

**FIDDLER'S CREEK COMMUNITY  
DEVELOPMENT DISTRICT #2**

**BASIC FINANCIAL STATEMENTS**

September 30, 2013

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
BASIC FINANCIAL STATEMENTS  
September 30, 2013

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# BASIC FINANCIAL STATEMENTS

## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors  
Fiddler's Creek Community Development District #2  
Collier County, Florida

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Fiddler's Creek Community Development District #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.

### Auditor's 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 of 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 auditor's 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 opinion.

**Opinion**

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities and each major fund of Fiddler's Creek Community Development District #2 as of September 30, 2013 and the changes in financial position and budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 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 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 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.



KEEFE McCULLOUGH

Fort Lauderdale, Florida  
June 26, 2014

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2013

Our discussion and analysis of Fiddler's Creek Community Development District #2's (the District) financial performance provides an overview of the District's financial activities for the years ended September 30, 2013 and 2012. Please read it in conjunction with the District's basic financial statements, which immediately follow this discussion.

**FINANCIAL HIGHLIGHTS**

The following are the highlights of financial activity for the year ended September 30, 2013:

- The District's total liabilities exceeded its assets at September 30, 2013 by \$ 41,991,236 (deficit).
- The District's total revenues were \$ 5,573,891, \$ 5,550,990 from non-ad valorem assessments, \$ 18,272 from miscellaneous income and \$ 4,692 from interest income. The District's expenses for the year were \$ 7,319,619.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements.

**Government-Wide Financial Statements**

The government-wide financial statements, which consist of the following two 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 (deficit) presents information on all the District's assets and liabilities, with the difference between the two reported as net position (deficit). Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

The government-wide financial statements can be found on pages 7 and 8 of this report.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has only one fund type: governmental funds.

**FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
September 30, 2013

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the 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 District's near-term financing decisions. Both the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balances provide reconciliations to facilitate this comparison between governmental funds and governmental activities.

The governmental fund financial statements can be found on pages 9 through 13 of this report.

**Notes to Basic Financial Statements**

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 14 through 27 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of financial position. The following table reflects the condensed government-wide statement of net position (deficit) as of September 30, 2013 and 2012:

Fiddler's Creek Community Development District #2 Statement of Net Position (Deficit)		
	2013	2012
Current and other assets	\$ 13,802,115	\$ 9,977,771
Capital assets, net	41,153,635	42,600,912
Total assets	54,955,750	52,578,683
Other liabilities	12,706,062	2,783,378
Long-term liabilities	84,240,924	90,040,813
Total liabilities	96,946,986	92,824,191
Net position (deficit):		
Net investment in capital assets	(27,823,146)	(26,266,280)
Restricted for debt service	3,785,813	6,595,611
Unrestricted	(17,953,903)	(20,574,839)
Total net position (deficit), as restated	\$ (41,991,236)	\$ (40,245,508)

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2013

**Governmental Activities**

Governmental activities for the year ended September 30, 2013 increased the District's net position (deficit) by \$ 1,745,728, as reflected in the table below:

	2013	2012
REVENUES:		
Program revenue:		
Non-ad valorem assessments	\$ 5,550,990	\$ 5,691,410
General revenue:		
Miscellaneous income	18,272	35,423
Interest income	4,629	2,724
	5,573,891	5,729,557
EXPENSES:		
Interest expense	4,033,967	4,014,475
Allowance for assessments	-	3,752,576
Physical environment	2,667,828	2,446,614
General government	617,824	572,799
	7,319,619	10,786,464
Total expenses		
Change in net position	(1,745,728)	(5,056,907)
NET POSITION (DEFICIT), BEGINNING OF YEAR, AS RESTATED	(40,245,508)	(35,188,601)
NET POSITION (DEFICIT), END OF YEAR	\$ (41,991,236)	\$ (40,245,508)

**ANALYSIS OF THE GOVERNMENTAL FUNDS**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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 District's net resources available for spending at the end of the fiscal year. The General, Debt Service and Capital Project Funds comprise the total governmental funds. As of the end of the most current fiscal year, the District's governmental funds reported combined ending fund balance of \$ 11,260,756.



**FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
September 30, 2013

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The District's investment in capital assets for its governmental activities as of September 30, 2013 amounts to \$ 41,153,635 net of accumulated depreciation and consists of land and improvements, infrastructure, buildings and improvements, equipment, and construction in progress.

At the end of the year, the District had total bonded debt outstanding of \$ 91,763,830. The District's debt represents bonds secured solely by a specified revenue source (i.e., revenue bonds).

Additional information on the District's long-term debt can be found in Note 5 on pages 20 through 23 of this report.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

There was an amendment to the September 30, 2013 budget. Actual expenditures exceeded budget due to certain litigation expenditures, including certain legal fees paid by the Trustee without the District's consent. As more fully described in Note 11, the District filed suit seeking to recover these amounts. The suit is ongoing; however, the District has obtained an order by the trial court directing the Trustee to recommence paying construction draws and to pay the entire amount of accrued withheld construction draws. This decision was upheld on appeal and the Trustee has since repaid the District approximately \$ 146,500 in accrued unpaid construction draws in accordance with the appellate court decision. The District has moved for summary judgment to collect the money that was previously taken by the Trustee for its legal fees from the construction and the remedial accounts.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Revenues and expenditures for the fiscal year 2014 adopted budget for the General Fund of the District total approximately \$ 1,531,000.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of Fiddler's Creek Community Development District #2's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Fiddler's Creek Community Development District #2, 6131 Lyons Road, Suite 100, Coconut Creek, FL 33073.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
STATEMENT OF NET POSITION (DEFICIT)  
September 30, 2013

