



VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Basic Financial Statements

September 30, 2008

(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, 2008, 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 opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2008, 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 3, 2009, 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 table of 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 3, 2009
Ocala, Florida

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Management's Discussion and Analysis (UNAUDITED) September 30, 2008

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 as of September 30, 2008 by \$12,121,431 (net assets). Of this amount, \$1,497,047 of unrestricted net assets may be used to meet the District's ongoing obligations to residents and creditors.
- The District's total net assets decreased by \$150,415. This decrease in net assets results primarily from the depreciation expenses for capitalized fixed assets as shown on page 24 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 \$2,546,936, a net increase of \$66,038 compared to the prior year. Of the total, \$204,993 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 \$204,993 or 24.4 percent of total general fund annual expenditures, a healthy contingency for unexpected expenditures.
- The District's total long-term debt decreased by \$590,000 during the current fiscal year. The decrease relates to principal payments made on outstanding revenue bonds during the year ended September 30, 2008.
- 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 \$513,427 during the year and has a September 30, 2008 balance of \$4,494,999.

Overview of the Financial Statements

This discussion and analysis is 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).

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

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Both of the government-wide financial statements distinguish functions of the District that are principally supported by assessments and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include general government, 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.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Management's Discussion and Analysis
(UNAUDITED)
September 30, 2008

Government-wide Financial Analysis

The District's net assets as of September 30, 2008 and September 30, 2007 were \$12.121 million and \$12.271 million (as restated), respectively, representing a decrease of approximately \$150,000. The District's revenues for the years ended September 30, 2008 and September 30, 2007, including assessments and investment earnings, were approximately \$1.266 million and \$2.110 million (as restated), respectively. The prior year revenue was restated to reflect an increase in assessments receivable of \$865,915. The District's expenses for the years ended September 30, 2008 and September 30, 2007 were \$1.416 million and \$1.443 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, 2008	September 30, 2007
Assets:		(as restated)
Current and other assets	\$ 2,839,441	2,817,914
Assessments receivable	4,494,999	5,008,426
Capital assets, net	9,193,529	9,476,517
Total assets	<u>16,527,969</u>	<u>17,302,857</u>
Liabilities :		
Current and other liabilities	141,538	176,011
Long-term liabilities	4,265,000	4,855,000
Total liabilities	<u>4,406,538</u>	<u>5,031,011</u>
Net assets:		
Invested in capital assets, net of related debt	5,576,420	5,287,477
Restricted for debt service and capital projects	5,047,964	5,602,123
Unrestricted	1,497,047	1,382,246
Total net assets	<u>\$ 12,121,431</u>	<u>12,271,846</u>

The largest share of the District's net assets (46.0 percent) relate to investments in capital assets, less any related debt outstanding, used to acquire those capital assets. Reserves to pay debt service expenses and to fund capital projects represent another 41.6 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.

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Management's Discussion and Analysis
(UNAUDITED)
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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, 2008	September 30, 2007
Revenues:		(as restated)
Special assessments	\$ 1,149,658	1,956,122
Other revenues	64,606	14,393
Investment earnings	51,439	139,928
Total revenues	<u>1,265,703</u>	<u>2,110,443</u>
Expenses:		
General government	1,148,492	1,140,129
Interest on long-term debt	267,626	303,106
Total expenses	<u>1,416,118</u>	<u>1,443,235</u>
Increase (decrease) in net assets	<u>\$ (150,415)</u>	<u>667,208</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 decreased by \$806,464 in FY 2008 compared to FY 2007, primarily due to the restatement of special assessments receivable.

At the beginning of the fiscal year, the District maintained its cash balances with Citizens First Bank, its non-trust investment balances with the State Board of Administration Local Government Investment Pool (SBA) and its trust balances with U.S. Bank, its trustee. During the year, the U.S. investment marketplace saw disruptions in credit and liquidity availability unprecedented since the 1930's. The District removed its balances with the SBA during a "run on the bank" in November 2007 and did not return to the SBA until February 2008 when a series of reforms to the investment management practices of the SBA were instituted.

