

**LAKEWOOD RANCH
COMMUNITY DEVELOPMENT DISTRICT 2
MANATEE COUNTY, FLORIDA
FINANCIAL AND COMPLIANCE REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2010**

**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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of September 30, 2010, 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 June 17, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with 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.


June 17, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Lakewood Ranch Community Development District 2, 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, 2010. 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, 2010 resulting in a net asset balance of \$6,117,222.
- The change in the District's total net assets in comparison with the prior fiscal year was \$323,873, an increase. 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, 2010, the District's governmental funds reported combined ending fund balances of \$1,388,504, an increase of \$216,060 in comparison with the prior fiscal year. A portion of fund balance is reserved for debt service, and other items and the remainder is unreserved fund balance which is available for spending at the District's discretion..

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 at the close of the most recent fiscal year.

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

NET ASSETS SEPTEMBER 30,		
	2010	2009
Assets, excluding capital assets	\$ 1,822,936	\$ 1,560,286
Capital assets, net of depreciation	7,048,051	7,336,454
Total assets	8,870,987	8,896,740
Liabilities, excluding long-term liabilities	246,314	248,802
Long-term liabilities	2,507,451	2,854,589
Total liabilities	2,753,765	3,103,391
Net Assets		
Invested in capital assets, net of related debt	4,621,307	4,574,511
Restricted for debt service	382,972	418,125
Unrestricted	1,112,943	800,713
Total net assets	\$ 6,117,222	\$ 5,793,349

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The restricted portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the District's other obligations.

The District's net assets increased during the most recent fiscal year. The majority of the increase represents the extent to which ongoing program revenues exceeded the cost of operations and depreciation expense.

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,		
	2010	2009
Revenues:		
Program revenues		
Charges for services	\$ 2,665,812	\$ 2,722,888
Operating grants and contributions	114,865	270,177
General revenues	3,547	10,844
Total revenues	<u>2,784,224</u>	<u>3,003,909</u>
Expenses:		
General government	225,197	192,460
Maintenance and operations	2,098,010	2,543,394
Interest	137,144	157,832
Total expenses	<u>2,460,351</u>	<u>2,893,686</u>
Change in net assets	<u>323,873</u>	<u>110,223</u>
Net assets - beginning	<u>5,793,349</u>	<u>5,683,126</u>
Net assets - ending	<u>\$ 6,117,222</u>	<u>\$ 5,793,349</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2010 was \$2,460,351. The costs of the District's activities were primarily funded by program revenues. As in the prior fiscal year, program revenues are comprised primarily of assessments. The majority of the change in revenues is due to decrease in contributions from other governments for debt service from a substantial prepayment in the prior fiscal year. The majority of the change in expenses results from the decrease in maintenance and repair expenses.

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. The general fund budget for the fiscal year ended September 30, 2010 was amended to reallocate appropriations among various line items without changing overall revenues or appropriations.

The variance between budgeted and actual general fund revenues for the 2010 fiscal year is primarily the result of recording contributions from other governments in the debt service fund where it was used instead of the general fund where it was budgeted. The actual general fund expenditures for the 2010 fiscal year were lower than budgeted amounts due primarily to anticipated costs which were not incurred in the current fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2010, the District had \$16,491,860 invested in parks, drainage system, landscaping and the Town Hall facilities for its governmental activities. In the government-wide financial statements accumulated depreciation of \$9,443,809 has been taken, which resulted in a net book value of \$7,048,051. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Capital Debt

At September 30, 2010, the District had \$2,537,029 in Bonds and Note payable outstanding for its governmental activities. More detailed information about the District's capital debt is presented in the notes of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND OTHER EVENTS

The District does not anticipate any major projects or significant changes to its infrastructure maintenance program for fiscal year 2011. It is anticipated that the general operations of the District will increase slightly in 2011.

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., Lakewood Ranch, Florida 34202.

LAKEWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
MANATEE COUNTY, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	Governmental Activities
ASSETS	
Cash	\$ 1,259,044
Investments	82,278
Accounts receivable	63,713
Due from other governments and TCOA	84,680
Due from Developer	6,001
Prepays	5,405
Deferred charges	80,707
Restricted assets:	
Temporarily restricted	
Investments	241,108
Capital assets:	
Nondepreciable	2,293,056
Depreciable	4,754,995
Total assets	<u>8,870,987</u>
LIABILITIES	
Accounts payable and accrued expenses	146,074
Due to other governments	53,257
Accrued interest payable	46,983
Non-current liabilities:	
Due within one year	325,000
Due in more than one year	2,182,451
Total liabilities	<u>2,753,765</u>
NET ASSETS	
Invested in capital assets, net of related debt	4,621,307
Restricted for debt service	382,972
Unrestricted	1,112,943
Total net assets	<u>\$ 6,117,222</u>

