

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**LAKWOOD RANCH
COMMUNITY DEVELOPMENT DISTRICT 2
LAKWOOD RANCH, FLORIDA**

SEPTEMBER 30, 2016

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**LAKWOOD RANCH
COMMUNITY DEVELOPMENT DISTRICT 2
LAKWOOD RANCH, FLORIDA**

SEPTEMBER 30, 2016

TABLE OF CONTENTS

Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Statement of Net Position	8
Statement of Activities	9
Balance Sheet - Governmental Funds.....	10
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position.....	11
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities	13
Notes to the Financial Statements.....	14-26
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund.....	27
Other Information	
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>	28-29
Independent Accountants' Report on Compliance with Florida Statute Section 218.415 – Investments of Public Funds.....	30
Management Letter.....	31-32

INDEPENDENT AUDITORS' REPORT

Board of Supervisors
Lakewood Ranch Community Development District 2
Lakewood Ranch, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Lakewood Ranch Community Development District 2 (the District), as of and for the year ended September 30, 2016, 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 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 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 opinions.

Certified Public Accountants

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461 • FAX (352) 378-2505
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309
MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Supervisors
Lakewood Ranch Community Development District 2
Lakewood Ranch, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of September 30, 2016, and the respective changes in financial position 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 (MD&A) and the other Required Supplementary Information as listed in the table of contents (collectively, the required supplementary information), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017, 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 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 31, 2017
Sarasota, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Lakewood Ranch Community Development District 2 (the District), our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2016. Please read it in conjunction with the District's Independent Auditors' Report, basic financial statements, accompanying notes, and required supplementary information to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the District exceeded its liabilities at the close of the most recent fiscal year resulting in a net position of \$10,791,180.
- The District's net position increased by \$364,503 for the year.
- At September 30, 2016, the District's governmental funds reported combined ending fund balances of \$2,868,497, an increase of \$236,337 for the year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as the introduction to the District's financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all the District's assets (plus deferred outflows) and liabilities (plus deferred inflows), with the difference reported as net position. 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 in a manner similar to the approach used by a private sector business in that revenues are recognized when earned and expenses are reported when incurred.

The government-wide financial statements include all governmental activities that are principally supported by special assessment revenues. The District does not have any business-type activities. The governmental activities of the District include the following functions: general government (Town Hall maintenance facility, and other administration), maintenance and operations, and special projects.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has only governmental funds. There are no business-type or fiduciary funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

OVERVIEW OF FINANCIAL STATEMENTS (Concluded)

Governmental Funds

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

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

The District maintains three governmental funds for external reporting. Information is presented separately in the governmental fund balance sheet (where applicable) and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the other major funds (debt service S2006 and S2012). The debt service fund (S2006) was closed in 2016.

The District adopts annual budgets for each fund. In the required supplementary information section, a budgetary comparison schedule has been provided for the general fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets and deferred outflows exceeded liabilities at the close of the most recent fiscal year.

Key components of the District's net position as of September 30 of each year are reflected in the following table:

	<u>2016</u>	<u>2015</u>
Assets, Excluding Capital Assets	\$ 3,045,362	\$ 2,834,525
Capital Assets, Net of Depreciation	10,213,973	10,773,167
Deferred Outflows	<u>0</u>	<u>7,533</u>
Total Assets and Deferred Outflows	<u>13,259,335</u>	<u>13,615,225</u>
Liabilities, Excluding Long-term Liabilities	198,155	233,548
Long-term Liabilities	<u>2,270,000</u>	<u>2,955,000</u>
Total Liabilities	<u>2,468,155</u>	<u>3,188,548</u>
Net Position:		
Net Investment in Capital Assets	7,943,973	7,867,514
Restricted for Debt Service	397,858	435,459
Unrestricted	<u>2,449,349</u>	<u>2,123,704</u>
Total Net Position	<u>\$ 10,791,180</u>	<u>\$ 10,426,677</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Concluded)

The District's net position reflects its investment in capital assets (e.g. parks and landscape improvements, buildings, drainage system, and roads) less any related debt used to acquire those assets that is still outstanding. These assets are used to provide services to residents; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

The District's net position increased during the year by \$364,503. The increase reflects the extent to which program and general revenues exceeded the costs of operations, including depreciation.

