

VILLAGE COMMUNITY
DEVELOPMENT DISTRICT NO. 2

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2
Basic Financial Statements

September 30, 2007

(With Independent Auditors' Report Thereon)

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

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INDEPENDENT AUDITORS' REPORT

Board of Supervisors
Village Community Development District No. 2
The Villages, Florida

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Village Community Development District No. 2 (the District), as of and for the year ended September 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2007, and the respective changes in financial position thereof and the budgetary comparison of the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Certified Public Accountants

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Board of Supervisors
Villages Community Development District No. 2
The Villages, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

The management's discussion and analysis, as listed in the accompanying contents is not a required part of the basic financial statements but is 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.

Purvis, Gray and Company, LLP

February 19, 2008
Ocala, Florida

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Management's Discussion and Analysis (UNAUDITED) September 30, 2007

The Village Community Development District No. 2 (the District) management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the District's financial activities; and (c) identify changes in the District's financial position and its ability to address the next and subsequent year challenges.

Financial Highlights

- The assets of the District exceeded its liabilities at September 30, 2007 by \$11,405,931 (net assets). Of this amount, \$1,382,246 of unrestricted net assets may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets decreased by \$198,707. This decrease in net assets results from the depreciation expenses for capitalized fixed assets as shown on page 23 of this report. Depreciation expenses are provided to reflect the using up over time of the value of items of capital equipment previously acquired, to allow for the planning of the timely replacement or renovation of these assets when required.
- At the close of the fiscal year, the District's governmental funds reported combined fund balances of \$2,480,898, a net increase of \$148,322 compared to the prior year. Of the total, \$350,048 is available for spending at the District's discretion as *unreserved, undesignated fund balance*.
- At the end of the year, unreserved, undesignated fund balance of the general fund was \$350,048 or 42.1 percent of total general fund annual expenditures, a healthy contingency for unexpected expenditures.
- The District's total long-term debt decreased by \$625,000 during the current fiscal year. The decrease relates to principal payments made on outstanding revenue bonds during the year ended September 30, 2007.
- Special assessments are shown as assessments receivable. At the fund level there is an off-setting line item for deferred revenue pertaining to assessments due in future years. Assessments receivable decreased by \$680,050 during the year and has a September 30, 2007 balance of \$4,142,511.

Overview of the Financial Statements

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The **Statement of Net Assets** presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Village Community Development District No. 2 is improving or deteriorating.

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

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Management's Discussion and Analysis (UNAUDITED) September 30, 2007

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

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

The Fund Financial Statements, which report by individual fund, begin on page 11. Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village Community Development District No. 2, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are considered governmental funds. There are no proprietary or fiduciary funds maintained by the District. The fund financial statements present information in more detail than the government-wide financial statements. Governmental Accounting Standards Board (GASB) Statement No. 34 provides the authoritative guidance on the governmental financial reporting model.

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

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

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and debt service fund, both of which are considered to be major funds. The remaining fund, the Capital Project Fund, is a non-major fund, and is separately presented as the only non-major fund.

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

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

Notes to the Financial Statements

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

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Management's Discussion and Analysis
(UNAUDITED)
September 30, 2007

Government-wide Financial Analysis

The District's net assets as of September 30, 2007 and September 30, 2006 were \$11.406 million and \$11.605 million, respectively, representing a decrease of approximately \$199,000. The District's revenues for the years ended September 30, 2007 and September 30, 2006, including assessments and investment earnings, were approximately \$1.245 million and \$0.480 million, respectively. The District's expenses for the years ended September 30, 2007 and September 30, 2006 were \$1.443 million and \$1.467 million, respectively. Table 1 reflects the summary statement of net assets for the current year and prior year.

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Table 1

Net Assets

	Governmental Activities	
	September 30, 2007	September 30, 2006
Assets:		(as restated)
Current and other assets	\$ 2,817,914	2,677,152
Assessments receivable	4,142,511	4,822,561
Capital assets - net	9,476,517	9,759,503
Total assets	16,436,942	17,259,216
Liabilities :		
Current and other liabilities	176,011	174,578
Long-term liabilities	4,855,000	5,480,000
Total liabilities	5,031,011	5,654,578
Net assets:		
Invested in capital assets, net of related debt	5,287,477	5,208,401
Restricted for debt service	4,736,208	5,356,206
Unrestricted	1,382,246	1,040,031
Total net assets	\$ 11,405,931	11,604,638

The largest share of the District's net assets (46.3 percent) relate to investments in capital assets, less any related debt outstanding, used to acquire those capital assets. Reserves to pay debt service expenses represent another 41.5 percent. The resources required to repay the debt must be provided annually from assessments, since the capital assets themselves cannot be liquidated to pay the liabilities.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Management's Discussion and Analysis
(UNAUDITED)
September 30, 2007

The District's net assets also include amounts restricted for Capital Projects and are subject to external restrictions under the District's Bond Covenants.

