

**LAKWOOD RANCH
COMMUNITY DEVELOPMENT DISTRICT 2
MANATEE COUNTY, FLORIDA
FINANCIAL AND COMPLIANCE REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2008**

**LAKEWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
MANATEE COUNTY, FLORIDA**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Lakewood Ranch Community Development District 2
Manatee County, Florida


We have audited the accompanying financial statements of the governmental activities and each major fund of Lakewood Ranch Community Development District 2, Manatee County, Florida (the "District") as of and for the fiscal year ended September 30, 2008, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of September 30, 2008, and the respective changes in financial position thereof for the fiscal 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 a report dated October 20, 2009 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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. This 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.

The management's discussion and analysis and the budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



October 20, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Lakewood Ranch Community Development District 2, Manatee County, Florida's ("District"), our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2008. Please read it in conjunction with the District's basic financial statements. This annual financial report consists of two parts – Management's Discussion and Analysis (this section) and the Basic Financial Statements.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the fiscal year ended September 30, 2008 resulting in a net asset balance of \$5,683,126. Of this amount, \$774,701 is unrestricted net assets which may be used to meet the District's ongoing obligations.
- The District's total net assets decreased by \$(469,259) in comparison with prior fiscal year. The key components of the District's net assets and change in net assets are reflected in the table in the government-wide financial analysis section.
- At September 30, 2008, the District's governmental funds reported combined ending fund balances of \$1,250,694, an increase of \$117,155 in comparison with the prior fiscal year. Of the total fund balance, \$482,380 is reserved for debt service and other items and \$768,314 is available for spending at the District's discretion (unreserved fund balance).

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as the introduction to the District's financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary 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 the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

The government-wide financial statements include all governmental activities that are principally supported by special assessment revenues. The District does not have any business-type activities. The governmental activities of the District include the general government (management) and maintenance functions.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has one fund category: governmental funds.

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Governmental Funds

Governmental funds are used to account for essentially the same functions reported 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 District'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 District's near-term financing decisions. Both the governmental fund balance sheet and the 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 the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and debt service fund. The general and debt service funds are considered to be major funds.

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

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by \$5,683,126 (net assets) at the close of the fiscal year ended September 30, 2008.

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

An additional portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. They are funds set aside for debt service under the Bond Indenture. The remaining balance of unrestricted net assets may be used to meet the District's other obligations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Key components of the District's net assets are reflected in the following table:

| NET ASSETS SEPTEMBER 30, | | |
|---|--------------|--------------|
| | 2008 | 2007 |
| Assets, excluding capital assets | \$ 1,564,229 | \$ 1,329,982 |
| Capital assets, net of depreciation | 7,734,243 | 8,653,592 |
| Total assets | 9,298,472 | 9,983,574 |
| Liabilities, excluding long-term liabilities | 268,742 | 148,994 |
| Long-term liabilities | 3,346,604 | 3,682,195 |
| Total liabilities | 3,615,346 | 3,831,189 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 4,492,224 | 5,087,921 |
| Restricted for debt service | 416,201 | 413,590 |
| Unrestricted | 774,701 | 650,874 |
| Total net assets | \$ 5,683,126 | \$ 6,152,385 |

At September 30, 2008 the District is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental activities. The same held true for the prior fiscal year.

The District's net assets decreased by \$(469,259) during the fiscal year ended September 30, 2008. The decrease represents the extent to which the cost of operations and depreciation expense exceeded ongoing program revenues.

Key elements of the change in net assets are reflected in the following table:

| CHANGES IN NET ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, | | |
|--|--------------|--------------|
| | 2008 | 2007 |
| Revenues: | | |
| Program revenues | \$ 2,693,103 | \$ 2,578,831 |
| General revenues | 35,191 | 80,725 |
| Total revenues | 2,728,294 | 2,659,556 |
| Expenses: | | |
| General government | 208,264 | 211,154 |
| Maintenance and operations | 2,819,828 | 2,549,909 |
| Interest | 169,461 | 187,731 |
| Total expenses | 3,197,553 | 2,948,794 |
| Change in net assets | \$ (469,259) | \$ (289,238) |

Program revenues, comprised primarily of assessments, increased by \$114,272 during the fiscal year ended September 30, 2008.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The District's General Fund includes all activities related to providing management and operating services.

In the table below we have presented the cost of the largest functions/programs as a percentage of total governmental funds.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS (Continued)

FOR THE FISCAL YEAR ENDED SEPTEMBER 30,

| | 2008 | | 2007 | |
|-------------------------------|---------------------|-------------|---------------------|-------------|
| General government | \$ 208,264 | 8% | \$ 211,154 | 9% |
| Maintenance and operations | 1,900,479 | 73% | 1,630,560 | 68% |
| Debt service | 502,396 | 19% | 538,876 | 22% |
| Other debt costs | - | 0% | 23,400 | 1% |
| Total governmental activities | <u>\$ 2,611,139</u> | <u>100%</u> | <u>\$ 2,403,990</u> | <u>100%</u> |

As noted above, maintenance comprises the majority of expenditures for total governmental activities for the current and prior fiscal year.