Key elements of the change in net position are reflected in the following table:

	<u>2016</u>	<u>2015</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 2,980,125	\$ 2,871,468
Operating Grants and Contributions	375,929	392,819
General Revenues	<u>70,953</u>	<u>64,866</u>
Total Revenues	<u>3,427,007</u>	<u>3,329,153</u>
Expenses		
General Government:		
Town Hall	69,687	50,919
Other Administration	747,011	705,605
Maintenance and Operations	2,166,271	2,107,315
Special Projects	15,737	21,688
Interest on Long-term Debt	<u>63,798</u>	<u>90,048</u>
Total Expenses	<u>3,062,504</u>	<u>2,975,575</u>
Change in Net Position	364,503	353,578
Net Position, Beginning of Year	<u>10,426,677</u>	<u>10,073,099</u>
Net Position, End of Year	<u>\$ 10,791,180</u>	<u>\$ 10,426,677</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2016, was \$3,062,504. The costs of the District's activities were primarily funded by program revenues. As in the prior fiscal year, program revenues are special assessments and other contributions. Program revenues increased \$91,767 from 2015 to 2016. Expenses increased \$86,929. These changes occurred for a variety of different reasons.

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal and contractual requirements. The District's general fund includes all activities related to providing management and operating services.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS (Concluded)

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 the District's net resources available for spending at the end of the year.

The general fund is the main operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$438,103 and total fund balance was \$2,868,497. 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 18.0% of total general fund expenditures while the total fund balance represents 117.8% of the same amount.

The debt service funds are collecting adequate revenues to pay scheduled debt service. Restricted investment balances are in compliance with debt covenants.

GENERAL FUND BUDGETARY COMPARISON

An operating budget was adopted and maintained by the District, pursuant to the requirements of *Florida Statutes*. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. A budgetary comparison schedule is shown in the required supplementary information section of the report.

Both the original and final budget required a carry forward surplus of \$226,270 to balance. The original appropriations budget was \$3,190,810, and there were no budget amendments during the year. Actual results *added* \$744,793 to fund balance. Revenues were \$218,232 over budget and expenditures were \$751,777 under budget. Transfers in *added* \$87,968 to fund balance and transfers out were \$86,914 over budget. The variances occurred for a variety of reasons.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets at September 30, 2016, totaled \$10,213,973 (net of accumulated depreciation). Capital assets include parks and landscape improvements, buildings, drainage system, and roads. Current year additions were \$60,330 and depreciation was \$619,524. More detailed information about the District's capital assets is presented in Note 5 to the financial statements.

Long-term Debt

At September 30, 2016, the District had \$2,270,000 in bonds and notes outstanding with a final maturity in 2025. Principal payments during 2016 totaled \$685,000. There was no new debt issued during the year. More detailed information about the District's capital debt is presented in Note 6 to the financial statements.

On November 1, 2015, the Series 2006A and Series 2006B Bonds were paid off.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Concluded)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The 2017 general fund budget uses carry over surplus of \$117,000, restricted infrastructure reserves of \$300,000, and Road Reserves of \$186,600 to balance, and includes a 2.8% increase in the O&M assessment rate.

While there are some special project needs, in particular its street lighting LED conversion which had been deferred from 2016 to 2017, the District does not anticipate significant changes in its operations for 2016.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages and the stewardship of the facilities it maintains. If you have questions about this report or need additional financial information, contact the Lakewood Ranch Community Development District 2's Finance Department at Town Hall, 8175 Lakewood Ranch Blvd., Lakewood Ranch, Florida 34202.

LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016
LAKWOOD RANCH, FLORIDA

	Governmental
Assets	Activities
Cash	\$ 84,591
Investments	2,891,222
Due from Other Governments	45,367
Due from Other Agencies	6,715
Other Receivables	672
Prepaid Items	16,795
Capital Assets:	
Depreciable Assets, Net	8,005,917
Nondepreciable	2,208,056
Total Assets	13,259,335
Liabilities	
Accounts Payable	5,395
Accrued Expenses	34,858
Due to Other Governments	121,833
Due to Other Agencies	13,700
Deposits	1,079
Accrued Interest	21,290
Noncurrent Liabilities:	
Due Within One Year	685,000
Due in More than One Year	1,585,000
Total Liabilities	2,468,155
Net Position	
Net Investment in Capital Assets	7,943,973
Restricted for Infrastructure Improvements	397,858
Unrestricted	2,449,349
Total Net Position	\$ 10,791,180

See accompanying notes.

LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2016
LAKWOOD RANCH, FLORIDA

Function/Programs	Expenses	Program Revenues		Net (Expense), Revenue, and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
General Government:				
Town Hall	\$ 69,687	\$ 188,523	\$ 0	\$ 118,836
Maintenance Facility	0	254,168	0	254,168
Other Administration	747,011	686,080	0	(60,931)
Maintenance and Operations	2,166,271	1,795,978	375,929	5,636
Special Projects	15,737	55,371	0	39,634
Interest on Long-term Debt	63,798	5	0	(63,793)
Total Governmental Activities	\$ 3,062,504	\$ 2,980,125	\$ 375,929	293,550

General Revenues

Unrestricted Investment Earnings	18,347
Other Revenues	52,606

Total General Revenues	<u>70,953</u>
-------------------------------	---------------

Change in Net Position	364,503
-------------------------------	---------

Net Position, Beginning of Year	10,426,677
--	------------

Net Position, End of Year	<u>\$ 10,791,180</u>
----------------------------------	----------------------

See accompanying notes.

LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016
LAKWOOD RANCH, FLORIDA

	General Fund
Assets	
Cash	\$ 84,591
Investments	2,891,222
Due from Other Governments	45,367
Due from Other Agencies	6,715
Other Receivables	672
Prepaid Items	16,795
Total Assets	3,045,362
 Liabilities and Fund Balances	
 Liabilities	
Accounts Payable	5,395
Accrued Expenses	34,858
Due to Other Governments	121,833
Due to Other Agencies	13,700
Deposits	1,079
Total Liabilities	176,865
 Fund Balances	
Nonspendable:	
Prepaid Items	16,795
Restricted for:	
Infrastructure Improvements	397,858
Assigned for:	
General Reserve	594,732
Road Reserve	1,154,009
Special Projects	150,000
Subsequent Year's Expenditures	117,000
Unassigned	438,103
Total Fund Balances	2,868,497
 Total Liabilities and Fund Balances	\$ 3,045,362

See accompanying notes.

**LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2016
LAKWOOD RANCH, FLORIDA**

Fund Balance - Governmental Funds \$ 2,868,497

**Amounts Reported for Governmental Activities in the Statement
of Net Position are Different Because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The statement of net position includes those capital assets, net of accumulated depreciation.

Capital Assets - Original Cost	\$ 25,577,900	
(Accumulated Depreciation)	<u>(15,363,927)</u>	10,213,973

Deferred refunding losses are considered deferred outflows in the government-wide statement of net position. These losses are expensed as incurred in the government fund financial statements.

Deferred Charge on Refunding	48,500	
(Accumulated Amortization)	<u>(48,500)</u>	0

Liabilities not due and payable from current available resources are not reported as liabilities in the governmental fund statements. All liabilities, both current and long-term, are reported in the government-wide financial statements.

Bonds Payable	(2,270,000)	
Accrued Interest	<u>(21,290)</u>	<u>(2,291,290)</u>

Net Position of Governmental Activities \$ 10,791,180

See accompanying notes.

**LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016
LAKWOOD RANCH, FLORIDA**

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General</u>	<u>Debt Service S2006</u>	<u>Debt Service S2012</u>	
Revenues				
Assessments	\$ 2,980,120	\$ 0	\$ 0	\$ 2,980,120
Contributions	131,700	0	244,229	375,929
Interest	18,346	5	1	18,352
Other Revenues	52,606	0	0	52,606
Total Revenues	<u>3,182,772</u>	<u>5</u>	<u>244,230</u>	<u>3,427,007</u>
Expenditures				
Current:				
General Government:				
Town Hall	69,687	0	0	69,687
Other Administration	743,302	0	3,709	747,011
Maintenance and Operations	1,607,077	0	0	1,607,077
Special Projects	15,737	0	0	15,737
Debt Service:				
Principal	0	370,000	315,000	685,000
Interest	0	8,679	57,479	66,158
(Total Expenditures)	<u>(2,435,803)</u>	<u>(378,679)</u>	<u>(376,188)</u>	<u>(3,190,670)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>746,969</u>	<u>(378,674)</u>	<u>(131,958)</u>	<u>236,337</u>
Other Financing Sources (Uses)				
Transfer in	87,968	0	90,144	178,112
Transfer (out)	(90,144)	(87,968)	0	(178,112)
Total Other Financing Sources (Uses)	<u>(2,176)</u>	<u>(87,968)</u>	<u>90,144</u>	<u>0</u>
Net Change in Fund Balances	744,793	(466,642)	(41,814)	236,337
Fund Balances, Beginning of Year	<u>2,123,704</u>	<u>466,642</u>	<u>41,814</u>	<u>2,632,160</u>
Fund Balances, End of Year	<u>\$ 2,868,497</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,868,497</u>

See accompanying notes.

**LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016
LAKWOOD RANCH, FLORIDA**

Net Change in Fund Balances - Total Governmental Funds \$ 236,337

**Amounts Reported for Governmental Activities in the Statement of
Activities are Different Because:**

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, those expenditures are eliminated
and capitalized as capital assets. 60,330

Depreciation on capital assets is not recognized in the governmental
fund statements, but is reported as an expense in the statement
of activities. (619,524)

Repayment of long-term liabilities are reported as expenditures in
the governmental fund statements, but such repayments reduce
liabilities in the statement of net position and are eliminated in the
statement of activities. 685,000

Amortization is not recognized in the governmental fund statements,
but is reported as an expense in the statement of activities:
Refunding Loss (7,533)

The change in accrued interest on long-term liabilities between the
current and prior fiscal year is recorded in the statement of
activities, but not in the fund financial statements. 9,893

Change in Net Position of Governmental Activities \$ 364,503

See accompanying notes.

LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
NOTES TO THE FINANCIAL STATEMENTS
LAKWOOD RANCH, FLORIDA

Note 1 - Nature of Organization and Reporting Entity

Lakewood Ranch Community Development District 2 (the District) is one of five community development districts in the Lakewood Ranch community in the southeast corner of Manatee County, Florida. The District is a local unit special-purpose government created on May 23, 1995, under the *Uniform Community Development District Act of 1980*, as amended (the Act), otherwise known as Chapter 190, *Florida Statutes*. Chapter 190 provides that a Community Development District with a size of 1,000 acres or more may be established by rule adopted under Chapter 120 by the Florida Land and Water Adjudicatory Commission. The District was established by adopting Rule 42-W-1.001-1.003. The Act delineates the powers and duties of community development districts, including among other things, the power to manage basic services for community development, power to borrow money and issue bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure.

The District was established for the purpose of financing and managing the acquisition, construction, maintenance, and operation of a portion of the infrastructure necessary for community development within the District.

The District is governed by the Board of Supervisors (the Board), which is composed of five members. The Supervisors are elected on an at-large basis by registered voters within the District. The Board of Supervisors of the District exercise all powers granted to the District pursuant to the Act.