See notes to the financial statements

LAKEWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
MANATEE COUNTY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
Primary government:				
Governmental activities:				
General government	\$ 225,197	\$ 225,197	\$ -	\$ -
Maintenance and operations	2,098,010	2,118,290	-	20,280
Interest on long-term debt	137,144	322,325	114,865	300,046
Total governmental activities	2,460,351	2,665,812	114,865	320,326
General revenues:				
Unrestricted investment earnings				3,547
Total general revenues				3,547
Change in net assets				323,873
Net assets - beginning				5,793,349
Net assets - ending				\$ 6,117,222

See notes to the financial statements

LAKEWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
MANATEE COUNTY, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	Major Funds		Total
	General	Debt Service	Governmental Funds
ASSETS			
Cash	\$ 1,259,044	\$ -	\$ 1,259,044
Investments	82,278	241,108	323,386
Accounts receivable	63,713	-	63,713
Due from other governments and TCOA	76,166	8,514	84,680
Due from Developer	6,001	-	6,001
Prepays	5,405	-	5,405
Due from other funds	-	180,333	180,333
Total assets	<u>\$ 1,492,607</u>	<u>\$ 429,955</u>	<u>\$ 1,922,562</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued expenses	\$ 146,074	\$ -	\$ 146,074
Deferred revenue	145,880	8,514	154,394
Due to other governments	53,257	-	53,257
Due to other funds	180,333	-	180,333
Total liabilities	<u>525,544</u>	<u>8,514</u>	<u>534,058</u>
Fund balances:			
Reserved for:			
Debt service	-	421,441	421,441
Other	5,405	-	5,405
Unreserved, reported in:			
Designated for subsequent year's expenditures	24,000	-	24,000
Designated for maintenance projects	655,326	-	655,326
Undesignated	282,332	-	282,332
Total fund balances	<u>967,063</u>	<u>421,441</u>	<u>1,388,504</u>
Total liabilities and fund balances	<u>\$ 1,492,607</u>	<u>\$ 429,955</u>	<u>\$ 1,922,562</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, 2010**

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

Fund balance - governmental funds		\$ 1,388,504
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 of the government as a whole.		
Cost of capital assets	16,491,860	
Accumulated depreciation	<u>(9,443,809)</u>	7,048,051
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>(50,618)</u>	80,707
Assets that are not available to pay for current-period expenditures are deferred in the fund financial statements.		154,394
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 financial statements.		
Accrued interest payable	(46,983)	
Bonds payable (net of deferred amount on refunding)	<u>(2,507,451)</u>	<u>(2,554,434)</u>
Net assets of governmental activities		<u><u>\$ 6,117,222</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, 2010**

	Major Funds		Total Governmental Funds
	General	Debt Service	
REVENUES			
Assessments	\$ 2,129,612	\$ 322,325	\$ 2,451,937
Contributions from other governments	-	106,351	106,351
Other revenues	167,569	-	167,569
Interest	3,547	-	3,547
Total revenues	<u>2,300,728</u>	<u>428,676</u>	<u>2,729,404</u>
EXPENDITURES			
Current:			
General government	225,197	-	225,197
Maintenance	1,809,607	-	1,809,607
Debt Service:			
Principal	-	351,547	351,547
Interest	-	126,993	126,993
Total expenditures	<u>2,034,804</u>	<u>478,540</u>	<u>2,513,344</u>
Excess (deficiency) of revenues over (under) expenditures	265,924	(49,864)	216,060
Fund balances - beginning	<u>701,139</u>	<u>471,305</u>	<u>1,172,444</u>
Fund balances - ending	<u>\$ 967,063</u>	<u>\$ 421,441</u>	<u>\$ 1,388,504</u>

See notes to the financial statements

**LAKEWOOD 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, 2010**

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

Net change in fund balances (deficit) - total governmental funds	\$ 216,060
Depreciation on capital assets is not recognized in the governmental fund statements, but is reported as an expense in the statement of activities.	(288,403)
Repayment of long-term liabilities are reported as expenditures in the governmental fund statements, but such repayments reduce liabilities in the statement of net assets and are eliminated in the statement of activities.	351,547
Revenues in the statement of activities that do not provide current financial resources are deferred and not reported as revenues in the fund financial statements.	54,820
Amortization of deferred charges is not recognized in the governmental fund statement, but is reported as an expense in the statement of activities.	(16,348)
The change in accrued interest between the current and prior fiscal year affects the statement of activities, but not the fund financial statements.	<u>6,197</u>
Change in net assets of governmental activities	<u><u>\$ 323,873</u></u>