GENERAL BUDGETING HIGHLIGHTS

An operating budget was adopted and maintained by the governing board for the District pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. The legal level of budgetary control, the level at which expenditures may not exceed budget is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. Expenditures exceeded appropriations by \$(25,236) during the fiscal year ended September 30, 2008 which were covered by greater than anticipated revenues received in the current fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2008, the District had \$16,465,052 invested in parks, drainage system, landscaping and the Town Hall facilities. Depreciation of \$8,730,809 has been taken, which resulted in a net book value of \$7,734,243. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Capital Debt

At September 30, 2008, the District had \$3,385,000 in Bonds outstanding, a decrease of approximately 9% from the prior fiscal year. More detailed information about the District's capital debt is presented in the notes of the financial statements.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages and the stewardship of the facilities it maintains. If you have questions about this report or need additional financial information, contact the Lakewood Ranch Community Development District 2's Finance Department at Town Hall, 8175 Lakewood Ranch Blvd., Bradenton, Florida 34202.

LAKEWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
MANATEE COUNTY, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

| | Governmental Activities |
|---|----------------------------|
| <hr/> | |
| ASSETS | |
| Cash | \$ 11,185 |
| Investments | 1,021,543 |
| Accounts receivable | 333 |
| Due from other governments | 10,660 |
| Prepays | 6,387 |
| Deferred charges | 104,585 |
| Restricted assets: | |
| Temporarily restricted | |
| Investments | 409,536 |
| Capital assets: | |
| Nondepreciable | 2,293,056 |
| Depreciable | 5,441,187 |
| Total assets | <hr/> 9,298,472 <hr/> |
| | |
| LIABILITIES | |
| Accounts payable and accrued expenses | 159,560 |
| Due to other governments | 49,390 |
| Accrued interest payable | 59,792 |
| Non-current liabilities: | |
| Due within one year | 305,000 |
| Due in more than one year | 3,041,604 |
| Total liabilities | <hr/> 3,615,346 <hr/> |
| | |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 4,492,224 |
| Restricted for debt service | 416,201 |
| Unrestricted | 774,701 |
| Total net assets | <hr/> \$ 5,683,126 <hr/> |

See notes to the financial statements

**LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
MANATEE COUNTY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense) Revenue and Changes in Net Assets</u> |
|----------------------------------|------------------|-------------------------------------|---|--|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Governmental Activities</u> |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 208,264 | \$ 208,264 | \$ - | \$ - |
| Maintenance and operations | 2,819,828 | 2,024,190 | - | (795,638) |
| Interest on long-term debt | 169,461 | 324,666 | 135,983 | 291,188 |
| Total governmental activities | <u>3,197,553</u> | <u>2,557,120</u> | <u>135,983</u> | <u>(504,450)</u> |
| General revenues: | | | | |
| Unrestricted investment earnings | | | | <u>35,191</u> |
| Total general revenues | | | | <u>35,191</u> |
| Change in net assets | | | | (469,259) |
| Net assets - beginning | | | | <u>6,152,385</u> |
| Net assets - ending | | | | <u>\$ 5,683,126</u> |

See notes to the financial statements

LAKEWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
MANATEE COUNTY, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008

| | Major Funds | | Total |
|---------------------------------------|---------------------|-------------------|-----------------------|
| | General | Debt Service | Governmental Funds |
| ASSETS | | | |
| Cash | \$ 10,592 | \$ 593 | \$ 11,185 |
| Investments | 1,021,543 | 409,536 | 1,431,079 |
| Accounts receivable | 333 | - | 333 |
| Due from other governments | 10,660 | - | 10,660 |
| Prepays | 6,387 | - | 6,387 |
| Due from other funds | - | 106,307 | 106,307 |
| Total assets | <u>\$ 1,049,515</u> | <u>\$ 516,436</u> | <u>\$ 1,565,951</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable and accrued expenses | \$ 159,560 | \$ - | \$ 159,560 |
| Due to other governments | 8,947 | 40,443 | 49,390 |
| Due to other funds | 106,307 | - | 106,307 |
| Total liabilities | <u>274,814</u> | <u>40,443</u> | <u>315,257</u> |
| Fund balances: | | | |
| Reserved for: | | | |
| Debt service | - | 475,993 | 475,993 |
| Other | 6,387 | - | 6,387 |
| Unreserved, reported in: | | | |
| General fund | | | |
| Designated for maintenance projects | 376,826 | - | 376,826 |
| Undesignated | 391,488 | - | 391,488 |
| Total fund balances | <u>774,701</u> | <u>475,993</u> | <u>1,250,694</u> |
| Total liabilities and fund balances | <u>\$ 1,049,515</u> | <u>\$ 516,436</u> | <u>\$ 1,565,951</u> |

See notes to the financial statements

**LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
MANATEE COUNTY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008**