The Board has the final responsibility for:

- Assessing and Levying Assessments
- Approving Budgets
- Acquiring, Operating, and Maintaining Systems, Facilities, and Basic Infrastructures
- Controlling the Use of Funds Generated by the District
- Financing Improvements

Under applicable governmental accounting, the financial reporting entity consists of:

- a) The primary government (i.e., the District).
- b) Organizations for which the primary government is considered to be financially accountable.
- c) Other organizations for which the nature and significance of their relationship with the primary government are such that, if excluded, the financial statements of the primary government would be considered incomplete or misleading.

These financial statements include only the balances and transactions of the District. There are no component units.

Note 2 - Summary of Significant Accounting Policies

These financial statements are prepared in conformity with U.S. generally accepted accounting principles applicable to governmental entities, as established by the Governmental Accounting Standards Board (GASB). Following is a summary of the significant accounting policies:

LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
NOTES TO THE FINANCIAL STATEMENTS
LAKWOOD RANCH, FLORIDA
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

A. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Special assessments for maintenance and debt service are classified as program revenue. Other items not included among program revenues are reported instead as *general revenues*.

B. 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. Contributions and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both *measurable* and *available*. Revenues are available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Inter-District billings are susceptible to accrual, but assessments and other revenues generally are not. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service principal and interest are recorded in the period when payment is due.

Fund Accounting

The financial transactions of the District are recorded in individual funds. Each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

GASB Statement No. 34 sets forth minimum criteria (percentage of the assets/deferred outflows, liabilities/deferred inflows, revenues, or expenditures/expenses of either fund category or the governmental and enterprise combined), for the determination of major funds. In addition, funds may be considered major for qualitative reasons.

The District reports the following major governmental funds:

LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
NOTES TO THE FINANCIAL STATEMENTS
LAKWOOD RANCH, FLORIDA
(Continued)

Note 2 - Summary of Significant Accounting Policies *(Continued)*

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Concluded)

Fund Accounting *(Concluded)*

General Fund—The General Fund is the general operating fund of the District. It is used to account for all financial resources of the District except those required to be accounted for in another fund.

Debt Service Funds—The Debt Service Funds are used to account for the accumulation of resources for the payment of principal and interest on long-term debt.

The District has no nonmajor funds.

Assessments

Assessments are non-ad valorem assessments on benefited property within the District. The Manatee County Tax Collector bills the assessments each November 1, and collects the assessments on behalf of the District. Discounts are available for payments through February. Assessments become delinquent after March 31.

Operating and maintenance assessments are determined annually during the budget process at a public hearing of the District.

Debt service assessments are calculated by the District in conjunction with the issuance of the related debt, but billed and collected annually by the Tax Collector on behalf of the District. Property owners may prepay a portion or all of the debt service assessments on their property at a discount, subject to various provisions in the debt instruments.

All assessments are reported as revenue in the year collected. Future receivables on debt service assessments are not accrued. Delinquent receivables are considered insignificant.

C. Financial Statement Balances

Cash and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and money market funds with original maturities of three months or less from the date of acquisition. The District also holds assets that are defined as investments. The District's investments are recorded at fair value unless the investment qualifies as an external investment pool under the guidance of GASB Statement No. 79, which allows under certain criteria, these investments to be recorded at amortized cost.

Cash on the balance sheet and the statement of net position includes cash on hand and demand deposits in qualified public depositories.

The District has adopted a written investment policy, which complies with the requirements of Section 218.415, *Florida Statutes*. The District may invest any surplus public funds in the following:

LAKEWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
NOTES TO THE FINANCIAL STATEMENTS
LAKEWOOD RANCH, FLORIDA
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Financial Statement Balances (Continued)

Cash and Investments (Concluded)

- a) The Local Government Surplus Trust Funds, or any intergovernmental investment pool authorized pursuant to the *Florida Interlocal Cooperation Act*.
- b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- c) Interest bearing time deposits or savings accounts in qualified public depositories.
- d) Direct obligations of the U.S. Treasury.