The District, under the guidance of the Investment Advisory Committee, joined the Florida Municipal Investment Trust (FMIVT), sponsored by the Florida League of Cities in May 2008. As of September 30, 2008, investments in this pool amount to \$1,053,801. During the year, investments were made in the Florida Municipal Investment

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Management's Discussion and Analysis (UNAUDITED) September 30, 2008

Trust to achieve a greater rate of return on long-term reserve balances. As of September 30, 2008, the FMIvT recorded unrealized losses due to market values of underlying positions of its securities lending program in Lehman Brothers, which filed for bankruptcy protection on September 14, 2008. These unrealized losses of \$13,292 offset some of the investment return achieved from other sources. Further information can be found in Note 2 of the Notes to Basic Financial Statements.

Investment earnings decreased by 63.2 percent based on decreases in interest rates in the general economy during the year and the unrealized losses in the FMIvT 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 debt will continue to decrease as the existing bond issues are paid off. General governmental expenses increased slightly by \$8,363 (0.73 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 2008, the District's governmental funds reported combined ending fund balances of \$2,546,936, an increase of \$66,038 in comparison with the end of fiscal year 2007. Approximately 8.05 percent of this total amount (\$204,993) 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 (\$1,132,054), 2) debt service (\$777,557), 3) future expenditures (\$160,000), and 4) capital improvements (\$272,332).

The general fund is the chief operating fund of the District. At the end of FY 2008, unreserved, undesignated fund balance was \$204,993, while total fund balance reached \$1,497,047. 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 24.4 percent of total general fund expenditures, while total fund balance represents 178.1 percent of that same amount.

The debt service fund has a total fund balance of \$777,557, all of which is reserved for the payment of debt service. The net decrease in fund balance was \$56,304. 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 2008.

The capital project fund has a total fund balance of \$272,332, an increase of \$7,541 due to investment earnings during the fiscal year.

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Management's Discussion and Analysis (UNAUDITED) September 30, 2008

General Fund Budgetary Highlights

During the year, there was a \$24,694 decrease in the appropriations for the general fund between the original and final budget. Numerous minor adjustments resulted in this net expenditure budget decrease.

Capital Asset and Debt Administration

Capital Assets. The District's capital assets as of September 30, 2008 and September 30, 2007 amounted to \$9,193,529 and \$9,476,517, 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. As of September 30, 2008 and September 30, 2007, the District had long-term debt outstanding of \$4,265,000 and \$4,855,000, respectively. Debt principal of \$590,000 was retired, while no new debt was issued by the District during the year. All of the debt is special assessment debt and is secured solely by special assessment revenue sources. Additional information regarding the District's long-term debt can be found in Note 4 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate in Sumter County where the District is located was 4.5 percent in September 2008 which is a significant increase from a rate of 3.1 percent a year ago. This compares favorably with the State's average unemployment rate of 6.8 percent and the national average rate of 6.0 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 2.76 percent in September 2007 to 4.94 percent in September 2008.

These factors were considered in preparing the Districts' budget for the 2009 fiscal year. In FY 2009, the annual maintenance assessment is unchanged from the original FY 2008 budget amounts and the debt service assessments have been reduced slightly as more of the bond issues have been paid down. Total annual projected revenues have increased in the FY 2009 budget by \$41,252 compared to the FY 2008 amended final budget, while expenditure appropriations have increased by \$122,938, with most of the growth in capital outlays and professional services.

