



## **VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2**

Basic Financial Statements

September 30, 2013

(With Independent Auditors' Report Thereon)

**Village Community Development District No. 2**  
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## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

### Table of Contents

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

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of

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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

**INDEPENDENT AUDITORS' REPORT**  
*(Concluded)*

**Opinions**

September 30, 2013, and the respective changes in financial position thereof, and, the budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Adoption of New Accounting Standards**

As discussed in Note 1 to the financial statements, for the year ended September 30, 2013, the District adopted new accounting guidance as follows:

- Governmental Accounting Standard Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards* we have also issued our report dated January 22, 2014, 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* in considering the District's internal control over financial reporting and compliance.

*Purvis, Gray and Company, LLP*

January 22, 2014  
Ocala, Florida

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2**  
Management's Discussion and Analysis  
(UNAUDITED)  
September 30, 2013

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, 2013 by \$12,925,391 (net position). Of this amount, \$1,810,706 of unrestricted net position may be used to meet the District's ongoing obligations to residents and creditors.
- The District's total net position decreased by \$595,546. An additional decrease of \$158,511 resulted from the restatement of beginning net position due to the early implementation of GASB 65. The restatement removed the balance of all unamortized issuance costs, rather than amortizing over the remaining lives of the bonds. The remaining decrease in net position results primarily from depreciation expenses for capitalized fixed assets as shown on page 26 of this report. Depreciation expenses are provided to reflect the using up over time of the value of items of capital infrastructure and 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 \$2,384,347, a net decrease of \$140,921, compared to the prior year. Of the total fund balance, \$540,757 is available for spending at the District's discretion as *unassigned fund balance*. The District's capital assets are not recorded in the governmental funds.
- At the end of the year, unassigned balance of the General Fund was \$540,757 or 57.6 percent of total General Fund annual expenditures, a healthy contingency for unexpected expenditures.
- The District's total long-term debt decreased by \$505,000 during the current Fiscal Year. The decrease relates to principal payments made on outstanding revenue bonds during the year ended September 30, 2013.
- Special assessments are shown as assessments receivable. At the fund level, there is an offsetting line item for unavailable revenue pertaining to assessments due in future years. Assessments receivable decreased by \$623,465 during the year and has a September 30, 2013 balance of \$1,829,577.

**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 Position** presents information on all of the District's assets and deferred outflows compared to liabilities and deferred inflows, with the difference between the two reported as *net position*. Over time, increases and decreases in net position 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 position changed during the most recent Fiscal Year. All changes in net position are reported as soon as the underlying event giving rise

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2013

to the change occurs, *regardless of timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected assessments).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by assessments and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include general government, 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 on pages 9-10 of this report.

**The Fund Financial Statements**, which report by individual fund, begin on page 11. Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village Community Development District No. 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 and its Debt Service Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

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

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2**  
Management's Discussion and Analysis  
(UNAUDITED)  
September 30, 2013

*Notes to the Financial Statements*

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

**Government-wide Financial Analysis**

The District's net position as of September 30, 2013 and September 30, 2012 were \$12.925 million and \$13.679 million, respectively, representing a decrease of approximately \$0.754 million which included \$158,511 reduction in net position due to a restatement of net position from the early implementation of GASB 65. The District's revenues for the years ended September 30, 2013 and September 30, 2012, including donations, assessments, and investment earnings, were approximately \$0.808 million and \$3.184 million, respectively. The substantial decrease in revenue resulted from the one time donation of \$2,077,791 in multi-modal path improvements by the Village Center Community Development District to District No. 2 in the prior year. The District's expenses for the years ended September 30, 2013 and September 30, 2012 were \$1.403 million and \$1.445 million, respectively. Table 1 reflects the summary statement of net position for the current year and prior year.

**Table 1**

**Net Position**

		<b>Governmental Activities</b>	
		<b>September 30, 2013</b>	<b>September 30, 2012</b>
<b>Assets:</b>			
Current and other assets	\$	2,402,194	2,705,523
Assessments receivable		1,829,577	2,453,042
Capital assets - net		10,303,038	10,651,656
Total assets		14,534,809	15,810,221
<b>Liabilities:</b>			
Current and other liabilities		53,557	69,203
Due to other governments		861	1,570
Noncurrent liabilities:			
Due within one year		250,000	270,000
Due in more than one year		1,305,000	1,790,000
Total liabilities		1,609,418	2,130,773
<b>Net position:</b>			
Net investment in capital assets		9,000,444	9,002,545
Restricted for debt service		2,114,241	2,925,831
Unrestricted		1,810,706	1,751,072
Total net position	\$	12,925,391	13,679,448

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2**

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2013

The largest share of the District's net position (69.6 percent) relates to investments in capital assets, less any related debt outstanding, used to acquire those capital assets. Reserves to pay debt service expenses represent another 16.4 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.

