 2011 was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Governmental activities:				
Assets not being depreciated:				
Land	$ 432,430	175	-	432,605
Assets being depreciated:				
Furniture & equipment	8,034	-	-	8,034
Improvements other than buildings	22,234,703	150,783	-	22,385,486
Total assets being depreciation	22,242,737	150,783	-	22,393,520
Less accumulated depreciation for:				
Furniture & equipment	(1,406)	(802)	-	(2,208)
Improvements other than buildings	(4,953,709)	(561,500)	-	(5,515,209)
Total depreciation	(4,955,115)	(562,302)	-	(5,517,417)
Total assets being depreciated, net	17,287,622	(411,519)	-	16,876,103
Governmental activities, capital assets	$ 17,720,052	(411,344)	-	17,308,708

(4) Payable to Developer

In November 2002, the District entered into an agreement with the Developer whereby amounts needed to fund construction of District infrastructure were loaned to the District in anticipation of the issuance of the Special Assessment Revenue Bonds. The District agreed to reimburse the Developer for amounts borrowed with, among other sources as noted in the agreement, any available bond proceeds and amounts held by the District in excess of Bond Reserve Amount Requirements, as described in the related bond indentures. As of September 30, 2011, the District owed the Developer $20,000 under this agreement, which is recorded as a payable to Developer on the District's statement of net assets.

(5) Long-term Debt

Long-term debt consisted of the following as of September 30, 2011:

$12,625,000 Special Assessment Revenue Bonds, Series 1998 principal installments ranging from $425,000 to $600,000 through May 2019 in accordance with the redemption schedule. Interest is due semi-annually on May 1 and November 1 of each year until redemption or maturity. Interest rate is 5.0%.	$	4,075,000
$8,725,000 Special Assessment Revenue Bonds, Series 2002 principal installments ranging from $120,000 to $440,000 through May 2032 in accordance with the redemption schedule. Interest is due semi-annually on May 1 and November 1 of each year until redemption or maturity. Interest rate is 6.5%.		5,190,000
Total long-term debt		9,265,000
Less current installments of bonds payable		(545,000)
Long-term debt less current installments	$	8,720,000

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

Fiscal year ending September 30, 2011:

		Principal	Interest	Total
2012	$	545,000	541,100	1,086,100
2013		575,000	512,050	1,087,050
2014		605,000	481,350	1,086,350
2015		640,000	449,075	1,089,075
2016		675,000	414,900	1,089,900
2017-2021		2,665,000	1,524,150	4,189,150
2022-2026		1,310,000	997,425	2,307,425
2027-2031		1,810,000	511,225	2,321,225
2032		440,000	28,600	468,600
Total	$	9,265,000	5,459,875	14,724,875

(5) Long-term Debt (continued)

Changes in Long-term Debt:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
Bonds payable	$ 10,295,000	-	1,030,000	9,265,000	545,000
Due to developer	20,000	-	-	20,000	-
Long-term debt	$ 10,315,000	-	1,030,000	9,285,000	545,000

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, 2011 as shown below. The table reports the revenues pledged for each debt issue, the amounts of revenue received in the current year, the current year principal and interest paid on the debt, the approximate percentage of the revenue which is pledged to meet the debt obligation, and the date through which the revenue is pledged under the debt agreement and the total pledged future revenues for each debt, which is the amount of the remaining principal and interest on the bonds as of September 30, 2011.

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 1998	Special Assessments Phase I	$ 939,896	$ 922,125	100%	$ 5,045,000	2019
Special Assessment Revenue Bonds, Series 2002	Special Assessments Phase II	$ 779,426	$ 692,788	100%	$ 9,679,875	2032

(6) Related Parties

The District has no employees. For certain management, finance, and administrative services, the District entered into an interlocal agreement with Village Center Community Development District (Center District), a community development district created under Florida Statute 190. Under the agreement, fees accrued to Center District by the District for such services totaled $156,056 for the year ended September 30, 2011.

The Developer provides to Center District at no cost information system support, including software, hardware, computer programming and internal mail room operations. The Center District then passes on this benefit to the District. Beginning in FY 2011-2012, the Center District will start paying for its information system support, with a prorated share being passed on to District No. 3.

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. As of September 30, 2011, the District was indebted to the Developer in the amount of $20,000 for the purchase of these assets.

(7) 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.

Purvis Gray & Company

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

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

We have audited the financial statements of the governmental activities and each major fund of Village Community Development District No. 3 (the District), as of and for the year ended September 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 31, 2012. 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*.

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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. 3
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 31, 2012
Ocala, Florida

Purvis Gray & Company

MANAGEMENT LETTER

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Village Community Development District No. 3 (the District), as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated January 31, 2012.

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 31, 2012, 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 the provision of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit we determined that the District complied with Section 218.415, Florida Statutes.

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

Section 10.554(1)(i)4., *Rules of the Auditor General,* requires that we address 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. 3
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, 2011, 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, 2011, 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, 2011. In connection with our audit, we determined that these two reports agree.

Pursuant to Section 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 31, 2012
Ocala, Florida

COMMUNITY DEVELOPMENT DISTRICT 3

February 1, 2012

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

RE: Management Response Letter

Dear Supervisors:

Attached is the completed audit for fiscal year 2010-2011 for Village Community Development District No. 3. We are proud to report that this audit has an unqualified opinion.

There are no internal control deficiencies, material weaknesses or compliance issues identified and reported. 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. 3 continues to set an example for the appropriate management of Community Development Districts as conceived in Chapter 190, Florida Statutes. We would particularly like to commend the staff of the Villages District Finance Department for their diligent efforts in recording and maintaining the financial records of the District.

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

Sincerely,

David R. Miles, CGFO
Finance Director

Janet Y. Tutt
District Manager

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