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

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Table 2

Changes in Net Assets

	Governmental Activities	
	September 30, 2007	September 30, 2006 (as restated)
Revenues:		
Special assessments	\$ 1,090,207	377,196
Other revenues	14,393	16,975
Investment earnings	139,928	86,070
Total revenues	<u>1,244,528</u>	<u>480,241</u>
Expenses:		
General government	1,140,129	1,125,677
Interest on long-term debt	303,106	341,479
Total expenses	<u>1,443,235</u>	<u>1,467,156</u>
Increase(decrease) in net assets	\$ <u>(198,707)</u>	<u>(986,915)</u>

Revenues

Revenues include assessments on District landowners for maintenance and debt service. Other revenue includes reimbursements from Sumter County for the District maintaining county road right-of-ways. Investment earnings on cash balances held during the year make the final source of revenue to the District. Special Assessment revenue increased by \$713,011 in FY 2007 compared to FY 2006, due to the restatement of special assessments receivable. Investment earnings increased by 62.6 percent based on moving our investment balances to the State Board of Administration, Local Government Investment Pool.

Expenses

General government expenses of the District are mainly for landscaping, irrigation, utilities and maintenance costs. Interest on the long term debt is the amount of interest paid to bondholders pertaining to the District's revenue bonds. The interest expense decreased slightly compared to the prior year. The interest on the long term

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Management's Discussion and Analysis (UNAUDITED) September 30, 2007

debt will continue to decrease as the existing bond issues are paid off. General governmental expenses increased slightly (1.3 percent), but at a rate below the underlying inflation rate.

Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year. As of the end of fiscal year 2007, the District's governmental funds reported combined ending fund balances of \$2,480,898, an increase of \$148,322 in comparison with the end of fiscal year 2006. Approximately 14.1 percent of this total amount (\$350,048) constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *reserved or designated* to indicate that it is not available for new spending because it has already been committed 1) to renewal and replacement (\$872,198), 2) debt service (\$833,861), 3) future expenditures (\$160,000), and 4) capital improvements (\$264,791).

The general fund is the chief operating fund of the District. At the end of FY 2007, unreserved, undesignated fund balance was \$350,048, while total fund balance reached \$1,382,246. As a measure of the general fund's liquidity, it may be useful to compare both unreserved, undesignated fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 42.1 percent of total general fund expenditures, while total fund balance represents 166.1 percent of that same amount.

The debt service fund has a total fund balance of \$833,861, all of which is reserved for the payment of debt service. The net decrease in fund balance was \$448,944, of which \$207,567 was transferred to the general fund and \$243,706 was transferred to the Capital Project Fund. This fund's revenue is comprised entirely of special assessment proceeds and interest earnings on cash balances. No new debt was issued by the District during fiscal year 2007.

General Fund Budgetary Highlights

During the year there was a \$4,088 increase in the appropriations for the general fund between the original and final budget. Numerous minor adjustments resulted in this net increase.

Capital Asset and Debt Administration

Capital Assets. The District's capital assets as of September 30, 2007 and September 30, 2006 amounted to \$9,476,517 and \$9,759,503, respectively. This is net of accumulated depreciation and includes land and improvements. The reduction resulted from annual depreciation expenses, while no new capital assets were added during the year. Additional information regarding the District's capital assets can be found in Note 3 to the financial statements.

Long-term Debt. At September 30, 2007 and September 30, 2006, the District had long-term debt outstanding of \$4,855,000 and \$5,480,000, respectively. Debt principal of \$625,000 was retired, while no new debt was issued by the District during the year. All of the debt is special assessment debt and is secured solely by special

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Management's Discussion and Analysis (UNAUDITED) September 30, 2007

assessment revenue sources. Additional information regarding the District's long-term debt can be found in Note 4 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rates in Sumter County where the District is located was 3.1 percent in September 2007 which is a slight increase from a rate of 2.8 percent a year ago. This compares favorably with the State's average unemployment rate of 4.3 percent and the national average rate of 4.5 percent.
- Inflationary trends in the area compare favorably to national indices. The national Consumer Price Increase (CPI) annual increase for all urban consumers changed unfavorably from 2.06 percent in September 2006 to 2.76 percent in September 2007.

These factors were considered in preparing the Districts' budget for the 2008 fiscal year. In FY 2008, the annual maintenance assessment is unchanged from the FY 2007 amounts and the debt service assessments have been reduced slightly as more of the bond issues have been paid down. Total annual projected revenues and expenditures have increased in the FY 2008 budget by about \$61,000 compared to the FY 2007 amended budget, primarily by expanding the size of reserve contingencies.