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

**Table 2**

**Changes in Net Position**

	<b>Governmental Activities</b>	
	<b>September 30, 2013</b>	<b>September 30, 2012</b>
Revenues:		
Special assessments	\$ 748,380	1,015,772
Other revenues	54,896	67,963
Investment earnings	4,289	22,254
Contributions and donations	-	2,077,791
Total revenues	<u>807,565</u>	<u>3,183,780</u>
Expenses:		
General government	299,561	404,849
Physical environment	490,694	382,892
Transportation	148,652	145,167
Interest on long-term debt	108,392	163,956
Depreciation (unallocated)	355,812	347,670
Total expenses	<u>1,403,111</u>	<u>1,444,534</u>
Increase (decrease) in net position	\$ <u>(595,546)</u>	<u>1,739,246</u>

**Revenues**

Revenues include assessments on District landowners for maintenance and debt service. On a one-time basis, in the prior year, the District received a donation from the Village Center Community Development District of \$2,077,791 for the reconstruction of the Multi-modal paths within the District boundaries. 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. A decrease in investment earnings of \$17,965 occurred compared to the prior year as money market interest rates declined and the longer term bond investments were positioned defensively in preparation for future interest rate increases.

Investment earnings decreased by 80.7 percent compared to the prior year as low interest rates in an unstable market continued for another year. Further information can be found in Note 2 of the Notes to the Basic Financial Statements.

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2013

### Expenses

General government expenses of the District decreased \$105,288 compared to the prior year. This decrease occurred because a \$100,000 donation to District No. 3 in the prior year was not repeated. Physical environment expenses are mainly for landscaping, irrigation, utilities, and maintenance costs and increased \$107,802 compared to the prior year. Transportation expenses primarily relate to the cost of electric utilities for the District's street lights. These costs increased \$3,485 from the prior year. 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 by \$55,564 compared to the prior year. The interest on the long-term debt will decrease as the existing bond issues are paid off, as long as no new debt is issued. Depreciation expenses increase by \$8,142 over the prior year, in large measure due to annualization of expenses on the additional donated assets addressed above. Total expenses were decreased by \$41,423 compared to the prior year.

### Financial Analysis of the Government's Funds

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

**Governmental Funds.** The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of a Fiscal Year. As of the end of Fiscal Year 2012-2013, the District's governmental funds reported combined ending fund balances of \$2,384,347, a decrease of \$140,921 in comparison with the end of Fiscal Year 2011-2012. Approximately 22.7 percent of this fund balance total amount of \$540,757 constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *restricted or committed* to indicate that it is not available for new spending because it has already been committed (\$1,233,376 to renewal and replacement) or restricted (\$133,907 to capital improvements and \$476,307 to debt service).

The General Fund is the chief operating fund of the District. At the end of Fiscal Year 2012-2013, unassigned fund balance was \$540,757, while total fund balance reached \$1,774,133. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 57.6 percent of total General Fund expenditures, while total fund balance represents 188.8 percent of that same amount.

The Debt Service Fund has a total fund balance of \$476,307, all of which is restricted for the payment of debt service. The net decrease in fund balance was \$164,090. 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 2012-2013.

The capital project fund has a total fund balance of \$133,907, an increase of \$107, due to investment earnings, as there were no capital projects funded from this source in Fiscal Year 2012-2013.

### General Fund Budgetary Highlights

During the year, there was a \$40,798 increase in the appropriations for the General Fund between the original and final budget. The increase was primarily related to repair and maintenance of landscaping. There was no change to the revenue budget during the year.

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2013

### Capital Asset and Debt Administration

**Capital Assets.** The District's capital assets as of September 30, 2013 and September 30, 2012 amounted to \$10,303,038 and \$10,651,656, respectively. This is net of accumulated depreciation and includes land and improvements. The decrease resulted from annual depreciation expenses. Additional information regarding the District's capital assets can be found in Note 3 of the Notes to the Basic Financial Statements.

**Long-term Debt.** As of September 30, 2013 and September 30, 2012, the District had long-term debt outstanding of \$1,555,000 and \$2,060,000, respectively. Debt principal of \$505,000 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 of the Notes to the Basic Financial Statements.