Request for Information

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

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Statement of Net Assets

September 30, 2008

Assets		Governmental Activities
Cash and investments	\$	2,580,381
Accrued interest receivable		1,589
Assessments receivable		4,494,999
Unamortized bond issuance costs		257,471
Capital assets, net of accumulated depreciation		<u>9,193,529</u>
Total assets		<u>16,527,969</u>
Liabilities		
Accounts payable		35,034
Accrued interest payable		106,504
Long-term debt:		
Due within one year		315,000
Due in more than one year		<u>3,950,000</u>
Total liabilities		<u>4,406,538</u>
Net Assets		
Invested in capital assets, net of related debt		5,576,420
Restricted for debt service		5,047,964
Unrestricted		<u>1,497,047</u>
Total net assets	\$	<u>12,121,431</u>

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Statement of Activities

Year ended September 30, 2008

Functions/Programs	Expenses	Program revenues		Net (expense) revenue and changes in net assets		
		Charges for services	Operating contributions	Capital grants and contributions	Governmental activities	Total
Governmental activities:						
General government	\$ 1,148,492	1,149,658	—	—	1,166	1,166
Interest on long-term debt	267,626	—	—	—	(267,626)	(267,626)
Total governmental activities	\$ 1,416,118	1,149,658	—	—	(266,460)	(266,460)
General revenue:						
Other revenues					64,606	64,606
Investment earnings					51,439	51,439
Total general revenues					116,045	116,045
Change in net assets					(150,415)	(150,415)
Net assets -- beginning (as restated)					12,271,846	12,271,846
Net assets -- ending					\$ 12,121,431	\$ 12,121,431

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Balance Sheet – Governmental Funds

September 30, 2008

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Assets:				
Cash and investments	\$ 1,532,081	776,380	271,920	2,580,381
Accrued interest receivable	—	1,177	412	1,589
Assessments receivable	—	4,494,999	—	4,494,999
Total assets	<u>1,532,081</u>	<u>5,272,556</u>	<u>272,332</u>	<u>7,076,969</u>
Liabilities:				
Accounts payable	35,034	—	—	35,034
Deferred assessment revenue	—	4,494,999	—	4,494,999
Total liabilities	<u>35,034</u>	<u>4,494,999</u>	<u>—</u>	<u>4,530,033</u>
Fund balances:				
Reserved:				
Debt service	—	777,557	—	777,557
Capital improvements	—	—	272,332	272,332
Unreserved, designated for:				
Renewal and replacement	1,132,054	—	—	1,132,054
Future expenditures	160,000	—	—	160,000
Unreserved, undesignated	204,993	—	—	204,993
Total fund balances	<u>1,497,047</u>	<u>777,557</u>	<u>272,332</u>	<u>2,546,936</u>
Total liabilities and fund balances	<u>\$ 1,532,081</u>	<u>5,272,556</u>	<u>272,332</u>	<u>7,076,969</u>

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, 2008

Total fund balances, governmental funds		\$	2,546,936
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>(2,489,321)</u>	9,193,529
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Special assessment revenue bonds		(4,265,000)	
Accrued interest payable		<u>(106,504)</u>	(4,371,504)
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.			4,494,999
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>257,471</u>
Net assets of governmental activities		\$	<u><u>12,121,431</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, 2008

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues:				
Special assessments	\$ 869,088	793,997	—	1,663,085
Intergovernmental	61,070	—	—	61,070
Other revenues	3,536	—	—	3,536
Interest income	21,871	22,000	7,568	51,439
Total revenues	<u>955,565</u>	<u>815,997</u>	<u>7,568</u>	<u>1,779,130</u>
Expenditures:				
Current – general government	840,764	—	—	840,764
Debt service:				
Principal	—	590,000	—	590,000
Interest	—	282,328	—	282,328
Total expenditures	<u>840,764</u>	<u>872,328</u>	<u>—</u>	<u>1,713,092</u>
Excess (deficiency) of revenues over expenditures	<u>114,801</u>	<u>(56,331)</u>	<u>7,568</u>	<u>66,038</u>
Other financing sources (uses):				
Transfers	—	27	(27)	—
Total other financing sources (uses)	<u>—</u>	<u>27</u>	<u>(27)</u>	<u>—</u>
Net change in fund balances	114,801	(56,304)	7,541	66,038
Fund balances, beginning	<u>1,382,246</u>	<u>833,861</u>	<u>264,791</u>	<u>2,480,898</u>
Fund balances, ending	\$ <u>1,497,047</u>	<u>777,557</u>	<u>272,332</u>	<u>2,546,936</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, 2008