Request for Information

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

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Statement of Net Assets

September 30, 2007

	Assets	Governmental Activities
Cash and investments		\$ 2,535,703
Assessments receivable		4,142,511
Unamortized bond issuance costs		282,211
Capital assets, net of accumulated depreciation		<u>9,476,517</u>
Total assets		<u>16,436,942</u>
	Liabilities	
Accounts payable		54,805
Accrued interest		121,206
Long-term debt:		
Due within one year		315,000
Due in more than one year		<u>4,540,000</u>
Total liabilities		<u>5,031,011</u>
	Net Assets	
Invested in capital assets, net of related debt		5,287,477
Restricted for debt service		4,736,208
Unrestricted		<u>1,382,246</u>
Total net assets		\$ <u>11,405,931</u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Statement of Activities

Year ended September 30, 2007

Functions/Programs	Program revenues			Net (expense) revenue and changes in net assets		
	Expenses	Charges for services	Operating contributions	Capital grants and contributions	Governmental activities	Total
Governmental activities:						
General government	\$ 1,140,129	\$ 1,090,207	\$ -	\$ -	(49,922)	\$ (49,922)
Interest on long-term debt	303,106	-	-	-	(303,106)	(303,106)
Total governmental activities	<u>\$ 1,443,235</u>	<u>1,090,207</u>	<u>-</u>	<u>-</u>	<u>(353,028)</u>	<u>(353,028)</u>
General revenue:						
Other revenues					14,393	14,393
Investment earnings					139,928	139,928
Total general revenues					<u>154,321</u>	<u>154,321</u>
Change in net assets					<u>(198,707)</u>	<u>(198,707)</u>
Net assets – beginning (as restated)					11,604,638	11,604,638
Net assets – ending					<u>11,405,931</u>	<u>11,405,931</u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Balance Sheet – Governmental Funds

September 30, 2007

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Assets:				
Cash and investments	\$ 1,437,051	833,861	264,791	2,535,703
Assessments receivable	-	4,142,511	-	4,142,511
Due From Debt Service Fund	-	-	-	-
Total assets	\$ 1,437,051	4,976,372	264,791	6,678,214
Liabilities:				
Accounts payable	\$ 54,805	-	-	54,805
Due to General Fund	-	-	-	-
Deferred assessment revenue	-	4,142,511	-	4,142,511
Total liabilities	54,805	4,142,511	-	4,197,316
Fund balances:				
Reserved:				
Debt service	-	833,861	-	833,861
Capital improvements	-	-	264,791	264,791
Unreserved, designated for:				
Renewal and replacement	872,198	-	-	872,198
Future expenditures	160,000	-	-	160,000
Unreserved, undesignated	350,048	-	-	350,048
Total fund balances	1,382,246	833,861	264,791	2,480,898
Total liabilities and fund balances \$	1,437,051	4,976,372	264,791	6,678,214

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

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

September 30, 2007

Total fund balances, governmental funds		\$	2,480,898
Total net assets reported for governmental activities in the statement of net assets is different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:			
Capital assets	\$	11,682,850	
Less accumulated depreciation		<u>(2,206,333)</u>	9,476,517
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Special assessment revenue bonds		(4,855,000)	
Accrued interest		<u>(121,206)</u>	(4,976,206)
Deferred revenue reported in the funds is added to the balance of net assets restricted for debt service to reflect the revenue as recorded when the total assessment is levied.			4,142,511
Certain long-term assets are not available to pay for current period expenditures and therefore are not included in the funds:			
Unamortized bond issuance costs			<u>282,211</u>
Net assets of governmental activities	\$		<u><u>11,405,931</u></u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

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

Year ended September 30, 2007

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues:				
Special assessments	\$ 868,491	901,764	-	1,770,255
Intergovernmental- Sumter County Rd. Maint.	14,250	-	-	14,250
Other revenues	143	-	-	143
Interest income	84,166	44,417	11,345	139,928
Total revenues	<u>967,050</u>	<u>946,181</u>	<u>11,345</u>	<u>1,924,576</u>
Expenditures:				
Current – general government	832,402	-	-	832,402
Debt service:				
Principal	-	625,000	-	625,000
Interest	-	318,852	-	318,852
Total expenditures	<u>832,402</u>	<u>943,852</u>	<u>-</u>	<u>1,776,254</u>
Excess (deficiency) of revenues over expenditures	<u>134,648</u>	<u>2,329</u>	<u>11,345</u>	<u>148,322</u>
Other financing sources (uses):				
Transfers	207,567	(451,273)	243,706	-
Total other financing sources (uses)	<u>207,567</u>	<u>(451,273)</u>	<u>243,706</u>	<u>-</u>
Net change in fund balances	342,215	(448,944)	255,051	148,322
Fund balances, at beginning of year	1,040,031	1,282,805	9,740	2,332,576
Fund balances, at end of year	\$ <u>1,382,246</u>	<u>833,861</u>	<u>264,791</u>	<u>2,480,898</u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