### Economic Factors and Next Year's Budgets and Rates

- The unemployment rate in Sumter County where the District is located was 5.7 percent in September 2013 which is a decrease from a rate of 6.9 percent a year ago. This compares favorably with the State's average unemployment rate of 6.9 percent and is below the national average rate of 7.0 percent.
- Inflationary trends in the area are comparable to national indices. The national Consumer Price Index (CPI) annual increase for all urban consumers decreased significantly from 1.99 percent in September 2012 to 0.92 percent in September 2013.

These factors were considered in preparing the Districts' budget for the 2013-2014 Fiscal Year. Total annual projected revenues have increased in the Fiscal Year 2013-2014 budget by \$14,280, compared to the Fiscal Year 2012-2013 amended final budget, while expenditure appropriations have increased by \$21,661. The expenditure increase primarily resulted from increases in the capital project budget offset in part by several minor operating account reductions.

### Requests for Information

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

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2**

Statement of Net Position

September 30, 2013

<b>Assets</b>	<b>Governmental Activities</b>
Cash and cash equivalents	\$ 900,197
Investments	1,488,680
Accounts receivable	13,301
Accrued interest receivable	16
Assessments receivable	1,829,577
Capital assets, net of accumulated depreciation	<u>10,303,038</u>
Total assets	<u>14,534,809</u>
<b>Liabilities</b>	
Accounts payable	16,986
Due to other governments	861
Accrued interest payable	36,571
Noncurrent liabilities:	
Due within one year	250,000
Due in more than one year	<u>1,305,000</u>
Total liabilities	<u>1,609,418</u>
<b>Net Position</b>	
Net investment in capital assets	9,000,444
Restricted for debt service	2,114,241
Unrestricted	<u>1,810,706</u>
Total net position	\$ <u><u>12,925,391</u></u>

See accompanying notes to basic financial statements.

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2**

Statement of Activities

Year ended September 30, 2013

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 services	\$ 299,561	748,380	-	-	448,819	448,819
Physical Environment	490,694	-	-	-	(490,694)	(490,694)
Transportation	148,652	-	53,206	-	(95,446)	(95,446)
Interest on long-term debt	108,392	-	-	-	(108,392)	(108,392)
Depreciation (unallocated)	355,812	-	-	-	(355,812)	(355,812)
Total governmental activities	\$ 1,403,111	748,380	53,206	-	(601,525)	(601,525)
General revenue:						
Other revenues					\$ 1,690	1,690
Investment earnings					4,289	4,289
Total general revenues					5,979	5,979
Change in net position					(595,546)	(595,546)
Net position – beginning (as restated)					13,520,937	13,520,937
Net position – ending					\$ 12,925,391	12,925,391

See accompanying notes to basic financial statements.

**Restatement of Net Position**

Beginning Net Position	\$ 13,679,448
Less Cost of Issuance	<u>(158,511)</u>
Net position - beginning (as restated)	\$ <u>13,520,937</u>

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2**

Balance Sheet – Governmental Funds

September 30, 2013

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 423,901	-	-	423,901
Cash with fiscal agent	-	476,296	-	476,296
Investments	1,354,776	-	133,904	1,488,680
Accounts receivable	13,301	-	-	13,301
Accrued interest receivable	2	11	3	16
Assessments receivable	-	1,829,577	-	1,829,577
Total assets	<u>1,791,980</u>	<u>2,305,884</u>	<u>133,907</u>	<u>4,231,771</u>
Liabilities:				
Accounts payable	16,986	-	-	16,986
Due to other governments	861	-	-	861
Total liabilities	<u>17,847</u>	<u>-</u>	<u>-</u>	<u>17,847</u>
Deferred inflows of resources:				
Unavailable special assessment revenue	-	1,829,577	-	1,829,577
Fund balances:				
Restricted for debt service	-	476,307	-	476,307
Restricted for capital improvements	-	-	133,907	133,907
Committed for renewal and replacement	1,233,376	-	-	1,233,376
Unassigned	540,757	-	-	540,757
Total fund balances	<u>1,774,133</u>	<u>476,307</u>	<u>133,907</u>	<u>2,384,347</u>
Total liabilities and fund balances	<u>\$ 1,791,980</u>	<u>2,305,884</u>	<u>133,907</u>	<u>4,231,771</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 Position  
September 30, 2013

Total fund balances, governmental funds		\$	2,384,347
Total net position reported for governmental activities in the statement of net position is different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:			
Capital assets	\$	14,350,399	
Less accumulated depreciation		<u>(4,047,361)</u>	10,303,038
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Special assessment revenue bonds		(1,555,000)	
Accrued interest payable		<u>(36,571)</u>	(1,591,571)
Unavailable special assessment 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.			<u>1,829,577</u>
Net Position of governmental activities		\$	<u><u>12,925,391</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, 2013