	Governmental Activities
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 12,267,277
Prepaid interest expense	1,398,616
Assessment receivable	136,222
Capital assets:	
Non-depreciable	23,850,128
Depreciable, net	17,303,507
Total assets	54,955,750
 <b>LIABILITIES:</b>	
Accounts payable	417,246
Due to other governments	19,947
Due to Bondholder :	
Principal	713,684
Interest	1,279,746
Due to Developer	110,736
Accrued interest payable	3,355,481
Bonds payable, due within one year	6,809,222
Bonds payable, due in more than one year	84,240,924
Total liabilities	96,946,986
 <b>COMMITMENTS AND CONTINGENCIES (Notes 7 and 10)</b>	
	-
 <b>NET POSITION (DEFICIT):</b>	
Net investment in capital assets	(27,823,146)
Restricted for debt service	3,785,813
Unrestricted	(17,953,903)
Total net position (deficit)	\$ (41,991,236)

The accompanying notes to basic financial statements are an integral part of these statements.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2013

		Program Revenues			Governmental Activities
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Revenues (Expenses) and Change in Net Position (Deficit)	
FUNCTIONS/PROGRAMS:					
Governmental activities:					
Interest expense	\$ 4,033,967	\$ 3,842,790	\$ -	\$ -	\$ (191,177)
Physical environment	2,667,828	760,980	-	-	(1,906,848)
General government	617,824	947,220	-	-	329,396
 Total governmental activities	 \$ 7,319,619	 \$ 5,550,990	 \$ -	 \$ -	 (1,768,629)
 General revenues:					
Miscellaneous income					18,272
Interest income					4,629
 Change in net position					 (1,745,728)
 Net position (deficit), October 1, 2012, as restated (Note 11)					 (40,245,508)
 Net position (deficit), September 30, 2013					 \$ (41,991,236)

The accompanying notes to basic financial statements are an integral part of these statements.

**FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**September 30, 2013**

**ASSETS**

	Series 2003 Debt Service Fund	Series 2004 Debt Service Fund	Series 2005 Debt Service Fund	Series 2003 Capital Projects Fund	Series 2004 Capital Projects Fund	Series 2005 Capital Projects Fund	Total Governmental Funds
<b>ASSETS:</b>							
Cash and cash equivalents	\$ 2,118,055	\$ 568,544	\$ 142,667	\$ 975,624	\$ 15,316	\$ 2,874,373	\$ 12,267,277
Prepaid interest expense	-	755,987	417,607	-	-	-	1,398,616
Assessments receivable	10,648	123,805	1,282	-	-	-	136,222
Due from other funds	146,463	408,154	219,856	-	-	-	1,944,351
<b>Total assets</b>	<b>\$ 2,275,166</b>	<b>\$ 1,733,172</b>	<b>\$ 781,412</b>	<b>\$ 975,624</b>	<b>\$ 15,316</b>	<b>\$ 2,874,373</b>	<b>\$ 15,746,466</b>

**LIABILITIES AND FUND BALANCES**

<b>LIABILITIES:</b>							
Accounts payable	\$ 377,516	\$ 1,094	\$ 2,879	\$ 501	\$ 530	\$ 11,519	\$ 417,246
Due to other governments	19,947	-	-	-	-	-	19,947
Due to other funds	1,528,102	269,735	-	40,824	8,172	97,467	1,944,351
Due to Bondholder	-	613,218	-	-	-	-	1,993,430
Due to Developer	110,736	-	-	-	-	-	110,736
<b>Total liabilities</b>	<b>2,036,301</b>	<b>884,047</b>	<b>2,879</b>	<b>41,325</b>	<b>8,702</b>	<b>108,986</b>	<b>4,485,710</b>

**COMMITMENTS AND CONTINGENCIES (Notes 7 and 10)**

<b>FUND BALANCES:</b>							
Restricted for debt service	-	849,125	778,533	-	-	-	7,315,591
Restricted for capital projects	-	-	-	934,299	6,614	2,765,387	3,706,300
Unassigned	238,865	-	-	-	-	-	238,865
<b>Total fund balance</b>	<b>238,865</b>	<b>849,125</b>	<b>778,533</b>	<b>934,299</b>	<b>6,614</b>	<b>2,765,387</b>	<b>11,260,756</b>

<b>Total liabilities and fund balances</b>	<b>\$ 2,275,166</b>	<b>\$ 1,733,172</b>	<b>\$ 781,412</b>	<b>\$ 975,624</b>	<b>\$ 15,316</b>	<b>\$ 2,874,373</b>	<b>\$ 15,746,466</b>
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The accompanying notes to basic financial statements are an integral part of these statements.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION (DEFICIT)  
September 30, 2013

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE  
STATEMENT OF NET POSITION (DEFICIT) ARE DIFFERENT BECAUSE:

Total fund balances of governmental funds in the balance sheet, page 9	\$	11,260,756
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Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported in the funds:

The cost of capital assets is		52,718,660
Less accumulated depreciation		(11,565,025)

Certain liabilities are not due and payable in the current period,  
and therefore are not reported in the governmental funds:

Accrued interest payable		(3,355,481)
Governmental revenue bonds payable		<u>(91,050,146)</u>

NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES, PAGE 7	\$	<u><u>(41,991,236)</u></u>
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The accompanying notes to basic financial statements are an integral part of these statements.

**FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**For the Year Ended September 30, 2013**

	General Fund	Series 2003 Debt Service Fund	Series 2004 Debt Service Fund	Series 2005 Debt Service Fund	Series 2003 Capital Projects Fund	Series 2004 Capital Projects Fund	Series 2005 Capital Projects Fund	Total Governmental Funds
<b>REVENUES:</b>								
Non-ad valorem assessments	\$ 1,708,200	\$ 3,101,129	\$ 446,509	\$ 295,152	\$ -	\$ -	\$ -	\$ 5,550,990
Interest income	1,176	1,694	242	105	356	5	1,051	4,629
Miscellaneous income	2,017	-	-	-	-	-	16,255	18,272
<b>Total revenues</b>	<b>1,711,393</b>	<b>3,102,823</b>	<b>446,751</b>	<b>295,257</b>	<b>356</b>	<b>5</b>	<b>17,306</b>	<b>5,573,891</b>
<b>EXPENDITURES:</b>								
Current:								
General government	567,180	39,915	1,881	4,947	-	-	-	613,923
Physical environment	1,112,773	-	-	-	-	-	-	1,112,773
Capital outlay	7,074	-	-	-	28,643	7,566	68,396	111,679
Debt service:								
Principal	-	646,644	46,136	60,457	-	-	-	753,237
Interest	-	846,531	-	-	-	-	-	846,531
<b>Total expenditures</b>	<b>1,687,027</b>	<b>1,533,090</b>	<b>48,017</b>	<b>65,404</b>	<b>28,643</b>	<b>7,566</b>	<b>68,396</b>	<b>3,438,143</b>
Excess (deficiency) of revenues over expenditures	24,366	1,569,733	398,734	229,853	(28,287)	(7,561)	(51,090)	2,135,748
<b>OTHER FINANCING SOURCES:</b>								
Transfers in	1,712	-	-	-	-	-	-	1,712
Transfers out	-	-	-	(1,712)	-	-	-	(1,712)
<b>Total other financing sources</b>	<b>1,712</b>	<b>-</b>	<b>-</b>	<b>(1,712)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net change in fund balances	26,078	1,569,733	398,734	228,141	(28,287)	(7,561)	(51,090)	2,135,748
<b>FUND BALANCES, October 1, 2012, as restated (Note 11)</b>	<b>212,787</b>	<b>4,118,200</b>	<b>450,391</b>	<b>550,392</b>	<b>962,586</b>	<b>14,175</b>	<b>2,816,477</b>	<b>9,125,008</b>
<b>FUND BALANCES, September 30, 2013</b>	<b>\$ 238,865</b>	<b>\$ 5,687,933</b>	<b>\$ 849,125</b>	<b>\$ 778,533</b>	<b>\$ 934,299</b>	<b>\$ 6,614</b>	<b>\$ 2,765,387</b>	<b>\$ 11,260,756</b>

The accompanying notes to basic financial statements are an integral part of these statements.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2013

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS, PAGE 11	\$ 2,135,748										
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p style="margin-left: 40px;">Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives:</p> <table style="margin-left: 80px; width: 80%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Expenditures for capital assets</td> <td style="width: 20%; text-align: right;">111,679</td> </tr> <tr> <td>Less current year provision for depreciation</td> <td style="text-align: right;">(1,555,055)</td> </tr> <tr> <td>Loss on disposal of equipment</td> <td style="text-align: right;">(3,901)</td> </tr> </table> <p style="margin-left: 40px;">Certain items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:</p> <table style="margin-left: 80px; width: 80%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Change in bonds payable</td> <td style="width: 20%; text-align: right;">517,438</td> </tr> <tr> <td>Change in accrued interest payable</td> <td style="text-align: right;"><u>(2,951,637)</u></td> </tr> </table>		Expenditures for capital assets	111,679	Less current year provision for depreciation	(1,555,055)	Loss on disposal of equipment	(3,901)	Change in bonds payable	517,438	Change in accrued interest payable	<u>(2,951,637)</u>
Expenditures for capital assets	111,679										
Less current year provision for depreciation	(1,555,055)										
Loss on disposal of equipment	(3,901)										
Change in bonds payable	517,438										
Change in accrued interest payable	<u>(2,951,637)</u>										
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES, PAGE 8	\$ <u><u>(1,745,728)</u></u>										

The accompanying notes to basic financial statements are an integral part of these statements.

**FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
For the Year Ended September 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES:</b>				
Non-ad valorem assessments	\$ 1,528,146	\$ 1,844,830	\$ 1,708,200	\$ (136,630)
Interest income	1,000	3,192	1,176	(2,016)
Miscellaneous income	<u>-</u>	<u>-</u>	<u>2,017</u>	<u>2,017</u>
Total revenues	<u>1,529,146</u>	<u>1,848,022</u>	<u>1,711,393</u>	<u>(136,629)</u>
<b>EXPENDITURES:</b>				
Current:				
General government:	227,093	1,446,376	567,180	879,196
Physical environment	1,210,053	1,161,992	1,112,773	49,219
Capital outlay	<u>-</u>	<u>-</u>	<u>7,074</u>	<u>(7,074)</u>
Total expenditures	<u>1,437,146</u>	<u>2,608,368</u>	<u>1,687,027</u>	<u>921,341</u>
Excess of revenues over expenditures	92,000	(760,346)	24,366	784,712
<b>OTHER FINANCING SOURCES:</b>				
Transfers in	<u>-</u>	<u>893,054</u>	<u>1,712</u>	<u>891,342</u>
Net change in fund balance	92,000	132,708	26,078	1,676,054
<b>FUND BALANCE, October 1, 2012</b>	<u>212,787</u>	<u>212,787</u>	<u>212,787</u>	<u>-</u>
<b>FUND BALANCE, September 30, 2013</b>	<u>\$ 304,787</u>	<u>\$ 345,495</u>	<u>\$ 238,865</u>	<u>\$ 1,676,054</u>

The accompanying notes to basic financial statements are an integral part of these statements.



FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2013

NOTE 1 - ORGANIZATION AND OPERATIONS

Fiddler's Creek Community Development District #2 (the District) was established November 19, 2002 under the provisions of Chapter 190 of the Florida Statutes by the Collier County Board of County Commissioners. The District was established for the purposes of financing and managing the acquisition, construction, maintenance and operation of the infrastructure necessary for community development within its jurisdiction. The District is authorized to issue bonds for the purpose, among others, of financing, funding, planning, establishing, acquiring, constructing or reconstructing, enlarging or extending, equipping, operating and maintaining water management, water supply, sewer and wastewater management, bridges or culverts, roads, landscaping, street lights and other basic infrastructure projects within or without the boundaries of the Fiddler's Creek Community Development District #2. The District is governed by a five-member Board of Supervisors who are elected for four year terms.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The District's more significant accounting policies are described below:

The financial reporting entity:

The criteria used for including component units consist of identification of legally separate organizations for which the Board of Supervisors of the District are financially accountable. This criteria also includes identification of organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete. Based upon this review, there were no potential component units of the District.