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

Year ended September 30, 2007

Net change in fund balances – total governmental funds	\$	148,322
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures.		
However, in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in the current period.		(282,987)
Governmental funds report the costs of bond issuance as expenditures. However, in the statement of activities, bond issuance costs are capitalized and allocated over the term of the related bonds as amortization expense. This is the amount of amortization expense in the current period.		
		(24,740)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Accrued interest		15,746
Governmental funds report special assessment debt service revenue when collected, however in the statement of activities the revenue is recorded when the total assessment is levied.		
Deferred assessment revenue at September 30, 2007	4,142,511	
Deferred assessment revenue at September 30, 2006	<u>(4,822,559)</u>	(680,048)
Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		<u>625,000</u>
Change in net assets of governmental activities	\$	<u><u>(198,707)</u></u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

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

General Fund

Year ended September 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Special assessments	\$ 880,246	882,741	868,491	(14,250)
Interest and other income	25,500	84,200	98,559	14,359
Total revenues	<u>905,746</u>	<u>966,941</u>	<u>967,050</u>	<u>109</u>
Expenditures:				
General government:				
Professional service	222,417	220,415	213,453	6,962
Accounting and auditing	9,750	12,300	12,261	39
Other contractual services	33,500	33,500	31,358	2,142
Communication and freight	1,700	1,500	1,314	186
Utility services	153,470	152,210	141,462	10,748
Rentals and leases	1,000	1,000	-	1,000
Insurance	9,900	10,200	10,135	65
Repair and maintenance/landscape	427,300	426,600	408,065	18,535
Printing and binding	600	500	-	500
Other current charges	3,050	3,550	3,370	180
Office supplies	650	650	617	33
Operating supplies	5,000	10,000	10,367	(367)
Total expenditures	<u>868,337</u>	<u>872,425</u>	<u>832,402</u>	<u>40,023</u>
Excess (deficiency) of revenues over expenditures	<u>37,409</u>	<u>94,516</u>	<u>134,648</u>	<u>40,132</u>
Other financing sources:				
Transfers	-	207,567	207,567	-
Total other financing uses	<u>-</u>	<u>207,567</u>	<u>207,567</u>	<u>-</u>
Net change in fund balances	37,409	302,083	342,215	40,132
Fund balances, at beginning of year	<u>917,727</u>	<u>990,264</u>	<u>1,040,031</u>	<u>49,767</u>
Fund balances, at end of year	\$ <u>955,136</u>	<u>1,292,347</u>	<u>1,382,246</u>	<u>89,899</u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2
Notes to Basic Financial Statement
September 30, 2007

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

(a) **Reporting Entity**

Village Community Development District No. 2 (the District) was established in 1996 for the purpose of planning, financing, constructing, operating, and maintaining certain community-wide infrastructure for a community development district located entirely within Sumter County, Florida. The District was created by Sumter County Commission Ordinance No. 96-12 pursuant to the provisions of Chapter 190.005, Florida Statutes, and operates within the criteria established by Chapter 190. The District is governed by a five member Board of Supervisors. As of September 30, 2007, each member of the Board of Supervisors is an elected resident of the District.

The District boundary consists of approximately 990 acres in the northeast corner of the county. Planned development includes construction of 3,672 residential units. The land within the District is part of the active adult retirement community known as "The Villages". The Villages consists of approximately 20,256 acres spanning the borders of Lake, Sumter and Marion Counties and the Town of Lady Lake, Florida, and when fully developed is expected to include 55,960 residences and approximately 100,000 residents. The Villages of Lake-Sumter, Inc. was the developer and initial owner of the property within the District. Substantially all of the residential units in Village Community Development District No. 2 have been completed by the developer and sold to the current residents of the District. The Villages continues to be developed by the developer, a family-owned business established for the single purpose of developing The Villages. Most current development is being performed in Districts No. 6 and 7, south and west of District No. 2.

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

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

The Developer has formed the following community development districts:

- Village Center CDD (Lake, Marion and Sumter Counties) – This CDD provides water and sewer utility services, recreation and security services, and fire protection and paramedic services to the residents. The cost of operations is funded by amenity and utility fees that residents pay monthly. This CDD also provides for the maintenance of common areas and roadways for the commercial areas within the CDD boundaries. The cost of maintenance in the commercial areas is funded through commercial maintenance assessments.
- Sumter Landing CDD (Sumter County) – This CDD provides recreation and security services to the residents. The cost of operations is funded by amenity fees that residents pay monthly. This CDD also provides for the maintenance of common areas and roadways for the commercial areas within the CDD boundaries. The cost of maintenance in the commercial areas is funded through maintenance assessments.
- Village CDD No. 1 (Sumter County) – This CDD's boundary consists of approximately 998 acres in the northeast corner of the county. The development includes construction of 3,427 residential units.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2
Notes to Basic Financial Statement
September 30, 2007