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues:				
Special assessments	\$ 904,052	467,793	-	1,371,845
Other revenues	54,896	-	-	54,896
Investment earnings	3,750	432	107	4,289
Total revenues	<u>962,698</u>	<u>468,225</u>	<u>107</u>	<u>1,431,030</u>
Expenditures:				
General government services	293,096	6,465	-	299,561
Other physical environment	490,694	-	-	490,694
Transportation	148,652	-	-	148,652
Capital outlay	7,194	-	-	7,194
Debt service:				
Principal	-	505,000	-	505,000
Interest	-	111,681	-	111,681
Miscellaneous bond expense	-	9,169	-	9,169
Total expenditures	<u>939,636</u>	<u>632,315</u>	<u>-</u>	<u>1,571,951</u>
Excess (deficiency) of revenues over expenditures	<u>23,062</u>	<u>(164,090)</u>	<u>107</u>	<u>(140,921)</u>
Net change in fund balances	<u>23,062</u>	<u>(164,090)</u>	<u>107</u>	<u>(140,921)</u>
Fund balances, beginning	<u>1,751,071</u>	<u>640,397</u>	<u>133,800</u>	<u>2,525,268</u>
Fund balances, ending	\$ <u><u>1,774,133</u></u>	<u><u>476,307</u></u>	<u><u>133,907</u></u>	<u><u>2,384,347</u></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, 2013

Net change in fund balances – total governmental funds		\$ (140,921)
Amounts reported for governmental activities in the statement of activities are different because:		
<p>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 net of capital outlay and donations.</p>		
Capital outlay	\$ 7,194	
Depreciation expense	<u>(355,812)</u>	(348,618)
<p>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:</p>		
Accrued interest payable		12,458
<p>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.</p>		
Unearned assessment revenue as of September 30, 2013	\$ 1,829,577	
Unearned assessment revenue as of September 30, 2012	<u>(2,453,042)</u>	(623,465)
<p>Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
		<u>505,000</u>
Change in net position of governmental activities		<u><u>\$ (595,546)</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, 2013

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues:</b>				
Special assessments, charges for public services	\$ 900,636	900,636	904,052	3,416
Local government unit grant - transportation	49,405	49,405	53,206	3,801
Other general government charges and fees	-	-	1,690	1,690
Investment earnings	1,200	1,200	3,750	2,550
	<u>951,241</u>	<u>951,241</u>	<u>962,698</u>	<u>11,457</u>
<b>Expenditures:</b>				
Personnel services	19,422	19,422	16,842	2,580
Professional services	268,813	270,013	255,258	14,755
Accounting and auditing	10,654	10,654	10,654	-
Other contractual services	1,932	1,932	2,282	(350)
Travel and per diem	2,000	2,000	1,183	817
Communication and freight	2,225	2,225	-	2,225
Utility services	166,274	161,774	157,088	4,686
Rentals and leases	1,000	1,000	-	1,000
Insurance	5,500	5,500	5,402	98
Repair and maintenance/landscape	442,230	486,328	481,975	4,353
Printing and binding	500	500	105	395
Other current charges	1,350	1,350	1,369	(19)
Operating supplies	500	500	284	216
Capital outlay:	37,475	37,475	7,194	30,281
Total expenditures	<u>959,875</u>	<u>1,000,673</u>	<u>939,636</u>	<u>61,037</u>
Excess of revenues over expenditures	<u>(8,634)</u>	<u>(49,432)</u>	<u>23,062</u>	<u>72,494</u>
<b>Other financing sources:</b>				
Transfers in (out)	<u>(32,000)</u>	<u>(32,000)</u>	<u>-</u>	<u>32,000</u>
Total other financing sources	<u>(32,000)</u>	<u>(32,000)</u>	<u>-</u>	<u>32,000</u>
Net change in fund balance	(40,634)	(81,432)	23,062	104,494
Fund balance, beginning	1,751,071	1,751,071	1,751,071	-
Fund balance, ending	<u>\$ 1,710,437</u>	<u>1,669,639</u>	<u>1,774,133</u>	<u>104,494</u>

See accompanying notes to basic financial statements.

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Notes to Basic Financial Statements

September 30, 2013

### (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, 2013, 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. 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 22,590 acres spanning the borders of Lake, Sumter and Marion Counties, City of Wildwood, City of Fruitland Park and the Town of Lady Lake, Florida, and when fully developed is expected to include approximately 58,775 residences and 111,672 residents. The Villages of Lake-Sumter, Inc. was the developer and initial owner of the property within the District. All of the residential units in Village Community Development District No. 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 District Nos. 9 and 10 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 thirteen 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 commercial maintenance assessments.