Debt covenants may provide other options for the investment of debt proceeds and related accounts.

The separate funds do not pool their cash or investments. Interest income is reported in the fund where the related cash or investments are reported.

Receivables/Due from Other Governments

All receivables are reported at their gross value, and where appropriate are reduced by the estimated portion that is expected to be uncollectible. There are no estimated uncollectible amounts at September 30, 2016.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

These assets represent cash and investments set aside pursuant to debt covenants or other contractual restrictions.

Capital Assets

Capital assets include land, land improvements, buildings, and equipment, plus infrastructure assets (e.g. streets, sidewalks, culverts, curbs and gutters, drainage systems, lighting systems, roads and bridges), and are reported as assets in the governmental activities column of the statement of net position. In the governmental fund financial statements, amounts incurred for the acquisition of capital assets are reported as fund expenditures. Depreciation expense is reported in the statement of activities, but not in the governmental fund financial statements.

Capital assets are defined in the District's policy as tangible assets with a cost of at least \$5,000 and an estimated useful life of five years or more. Capital assets are recorded at historical cost if purchased or constructed, and estimated fair value if donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major projects are reported as construction in progress until completed and placed in service.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
NOTES TO THE FINANCIAL STATEMENTS
LAKWOOD RANCH, FLORIDA
(Continued)

Note 2 - Summary of Significant Accounting Policies *(Continued)*

C. Financial Statement Balances *(Continued)*

Capital Assets *(Concluded)*

Assets	Years
Buildings and Contents	15 to 40
Drainage System	25
Roads	15 to 30
Other Improvements	10 to 25

In the governmental fund financial statements, amounts incurred for the acquisition of capital assets are reported as fund expenditures. Depreciation expense is not reported in the governmental fund financial statements.

Unamortized Refunding Loss

In the case of an advance refunding resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is termed a refunding loss. Under GASB Statement No. 65, refunding losses are recorded as deferred outflows in the government-wide statement of net position. Previously, refunding losses were recorded as contra-liabilities, offsetting the principal balance. Under either method, refunding losses were amortized over the remaining term of the refunded debt or the term of the new *refunding* debt, whichever is shorter.

The refunding loss related to the issuance of the 2006 Bonds totaled \$48,500, and is being amortized over the debt term using the straight-line method. At September 30, 2016, accumulated amortization was \$48,500.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net 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 (expenditure) until then. In addition to liabilities, the statement of net 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.

Long-term Obligations

In the government-wide financial statements, the principal amount outstanding on long-term debt is reported as a liability in the governmental activities column of the statement of net position. The liability is increased by unamortized premiums, and reduced by unamortized discounts. Premiums and discounts, if applicable, are amortized over the debt term using the straight-line method.

In the fund financial statements, debt proceeds are reported as other financing sources in the year of issuance, increased or decreased by original issue premiums or discounts, where applicable. Principal and interest are reported as expenditures, when due.

LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
NOTES TO THE FINANCIAL STATEMENTS
LAKWOOD RANCH, FLORIDA
(Continued)

Note 2 - Summary of Significant Accounting Policies *(Continued)*

C. Financial Statement Balances *(Concluded)*

Net Position/Fund Balance

In the government-wide financial statements, equity is referred to as *net position*, and is classified as: a) net investment in capital assets, b) restricted, or c) unrestricted. Restricted net position represents net assets constrained by the District's debt covenants or other contractual requirements.

In the fund financial statements, equity is referred to as fund balance, and is reported according to the following classifications:

- *Non-spendable*—Amounts that are: a) not in spendable form, or b) legally or contractually required to be maintained intact.
- *Restricted*—Amounts that are constrained for specific purposes either: a) externally by creditors, grantors, contributors, or laws or regulations of other governments, or b) by law through constitutional provisions or enabling legislation.
- *Committed*—Amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action (resolution) of the District's Board. These committed amounts may not be used for any other purpose unless the Board removes or changes the specified use by taking the same type of formal action (resolution) that imposed the constraint originally.
- *Assigned*—Amounts that are constrained by less-than-formal action of the Board, or by an individual or body to whom the Board has delegated this responsibility. The Board has not delegated this responsibility.
- *Unassigned*—This classification is used for: a) negative unrestricted fund balance in any fund, or b) fund balances within the general fund that are not restricted, committed, or assigned for specific purposes.