Basis of presentation:

FINANCIAL STATEMENTS - GOVERNMENT-WIDE STATEMENTS

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

In the government-wide statement of net position, the governmental activities column is presented on a consolidated basis, if applicable, and is reported on a full-accrual, economic resource basis, which recognizes all noncurrent assets and receivables as well as all noncurrent debt and obligations, when and if applicable.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The net costs, by function, are also supported by general revenues, other revenue, etc. The statement of activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflect capital-specific grants. For the year ended September 30, 2013, the District had \$ 5,550,990 in program revenues.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

This government-wide focus is more on the ability to sustain the District as an entity and the change in the District's net position resulting from the current year's activities.

FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds. The operations of the funds are accounted for with separate self-balancing accounts that comprise their assets, liabilities, fund equity, revenues and expenditures.

The District reports the following major governmental funds:

**General Fund** - This fund is used to account for all operating activities of the District. At this time, revenues are derived principally from non-ad valorem assessments and interest income.

**Debt Service Fund** - These funds are used to account for the accumulation of resources for and the payment of long-term debt principal and interest.

**Capital Projects Fund** - These funds are used to account for financial resources segregated for the acquisition or construction of capital facilities other than those financed by enterprise operations, if applicable.

Measurement focus, basis of accounting and presentation:

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the basic financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. Governmental funds use the current financial resources measurement focus and the government-wide statements use the economic resources measurement focus.

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The governmental fund financial statements are presented on the modified accrual basis of accounting under which revenue is recognized in the accounting period in which it becomes susceptible to accrual (i.e., when it becomes both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used 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 year.

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

Budget:

A budget is adopted for the General Fund and Debt Service Funds on an annual basis. Appropriations lapse at fiscal year-end. Changes or amendments to the total budgeted expenditures of the District must be approved by the District Board of Supervisors.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- a. Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to October 1, the budget is legally adopted by the District Board.
- d. The budgets are adopted on a basis consistent with generally accepted accounting principles.

Cash and cash equivalents:

Cash and cash equivalents are defined as demand deposits, money market accounts, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments:

Investments, if held, are stated at their fair value, which is based on quoted market prices. Unrealized gains and losses in fair value are recognized. Certain money market investments are stated at amortized cost if they have a remaining maturity of one year or less when purchased.

Capital assets:

Capital assets are reported in the governmental activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$ 750 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. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Assessments:

Assessments are non-ad valorem assessments on all property within the District. Assessments are levied each November 1 on property as of the previous January 1. Certain assessments are collected upon closing on each lot sold and are used to prepay a portion of the Bonds outstanding. In addition, annual assessments are levied and collected to provide funds for the debt service on the portion of the Bonds which are not paid for from the prepaid assessments and to pay for the operations and maintenance of the District. The fiscal year for which annual assessments are levied begins on October 1 with a maximum discount available for payments through February 28 and become delinquent on April 1.

Assessments on all non-platted lots within the District are directly billed to the Developer.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred outflows/inflows of resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category.

Equity classifications:

*Government-wide statements*

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net position - consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - all other net position that do not meet the definition of "restricted" or "net investment in capital assets."

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

*Fund statements*

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* requires that governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District classifies prepaid items and deposits as nonspendable since they are not expected to be converted to cash or are not expected to be converted to cash within the next year.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District Board of Supervisors (the "Board"). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the District Manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District classifies existing fund balance to be used in the subsequent year's budget for elimination of a deficit as assigned.

Unassigned: This classification includes the residual fund balance for the General Fund.

The District would typically use restricted fund balances first, followed by committed fund balances, assigned fund balances, and finally unassigned fund balances.

Date of management review:

Subsequent events have been evaluated through June 26, 2014, which is the date the financial statements were available to be issued.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

The District's deposits must be placed with banks and savings and loans which are qualified as public depositories prior to receipt of public monies under Chapter 280, Florida Statutes. These deposits are insured by the FDIC up to \$ 250,000. Monies deposited in amounts greater than the insurance coverage are secured by the banks pledging securities with the State Treasurer in the collateral pool. At year end, the carrying amount of the District's General Fund deposits was \$ 2,118,055 and the bank balance was \$ 2,126,802.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 September 30, 2013

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Investments

The investment of funds is authorized by Florida Statutes, which allows the District to invest in the Local Government Surplus Funds Trust or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, SEC registered money market funds with the highest credit quality rating, interest-bearing time deposits or savings accounts in qualified public depositories and direct obligations of the U.S. Treasury. Investments of the Debt Service and Capital Projects Funds are governed by the Bond Indenture.

Investments as of September 30, 2013 of \$ 10,149,222 were in money market mutual funds. These deposits and investments are reflected in the accompanying statement of net position and balance sheet - governmental funds in cash and cash equivalents.

Credit risk:

Florida Statutes require the money market mutual funds held by the District to have the highest credit quality rating from a nationally recognized rating agency. The money market mutual funds held by the District are rated A+ by Standard and Poor's.

Interest rate risk:

Florida Statutes state that the investment portfolio be structured in such manner as to provide sufficient liquidity to pay obligations as they come due. The average maturity of the money market fund is 50 days.

Custodial credit risk:

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At September 30, 2013, the District's investments were not subject to custodial credit risk.