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Notes to Basic Financial Statements

September 30, 2013

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

#### (a) Reporting Entity (continued)

- Brownwood CDD (Sumter County) – This CDD was newly established in June 2012 by the City of Wildwood, Florida and is located at the southern end of The Villages. This CDD 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 and Developer contributions as the new downtown area builds out.
- Village CDD No. 1 (Sumter County) – This CDD’s boundary consists of approximately 993 acres in the northeast corner of the county. The development included construction of 3,420 residential units.
- Village CDD No. 2 (Sumter County) – This CDD’s boundary consists of approximately 990 acres in the northeast corner of the county. The development included construction of 3,668 residential units.
- Village CDD No. 3 (Sumter County) – This CDD’s boundary consists of approximately 894 acres in the northeast corner of the county. The development included construction of 3,762 residential units.
- Village CDD No. 4 (Marion County) – This CDD’s boundary consists of approximately 1,186 acres in the southern portion of the county. The development included construction of 5,132 residential units.
- Village CDD No. 5 (Sumter County) – This CDD’s boundary consists of approximately 1,407 acres in the northeast corner of the county. The development included construction of 6,399 residential units.
- Village CDD No. 6 (Sumter County) – This CDD’s boundary consists of approximately 1,497 acres in the northeast corner of the county. Planned development includes construction of 6,697 residential units, of which 9 remain unsold as of September 30, 2013. .
- Village CDD No. 7 (Sumter County) – This CDD’s boundary consists of approximately 976 acres in the northeast corner of the county. The development included construction of 4,765 residential units.
- Village CDD No. 8 (Sumter County) – This CDD’s boundary consists of approximately 1,098 acres in the northeast corner of the county. Planned development includes construction of 5,193 residential units. Construction is now complete with 127 unsold and being used as lifestyle preview homes by the Developer.
- Village CDD No. 9 (Sumter County) – This CDD’s boundary consists of approximately 1,280 acres in the northeast corner of the county. Planned development includes construction of 5,376 residential units. Construction is now underway.

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Notes to Basic Financial Statements

September 30, 2013

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

#### (a) Reporting Entity (continued)

- Village CDD No. 10 (Sumter County) – This CDD’s boundary consists of approximately 1,588.8 acres in the northeast corner of the county. Planned development includes construction of 6,639 residential units. The first Phase I Infrastructure Assessment Bonds were issued December 18, 2012, and active development began in Fiscal Year 2012-2013 with 462 homes sold by September 30, 2013.

Some 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.

#### (b) Basic 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 position 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 position 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. Previously called the Statement of Net Assets, the Statement of Net Position also addresses deferred inflows and deferred outflows as a result of implementation of GASB 63 and 65 in this Fiscal Year 2012-2013 financial report. 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 District has one non-major fund, the Capital Projects Fund.

Program revenues in the Statement of Activities consist primarily of special assessment revenues. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

*Net investment in capital assets* is intended to reflect the portion of net position which are associated with capital assets net of accumulated depreciation less outstanding capital asset related debt. As a result of early implementation of GASB 65 in this report, all new issuance costs have been expensed in the current year and will no longer be amortized over the life of the debt.

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Notes to Basic Financial Statements

September 30, 2013

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

#### (b) Basic Financial Statements (continued)

**Restricted net position** 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 position** represent net position not included in net investment in capital assets or restricted net position.

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty 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.

Governmental funds report fund balances either as non-spendable or spendable. Spendable balances are further classified as restricted, committed, assigned or unassigned, based on the extent to which there are external or internal constraints on the spending of these fund balances. A discussion of each is as follows:

**Non-spendable:** Resources that can not be spent such as for inventories.

**Restricted:** Balances that only can be spent for specific purposes imposed by external sources.

**Committed:** Resources that can only be spent for purposes established by the highest decision making authority in the government.

**Assigned:** Amounts designated for specific purposes, but does not meet the criteria to be designated restricted or committed.

**Unassigned:** The residual classification for all remaining funds not contained in other classifications.

The District does not currently use *Non-spendable* or *Assigned* categories of fund balance. All *Restricted* fund balances relate to external debt service restrictions. The Board of Supervisors, the highest decision making authority of the District, approves the establishment, increase and reduction in *Committed* fund balances by budget resolutions and amendments. All other fund balances are *Unassigned*. *Restricted* and *Committed* fund balances are always used first for the purposes for

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Notes to Basic Financial Statements

September 30, 2013

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

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

which they are designated. Changes to this practice require prior Board of Supervisors approval. A minimum fund balance amount has not been formally adopted.