Amounts reported for governmental activities in the statement of net assets are different because:

| | | |
|--|--------------------|----------------------------|
| Fund balance - governmental funds | | \$ 1,250,694 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The statement of net assets includes those capital assets, net of any accumulated depreciation, in the net assets fo the government as a whole. | | |
| Cost of capital assets | 16,465,052 | |
| Accumulated depreciation | <u>(8,730,809)</u> | 7,734,243 |
| Deferred charges are not financial resources and, therefore are not reported as assets in the governmental funds. The statements of net assets includes these costs, net of amortization | | |
| Deferred charges | 131,325 | |
| Accumulated amortization | <u>(26,740)</u> | 104,585 |
| Liabilities not due and payable from current available resources are not reported as liabilities in the governmental fund statements. All liabilities, both current and long-term, are reported in the government-wide statements. | | |
| Accrued interest payable | (59,792) | |
| Bonds payable (net of deferred amount on refunding) | <u>(3,346,604)</u> | (3,406,396) |
| Net assets of governmental activities | | <u><u>\$ 5,683,126</u></u> |

See notes to the financial statements

**LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
MANATEE COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| | Major Funds | | Total Governmental Funds |
|--|-------------------|-------------------|--------------------------------|
| | General | Debt Service | |
| REVENUES | | | |
| Assessments | \$ 2,196,496 | \$ 324,666 | \$ 2,521,162 |
| Contributions from other governments | 121,004 | - | 121,004 |
| Other revenues | 35,958 | - | 35,958 |
| Interest | 35,191 | 14,979 | 50,170 |
| Total revenues | <u>2,388,649</u> | <u>339,645</u> | <u>2,728,294</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 208,264 | - | 208,264 |
| Maintenance | 1,900,479 | - | 1,900,479 |
| Debt Service: | | | |
| Principal | 100,000 | 240,000 | 340,000 |
| Interest | 56,079 | 106,317 | 162,396 |
| Total expenditures | <u>2,264,822</u> | <u>346,317</u> | <u>2,611,139</u> |
| Excess (deficiency) of revenues over (under) expenditures | 123,827 | (6,672) | 117,155 |
| Fund balances - beginning | <u>650,874</u> | <u>482,665</u> | <u>1,133,539</u> |
| Fund balances - ending | <u>\$ 774,701</u> | <u>\$ 475,993</u> | <u>\$ 1,250,694</u> |

See notes to the financial statements

**LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
MANATEE COUNTY, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|---|----------------------------|
| Net change in fund balances (deficit) - total governmental funds | \$ 117,155 |
| Depreciation on capital assets is not recognized in the governmental fund statement but is reported as an expense in the statement of activities. | (919,349) |
| Repayment of long-term liabilities are reported as expenditures in the governmental fund statement but such repayments reduce liabilities in the statement of net assets and are eliminated in the statement of activities. | 340,000 |
| Governmental funds report the effect of issuance of costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. | (16,348) |
| The change in accrued interest between the current and prior fiscal year effects the statement of activities but not the fund financial statements. | <u>9,283</u> |
| Change in net assets of governmental activities | <u><u>\$ (469,259)</u></u> |

See notes to the financial statements

**LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
MANATEE COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Lakewood Ranch Community Development District 2 ("the District"), is a local unit special-purpose government created on May 23, 1995, under the "Uniform Community Development District 2 Act of 1980", otherwise known as Chapter 190, Florida Statutes. Chapter 190 provides that a Community Development District 2 with a size of 1,000 acres or more may be established by rule adopted under Chapter 120 by the Florida Land and Water Adjudicatory Commission. The District was established by adopting Rule 42-W-1.001-1.003. The Act provides among other things, the power to manage basic services for community development, power to borrow money and issue bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure.

The District was established for the purpose of financing and managing the acquisition, construction, maintenance and operation of a portion of the infrastructure necessary for community development within the District.

The District is governed by the Board of Supervisors ("Board") which is composed of five members. The Supervisors are elected on an at large basis by the owners of the property within the District. Ownership of land within the District entitles the owner to one vote per acre. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes.

The Board has the final responsibility for:

1. Assessing and levying maintenance taxes and special assessments.
2. Approving budgets.
3. Exercising control over facilities and properties.
4. Controlling the use of funds generated by the District.
5. Approving the hiring and firing of key personnel.
6. Financing improvements.

The financial statements were prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement 14, and Statement 39, an amendment of GASB Statement 14. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District Board of Supervisors is considered to be financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that, if excluded, the financial statements of the District would be considered incomplete or misleading. There are no entities considered to be component units of the District; therefore, the financial statements include only the operations of the District.

Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment. Operating-type special assessments for maintenance and debt service are treated as charges for services; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not included among program revenues are reported instead as *general revenues*.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Assessments

Assessments are non-ad valorem assessments on all platted lots within the District. Assessments are levied each November 1 on property as of the previous January 1. Certain assessments are collected upon closing on each lot sold and are used to prepay a portion of the Bonds outstanding. In addition, annual assessments are levied and collected to provide funds for the debt service on the portion of the Bonds which are not paid for from the prepaid assessments and to pay for the operations and maintenance of the District. The fiscal year for which annual assessments are levied begins on October 1 with a maximum discount available for payments through November 30 and become delinquent on April 1. The Tax Collector's Office bills and collects the annual assessments on behalf of the District.

Assessments and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

General Fund

The general fund is the general operating fund of the District. It is used to account for all financial resources 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 the annual payment of principal and interest on long-term general obligation debt.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Restricted Assets

These assets represent cash and investments set aside pursuant to bond covenants.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and demand deposits.

The District has elected to proceed under the Alternative Investment Guidelines as set forth in Section 218.415 (17) Florida Statutes. The District may invest any surplus public funds in the following:

- a) The Local Government Surplus Trust Funds, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act;
- b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
- c) Interest bearing time deposits or savings accounts in qualified public depositories;
- d) Direct obligations of the U.S. Treasury.

Securities listed in paragraph c and d shall be invested to provide sufficient liquidity to pay obligations as they come due.

Investments are stated at fair value. In addition, any unspent proceeds are required to be held in investments allowed in the bond indenture.

Inventories and Prepaid Items

Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the government activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

| | <u>Assets</u> | <u>Years</u> |
|----------------------------|---------------|--------------|
| Buildings | | 40 |
| Drainage | | 25 |
| Improvements - Landscaping | | 10 |

In the governmental fund financial statements, amounts incurred for the acquisition of capital assets are reported as fund expenditures. Depreciation expense is not reported in the governmental fund financial statements.

Deferred Charges

In a prior fiscal year, in connection with the issuance of certain debt, the District incurred costs totaling \$131,325. In the government-wide financial statements that amount has been capitalized and amortized over the estimated life of the Bonds. At September 30, 2008 the District reported accumulated amortization of \$26,740.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bonds premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of premiums or discounts. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Deferred amounts on refunding are amortized over the shorter of the remaining life of the old debt or the life of the new debt using the effective interest method.

In the fund financial statements, governmental fund types recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity/Net Assets

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net assets in the government-wide statements are categorized as invested in capital assets, net of related debt, restricted or unrestricted. Invested in capital assets, net of related debt represents net assets related to infrastructure and property, plant and equipment, net of any related debt. Restricted net assets represent the assets restricted by the District's bond covenants.

Other Disclosures

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The District is required to establish a budgetary system and an approved Annual Budget. Annual Budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements.

- a) Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
- b) Public hearings are conducted to obtain taxpayer comments.
- c) Prior to October 1, the budget is legally adopted by the District Board.
- d) All budget changes must be approved by the District Board.
- e) The budgets are adopted on a basis consistent with generally accepted accounting principles.
- f) Unused appropriation for annually budgeted funds lapse at the end of the year.

NOTE 3 – CASH AND INVESTMENTS

Cash

The District's cash balances were entirely covered by federal depository insurance or by a collateral pool pledged to the State Treasurer. Florida Statutes Chapter 280, "Florida Security for Public Deposits Act", requires all qualified depositories to deposit with the Treasurer or another banking institution eligible collateral equal to various percentages of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. Governmental and agency securities, state or local government debt, or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

Investments

The District's investments were held as follows at September 30, 2008:

| | Fair Value | Credit Risk | Maturities |
|---|---------------------|-------------|--|
| First American Government Obligations Fund Class Y | \$ 409,536 | S&P AAAM | Weighted average of the fund portfolio: 40 days |
| Investment in Local Government Surplus Trust Funds Investment Pool - Fund A * | 1,001,360 | S&P AAAM | Weighted average of the fund portfolio: 8.5 days |
| Investment in Local Government Surplus Trust Funds Investment Pool - Fund B * | 20,183 | Not rated | Weighted average life of the fund: 9.36 years |
| Total Investments | <u>\$ 1,431,079</u> | | |

*The State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool ("Pool") was restructured on December 4, 2007 into two separate pools. Pool A consisted of all money market appropriate assets, which was approximately 86% of Pool assets. Pool B consisted of assets that either defaulted on a payment, paid more slowly than expected, and/or had any significant credit and liquidity risk, which was approximately 14% of Pool assets. At the time of the restructuring, all current pool participants had their existing balances proportionately allocated into Pool A and Pool B and certain restrictions were implemented. On December 21, 2007, Standard and Poor's Ratings Services assigned its "AAAM" principal stability fund rating to Pool Fund A. Fund B is not rated by any nationally recognized statistical rating agency.