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

(a) **Reporting Entity (continued)**

- Village CDD No. 2 (Sumter County) – This CDD’s boundary consists of approximately 990 acres in the northeast corner of the county. The development includes construction of 3,672 residential units.
- Village CDD No. 3 (Sumter County) – This CDD’s boundary consists of approximately 895 acres in the northeast corner of the county. The development includes construction of 3,762 residential units.
- Village CDD No. 4 (Marion County) – This CDD’s boundary consists of approximately 1,187 acres in the southern portion of the county. The development includes construction of 5,132 residential units.
- Village CDD No. 5 (Sumter County) – This CDD’s boundary consists of approximately 1,408 acres in the northeast corner of the county. The development includes construction of 6,399 residential units.
- Village CDD No. 6 (Sumter County) – This CDD’s boundary consists of approximately 1,458 acres in the northeast corner of the county. Planned development includes construction of 6,677 residential units.
- Village CDD No. 7 (Sumter County) – This CDD’s boundary consists of approximately 976 acres in the northeast corner of the county. Planned development includes construction of 4,745 residential units.
- Village CDD No. 8 (Sumter County) – This CDD has been formed, but is not yet being developed as of September 30, 2007.
- Village CDD No. 9 (Sumter County) – This CDD has been formed, but is not yet being developed as of September 30, 2007.
- Village CDD No. 10 (Sumter County) – This CDD has been formed, but is not yet being developed as of September 30, 2007.

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

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2
Notes to Basic Financial Statement
September 30, 2007

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

(b) ***Basic Financial Statements***

Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the District as a whole) and fund financial statements. The government-wide financial statements (i.e. the statement of net assets and statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of internal activity has been removed from these statements.

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

The District's major funds are presented in separate columns on the fund financial statements. The definition of a major fund is one that meets certain criteria set forth in GASB 34. The General Fund and the Debt Service Fund meet this definition and are designated as major funds. The only remaining non-major fund is the Capital Project Fund and it is also separately reported in a separate column.

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

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

Invested in capital assets, net of related debt is intended to reflect the portion of net assets which are associated with capital assets net of accumulated depreciation less outstanding capital asset related debt. Related debt is the debt less any associated unamortized issuance costs.

Restricted net assets are assets that have third party (statutory, bond covenant or granting agency) or enabling legislation limits on their use. The District would typically use restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use thereof to a future project or replacement equipment acquisition.

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

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

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

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2
Notes to Basic Financial Statement
September 30, 2007

(1) Summary of Significant Accounting Policies (continued)

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

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

The following are the District's major governmental funds:

General Fund

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

Debt Service Fund

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

The following is the District's non-major governmental fund:

Capital Projects Fund

The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities or community-wide infrastructure.

(d) *Budgetary Data*

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

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

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

1. Deposits and Investments

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

- Money Market Mutual Funds (Restricted Investments)
- Demand Deposits and Related Repurchase Agreements
- Florida State Board of Administration's Local Government Investment Pool (SBA LGIP).

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

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2
Notes to Basic Financial Statement
September 30, 2007

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

2. Capital Assets

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

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

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

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

3. Bond Issuance Costs

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

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

4. Assessments

Bond Assessments

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

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2
Notes to Basic Financial Statement
September 30, 2007

(1) Summary of Significant Accounting Policies (continued)

4. Assessments (continued)

Maintenance Assessments

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

Assessment Methodology

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

Billing / Collection of Assessments

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

(f) Use of Estimates

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

(2) Investments

<u>Investment Type</u>	<u>Fair Value at September 30, 2007</u>	<u>Weighted Average Maturity (days)</u>	<u>Credit Rating</u>
Repurchase Agreement	\$ 142,272	overnight	n/a
Money Market Mutual Funds	\$ 1,098,652	23	AAAm
SBA LGIP	\$ 1,294,680	34	n/a

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2
Notes to Basic Financial Statement
September 30, 2007

(2) Investments (continued)

The District's investments consist of funds placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pool created by Section 218.415, Florida Statutes. This investment pool operates under investment guidelines established by Section 215.47, Florida Statutes. The District's investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, are reported at fair value which is amortized cost. In addition operating cash is maintained with Citizens First Bank, an authorized Public Depository pursuant to Chapter 280, Florida Statutes. The majority of these funds are maintained in an overnight repurchase agreement, not considered a deposit. These amounts are collateralized by U.S. Government and U.S. Government Agency securities. Trust balances related to restricted debt service and capital project accounts are maintained with U.S. Bank and are invested in First American Government Obligation Fund Class Y, a money market mutual fund.