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 and Debt Service Fund by the Board of Supervisors. Budgets are adopted on a basis consistent with GAAP. All budget amounts presented in the statements reflect the original budget and the amended final budget.

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

##### **1. Deposits and Investments**

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

- 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.

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. In September 2010, the District opened an account with the Florida Local Government Investment Trust (FLGIT), sponsored by the Florida Association of Counties and the Florida Association of County Clerks. Approximately half

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2**

Notes to Basic Financial Statements

September 30, 2013

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

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

**1. Deposits and Investments (continued)**

of the balances in the FMIvT were transferred into FLGIT. The FLGIT fund has an investment portfolio similar in duration to the FMIvT 1-3 Year High Quality Bond Fund. This change was done to improve liquidity, enhance diversification, and slightly improve yield. The investment in these pools is evidenced by shares which are marked to market monthly.

**2. Capital Assets**

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

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

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

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

**3. Bond Issuance Costs**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts 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. As a result of the early implementation of GASB 65, bond issuance costs are no longer treated as deferred charges. Beginning net position was adjusted for all such costs outstanding and new issuance costs will be expensed in the year of issuance.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the period 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.

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Notes to Basic Financial Statements

September 30, 2013

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

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

##### 4. Assessments

###### *Bond Assessments*

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

###### *Maintenance Assessments*

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

###### *Assessment Methodology*

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

###### *Billing / Collection of Assessments*

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

#### (f) *Implementation of Governmental Accounting Standards Statements*

The District is implementing the following GASB Statements during the year that ended September 30, 2013. Statement No. 65 is being early implemented so as to implement it at the same time as the implementation of Statement No. 63.

1. Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This Statement provides guidance for certain items formally classified as assets and liabilities. The Statement redefines these as "deferred outflows of resources" (formally assets) and "deferred inflows of resources" (formally liabilities). Each new category must have its own Statement of Net Position section. GASB 63 also requires that the last line of the statements formally called "Net assets" now be titled "Net position" to reflect the new classifications. In addition, "Capital assets, net of debt" will now be titled "Net investment in capital assets" in order properly present the total of the items.

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2**

Notes to Basic Financial Statements

September 30, 2013

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

*(f) Implementation of Governmental Accounting Standards Statements (continued)*

2. Statement No. 65, "Items Previously Reported as Assets and Liabilities." This statement provides more guidance for the items listed in GASB 63, and adds additional changes. It requires that statements avoid the use of the word "deferred," except as it relates to items that are deferred outflows or are deferred inflows. It addresses the calculation of a deferred outflow or inflow for the refunding of debt. For non-exchange transactions like grants, amounts received before the time period of eligibility are treated as deferred inflows. This Statement also addresses taxes received prior to the period to which they relate. GASB 65 also requires debt issuance costs to be expensed in the period that the debt was issued. In the past, subsequent to the implementation of GASB 34, these costs were amortized over the life of the issue. The effects of this change are required to be disclosed on the statements in the period it is implemented. Losses on debt refundings are not expenses, but rather, treated as deferred outflows. For operating leases, any initial direct costs are recognized in the period incurred, instead of being amortized over the life of the lease. When an asset is recorded in governmental fund statements, but the revenue is not available until a future period, a deferred inflow is reported until the revenue becomes available.

*(g) Use of Estimates*

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

**(2) Deposits and Investments**

As of September 30, 2013, the District had the following deposits and investments:

<u>Deposits and Investment Type</u>	<u>Fair Value at September 30, 2013</u>	<u>Weighted Average Maturity (Days)</u>	<u>Credit Rating</u>
Demand Deposits, CFB	\$ 228,001	1.0	n/a
Local Government Investment Pool, SBA	195,900	44.0	AAAm
U.S. Bank Money Market Mutual Funds, Federated	554,838	44.0	AAAm
U.S. Bank Money Market Mutual Funds, Fidelity	55,362	51.0	AAAm
Florida Local Government Investment Trust	708,912	741.0	AAAf/S1
1-3 Year High Quality Bond Fund, FMIVT	645,864	554.8	AAA/v2
Total Fair Value	<u>\$ 2,388,877</u>		
Portfolio Weighted Average Maturity (WAM)		385.0	

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Notes to Basic Financial Statements

September 30, 2013

### (2) Deposits and Investments (continued)

**Interest Rate Risk.** Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. GASB 40 requires that interest rate risk be disclosed using one of the five approved methods. The five methods are: segmented time distribution, specific identification, Weighted Average Maturity (WAM), duration, and simulation model. The District has used the WAM method in the above chart. In accordance with the District's investment policy, the government manages its exposure to decline in fair values by limiting the WAM of its investment portfolio to less than three years. The WAM on September 30, 2013 was 385.0 days.