There are two options for accounting and reporting for money market investment pools either "2a-7 like" or fluctuating net asset value ("NAV"). "2a-7 like" pool is an external investment pool that is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940, which comprises the rules governing money market funds. Thus, the pool operates essentially as a money market fund. Rule 2a-7 is the rule that allows money market funds to use amortized cost to maintain a constant NAV of \$1.00 per share, provided that such funds meet certain conditions. The Local Government Surplus Funds Trust Fund Investment Pool is considered a 2a7-like fund and the District has reported its investment in Fund A at the same value as the pooled shares allocated to the District. The District's balance in Fund A at September 30, 2008 was \$1,001,360. Fund B is accounted for as a fluctuating NAV pool and the fair value factor for September 30, 2008 was .798385. The District has multiplied its account balance at September 30, 2008 by the factor to determine the investment balance to be reported. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration. The ending allocated NAV value for Fund B of the District at September 30, 2008 was \$16,114 for an estimated unrealized loss of (\$4,069).

Custodial risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The District has no formal policy for custodial risk. The money market mutual funds and investment in local government surplus funds trust fund are not evidenced by securities that exist in physical or book entry form.

NOTE 3 – CASH AND INVESTMENTS (Continued)

Investments (Continued)

Credit risk – For investments, credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investment ratings by investment type are included in the preceding summary of investments.

Concentration risk – The District places no limit on the amount the District may invest in any one issuer.

Interest rate risk – The District does not have a formal policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

NOTE 4 – INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at September 30, 2008 were as follows:

| <u>Fund</u> | <u>Receivable</u> | <u>Payable</u> |
|--------------|-------------------|-------------------|
| General | \$ - | \$ 106,307 |
| Debt service | 106,307 | - |
| Total | <u>\$ 106,307</u> | <u>\$ 106,307</u> |

The outstanding balances between funds result primarily from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2008 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|------------------|---------------------------|
| <u>Governmental activities</u> | | | | |
| Capital assets, not being depreciated | | | | |
| Parks | \$ 2,293,056 | \$ - | \$ - | \$ 2,293,056 |
| Total capital assets, not being depreciated | <u>2,293,056</u> | <u>-</u> | <u>-</u> | <u>2,293,056</u> |
| Capital assets, being depreciated | | | | |
| Other Improvements | 6,336,274 | - | - | 6,336,274 |
| Town Hall Facilities | 1,847,111 | - | - | 1,847,111 |
| Drainage | 5,988,611 | - | - | 5,988,611 |
| Total capital assets, being depreciated | <u>14,171,996</u> | <u>-</u> | <u>-</u> | <u>14,171,996</u> |
| Less accumulated depreciation for: | | | | |
| Other Improvements | 5,563,772 | 633,627 | - | 6,197,399 |
| Town Hall Facilities | 138,534 | 46,178 | - | 184,712 |
| Drainage | 2,109,154 | 239,544 | - | 2,348,698 |
| Total accumulated depreciation | <u>7,811,460</u> | <u>919,349</u> | <u>-</u> | <u>8,730,809</u> |
| Total capital assets, being depreciated, net | <u>6,360,536</u> | <u>(919,349)</u> | <u>-</u> | <u>5,441,187</u> |
| Governmental activities capital assets, net | <u>\$ 8,653,592</u> | <u>\$ (919,349)</u> | <u>\$ -</u> | <u>\$ 7,734,243</u> |

NOTE 6 – LONG TERM LIABILITIES

Series 2006

On June 14, 2006, the District issued \$2,670,000 of Benefit Special Assessment Revenue Refunding Bonds, Series 2006 consisting of \$2,230,000 Bond Series 2006A with interest rates from 4.0% to 4.45% maturing on May 1, 2017, and \$440,000 Term Bond Series 2006B due on May 1, 2017 with a fixed interest rate of 5.5%. The Bonds were issued to refund the Benefit Special Assessment Bonds, Series 1995. Interest is to be paid semiannually on each May 1 and November 1. Principal is to be paid serially, commencing on May 1, 2006 through May 1, 2017.

The Series 2006 Bonds are not subject optional redemption. The Series 2006 Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture. This occurred during the year as the District paid down the Bonds by \$45,000. See Note 8 – Subsequent Events for call amounts subsequent to year end which was used to pay down the Bonds.

The Bond Indenture established a Debt Service Reserve Requirement in the Reserve Fund, which is included in the Debt Service Fund. The requirement was met as of September 30, 2008.

The Bond Indenture has certain restrictions and requirements relating principally to the use of proceeds and the procedures to be followed by the District on assessments to property owners. The District agrees to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The District is in compliance with the requirements of the Bond Indenture.

Series 2003

On August 28, 2003, the District issued \$1,700,000 of Special Revenue Notes, Series 2003 due on May 1, 2018 with a fixed interest rate of 4.15% to be disbursed in four equal installments. The Notes were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is to be paid semiannually on each May 1 and November 1. Principal is to be paid serially through May 1, 2018. The Notes may be called at any time by the District without premium or penalty. See Note 6 – Related Party Transactions for additional information.