Custodial Credit Risk

All cash and investments, other than demand deposit accounts, are held in the name of a custodian or a Trustee for the District. The repurchase agreement is an obligation of Citizen's First Bank. The securities pledged as collateral are held by a safekeeping agent. In the event of insolvency of the bank the District may become an unsecured creditor to the extent the market value of the federal agency security falls below the amount invested during the tenure of the repurchase agreement.

Interest Rate Risk

The short term liquidity of the cash equivalents and investments minimizes the impact that interest rate risk may have on the District.

Concentration of Credit Risk

<u>Type of Investment:</u>	<u>Issuer:</u>	<u>% of Total Investments</u>
Repurchase Agreement	Citizen's First Bank	5.61%

Investment Policy

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

- The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Inter-local Cooperation Act as provided in s. 163.01.
- Securities and Exchange Commission registered money market mutual funds with the highest credit quality rating from a nationally recognized rating agency.
- Interest-bearing time deposits or savings accounts in qualified public depositories as defined in s. 280.02.
- Direct obligations of the United States Treasury.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2
Notes to Basic Financial Statement
September 30, 2007

(2) **Cash, Cash Equivalents and Investments (continued)**

- Federal agencies and instrumentalities.
- Repurchase agreements with financial institutions approved as public depositors, provided that the underlying collateral consist of obligations of the United States Government, its agencies and instrumentalities. The repurchase agreement shall be collateralized at 102 percent of the value of the District's investment.

(3) **Capital Assets**

Capital asset activity for the year ended September 30, 2007 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Assets not being depreciated:				
Land	\$ 363,360	-	-	363,360
Assets being depreciated:				
Improvements other than buildings	11,319,490	-	-	11,319,490
Less accumulated depreciation for:				
Improvements other than buildings	<u>(1,923,346)</u>	<u>(282,987)</u>	<u>-</u>	<u>(2,206,333)</u>
Total assets being depreciated, net	<u>9,396,144</u>	<u>(282,987)</u>	<u>-</u>	<u>9,113,157</u>
Governmental activities, capital assets	<u>\$ 9,759,504</u>	<u>(282,987)</u>	<u>-</u>	<u>9,476,517</u>

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2
Notes to Basic Financial Statement
September 30, 2007

(4) Long-term Debt

Long-term debt consisted of the following at September 30, 2007:

\$6,155,000 Special Assessment Revenue Bonds, Series 21996 principal installments ranging from \$115,000 to \$225,000 through May 2017 in accordance with the redemption schedule. Interest is due semi-annually on May 1 and November 1 of each year until redemption or maturity. Interest rate is 7.625%.	\$ 1,655,000
\$6,670,000 Special Assessment Revenue Bonds, Series 1998 principal installments ranging from \$200,000 to \$345,000 through May 2019 in accordance with the redemption schedule. Interest is due semi-annually on May 1 and November 1 of each year until redemption or maturity. Interest rate range from 3.80% to 5.20%.	\$ <u>3,200,000</u>
Total long -term debt	4,855,000
Less current installments of bonds payable	<u>(315,000)</u>
Revenue bonds payable less current installments	\$ <u><u>4,540,000</u></u>

The Special Assessment Revenue Bonds are secured by a lien and pledge of revenues under the indentures, which are derived by the District through levy and collection on land within the District specifically benefited. These bonds are additionally secured by amounts on deposit in the funds and accounts created pursuant to the indentures. The annual requirements to amortize the principal and interest of all revenue bonds payable as of September 30, 2007 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30, 2007			
2008	\$ 315,000	290,894	605,894
2009	335,000	273,425	608,425
2010	355,000	252,974	607,974
2011	375,000	231,240	606,240
2012	400,000	208,224	608,224
2013-2017	2,400,000	639,411	3,039,411
2018-2019	<u>675,000</u>	<u>53,040</u>	<u>728,040</u>
Total	<u><u>4,855,000</u></u>	<u><u>1,949,208</u></u>	<u><u>6,804,208</u></u>

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2
Notes to Basic Financial Statement
September 30, 2007

(4) Long-term Debt (continued)

Changes in Long-Term Debt

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
Bonds payable	\$ 5,480,000	-	(625,000)	4,855,000	315,000
Governmental activities long-term debt	\$ 5,480,000	-	(625,000)	4,855,000	315,000

(5) Related Parties

The District has no employees. For certain management, finance, and administrative services, the District entered into an inter-local agreement with Village Center Community Development District (Center District), a community development district created under Florida Statute 190. Under the agreement, fees accrued to Center District by the District for such services totaled \$186,415 for the year ended September 30, 2007.

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

Engineering services were provided to the District by the Developer in previous years, some of which were for no charge. During FY 2006-2007, engineering services for the District were transitioned to engineering firms selected by and paid by the District.