**Credit Risk.** GASB 40 requires disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed income securities. Investments may be aggregated by ratings categories within the disclosure. Ratings are set by nationally recognized statistical rating organizations (Fitch, Moody's, and Standard and Poor's (S&P)). Fitch provides the ratings for FMIvT 1-3 Year High Quality Bond Fund, while S&P provides the ratings for the U.S. Bank money market funds, Florida Local Government Investment Trust (FLGIT) and the State Board of Administration (SBA) investment pool.

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

The District's cash equivalents and investments consist of funds placed with four entities:

- The State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pool created by Section 218.415, Florida 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 Federated Prime Cash Obligations Fund and Fidelity Prime Money Market Portfolio Fund since August 1, 2010.
- The District has investments consisting of funds placed with the Florida League of Cities, Inc. for participation in the Florida Municipal Investment Trust (FMIvT) investment pools. The pools are authorized investments 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, 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, 2013, the FMIvT had incurred realized gains of \$970 and unrealized losses of \$752 for a net gain of \$218.
- The District initiated investments in the Florida Local Government Investment Trust (FLGIT), a pool sponsored by the Florida Association of Counties and the Florida Association of County Clerks, on September 2, 2010. The pool is an authorized investment consistent with Section 218.415(16)(a), Florida Statutes and the District's investment policy. GASB 31 requires all governments to mark to market the unrealized gains and losses incurred in its investments. As of September 30, 2013, the FLGIT had achieved unrealized gains of \$2,532.

## VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2

Notes to Basic Financial Statements

September 30, 2013

### (2) Deposits and Investments (continued)

#### *Credit Risk. (Continued)*

- In total, the District recognized investment earnings of \$4,289 during the Fiscal Year.

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

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

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

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

#### **Investment Policy**

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

- The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes.
- Securities and Exchange Commission registered money market mutual funds with the highest credit quality rating from a nationally recognized rating agency.

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2**

Notes to Basic Financial Statements

September 30, 2013

**(2) Deposits and Investments (continued)**

*Investment Policy (Continued)*

- 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.

**(3) Capital Assets**

Capital asset activity for the year ended September 30, 2013 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Assets not being depreciated:				
Land	\$ 689,297	-	-	689,297
Assets being depreciated:				
Furniture & equipment	8,774	-		8,774
Improvements other than buildings	13,645,134	7,194	-	13,652,328
Total assets being depreciated	13,653,908	7,194	-	13,661,102
Less accumulated depreciation for:				
Furniture & equipment	(311)	(219)		(530)
Improvements other than buildings	(3,691,238)	(355,593)	-	(4,046,831)
Total depreciation	(3,691,549)	(355,812)	-	(4,047,361)
Total assets being depreciated, net	9,962,359	(348,618)	-	9,613,741
Governmental activities, capital assets	\$ <u>10,651,656</u>	<u>(348,618)</u>	<u>-</u>	<u>10,303,038</u>

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2**

Notes to Basic Financial Statements

September 30, 2013

**(4) Long-term Debt**

Long-term debt consisted of the following as of September 30, 2013:

\$6,155,000 Special Assessment Revenue Bonds, Series 1996 principal installments ranging from \$75,000 to \$100,000 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%.	\$ 285,000
\$6,670,000 Special Assessment Revenue Bonds, Series 1998 principal installments ranging from \$195,000 to \$270,000 through May 2019 in accordance with the redemption schedule. Interest is due semi-annually on May 1 and November 1 of each year until redemption or maturity. Interest rate is 5.200%.	<u>1,270,000</u>
Total long-term debt	1,555,000
Less current installments of bonds payable	<u>(250,000)</u>
Revenue bonds payable less current installments	\$ <u><u>1,305,000</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, 2013 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending:			
2014	\$ 250,000	87,771	337,771
2015	260,000	73,195	333,195
2016	280,000	58,099	338,099
2017	295,000	41,720	336,720
2018	230,000	24,440	254,440
2019	<u>240,000</u>	<u>12,480</u>	<u>252,480</u>
Total	\$ <u><u>1,555,000</u></u>	<u><u>297,705</u></u>	<u><u>1,852,705</u></u>

**VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2**

Notes to Basic Financial Statements

September 30, 2013

**(4) Long-term Debt (continued)**

*Changes in Long-term Debt*

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Governmental activities:					
Bonds payable	\$ 2,060,000	-	505,000	1,555,000	250,000
Long-term debt	\$ 2,060,000	-	505,000	1,555,000	250,000