NOTE 4 - CAPITAL ASSETS

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

	Balance at October 1, 2012	Additions	Deletions	Balance at September 30, 2013
<b>Governmental Activities:</b>				
Capital assets, not being depreciated				
Land and improvements	\$ 16,226,776	\$ -	\$ -	\$ 16,226,776
Construction-in-progress	7,518,747	104,605	-	7,623,352
	<u>23,745,523</u>	<u>104,605</u>	<u>-</u>	<u>23,850,128</u>
Total capital assets, not being depreciated				

**FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE 4 - CAPITAL ASSETS (continued)**

	Balance at October 1, 2012	Additions	Deletions	Balance at September 30, 2013
Capital assets, being depreciated:				
Infrastructure	16,100,762	-	-	16,100,762
Buildings and improvements	12,760,696	-	-	12,760,696
Equipment	7,124	7,074	(7,124)	7,074
Total capital assets, being depreciated	<u>28,868,582</u>	<u>7,074</u>	<u>(7,124)</u>	<u>28,868,532</u>
Total capital assets	<u>52,614,105</u>	<u>111,679</u>	<u>(7,124)</u>	<u>52,718,660</u>
Less accumulated depreciation for:				
Infrastructure	4,337,727	630,360	-	4,968,087
Equipment	2,630	1,773	(3,223)	1,180
Buildings and improvements	5,672,836	922,922	-	6,595,758
Total accumulated depreciation	<u>10,013,193</u>	<u>1,555,055</u>	<u>(3,223)</u>	<u>11,565,025</u>
Total capital assets, being depreciated, net	<u>18,855,389</u>	<u>(1,547,981)</u>	<u>(3,901)</u>	<u>17,303,507</u>
Governmental activities capital assets, net	\$ <u>42,600,912</u>	\$ <u>(1,443,376)</u>	\$ <u>(3,901)</u>	\$ <u>41,153,635</u>

Provision for depreciation was charged to functions as follows:

Governmental Activities:	
Physical environment	\$ <u>1,555,055</u>

**NOTE 5 - LONG-TERM DEBT**

a. Summary of Long-Term Debt of Governmental Activities

Long-term debt of the governmental activities at September 30, 2013 is comprised of the following bond issues:

Special Assessment Revenue Bonds, Series 2003A; due in annual installments through May 2035; interest payable semiannually at 6.00% through November 2016 and then at 6.375%.	\$ 26,582,700
Special Assessment Revenue Bonds, Series 2003B; due in one lump-sum payment November 2013; interest payable semiannually at 5.75%.	4,197,412
Special Assessment Bonds, Series 2004; due in annual installments through May 2037; interest payable semiannually at 6.75%.	14,492,765
Special Assessment Bonds, Series 2005; due in annual installments through May 2038; interest payable semiannually at 6.00%.	<u>46,490,953</u>
	\$ <u>91,763,830</u>



**FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE 5 - LONG-TERM DEBT (continued)**

The following is a summary of changes in governmental activities long-term debt for the year ended September 30, 2013:

	<u>Balance October 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2013</u>	<u>Due Within One Year</u>
Special Assessment Revenue Bonds, Series 2003A	\$ 26,655,750	\$ 39,691	\$ 112,741	\$ 26,582,700	\$ 1,097,937
Special Assessment Revenue Bonds, Series 2003B	4,179,591	18,040	219	4,197,412	4,197,412
Special Assessment Revenue Bonds, Series 2004	14,538,902	-	46,137	14,492,765	650,069
Special Assessment Revenue Bonds, Series 2005	<u>46,373,341</u>	<u>178,068</u>	<u>60,456</u>	<u>46,490,953</u>	<u>1,577,488</u>
	<u>\$ 91,747,584</u>	<u>\$ 235,799</u>	<u>\$ 219,553</u>	<u>\$ 91,763,830</u>	<u>\$ 7,522,906</u>

**b. Summary of Significant Debt Terms of Governmental Activities**

**Special Assessment Revenue Bonds, Series 2003A** - The District previously issued \$ 26,385,000 in Special Assessment Revenue Bonds, Series 2003A for the purpose of funding certain projects within the boundaries of the District. The Bonds are payable in annual principal installments through May 2035. Interest at 6.00% is payable semiannually on the first day of each May and November through 2016 and at 6.375% thereafter.

The District is required by the Bond Indenture to levy and collect special assessments pursuant to Florida Statutes, Section 190.022. The collection of these assessments is restricted and applied to the debt service requirements of the Bond Issue. Further, the District covenants to levy special assessments in annual amounts adequate to provide for payment of principal and interest on the Bonds as they become due.

The Bonds are subject to mandatory redemption at par plus accrued interest to the date of redemption on a schedule of annual redemptions through May 2035, the maturity date. The District is required to redeem the Bonds at par prior to schedule from the proceeds of any assessments prepaid or if certain events occur as outlined in the Bond Indenture. The Bonds are subject to redemption at the option of the District at par plus accrued interest from payment date to the redemption date on or after May 1, 2013.

The Indenture requires a reserve fund equal to 7.47% of the 2003A Bonds outstanding. As of September 30, 2013, the reserve fund account balance was not sufficient to satisfy this requirement.

**Special Assessment Revenue Bonds, Series 2003B** - The District previously issued \$ 9,905,000 in Special Assessment Revenue Bonds, Series 2003B for the purpose of funding certain projects within the boundaries of the District. The Bonds are payable in one principal installment in November 2013. Interest at 5.75% is payable semiannually on the first day of each May and November.



FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2013

NOTE 5 - LONG-TERM DEBT (continued)

The District is required by the Bond Indenture to levy and collect special assessments pursuant to Florida Statutes, Section 190.022. The collection of these assessments is restricted and applied to the debt service requirements of the Bond Issue. Further, the District covenants to levy special assessments in annual amounts adequate to provide for payment of principal and interest on the Bonds as they become due.

The Bonds are not subject to mandatory redemption prior to their scheduled maturity. The District is required to redeem the Bonds at par prior to schedule from the proceeds of any assessments prepaid or if certain events occur as outlined in the Bond Indenture.

The Indenture requires a reserve fund equal to 11.19% of the 2003B Bonds outstanding. As of September 30, 2013, the reserve fund account balance was not sufficient to satisfy this requirement.

Subsequent to year end, the maturity date of the Series 2003B Bonds was extended from November 1, 2013 to November 1, 2014.

**Special Assessment Bonds, Series 2004** - The District previously issued \$ 13,145,000 in Special Assessment Bonds, Series 2004 for the purpose of funding certain projects within the boundaries of the District. The Bonds are payable in annual principal installments through May 2037. Interest at 6.75% is payable semiannually on the first day of each May and November.