Long-term debt activity

At September 30, 2008, the scheduled debt service requirements on the long-term debt were as follows:

| Year ending September 30: | Governmental Activities | |
|------------------------------|-------------------------|-------------------|
| | Principal | Interest |
| 2009 | \$ 305,000 | \$ 148,621 |
| 2010 | 325,000 | 135,747 |
| 2011 | 335,000 | 122,057 |
| 2012 | 365,000 | 107,728 |
| 2013 | 380,000 | 91,426 |
| 2014-2018 | 1,675,000 | 203,816 |
| Total | <u>\$ 3,385,000</u> | <u>\$ 809,395</u> |

Changes in long-term liability activity for the fiscal year ended September 30, 2008 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|----------------------|-------------|-------------------|---------------------|------------------------|
| <u>Governmental activities</u> | | | | | |
| Bonds payable: | | | | | |
| Note Payable 2003 | \$ 1,340,000 | \$ - | \$ 100,000 | \$ 1,240,000 | \$ 100,000 |
| Series 2006 | 2,385,000 | - | 240,000 | 2,145,000 | 205,000 |
| Less deferred amount on refunding (net) | (42,805) | - | (4,409) | (38,396) | |
| Governmental activity long-term liabilities | <u>\$ 3,682,195</u> | <u>\$ -</u> | <u>\$ 335,591</u> | <u>\$ 3,346,604</u> | <u>\$ 305,000</u> |

NOTE 6 – LONG TERM LIABILITIES (Continued)

Line of Credit

During the year the District obtained a line of credit with a credit limit of \$300,000. The interest rate is subject to change, based on the lender's Prime Rate. As of September 30, 2008 the District has not incurred any debt in regards to the line of credit.

NOTE 7 – RELATED PARTY TRANSACTIONS

Transactions with Developer

The Developer owns a portion of land within the District; therefore, assessment revenues in the general and debt service funds include the assessments levied on those lots owned by the Developer.

Transactions with Other Districts

The District is one of six Community Development Districts formed within the boundaries of Lakewood Ranch and all six districts are considered related entities. The related districts are Lakewood Ranch Community Development District 1, 3, 4, 5, and 6 (Lakewood Ranch Districts). The Lakewood Ranch Inter-District Authority ("Authority") also participates in this agreement. The District entered into an inter-local agreement with the various entities (Districts 1, 3, 4, 5, and 6), where expenditures for the operation and maintenance of infrastructure and landscaping, shared personnel costs, and other related expenses will be paid by the Authority, with such costs being allocated amongst all Districts. The District's share of these costs was \$576,111 for the fiscal year end September 30, 2008. The District has receivables of \$8,816 due from related governments as of September 30, 2008. Also, the District has payables of \$90,937 as of September 30, 2008 due to related governments which has been recorded in the due to other governments and accounts payable accounts (on the Balance Sheet).

Town Hall

The Lakewood Ranch Districts have entered into a Town Hall Inter-local Agreement whereby the Districts created an entity referred to as Lakewood Ranch Inter-District Authority. The Authority was created for the purpose of operating and maintaining and in the future owning a community cultural, recreational, educational and administrative building to be known as Lakewood Ranch Town Hall. The cost to operate and maintain the Town Hall will be paid by the Lakewood Districts based on the number of platted and unplatted equivalent dwelling units within each District. At such time as all financial obligations for financing and constructing the Town Hall have been satisfied the Town Hall shall be conveyed to the Authority. Each District will appoint one Board member to the Authority. The District's share of the operation and maintenance for the Town Hall was \$36,601 for fiscal year ended September 30, 2008.

The Lakewood Ranch Districts have entered into a Non-Exclusive Lease Agreement and Operating Agreement whereby the District will finance the cost of the construction of Lakewood Ranch Town Hall and the remaining Districts will be responsible for lease payments to the District based on the number of platted and unplatted equivalent dwelling units (EDU's) within each District. The estimated number of EDU's will continue to change as the development is built out. Each District agrees to pay annually to the District their allocated share of the total principal and interest payments due for the current fiscal year. Each District has agreed to annually budget and appropriate sufficient funds to make such payments.

The EDU's as of September 30, 2008 are as follows:

| | EDU's | % of Total |
|------------|-------|---------------|
| Lakewood 1 | 1,819 | 23.67% |
| Lakewood 2 | 1,812 | 23.58% |
| Lakewood 3 | 967 | 12.58% |
| Lakewood 4 | 1,688 | 21.96% |
| Lakewood 5 | 960 | 12.49% |
| Lakewood 6 | 440 | 5.72% |
| Totals | 7,686 | 100.00% |

The District collected \$121,004 from the other Districts for debt service on the Series 2003 Bonds during the current fiscal year.

NOTE 7 – RELATED PARTY TRANSACTIONS (Continued)

District 3

The Districts consented to the dissolution of Lakewood Ranch Community Development District 3. In connection with the dissolution, Town Center Owners Associations, Inc. ("Association") will assume any remaining financial obligations and operating and maintenance responsibilities of Lakewood Ranch Community Development District 3 and will represent the interests of the property owners within the Lakewood Ranch Town Center. As a result various existing agreements were amended and certain other new agreements were executed to reflect the change.