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

(6) Risk Management

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

(7) Subsequent Event

As discussed in Note 2, at September 30, 2007, the Village Community Development District No. 2 had \$1,294,680 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool (Pool). On November 28, 2007, based on information received from

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2
Notes to Basic Financial Statement
September 30, 2007

the news media of a "run on the bank" at the Local Government Investment Pool, the District Manager and Finance Director directed the withdrawal of all District deposits from the Local Government Investment Pool. The next day, November 29, 2007, the State Board of Administration implemented a temporary freeze on the assets held in the Pool due to an unprecedented amount of withdrawals from the Fund coupled with the absence of market liquidity for certain securities within the Pool. The significant amount of withdrawals followed reports that the Pool held asset-backed commercial paper that was subject to sub prime mortgage risk. On December 4, 2007, based on recommendations from an outside financial advisor, the State Board of Administration restructured the Pool into two separate pools. Pool A consisted of all money market appropriate assets, which was approximately \$12 billion or 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 \$2 billion or 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. On December 21, 2007, Standard and Poor's Ratings Services assigned its "AAAm" principal stability fund rating to Pool A.

Currently, Pool B participants are prohibited from withdrawing any amount from the Pool and a formal withdrawal policy has not yet been developed. Market valuations of the assets held in Pool B are not readily available. In addition, full realization of the principle value of Pool B assets is not readily determinable. The State Board of Administration placed all investment earnings for the month of November 2007 into Pool B and did not distribute the amounts to the individual government accounts. It is estimated that such earnings for the District are less than \$5,000.

As of December 31, 2007, the District has no dollars invested in Pool A and an indeterminable amount (but less than \$5,000) invested in pool B. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

(8) Restatement of Beginning Net Assets

The beginning net assets at the government wide level was restated to more accurately reflect the value of Special Assessments receivable net of cash balances on hand. The change to assessments receivable is a reduction of \$865,837, resulting in a like reduction in net assets.

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

Board of Supervisors
Village Community Development District No. 2
The Villages, Florida

We have audited the financial statements of the governmental activities and each major fund of Village Community Development District No. 2 (the District), as of and for the year ended September 30, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 19, 2008. 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 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.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted certain matters that we reported to management of the District in a separate letter dated February 19, 2008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material

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Board of Supervisors
Village Community Development District No. 2
The Villages, Florida

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

Compliance and Other Matters (Concluded)

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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Supervisors, management and the Auditor General of the State of Florida. It is not intended to be used, and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

February 19, 2008
Ocala, Florida

MANAGEMENT LETTER

Board of Supervisors
Village Community Development District No. 2
The Villages, Florida

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Village Community Development District No. 2 (the District), as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated February 19, 2008.

We have issued our report on compliance and on internal control over financial reporting and on compliance and other matters dated February 19, 2008. Disclosures in this report, if any, should be considered in conjunction with this management letter.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The *Rules of the Auditor General* [Section 10.554(1)(i)1.] require that we comment as to whether or not corrective action has been taken to address significant findings and recommendations made in the preceding annual financial audit report (see attached management letter comments).

The *Rules of the Auditor General* [Section 10.554(1)(i)2.] require that we determine whether the District complied with Section 218.415, Florida Statutes, regarding investment of public funds. Our audit disclosed no matters requiring comment as outlined in Section 218.415, Florida Statutes.

The *Rules of the Auditor General* [Section 10.554(1)(i)3.] require that we address in the management letter any recommendations to improve the District's financial management, accounting procedures and internal controls (see attached management letter comments).

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

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

Board of Supervisors
Village Community Development District No. 2
The Villages, Florida

MANAGEMENT LETTER
(Concluded)

The *Rules of the Auditor General* [Section 10.554(1)(i)5.] requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; (3) control deficiencies that are not significant deficiencies, including, but not limited (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of the auditor. In connection with our audit, we did not have any such findings.

The *Rules of the Auditor General* [Section 10.554(1)(i)6.] also require that the name or official title and legal authority for the government be disclosed in the management letter, unless disclosed in the notes to the financial statements. See note 1 of the September 30, 2007, Village Community Development District No. 2 basic financial statements for this information.

As required by the *Rules of the Auditor General* [Section 10.554(1)(i)7.(a)], the scope of our audit included a review of the provisions of Section 218.503(1)(a), Florida Statutes, "Determination of Financial Emergency." In connection with our audit, we determined that the District did not meet one or more of the financial emergency criteria described in Section 218.503(1), Florida Statutes.

As required by the *Rules of the Auditor General* [Section 10.554(1)(i)7.(b)], we determined that the annual financial report for the District for the fiscal year ended September 30, 2007, filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2007.

As required by the *Rules of the Auditor General* [Section 10.554(1)(i)7.(c) and 10.556(7)], we applied financial condition assessment procedures pursuant to Rule 10.556(7). There were no findings of deteriorating financial condition, which were required to be reported.