Flow Assumption—When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as needed. Within the unrestricted categories when various classifications of fund balances are available for a specific expenditure, the District first uses committed fund balance, followed by assigned, and then unassigned.

Debt Issuance Costs

Debt issuance costs are recorded as expenditures/expenses in the period incurred at both the fund and government-wide levels.

LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
NOTES TO THE FINANCIAL STATEMENTS
LAKWOOD RANCH, FLORIDA
(Continued)

Note 2 - Summary of Significant Accounting Policies (Concluded)

D. Other Disclosures

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and notes. Actual results could differ from those estimates.

Note 3 - Budgetary Information

Annual budgets are prepared and adopted on a basis consistent with generally accepted accounting principles for all funds. All annual appropriations lapse at fiscal year-end.

The District has adopted a budget policy consistent with *Florida Statute* 190.008. The District follows these procedures in establishing and adopting the budget:

- a) Starting in January of each year, budget proposals are accepted for the upcoming year, and a series of budget workshops are held with District representatives, staff, and the public. The assessment amounts for the upcoming year are proposed.
- b) A budget summary is ready by June, and a formal public hearing is conducted in August to obtain comments.
- c) The Board adopts the final original budget in August for the fiscal year beginning October 1. The budget is adopted by resolution.
- d) Budget amendments, if any, are approved by the Board during the year.

Neither the statute nor the District's budget policy specifies the legal level of budgetary authority. There were no budget amendments in 2016.

Note 4 - Deposits and Investments

Deposits

The District's bank deposits are held in qualified public depositories (QPDs) pursuant to Chapter 280, *Florida Statutes*. Under this Chapter, each QPD is required to pledge collateral to the State Treasurer against the public deposits. In the event of default by a QPD, all claims for public deposits would be satisfied by the State Treasurer from the proceeds of federal deposit insurance, pledged collateral of the QPD in default and, if necessary, assessments against other QPDs of the same type as the depositor in default.

LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
NOTES TO THE FINANCIAL STATEMENTS
LAKWOOD RANCH, FLORIDA
(Continued)

Note 4 - Deposits and Investments (Concluded)

Investments

The District holds assets that are defined as investments. The District’s investments are recorded at fair value unless the investment qualifies as an external investment pool under the guidance in GASB Statement No. 79.

The District holds investments in a qualified external investments pool that measures all of its investments at amortized cost. The following investments are recorded at amortized cost at September 30, 2016:

	<u>Amortized Cost</u>	<u>Credit Risk</u>	<u>Maturities</u>
Local Government Surplus Funds			Weighted Average of the
Trust Fund (Florida PRIME)	\$ 2,891,222	AAAm	Fund Portfolio: 50 Days
Total Investments	<u>\$ 2,891,222</u>		

Florida PRIME is a local government investment pool administered by the Florida State Board of Administration (SBA) and managed by professional money managers. Florida PRIME invests exclusively in short-term, high-quality fixed income securities rated in the highest short-term rating category by one or more nationally recognized statistical rating agencies, or securities of comparable quality. The District’s investment in this pool is through shares owned in the fund and not the underlying investments. Florida PRIME is considered a stable value investment pool. The account balances approximate fair value, and balances are available for immediate withdrawal. The weighted average maturity of Florida PRIME at September 30, 2016, is 50 days. Florida PRIME has a Standard & Poor’s rating of AAAM. The pool was not exposed to foreign currency risk during the year.

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 the investments or collateral securities that are in the possession of an outside party. The District investments are not evidenced by securities that exist in physical or book entry form. Therefore, the custodial credit risk associated with these investments is minimal.