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for each of the past three fiscal years.

NOTE 9 – SUBSEQUENT EVENTS

Bond Prepayment

On November 1, 2008 and May 1, 2009 the District prepaid \$25,000 and \$15,000, respectively, of the Series 2006 Bonds as allowed in the Bond Indenture. The redemption was an extraordinary mandatory redemption as described in the Indenture.

**LAKEWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
MANATEE COUNTY, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| | Budgeted Amounts Original & Final | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|---|-------------------|--|
| REVENUES | | | |
| Assessments | \$ 2,189,586 | \$ 2,196,496 | \$ 6,910 |
| Contributions from other governments | - | 121,004 | 121,004 |
| Interest and other revenues | 50,000 | 71,149 | 21,149 |
| Total revenues | <u>2,239,586</u> | <u>2,388,649</u> | <u>149,063</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 259,052 | 208,264 | 50,788 |
| Maintenance | 1,980,534 | 1,900,479 | 80,055 |
| Debt Service: | | | |
| Principal | - | 100,000 | (100,000) |
| Interest | - | 56,079 | (56,079) |
| Total expenditures | <u>2,239,586</u> | <u>2,264,822</u> | <u>(25,236)</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ -</u> | <u>123,827</u> | <u>\$ 123,827</u> |
| Fund balances - beginning | | <u>650,874</u> | |
| Fund balances - ending | | <u>\$ 774,701</u> | |

See notes to required supplementary information

LAKEWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
MANATEE COUNTY, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The District is required to establish a budgetary system and an approved Annual Budget for the General Fund. The District's budgeting process is based on estimates of cash receipts and cash expenditures which are approved by the Board. The budget approximates a basis consistent with accounting principles generally accepted in the United States of America (generally accepted accounting principles).

The legal level of control, the level at which expenditures may not exceed the budget is in the aggregate. Any budget amendments that increase the aggregate budgeted amount must be approved by the Board of Supervisors. Expenditures exceeded appropriations by \$(25,236) during the fiscal year ended September 30, 2008 which were covered by greater than anticipated revenues received in the current fiscal year.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Supervisors
Lakewood Ranch Community Development District 2
Manatee County, Florida

We have audited the financial statements of the governmental activities and each major fund of Lakewood Ranch Community Development District 2, Manatee County, Florida as of and for the fiscal year ended September 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 20, 2009. 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 opinions 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies #2008-01, #2008-02, #2008-03, and #2008-04 as described in the accompanying report to management dated October 20, 2009 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance

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, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted another matter that we reported to management of the District in a separate letter dated October 20, 2009.

This report is intended for the information of the management, Board of Supervisors of Lakewood Ranch Community Development District 2, Manatee County, Florida and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink, appearing to read "D. J. Ant", is positioned above the date.

October 20, 2009

**MANAGEMENT LETTER PURSUANT TO THE RULES OF
THE AUDITOR GENERAL FOR THE STATE OF FLORIDA**

To the Board of Supervisors
Lakewood Ranch Community Development District 2
Manatee County, Florida

We have audited the accompanying basic financial statements of Lakewood Ranch Community Development District 2 (the "District") as of and for the fiscal year ended September 30, 2008, and have issued our report thereon dated October 20, 2009.

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

In addition, we have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters dated October 20, 2009. Disclosures in that report should be considered in conjunction with this management letter.

The purpose of this letter is to comment on those matters required by Chapter 10.550 of the Rules of the Auditor General for the State of Florida. Accordingly, in connection with our audit of the financial statements of the District, as described in the first paragraph, we report the following:

- I. Current year findings and recommendations.**
- II. Status of prior year findings and recommendations.**
- III. Compliance with the Provisions of the Auditor General of the State of Florida.**

This report is intended for the information of the management, Board of Supervisors of Lakewood Ranch Community Development District 2, Manatee County, Florida and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the Lakewood Ranch Community Development District 2 and the personnel associated with it, for the opportunity to be of service to them in this endeavor as well as future engagements and the courtesies extended to us.



October 20, 2009

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Significant deficiencies

2008- 01 Account reconciliations

Finding: During the course of conducting procedures for the fiscal year ended September 30, 2008, it came to our attention that reconciliations had not been completed for certain accounts, including fund balance, investments, and internal balances. For cash investments we found that there were investment accounts for the debt service and capital projects fund in connection with the Series 2006 Bonds also discussed below, which was not reconciled. We also found that the related inter District accounts had not been reconciled on a timely basis.

Recommendation: The District should assign personnel to perform monthly reconciliations and management should review monthly reconciliations. Upon review, the reconciliations should be evidenced by a sign-off as support of the review process.

Management Response: Process will be assigned to staff, Senior Accountant, to perform monthly reconciliations and reviewed by the Director of Finance and in place for FY2009 Audit.