See notes to the financial statements

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

NOTE 1 – NATURE OF ORGANIZATION AND 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 assessments.
2. Approving budgets.
3. Acquiring, operating, and maintaining systems, facilities, and basic infrastructures.
4. Controlling the use of funds generated by the District.
5. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 2 – 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 benefited property within the District. Assessments are levied each November 1 on property as of the previous January 1. Operating and maintenance assessments are based upon the adopted budget and levied annually at a public hearing of the District. Debt service assessments are levied when Bonds are issued and assessed and collected on an annual basis. Property owners may prepay a portion or all of the debt service assessments on their property subject to various provisions in the Bond documents. 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 considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. The portion of special 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 for qualifying expenditures, 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 or other contractual restrictions.

NOTE 2 – 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. In addition, surplus funds may be deposited into certificates of deposit which are insured and any unspent Bond proceeds are required to be held in investments as specified in the Bond Indenture.

The District records all interest revenue related to activities in the respective funds and reports investments at fair value.

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, 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, 2010, the District reported accumulated amortization of \$50,618.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Deferred Amount on Refunding

For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized using the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount is offset against the new liability.

In connection with the refunding, the deferred amount on the refunding was \$48,500 and is being amortized over the life of the Bonds. Accumulated amortization of the deferred amount is \$18,922 at September 30, 2010.

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 ratably over the life of the Bonds. 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.

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 financial 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 or other contractual restrictions.

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 3 – 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 appropriations for annually budgeted funds lapse at the end of the year.

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

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, 2010:

	Fair Value	Credit Risk	Maturities
First American Government Obligations Fund Class Y	241,108	S&P AAAm	Weighted average of the fund portfolio: 42 days
Investment in Local Government Surplus Funds Trust Fund (Florida PRIME)	73,153	S&P AAAm	Weighted average of the fund portfolio: 52 days
Investment in Fund B Surplus Funds Trust Fund	9,125	Not rated	Weighted average life of the fund: 7.49 years
Total Investments	<u>\$ 323,386</u>		

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.

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.

However, the Bond Indenture limits the type of investments held using unspent proceeds.

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at September 30, 2010 were as follows:

Fund	Receivable	Payable
General	\$ -	\$ 180,333
Debt service	180,333	-
Total	<u>\$ 180,333</u>	<u>\$ 180,333</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. In the case of the District, the balances between the general fund and the debt service fund relate to assessments collected in the general fund that have not yet been transferred to the debt service fund.

NOTE 6 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
<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	6,363,082	-	-	6,363,082
Town Hall Facilities	1,847,111	-	-	1,847,111
Drainage	5,988,611	-	-	5,988,611
Total capital assets, being depreciated	<u>14,198,804</u>	<u>-</u>	<u>-</u>	<u>14,198,804</u>
Less accumulated depreciation for:				
Other Improvements	6,336,274	2,681	-	6,338,955
Town Hall Facilities	230,890	46,178	-	277,068
Drainage	2,588,242	239,544	-	2,827,786
Total accumulated depreciation	<u>9,155,406</u>	<u>288,403</u>	<u>-</u>	<u>9,443,809</u>
Total capital assets, being depreciated, net	<u>5,043,398</u>	<u>(288,403)</u>	<u>-</u>	<u>4,754,995</u>
Governmental activities capital assets, net	<u>\$ 7,336,454</u>	<u>\$ (288,403)</u>	<u>\$ -</u>	<u>\$ 7,048,051</u>

Depreciation expense was charged to maintenance and operations function.

NOTE 7 – 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 current fiscal year as the District paid down the Bonds by \$35,000. See Note 10 – Subsequent Events for call amounts subsequent to year end which was used to pay down the Bonds.

NOTE 7 – LONG TERM LIABILITIES (Continued)

Series 2006 (Continued)

The Bond Indenture established a debt service reserve requirement as well as other restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements 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 was in compliance with the requirements at September 30, 2010.

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 8 – Related Party Transactions for additional information.

The Series 2003 Notes are subject to redemption at the option of the District prior to their maturity.