The District is required by the Bond Indenture to levy and collect special assessments pursuant to Florida Statutes, Section 190.022. The collection of these assessments is restricted and applied to the debt service requirements of the Bond Issue. Further, the District covenants to levy special assessments in annual amounts adequate to provide for payment of principal and interest on the Bonds as they become due.

The Bonds are subject to mandatory redemption at par plus accrued interest to the date of redemption on a schedule of annual redemptions through May 2037, the maturity date. The District is required to redeem the Bonds at par prior to the schedule from the proceeds of any assessments prepaid or if certain events occur as outlined in the Bond Indenture. The Bonds are subject to redemption at the option of the District at a premium on or before May 1, 2015 and at par on or after May 1, 2016.

The Bond Indenture requires a reserve fund equal to 50% of the maximum annual debt service requirements. As of September 30, 2013, the reserve fund account balance was not sufficient to satisfy this requirement.

Subsequent to year end, the Bondholders deferred the May 1, 2014 debt service payment to November 1, 2014.

**Special Assessment Bonds, Series 2005** - The District previously issued \$ 38,850,000 in Special Assessment Bonds, Series 2005 for the purpose of funding certain projects within the boundaries of the District. The Bonds are payable in annual principal installments through May 2038. Interest at 6.00% is payable semiannually on the first day of each May and November.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 September 30, 2013

NOTE 5 - LONG-TERM DEBT (continued)

The District is required by the Bond Indenture to levy and collect special assessments pursuant to Florida Statutes, Section 190.022. The collection of these assessments is restricted and applied to the debt service requirements of the Bond Issue. Further, the District covenants to levy special assessments in annual amounts adequate to provide for payment of principal and interest on the Bonds as they become due.

The Bonds are subject to mandatory redemption at par plus accrued interest to the date of redemption on a schedule of annual redemptions through May 2038, the maturity date. The District is required to redeem the Bonds at par prior to the schedule from the proceeds of any assessments prepaid or if certain events occur as outlined in the Bond Indenture. The Bonds are subject to redemption at the option of the District at a premium on or before May 1, 2016 through April 30, 2017 and at par on or after May 1, 2017.

The Bond Indenture requires a reserve fund equal to 50% of the maximum annual debt service requirements. As of September 30, 2013, the reserve fund account balance was not sufficient to satisfy this requirement.

Subsequent to year end, the Bondholders deferred the May 1, 2014 debt service payment to November 1, 2014.

As of September 30, 2013, the annual debt service requirements for the Series 2003, 2004 and 2005 Special Assessment Revenue Bonds are approximately as follows:

Year Ending September 30,	Principal	Interest	Total
2014	\$ 7,522,906	\$ 9,173,711	\$ 16,696,617
2015	1,720,790	5,249,210	6,970,000
2016	1,829,308	5,144,018	6,973,326
2017	1,945,991	5,032,176	6,978,167
2018	2,071,442	4,910,650	6,982,092
2019-2023	12,541,693	22,437,132	34,978,825
2024-2028	17,144,144	17,978,788	35,122,932
2029-2033	23,441,029	11,880,152	35,321,181
2034-2038	23,546,527	3,980,502	27,527,029
	<u>\$ 91,763,830</u>	<u>\$ 85,786,339</u>	<u>\$ 177,550,169</u>

NOTE 6 - RISK MANAGEMENT

The District purchased an insurance policy that provided coverage of up to a \$ 1,000,000 maximum for each general liability occurrence in combination with a maximum annual aggregate coverage of approximately \$ 2,000,000 for the policy year ending September 30, 2013. Other insurance policies carried by the District during the year included automobile, public official's liability and employment practices liability. Deductible amounts ranged from \$ 0 to \$ 2,500. Settlement amounts have not exceeded insurance coverage during the last three (3) fiscal years.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 September 30, 2013

NOTE 7 - COMMITMENTS

The District has committed to acquire those portions of the improvements which have been completed by the Developer for the actual reasonable costs incurred by the Developer up to the amounts available in Series 2003, 2004 and 2005 Capital Project Funds.

NOTE 8 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A summary of due to/from funds for the year ended September 30, 2013 is as follows:

	Receivables	Payables
General Fund	\$ 146,463	\$ 1,528,102
Series 2003 Debt Service Fund	1,169,878	51
Series 2004 Debt Service Fund	408,154	269,735
Series 2005 Debt Service Fund	219,856	-
Series 2003 Capital Projects Fund	-	40,824
Series 2004 Capital Projects Fund	-	8,172
Series 2005 Capital Projects Fund	-	97,467
	\$ 1,944,351	\$ 1,944,351

These balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems and (3) payments between funds are actually made.

A summary of interfund transfers for the year ended September 30, 2013, is as follows:

Transfer Out	Transfer In General Fund
Series 2003 Debt Service Fund	\$ 295,424
Series 2004 Debt Service Fund	242,738
Series 2005 Debt Service Fund	354,892
Total	\$ 893,054

The transfer from the Debt Service to the General Fund is related to legal fees that were paid by the Trustee with regard to the bond defaults.

NOTE 9 – NET POSITION (DEFICIT)

The District has a government-wide net position deficit of \$ 41,991,236 as of September 30, 2013. The deficit relates to the accrual of certain expenses, principally interest, which are not currently recorded in the fund statements. When recognized as expenditures in the fund statements, they will be recovered from the Developer or through assessment to benefitted property owners. The deficit also relates to various infrastructure improvements, such as the water and sewer lines, which have been financed through the issuance of long-term debt, but were conveyed to other governmental entities.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2013

NOTE 10 – CONTINGENCIES

Developer reorganization:

In prior years, the Developer was unable to provide the District with non-ad valorem special assessments sufficient to satisfy debt service requirements.