This management letter is intended solely for the information and use of the Board of Supervisors, management and the Auditor General of the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

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

Pruitt, Gray and Company, LLP

February 19, 2008
Ocala, Florida

MANAGEMENT LETTER COMMENTS

Board of Supervisors
Village Community Development District No. 2
The Villages, Florida

During the course of our audit, the following items came to our attention involving primarily operational matters, which if improved, will result in more efficient and effective operations:

Status of Prior Year Comments and Recommendations (Updated for Current Year)

Capital Asset Renewal and Replacement

The Village Community Development District No. 2 (the District) has a very large investment in infrastructure that is all debt financed and likely to require significant ongoing renewal and replacements over time as these assets age. Accordingly, we recommend that the District continue its existing efforts to develop a comprehensive capital improvement plan that would identify the timetable and funding source for all significant items likely to require renewal or replacement.

Special Assessments Receivable

The calculation of the special assessment receivable balances was based upon the amount of bonds outstanding net of unapplied Special Assessment collections, which is believed to give an accurate receivable balance. We recommend that the District verify the balance of special assessments recorded in the financial statements based upon subsidiary receivable records to corroborate the balance calculated based upon the bond balance outstanding method.

Current Year Recommendations

Capital Assets

The initial purchase of the infrastructure assets obtained from the developer is shown primarily as one large figure in the capital asset records. This purchase included a variety of assets such as land, roads, and structures. We recommend that management investigate and determine the actual makeup of the assets by type and allocate the costs at the time of the initial purchase. This process will assist in determining what more precisely belongs to the district and how the assets should be maintained and depreciated.

This management letter comments is intended solely for the information and use of the Board of Supervisors, management, the State of Florida and other governmental agencies and is not intended to be and should not be used by anyone other than these specified parties.

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

Purvis, Gray and Company, LLP

February 19, 2008
Ocala, Florida

Certified Public Accountants

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



VILLAGE COMMUNITY
DEVELOPMENT DISTRICT NO. 2

VILLAGE COMMUNITY DEVELOPMENT DISTRICT No. 2

3201 Wedgewood Lane, The Villages, FL. 32162 352-753-0421 Fax: 352-751-3901

February 29, 2008

Board of Supervisors
Village Community Development District No. 2
The Villages, Florida 32162

RE: Management Response Letter

Dear Supervisors:

Attached is the completed audit for fiscal year 2006-2007 for Village Community Development District No. 2. We are proud to report that this audit has an unqualified opinion that has no comments concerning internal controls and compliance issues. There are four management letter comments contained in their report. They are addressed below, along with District Managements' response to the comments.

1. Auditor Comment: Capital Asset Renewal and Replacement

Accordingly, we recommend that the District continue its existing efforts to develop a comprehensive capital improvement plan that would identify the timetable and funding source for all significant items likely to require renewal and replacement.

Management Response: Concur.

District staff is beginning the process of developing the FY 2008-2009 budget for adoption in September 2008. As part of this process we are evaluating the steps necessary to implement a multi-year capital improvement plan component for presentation to each District Board of Supervisors. Due to the numerous changes currently underway in the structure of the Districts' staffs and financial and budgetary system updates, the implementation date of the multi-year capital improvement plan has not yet been established.

2. Auditor Comment: Special Assessments Receivable

We recommend that the District verify the balance of special assessments recorded in the financial statements based upon subsidiary receivable records to corroborate the balance calculated based upon the bond balance outstanding method.

Management Response: Concur.

This estimate is required in the entity wide accrual based statements. Staff believes the estimate calculated using the balance outstanding method represents an accurate estimate of the future year assessments receivable. This balance will be corroborated to the subsidiary assessment ledger account amounts outstanding to confirm accuracy.

3. Auditor Comment: Capital Assets

We recommend that management determine the actual makeup of the assets by type and allocate the costs at the time of the initial purchase. This process will assist in determining what more precisely belongs to the District and how assets should be maintained and depreciated.

Management Response: Concur.

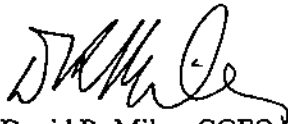
We agree in concept with this recommendation, however most of the fixed assets of District #2 were acquired in the late 1990's and early 2000's and is represented by land and improvements to land (such as drainage and water management improvements). As new assets are added or original assets are modified and replaced, we will apply this concept. Revisiting the original recording of the improvements to land will be identified in a special project for potential funding in the FY 2008- 2009 budget. This project would be shared by multiple Districts on a proportional share basis.

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

We believe that Village Community Development District No. 2 sets an example for the appropriate management of Community Development Districts as conceived in Chapter 190, Florida Statutes. We would particularly like to commend the staff of the Villages District Finance Department for their diligent efforts in recording and maintaining the financial records of the District.

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

Sincerely,



David R. Miles, CGFO
Finance Director



Janet Y. Tuttle
District Manager