Long-term debt activity

Changes in long-term liability activity for the fiscal year ended September 30, 2010 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Note Payable 2003	\$ 983,576	\$ -	\$ 116,547	\$ 867,029	\$ 110,000
Series 2006	1,905,000	-	235,000	1,670,000	215,000
Less deferred amount on refunding (net)	(33,987)	-	(4,409)	(29,578)	-
Governmental activity long-term liabilities	<u>\$ 2,854,589</u>	<u>\$ -</u>	<u>\$ 347,138</u>	<u>\$ 2,507,451</u>	<u>\$ 325,000</u>

At September 30, 2010, the scheduled debt service requirements on the long-term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2011	\$ 325,000	\$ 112,757	\$ 437,757
2012	350,000	99,066	449,066
2013	345,000	83,452	428,452
2014	340,000	68,010	408,010
2015	350,000	52,790	402,790
2016-2018	827,029	61,735	888,764
Total	<u>\$ 2,537,029</u>	<u>\$ 477,810</u>	<u>\$ 3,014,839</u>

NOTE 8 – 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. Additionally, the District has a receivable of \$6,001 due from the Developer as of September 30, 2010.

NOTE 8 – RELATED PARTY TRANSACTIONS (Continued)

Transactions with Other Districts

The District is related to four Community Development Districts and one Authority formed within the boundaries of Lakewood Ranch and all four Districts and the Authority are considered related entities. The related Districts are Lakewood Ranch Community Development District 1, 4, 5, 6 ("Lakewood Ranch Districts") and the Lakewood Ranch Inter-District Authority ("Authority") and also used to include Lakewood Ranch Community Development District 3 ("District 3"). The District entered into an inter-local agreement with the Lakewood Ranch Community Development Districts 1, 3, 4, 5, 6 and the Inter-District Authority, where expenditures for the operation and maintenance of infrastructure and landscaping, shared personnel costs, and other related costs will be paid by the Authority, with such costs being allocated amongst all Districts. However, the Districts consented to the dissolution of District 3. In connection with the dissolution, Town Center Owners Associations, Inc. ("TCOA") will assume any remaining financial obligations and operating and maintenance responsibilities of 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. With the dissolution of District 3, these costs are now allocated amongst the remaining Lakewood Ranch Districts (Districts 1, 2, 4, 5 and 6), with the exception of the costs of Town Hall which the TCOA has assumed responsibility for the portion previously allocated to District 3. The District's share of these costs was \$555,904 for the fiscal year ended September 30, 2010. In accordance with certain cost sharing arrangements with related entities, \$158,526 was received in the current fiscal year and an additional \$154,394 was deferred in the governmental fund financial statements as the revenue was not available to finance current year expenditures. As of September 30, 2010, the District has receivables of \$84,680 due from related governments and TCOA. Also, the District has payables of \$53,257 as of September 30, 2010 due to related governments.

Town Hall

The Lakewood Ranch Districts (which at the time included District 3) entered into a Town Hall Inter-local Agreement whereby the Districts created the 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 (EDU's) within each District. The estimated number of EDU's will continue to change as the development is built out. 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 \$36,882 for fiscal year ended September 30, 2010. An amount will be included in each subsequent fiscal year's budget as an obligation of the District for continued operations and maintenance of Town Hall.

The Lakewood Ranch Districts (which at the time included District 3) entered into a Non-Exclusive Lease Agreement and Operating Agreement whereby the District financed the cost of the construction of Lakewood Ranch Town Hall and the remaining Districts are responsible for lease payments to the District based on the number of platted and unplatted EDU's within each District. The estimated number of EDU's will continue to change as the development is built out. Each District and TCOA 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 and TCOA has agreed to annually budget and appropriate sufficient funds to make such payments.

The EDU's as of September 30, 2010 are as follows:

	EDU's	% of Total
Lakewood 1	1,819	23.70%
Lakewood 2	1,812	23.61%
TCOA	967	12.60%
Lakewood 4	1,688	21.99%
Lakewood 5	962	12.53%
Lakewood 6	427	5.56%
Totals	7,675	100.00%

The District collected \$106,351 from the other Districts for debt service on the Series 2003 Notes during the current fiscal year, and had a receivable of \$8,514.

NOTE 9 – 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 10 – SUBSEQUENT EVENTS