Net change in fund balances – total governmental funds		\$ 66,038
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.		(282,988)
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 payable		14,702
Governmental funds report special assessment debt service revenue when collected, however in the statement of activities the revenue is recorded when the total assessment is levied.		
Deferred assessment revenue as of September 30, 2008	\$ 4,494,999	
Deferred assessment revenue as of September 30, 2007	<u>(5,008,426)</u>	(513,427)
Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		<u>590,000</u>
Change in net assets of governmental activities		<u>\$ (150,415)</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, 2008

	Budgeted Amounts		Actual Amounts	Variance with final budget
	Original	Final		
Revenues:				
Special assessments	\$ 865,997	869,088	869,088	—
Intergovernmental revenue	61,070	61,070	61,070	—
Interest and other income	90,000	38,700	25,407	(13,293)
Total revenues	1,017,067	968,858	955,565	(13,293)
Expenditures:				
General government:				
Professional service	233,849	260,983	259,606	1,377
Accounting and auditing	10,043	10,200	10,119	81
Other contractual services	33,000	250	250	—
Communication and freight	1,500	600	586	14
Utility services	156,776	153,776	153,745	31
Rentals and leases	1,000	200	—	200
Insurance	10,245	10,870	10,870	—
Repair and maintenance/landscape	417,100	404,158	403,231	927
Printing and binding	500	200	—	200
Other current charges	2,250	1,436	1,220	216
Office supplies	750	600	592	8
Operating supplies	1,500	546	545	1
Total expenditures	868,513	843,819	840,764	3,055
Excess (deficiency) of revenues over expenditures	148,554	125,039	114,801	(10,238)
Other financing sources:				
Transfers	—	—	—	—
Total other financing sources	—	—	—	—
Net change in fund balances	148,554	125,039	114,801	(10,238)
Fund balances, beginning	1,382,246	1,382,246	1,382,246	—
Fund balances, ending	\$ 1,530,800	1,507,285	1,497,047	(10,238)

See accompanying notes to basic financial statements.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Notes to Basic Financial Statement

September 30, 2008

(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, 2008, 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 3,668 residential units. The land within the District is part of the active adult retirement community known as "The Villages". The Villages consists of approximately 21,589 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 approximately 54,050 residences and 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 Nos. 7 and 8, 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 twelve Community Development Districts (CDD) in the total structure of The Villages, each being a separate government entity established pursuant to Chapter 190, Florida Statutes.

The Developer has formed the following community development districts:

- Village Center CDD (Lake, Marion and Sumter Counties) – This CDD provides water and sewer utility services, recreation and security services, and fire protection and paramedic services to the residents. The cost of operations is funded by amenity and utility fees that residents pay monthly. This CDD also provides for the maintenance of common areas and roadways for the commercial areas within the CDD boundaries. The cost of maintenance in the commercial areas is funded through commercial maintenance assessments.
- Sumter Landing CDD (Sumter County) – This CDD provides recreation and security services to the residents. The cost of operations is funded by amenity fees that residents pay monthly. This CDD also provides for the maintenance of common areas and roadways for the commercial areas within the CDD boundaries. The cost of maintenance in the commercial areas is funded through 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 3,420 residential units.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Notes to Basic Financial Statement