*Pledged Revenues*

The District has pledged certain benefit special assessment revenue to pay the principal and interest on special assessment bonds issued to pay for infrastructure improvements. These special assessment revenue bonds were outstanding on September 30, 2013 as shown below. The table reports the revenues pledged for each debt issue, the amounts of revenue received in the current year, the current year principal and interest paid on the debt, the approximate percentage of each revenue which is pledged to meet the debt obligation, and the date through which the revenue is pledged under the debt agreement and the total pledged future revenues for each debt, which is the amount of the remaining principal and interest on the bonds as of September 30, 2013.

<u>Description of Debt</u>	<u>Pledged Revenue</u>	<u>Revenue Received</u>	<u>Principal and Interest Paid</u>	<u>Estimated Percent Pledged</u>	<u>Outstanding Principal and Interest</u>	<u>Pledged Through</u>
Special Assessment Revenue Bonds, Series 1996	Special Assessments Phase I	\$ 166,932	\$ 180,691	100%	\$ 341,425	2017
Special Assessment Revenue Bonds, Series 1998	Special Assessments Phase II	\$ 300,861	\$ 435,990	100%	\$ 1,511,280	2019

**(5) Related Parties**

The District has no employees. For certain management, finance, and administrative services, the District entered into an interlocal agreement with Village Center Community Development District (Center District), a community development district created under Florida Statute 190. Under the agreement, fees accrued to Center District by the District for such services totaled \$157,034 for the year ended September 30, 2013.

The Developer provided to the Center District at no cost information system support, including software, hardware, computer programming and internal mailroom operations. The Center District then passed on this benefit to the District. In March 2012, a new company was formed, Villages Technology Services Group, to assume the information system support previously provided by the Developer. In Fiscal Year 2011-2012, the Center District began paying for information system support, with these expenses then passed on in a prorated basis to District No. 2. These costs for the year ended September 30, 2013 were \$13,436.

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

## **VILLAGE COMMUNITY DEVELOPMENT DISTRICT NO. 2**

Notes to Basic Financial Statements

September 30, 2013

### **(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) Contingent Liability**

In July 2012, it was discovered that District No. 2 and Village Community Development District Nos. 1 and 3-9 had been incorrectly computing the amount of interest due on the final annual installment of Special Assessment Debt, when a property owner paid off the outstanding assessment in full. This error resulted from the fact that assessment payoffs often occurred after the annual assessment rolls had been submitted to the County Tax Collector each year for billing. The District established a refund application process in November 2012 for those individuals that have overpaid their final interest installment. The exact amount of refunds that will be made is unknown, but the maximum estimated cost of these refunds to the District is \$3,092. Refunds actually paid in Fiscal Year 2012-2013 were \$1,032.

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

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

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 22, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected, and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Purvis, Gray and Company, LLP*

January 22, 2014  
Ocala, Florida

## MANAGEMENT LETTER

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

We have audited the accompanying 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, 2013, and have issued our report thereon dated January 22, 2014.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Chapter 10.550, *Rules of the Florida Auditor General*. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, and Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports which are dated January 22, 2014, should be considered in conjunction with this management letter.

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

- Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective action has been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations made in the preceding audit report.
- Section 10.554(1)(i)2., *Rules of the Auditor General*, requires our audit to include a review of the provision of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit we determined that the District complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve the District's financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

### Certified Public Accountants

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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*, requires that the name or official title and legal authority for the primary government be disclosed in this management letter, unless disclosed in the notes to the financial statements (see Note 1 of the September 30, 2013, the District's basic financial statements for this information).
- Section 10.554(1)(i)6.(a)., *Rules of the Auditor General*, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions(s) met. In connection with our audit, we determined that the District did not meet any conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)6.(b)., *Rules of the Auditor General*, requires that we determine whether the annual financial report for the District for the fiscal year ended September 30, 2013, filed with the Florida 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, 2013. In connection with our audit, we determined that these two reports agree.
- Pursuant to Sections 10.554(1)(i)6.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.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

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

*Purvis, Gray and Company, LLP*

January 22, 2014  
Ocala, Florida



January 27, 2014

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 2012-2013 for Village Community Development District No. 2. We are proud to report that this audit has an unqualified opinion.

There are no internal control deficiencies, material weaknesses or compliance issues identified and reported. No prior year comments were identified as all have been corrected in previous years and no new comments have been identified.

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

We believe that Village Community Development District No. 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. Tutt  
District Manager

Village Community Development District No. 2  
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