2008- 02 Completeness of accounting records

Finding: As in the prior fiscal year, during fiscal year 2008 the District did not record the investment account balances and related transactions associated with Series 2006 activity.

Recommendation: The District should ensure that its accounting records are complete and includes all financial transactions pertaining to the District.

Management Response: Process will be assigned to staff, Senior Accountant, to perform monthly reconciliations and reviewed by the Director of Finance and in place for FY2009 Audit.

2008-03 Recording Debt Service Funds

Finding: During the course of conducting procedures for the fiscal year ended September 30, 2008, it came to our attention that a check that was written from the general fund of a related District that was supposed to be deposited into its own debt service fund was deposited into the debt service fund of the District in error.

Recommendation: More detailed account information should be denoted on check payments used to transfer funds to accounts handled by the Trustee so that commingling of related Districts' funds does not occur. Furthermore, timely account reconciliations of the investment account balances would identify the receipt of funds belonging to a related District thus enabling the District to identify the problem and make the necessary corrections.

Management Response: Process currently in place provides specific information on fax transmission that initiates the wire transfer for debt service requirements. Process will include the timely review of monthly Trust Statements by staff, Senior Accountant, to identify any depository errors by Trustee which would then be rectified timely.

REPORT TO MANAGEMENT (Continued)

2008-04 Assessment reconciliation

Finding: While performing procedures for the current fiscal year, it came to our attention that the District did not reconcile the assessments received with reports generated from the tax collector. In addition, the allocation of assessments between the general and debt service funds per the District's records were not in compliance with the budgeted allocation.

Recommendation: The District should reconcile with tax collector records to ensure they have received assessments and to determine delinquent amounts. Allocation of assessments should be reconciled at least annually to comply with the adopted budget.

Management Response: Process will be assigned to staff, Senior Accountant, to perform monthly reconciliations and reviewed by the Director of Finance and in place for FY2009 Audit. Process will include the timely review of monthly Trust Statements by staff, Senior Accountant, to identify any depository errors by Trustee which would then be rectified timely.

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Other Finding

2008-05 Budget

Observation: Actual expenditures exceeded appropriations in the general fund for the fiscal year ended September 30, 2008.

Recommendation: The District should amend the budget during the fiscal year to ensure that all expenditures are properly budgeted.

Management Response: Process will be assigned to staff, Senior Accountant, to perform monthly review of appropriations versus expenditures that will identify potential excess expenditures. Budget amendments will be completed on an as needed basis to eliminate any actual expenditures exceeding appropriations.

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Significant deficiencies

2007- 01 Account reconciliations

Finding: During the course of conducting procedures for the fiscal year ended September 30, 2007, it came to our attention that reconciliations had not been completed for certain accounts, including fund balance, cash, internal balances and accounts payable. For general fund cash accounts, reconciliations included deposits in transit for previous months and unidentified reconciling items. For cash investments we found that there were investment accounts for the debt service and capital projects fund in connection with the Series 2006 Bonds also discussed below, which was not reconciled. We also found that the related inter District accounts had not been reconciled on a timely basis.

Recommendation: The District should assign personnel to perform monthly reconciliations and management should review monthly reconciliations. Upon review, the reconciliations should be evidenced by a sign-off as support of the review process.

Management Response: Procedures have been put in place to perform monthly reconciliations effective immediately and will require a review process sign- off.

Current Status: See finding 2008-01 above.

REPORT TO MANAGEMENT (Continued)

2007- 02 Completeness of accounting records

Finding: As in the prior fiscal year, during fiscal year 2007 the District did not record the investment account balances and related transactions associated with Series 2006 activity.

Recommendation: The District should ensure that its accounting records are complete and includes all financial transactions pertaining to the District

Management Response: All District related transactions and accounting records will be completed on a timely basis effective immediately.

Current Status: See finding 2008-02 above.

III. COMPLIANCE WITH THE PROVISIONS OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA.

Unless otherwise required to be reported in the auditor's report on compliance and internal controls, the management letter shall include, but not be limited to the following:

1. A statement as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

There were no findings and recommendations made in the preceding annual financial audit report for the fiscal year ended September 30, 2007, except as noted above.

2. A statement as to whether or not the local governmental entity complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

The District complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

3. Any recommendations to improve the local governmental entity's financial management.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported, except as noted above.

4. Violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement amounts that is less than material but more than inconsequential.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported, except as noted above.

5. For matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors, the following may be reported based on professional judgment:

- a. Violations of laws, regulations, and contracts or grant agreements, or abuse that have occurred, or are likely to have occurred.

- b. Control deficiencies that are not significant deficiencies, including, but not limited to:

1. Improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements).
2. Failures to properly record financial transactions.

REPORT TO MANAGEMENT (Continued)

3. Inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

There were no such matters discovered by, or that came to the attention of, the auditor, that, in our judgment, are required to be reported, except as noted above.

6. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.
7. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2008 financial audit report.
8. The District has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
9. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and no deteriorating financial conditions were noted. It is management's responsibility to monitor 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.