September 30, 2008

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

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

- Village CDD No. 2 (Sumter County) – This CDD’s boundary consists of approximately 990 acres in the northeast corner of the county. The development includes construction of 3,668 residential units.
- Village CDD No. 3 (Sumter County) – This CDD’s boundary consists of approximately 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 1,406 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 1,496 acres in the northeast corner of the county. Planned development includes construction of 6,562 residential units.
- Village CDD No. 7 (Sumter County) – This CDD’s boundary consists of approximately 976 acres in the northeast corner of the county. Planned development includes construction of 4,765 residential units.
- Village CDD No. 8 (Sumter County) – This CDD’s boundary consists of approximately 1,069 acres in the northeast corner of the county. Planned development includes construction of 4,938 residential units.
- Village CDD No. 9 (Sumter County) – This CDD has been formed, but is not yet being developed as of September 30, 2008.
- Village CDD No. 10 (Sumter County) – This CDD has been formed, but is not yet being developed as of September 30, 2008.

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, 2008

(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, 2008

(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 District-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
- Demand Deposits
- Florida State Board of Administration's Local Government Investment Pool (SBA LGIP)

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

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2
Notes to Basic Financial Statement
September 30, 2008

(1) Summary of Significant Accounting Policies (continued)

In May 2008, the District transferred amounts approximately equal to its long-term reserved fund balances (less debt service reserves maintained with the bond trustee) into the Florida Municipal Investment Trust (FMIvT) operated by the Florida League of Cities. The investment was placed into the FMIvT's 1-3 Year High Quality Bond Fund. The investment in this pool is evidenced by shares which are marked to market monthly.

2. Capital Assets

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

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

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

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

3. Bond Issuance Costs

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

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

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, 2008

(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) **Deposits and Investments**

As of September 30, 2008, the District had the following investments:

<u>Deposits and Investment Type</u>	<u>Fair Value at September 30, 2008</u>	<u>Weighted Average Maturity (Days)</u>	<u>Credit Rating</u>
Demand Deposits, CFB	\$ 37,307	1.0	n/a
Local Government Investment Pool, SBA	440,974	8.5	AAAm
Money Market Mutual Funds, U.S. Bank	1,048,299	40.0	AAAm
1-3 Year Bond Fund, FMIvT	1,053,801	522.0	AAA/v2
Total Fair Value	<u>\$ 2,580,381</u>		
Portfolio Weighted Average Maturity (WAM)		393.6	

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2
Notes to Basic Financial Statement
September 30, 2008

Interest Rate Risk. Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. GASB 40 requires that interest rate risk be disclosed using one of the five approved methods. The five methods are: segmented time distribution, specific identification, weighted average maturity (WAM), duration, and simulation model. The District has used the WAM method in the above chart. In accordance with the District's investment policy, the government manages its exposure to decline in fair values by limiting the Weighted Average Maturity (WAM) of its investment portfolio to less than two years. The WAM on September 30, 2008 was 393.6 days.

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

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

The District's investments consist of funds placed with three entities:

- The State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pool created by Section 218.415, Florida Statutes. This investment pool operates under investment guidelines established by Section 215.47, Florida Statutes. The District's investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, are reported at fair value which is amortized cost.
- Trust balances related to restricted debt service accounts are maintained with U.S. Bank and are invested in First American Government Obligation Fund Class Y, a money market mutual fund.
- The District also has investments consisting of funds placed with the Florida League of Cities, Inc. for participation in the Florida Municipal Investment Trust investment pool. The pool is an authorized investment consistent with Section 218.415(16)(a), Florida Statutes and the District's investment policy. The District owns shares in the 1-3 Year High Quality Bond Fund, a pool operated by the FMIvT. GASB 31 requires all governments to mark to market the unrealized gains and losses incurred in its investments. As of September 30, 2008, the FMIvT had incurred unrealized losses of a net amount of \$13,292. These losses would only be realized if the underlying shares in the FMIvT pool are sold.
- In total, net of the FMIvT unrealized losses, the District recognized an investment gain of \$51,440 during the fiscal year.