In February 2010, the Developer of the District, Fiddler's Creek, LLC and its affiliates filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. On August 29, 2011, the Bankruptcy Court entered an order confirming Fiddler's Creek, LLC's second amended Plan of Reorganization, as modified. The Plan provides for the Developer to emerge from bankruptcy, implement the Plan of Reorganization and develop the property within the District. The court approved a de-acceleration of the bonds outstanding, a two-year moratorium in regard to the commencement of payments on certain of the "off-roll" bond claims. The court specifically considered the \$ 45 million "exit financing" in determining that the plan of reorganization is feasible.

In addition, the Plan calls for amounts due to the District with respect to off-roll property owned by the Developer shall have a new par amount equal to the outstanding amounts plus unpaid and accrued interest. As a result, unpaid and accrued interest totaling \$ 13,159,539 was added to the outstanding bond principal balances during the periods ended September 30, 2012.

The District is the Plaintiff in an action styled *Fiddler's Creek Community Development District 2 v. U.S. Bank National Association, as Trustee, The ITG Tax Free Income & Capital Appreciation Fund, Ltd., ITG Fund II, LLLP, ITG Fund Management, Inc. and Oppenheimer Funds, Inc.*, Collier County Circuit Court Case No. 11-CA-003947 (the "Contract Action"). Therein, the District sued the Trustee for the misappropriation by U.S. Bank of approximately \$ 1,325,000.00 from a trust account which was earmarked solely for infrastructure construction and for its failure and refusal to fund construction draw requests both in violation of the parties' Trust Indenture. Additionally, the District sued certain current and former bondholders, the ITG entities and Oppenheimer, for their part in the conspiracy with the Trustee to commit the aforementioned misappropriation. In response, the Trustee alleges the District defaulted on certain special assessment revenue bonds; therefore, the Trustee is justified in its conduct. Notably, the Trustee has not accelerated the bond indebtedness.

In the Contract Action, the District was successful in obtaining an order from the Court which required U.S. Bank to pay all past-due construction draw requests which had been duly-certified by the District Engineer. U.S. Bank appealed. Accordingly, the District was the appellee in an interlocutory appeal brought by the Trustee before the Second District Court of Appeal styled *U.S. Bank National Association, as Trustee v. Fiddler's Creek Community Development District 2, et al*, Second District Court of Appeal Case No. 2D13-706 (the "Appeal"). Following the submission of competing briefs and oral argument, the District prevailed. The ruling from the lower court in the Contract Action was affirmed on September 20, 2013. The deadline for the Trustee to seek rehearing of the appellate court's opinion has passed, and a mandate was entered on October 10, 2013. As a result, the District has received \$ 145,000 from U.S. Bank which represents all of the accrued and unpaid construction draw requests which has previously and impermissibly been withheld by U.S. Bank.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 September 30, 2013

NOTE 10 – CONTINGENCIES (continued)

The District is a Defendant and Counterplaintiff in an action styled *U.S. Bank National Association, as Trustee of the Fiddler's Creek Community Development District 2 Special Assessment Revenue Bonds, Series 2003A and Series 2003B, Series 2004 and Series 2005 v. Fiddler's CDD Investor, LLC; Fiddler's CDD Investor II, LLC; Fiddler's Creek Community Development District 2; and Wilmington Trust, National Association*, Collier County Circuit Court Case No. 13-CA-1143 (hereinafter referred to as the "Declaratory Action"). On March 8, 2013, U.S. Bank was advised that it had been terminated as trustee by the District and by the Co-Defendants, Fiddler's CDD Investor, LLC and Fiddler's CDD Investor II, LLC (collectively, the "Bondholders"), and that Co-Defendant, Wilmington Trust, National Association ("Wilmington") had accepted the appointment as successor trustee. Notwithstanding, the termination of U.S. Bank and acceptance by Wilmington, all done in accordance with the clear and unambiguous terms of the Master Indenture, U.S. Bank has steadfastly refused to turn over the trust property to Wilmington. Rather, U.S. Bank filed the Declaratory Action for declaratory judgment, feigning to be in doubt of its rights under the Master Indenture, and refusing to turn over the trust property until the Court adjudicates the manufactured "dispute" over the interpretation of the Indenture. The Declaratory Action has been consolidated with the Contract Action.

In the Declaratory Action, the Bondholders have also asserted numerous counterclaims against U.S. Bank for the misappropriation by U.S. Bank of approximately \$ 2,000,000 from the District's Revenue and Reserve Account. Additionally, the Bondholders have sought the appointment of a receiver to safeguard these accounts from further dissipation by U.S. Bank. Similarly, the District has asserted counterclaims against U.S. Bank in the Declaratory Action regarding U.S. Bank's misappropriation of the construction account funds, and has joined in the Bondholders' demand for the appointment of a receiver. On January 15, 2014, U.S. Bank turned over the trust estate to Wilmington by agreement, and the efforts to have a receiver appointed became moot. Nevertheless, the Declaratory Action remains pending to date.

NOTE 11 – RESTATED NET POSITION AND FUND BALANCES

For the year ended September 30, 2013, the District implemented GASB Statement No, 65, *Items Previously Reported as Assets and Liabilities*. This resulted in a decrease to the beginning net position on the statement of activities of \$ 1,298,288 to remove bond issuance costs in accordance with GASB 65.

In addition, the District restated the beginning fund balance for the Series 2003, Series 2004 and Series 2005 Debt Service Funds in order to reclassify interest expense to the balance sheet as prepaid interest.

The effect of these restatements is as follows:

Statement of Activities	
Beginning net position (deficit)	\$ (39,732,177)
Removal of bond issuance costs	(1,298,288)
Reclassification of interest expenses to prepaid interest	784,957
Restated beginning net position (deficit)	\$ (40,245,508)

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 September 30, 2013

NOTE 11 – RESTATED NET POSITION AND FUND BALANCES (continued)

Statement of Revenues, Expenditures  
 and Change in Fund Balance –  
 Governmental Funds

	<u>Series 2003 Debt Service Fund</u>	<u>Series 2004 Debt Service Fund</u>	<u>Series 2005 Debt Service Fund</u>
Beginning fund balance (deficit)	\$ 4,075,642	\$ (108,994)	\$ 367,378
Reclassification of interest expense to prepaid interest	<u>42,558</u>	<u>559,385</u>	<u>183,014</u>
Restated beginning fund balance	<u>\$ 4,118,200</u>	<u>\$ 450,391</u>	<u>\$ 550,392</u>

NOTE 12 – RELATED ENTITY TRANSACTIONS

The District has cost sharing agreements with Fiddler’s Creek Community Development District 1 and shares the same Developer. The District has a payable in the amount of \$ 19,947 to Fiddler’s Creek Community Development District 1 for shared costs as of September 30, 2013.