Bond Prepayment

Subsequent to fiscal year end, the District prepaid \$25,000 of the Series 2006 Bonds. The prepayments were extraordinary mandatory redemptions as outlined in the Bond 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, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Assessments	\$ 2,092,480	\$ 2,092,480	\$ 2,129,612	\$ 37,132
Contributions from other governments	110,100	110,100	-	(110,100)
Interest and other revenues	188,400	188,400	171,116	(17,284)
Total revenues	<u>2,390,980</u>	<u>2,390,980</u>	<u>2,300,728</u>	<u>(90,252)</u>
EXPENDITURES				
Current:				
General government	615,760	638,260	225,197	413,063
Maintenance	1,669,220	1,649,720	1,809,607	(159,887)
Debt Service:				
Principal	151,000	148,000	-	148,000
Total expenditures	<u>2,435,980</u>	<u>2,435,980</u>	<u>2,034,804</u>	<u>401,176</u>
Excess (deficiency) of revenues over (under) expenditures	(45,000)	(45,000)	265,924	310,924
OTHER FINANCING SOURCES				
Use of fund balance	45,000	45,000	-	(45,000)
Total other financing sources	<u>45,000</u>	<u>45,000</u>	<u>-</u>	<u>(45,000)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	265,924	<u>\$ 265,924</u>
Fund balances - beginning			<u>701,139</u>	
Fund balances - ending			<u>\$ 967,063</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. The general fund budget for the fiscal year ended September 30, 2010 was amended to reallocate appropriations among various line items without changing overall revenues or appropriations.

The variance between budgeted and actual general fund revenues for the 2010 fiscal year is primarily the result of recording contributions from other governments in the debt service fund where it was used instead of the general fund where it was budgeted. The actual general fund expenditures for the 2010 fiscal year were lower than budgeted amounts due primarily to anticipated costs which were not incurred in the current fiscal year.

**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**

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 ("District") as of and for the fiscal year ended September 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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 *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 a 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. However, as discussed in the accompanying report to management dated June 17, 2011, we consider deficiencies 2010-01, 2010-02, and 2010-03 to be significant deficiencies in internal control over financial reporting.

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*.

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.



June 17, 2011

**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 ("District") as of and for the fiscal year ended September 30, 2010, and have issued our report thereon dated June 17, 2011.

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 June 17, 2011. 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.


June 17, 2011

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Significant Deficiencies

2010-01 Inter-District Account Reconciliations

Finding: During the course of conducting procedures for the audit of the fiscal year ended September 30, 2010, we noted instances where the District's accounts did not reconcile with the corresponding records of the Inter-District Authority. Furthermore, it came to our attention that certain journal entries and reclassification entries had to be recorded after the books were closed.

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. Through timely system reconciliations, the closing procedures for the District will more accurately reflect the District's operations in its financial statements.

Management Response: Reconciliations of amounts due between the District and the Inter-District Authority will be prepared monthly. Fiscal year-end reconciliations will be submitted to the auditor with the fiscal year trial balance.

2010-02 Accounting

Finding: During the course of conducting procedures for the audit of the fiscal year ended September 30, 2010, we noted the following accounting issues:

- While performing procedures for cash, we noted that there were checks written in October and November 2010 which management had manually changed to be dated as September 30, 2010.
- Proper reconciliations had not been completed for certain cash accounts resulting in an understatement of cash at September 30, 2010.
- Proper reconciliations had not been completed for accounts payable resulting in an understatement of liabilities at September 30, 2010.

Recommendation: We recommend that the District reconcile its accounts and compare reconciled amounts to the general ledger and any corresponding supporting documentation on a monthly basis. Further, we recommend that the District complete bank reconciliations and determine the nature of any differences within a 30 day period. Check dates should reflect the date the checks are written.

Management Response: Check dates will reflect the date on which the checks are written. Accounts payable reconciliations will be performed monthly. Bank reconciliations will be expanded to include investment accounts.

2010-03 Billing of Cost Share

Finding: In accordance with certain cost sharing arrangements with related entities, the District failed to bill the related entities for applicable costs during fiscal year 2009. Consequently, during the current fiscal year, the District billed the related entities for the associated costs for both the 2009 and 2010 fiscal years.

Recommendation: Invoices, along with supporting documentation, for cost sharing arrangements should be provided to related entities in a timely manner.

Management Response: We are currently furnishing monthly cost-sharing invoices to all entities.

REPORT TO MANAGEMENT (Continued)

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Significant deficiencies

2009-01 Completeness of accounting records

Current Status: Recommendation has been implemented.

Other Finding

2009-02 Budget

Current Status: Recommendation has been implemented.

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 significant findings and recommendations made in the preceding annual financial audit report for the fiscal year ended September 30, 2009, 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 for the fiscal year ended September 30, 2010, except as noted above.

4. 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.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported, for the fiscal year ended September 30, 2010, except as noted above.

5. For matters that have an inconsequential effect on the financial statements, considering both quantitative and qualitative factors, the following may be reported based on professional judgment:

- a. Violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse.
- b. Deficiencies in internal control that are not significant deficiencies.

REPORT TO MANAGEMENT (Continued)

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, for the fiscal year ended September 30, 2010, 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, 2010 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.