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

- Limiting investments to avoid over-concentration in securities from a specific issuer or business sector;

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2
Notes to Basic Financial Statement
September 30, 2008

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

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

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

Investment Policy

The District is authorized to invest in those financial instruments as established by the Investment Policy of the District. This policy allows investments authorized under *Florida Statutes* 218.415 amended to include Repurchase Agreements and prohibiting derivative type investments. The authorized investments 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 section 163.01 Florida Statutes.
- Securities and Exchange Commission registered money market mutual funds with the highest credit quality rating from a nationally recognized rating agency.
- Interest-bearing time deposits or savings accounts in qualified public depositories as defined in section 280.02 Florida Statutes.
- Direct obligations of the United States Treasury.
- Federal agencies and instrumentalities.
- Repurchase agreements with financial institutions approved as public depositories, provided that the underlying collateral consist of obligations of the United States Government, its agencies and instrumentalities. The repurchase agreement shall be collateralized equal to at least 102 percent of the value of the District's investment.

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2
Notes to Basic Financial Statement
September 30, 2008

(3) Capital Assets

Capital asset activity for the year ended September 30, 2008 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>(2,206,333)</u>	<u>(282,988)</u>	-	<u>(2,489,321)</u>
Total assets being depreciated, net	<u>9,113,157</u>	<u>(282,988)</u>	-	<u>8,830,169</u>
Governmental activities, capital assets	<u>\$ 9,476,517</u>	<u>(282,988)</u>	<u>-</u>	<u>9,193,529</u>

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2
Notes to Basic Financial Statement
September 30, 2008

(4) Long-term Debt

Long-term debt consisted of the following at September 30, 2008:

\$6,155,000 Special Assessment Revenue Bonds, Series 1996 principal installments ranging from \$115,000 to \$205,000 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%.	\$ 1,395,000
\$6,670,000 Special Assessment Revenue Bonds, Series 1998 principal installments ranging from \$200,000 to \$330,000 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>2,870,000</u>
Total long -term debt	4,265,000
Less current installments of bonds payable	<u>(315,000)</u>
Revenue bonds payable less current installments	<u><u>\$ 3,950,000</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, 2008 are as follows:

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30,				
2009	\$	315,000	255,609	570,609
2010		335,000	236,440	571,440
2011		350,000	215,989	565,989
2012		375,000	194,636	569,636
2013		395,000	171,741	566,741
2014-2018		2,165,000	461,417	2,626,417
2019		330,000	17,160	347,160
Total	\$	<u><u>4,265,000</u></u>	<u><u>1,552,992</u></u>	<u><u>5,817,992</u></u>

VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2
Notes to Basic Financial Statement
September 30, 2008

(4) Long-term Debt (continued)

Changes in Long-Term Debt

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
Bonds payable	\$ 4,855,000	-	(590,000)	4,265,000	315,000
Governmental activities long-term debt	\$ 4,855,000	-	(590,000)	4,265,000	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 \$197,268 for the year ended September 30, 2008.

The Developer provides to Village Center Community Development District at no cost information system support, including software, hardware, computer programming and internal mail room operations. The Village Center Community Development 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. In FY 2007-2008 these services amounted to \$5,854.

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) 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 an increase of \$865,915, resulting in a like increase 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, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 3, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's ability to initiate, authorize, record, process, or report financial data reliably. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliability in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting:

Certified Public Accountants

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

Board of Supervisors
Village Community Development District No. 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)**

Internal Control Over Financial Reporting (Concluded)

■ **Prior Period Adjustment**

In prior years the Special Assessments Receivable of the District were carried at an amount calculated by taking the amount of assessment bonds payable outstanding adjusted by prepaid bond assessments not yet applied to the bonds and other related reconciling items. During 2008, the District restated its opening (September 30, 2007) Governmental Activities Net Assets and the related Special Assessments Receivable to the actual amounts due for special assessments based upon detail assessment records on hand. We believe that methodology represents a significant improvement and recommend that the District continue its use annually.

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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness

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 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*.