NOTE 13 – SUBSEQUENT EVENT

The District, Bondholder, U.S. Bank and Wilmington Trust entered into an agreement for removal of predecessor trustee and appointment and acceptance of successor trustee. Per the agreement, U.S. Bank was removed as the trustee and Wilmington Trust was appointed as trustee. Each party to this agreement expressly reserves all rights, remedies and claims it may have under the Indentures and/or applicable law; notwithstanding any provision herein to the contrary, nothing contained herein as a result of this agreement shall be construed against any Party in the Fiddler Litigation or in any other context. The District and each of the Bondholders jointly indemnify and hold harmless Wilmington Trust from all liability resulting from any claims that may be asserted from U.S. Bank.

On June 12, 2014 Wilmington Trust remitted \$ 688,800 to the 2003A-1 bondholders and \$ 4,835,118 to the 2003A-2 bondholders representing accrued bond interest for the debt service payment dates of May 1, 2011, November 1, 2011, May 1, 2012, November 1, 2012, May 1, 2013, November 1, 2013, and May 1, 2014.

Due to the removal of the previous trustee, the restructuring program for the Series 2004 and 2005 Bonds resumed and is estimated to be completed in July 2014. The intent of this restructuring is to exchange the Series 2004 and Series 2005 Bonds for four new series of bonds that will be numbered 2014-1 through 2014-4. These new exchange bonds will have new CUSIP numbers in the face amount of the present bonds plus accrued interest; will effectively replace the existing Series 2004 and 2005 Bonds in their entirety; and will be issued with a waiver of any and all alleged defaults or other claims by the Bondholders.

OTHER REPORTS OF  
INDEPENDENT AUDITORS



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

To the Board of Supervisors  
Fiddler's Creek Community Development District #2  
Collier County, Florida

We have audited, 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, the financial statements of the governmental activities and each major fund of Fiddler's Creek Community Development District #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 June 26, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit, 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.

*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 misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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 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.



### **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 instances of noncompliance due to the Series 2003A, 2003B, 2004 and 2005 Reserve Accounts reflecting deficits at September 30, 2013, subject, however, to events subsequent thereto and described on page 27 and the District's attempt's to recover funds from US Bank, and others, as described on pages 25 and 26.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Recommendations. We did not audit the District's response and, accordingly, we express no opinion on it.

### **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 District'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.



KEEFE McCULLOUGH

Fort Lauderdale, Florida  
June 26, 2014

INDEPENDENT AUDITOR'S REPORT TO DISTRICT MANAGEMENT

To the Board of Supervisors  
Fiddler's Creek Community Development District #2  
Collier County, Florida

We have audited the financial statements of Fiddler's Creek Community Development District #2 (the "District"), as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated June 26, 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. We have issued our Independent Auditor's 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 Schedule of Findings and Recommendations. Disclosures in that report and schedule, which are dated June 26, 2014, should be considered in conjunction with this management letter.

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

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. The finding and recommendation made in the preceding annual financial audit report is repeated in the current fiscal year and is listed in the Schedule of Findings and Recommendations.

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions 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 financial management. In connection with our audit, our recommendations to improve financial management are included in the Schedule of Findings and Recommendations on pages 32 and 33.

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.

Fiddler's Creek Community Development District #2

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 and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The District was established on November 19, 2002 by Ordinance No. 02-61 of the Collier County Commission, pursuant to the provisions of Chapter 190, of the laws of the State of Florida. The District does not have any component units.

Section 10.554(1)(i)6.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District did not meet any of the 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 were in agreement.

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, Federal and other granting agencies, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.



KEEFE McCULLOUGH

Fort Lauderdale, Florida  
June 26, 2014

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
September 30, 2013

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

**Other Matters:**

**Finding 2010-01**

**Condition:**

The Series 2003A, 2003B, 2004 and 2005 reserve accounts reflect deficits at September 30, 2013.

**Criteria:**

The bond indentures of the Special Assessment Revenue Bonds, Series 2003A, 2003B, 2004 and 2005 require a reserve account equal to a certain percentage of the bonds deemed outstanding.

**Effect:**

Non-compliance with bond covenants.

**Recommendation:**

We recommend that the District maintain the required reserve account balance.

**Management's Response:**

The District has disagreed with the determination pursuant to the two-year moratorium provided in the plan of reorganization approved by the bankruptcy court. The court approved the de-acceleration and the restructuring of the bonds. The Trustee has taken no action to enforce an alleged non-compliance.

Management notes that the reserves have been reduced by the unauthorized misappropriation by the former Trustee. The principal balance of the bonds has been reduced by this amount.

**Finding 2013-01**

**Condition:**

The District did not meet the debt service requirements for the Special Assessment Revenue Bonds, Series 2003A for the year ended September 30, 2013.

**Criteria:**

The covenants of the Special Assessment Revenue Bonds, Series 2003A require the District to levy and collect special assessments in annual amounts adequate to provide for the payment of principal and interest on the Bonds as they become due.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
September 30, 2013

CURRENT YEAR FINDINGS AND RECOMMENDATIONS (continued)

**Effect:**

Noncompliance with bond covenants.

**Recommendation:**

We recommend that the District make the debt service payments when due.

**Management's Response:**

The former Trustee had sufficient money to make the debt service payments and did not, subject to payments described on page 27.

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

**2010-01: Failure to maintain adequate reserve account balances** – Matter continued in 2013 and is repeated in the current year.