Pursuant to Chapter 199, Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

February 3, 2009
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, 2008, and have issued our report thereon dated February 3, 2009.

We have issued our report on compliance and on internal control over financial reporting and on compliance and other matters dated February 3, 2009. Disclosures in this report, if any, should be considered in conjunction with this management letter.

We conducted our audit in accordance with auditing standards generally accepted in the United State of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our independent auditors' report on internal control over financial reporting and compliance and other matters. Disclosures in those reports and schedule, which are dated February 3, 2009, should be considered in conjunction with this management letter.

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

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

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

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

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

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

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

MANAGEMENT LETTER
(Concluded)

Section 10.554(1)(i)5., *Rules of the Auditor General*, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statements amounts, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations and contracts, or provisions or abuse that have occurred, or are likely to have occurred, and would have an immaterial effect on the financial statements; (2) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); (b) failures to properly record financial transactions; and (c) 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.

Section 10.554(1)(i)6., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government be disclosed in the management letter, unless disclosed in the notes to the financial statements. See note I of the September 30, 2008, Village Community Development District No. 2 basic financial statements for this information.

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

Section 10.554(1)(i)7.(b)., *Rules of the Auditor General*, requires that we determined whether the annual financial report for the District for the fiscal year ended September 30, 2008, 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, 2008. In connection with our audit, we determined that these two reports agree.

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

Pursuant to Chapter 199, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

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

Purvis, Gray and Company, LLP

February 3, 2009
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

The District has addressed all of the prior year Comments and Recommendations however the following item has not been fully completed:

■ **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.

During 2008, we noted that management has begun this process. We recommend that management continue and complete the process of determining the cost and make up of the assets.

Pursuant to Chapter 199, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

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

Purvis, Gray and Company, LLP

February 3, 2009
Ocala, Florida

Certified Public Accountants

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February 6, 2009

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 2007-2008 for Village Community Development District No. 2. We are proud to report that this audit has an unqualified opinion. There is one internal control deficiency reported, that reflects the fact that the District's accounting staff has corrected a prior year deficiency identified by the auditors in the fiscal year 2006-2007 audit report as a management comment. Since this issue has now been corrected in a manner acceptable to the auditors, the management comment has been removed from the current year report, and the auditors recognize the corrected procedures have been implemented and encourage their continued use in the future.

There are no material weaknesses or compliance issues identified and reported. There is only one management letter comment contained in their report, compared to four in the previous year's report. Three of the four prior year comments have been corrected to the satisfaction of the auditors and no new comments have been identified. The auditors recognize that progress has been made in correcting the fourth management comment related to capital assets and encourage management to complete the process. It is addressed below, along with District Managements' response to the comment.

Auditor Comment: 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 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. During 2008, we noted that management has begun this process. We recommend that management continue and complete the process of determining the cost and makeup of the assets.

Village Community Development District No. 2
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Management Response: Concur.

We agree in concept with this recommendation, however most of the fixed assets of District No. 2 were acquired in the late 1990's and early 2000's and are 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 are applying this detailed recording concept. Revisiting the original recording of the improvements to land was part of a special project begun in August 2008 by a full time fixed asset accountant who was employed at that time. This project is being shared by multiple Districts on a proportional share basis. Significant progress has been made in breaking down the capital assets into their component items for the District. We anticipate this project will be completed for the District in the upcoming fiscal year.

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.

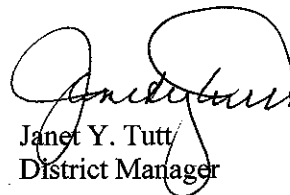
We believe that Village Community Development District No. 2 continues to set an example for the appropriate management of Community Development Districts as conceived in Chapter 190, Florida Statutes. We would particularly like to commend the staff of the Villages District Finance Department for their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

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

Sincerely,



David R. Miles, CGFO
Finance Director



Janet Y. Tuttle
District Manager

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