Credit Risk—For investments, credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investment ratings by investment type are included in the preceding summary of investments.

Concentration Risk—The District places no limit on the amount the District may invest in any one issuer, but emphasizes diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District minimizes this risk by structuring the portfolio so that securities mature to meet cash flow requirements for ongoing operations, and thereby avoiding the need to sell securities on the open market prior to maturity.

LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
NOTES TO THE FINANCIAL STATEMENTS
LAKWOOD RANCH, FLORIDA
(Continued)

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended September 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets Not Being Depreciated:				
Parks, Landscape Improvements	\$ 2,208,056	\$ 0	\$ 0	\$ 2,208,056
Total Capital Assets Not Being Depreciated	<u>2,208,056</u>	<u>0</u>	<u>0</u>	<u>2,208,056</u>
Capital Assets Being Depreciated:				
Other Improvements	6,531,383	60,330	0	6,591,713
Roads	6,517,955	0	0	6,517,955
Town Hall Facilities	1,847,111	0	0	1,847,111
Maintenance Facility	2,424,454	0	0	2,424,454
Drainage System	<u>5,988,611</u>	<u>0</u>	<u>0</u>	<u>5,988,611</u>
Total Capital Assets Being Depreciated	<u>23,309,514</u>	<u>60,330</u>	<u>0</u>	<u>23,369,844</u>
Less Accumulated Depreciation for:				
Other Improvements	(6,432,461)	(14,935)	0	(6,447,396)
Roads	(3,552,890)	(224,537)	0	(3,777,427)
Town Hall Facilities	(579,916)	(52,720)	0	(632,636)
Maintenance Facility	(153,629)	(87,788)	0	(241,417)
Drainage System	<u>(4,025,507)</u>	<u>(239,544)</u>	<u>0</u>	<u>(4,265,051)</u>
Total Accumulated Depreciation	<u>(14,744,403)</u>	<u>(619,524)</u>	<u>0</u>	<u>(15,363,927)</u>
Total Capital Assets Being Depreciated, Net	<u>8,565,111</u>	<u>(559,194)</u>	<u>0</u>	<u>8,005,917</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,773,167</u>	<u>\$ (559,194)</u>	<u>\$ 0</u>	<u>\$ 10,213,973</u>

Depreciation expense totaling \$619,524 was allocated to the maintenance and operations function in the statement of activities.

Note 6 - Long-term Debt

The 2006A and 2006B Bonds

On June 14, 2006, the District issued \$2,230,000 of Benefit Special Assessment Revenue Refunding Bonds, Series 2006A (the 2006A Bonds) and \$440,000 of Benefit Special Assessment Revenue Refunding Bonds, Series 2006B (the 2006B Bonds). The proceeds from the issuance of the 2006A and 2006B Bonds were used primarily to refund the outstanding principal balance of the District's Benefit Special Assessment Revenue Bonds, Series 1995A (the 1995A Bonds). The 1995A Bonds were used to finance the cost of certain infrastructure improvements in the District for the Edgewater and Country Club Villages of Lakewood Ranch, generally consisting of public roads, utilities, earthwork, landscaping and entry, and recreation facilities.

The 2006A Bonds bore interest at rates from 4.0% to 4.45% per annum. The 2006B Bonds bore interest at a fixed rate of 5.50%. Interest was due semiannually on each May 1 and November 1. Scheduled principal amounts were due each May 1 through May 1, 2017.

The Series 2006A and 2006B Bonds are not subject to optional early redemption. The 2006A and 2006B Bonds are subject to extraordinary mandatory redemption prior to their scheduled maturity from prepayments of special assessments.

LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
NOTES TO THE FINANCIAL STATEMENTS
LAKWOOD RANCH, FLORIDA
(Continued)

Note 6 - Long-term Debt (Continued)

The 2006A and 2006B Bonds (Concluded)

The Master Trust Indenture, as amended, established a debt service reserve requirement for the 2006A and 2006B Bonds and appropriate funds have been set aside at September 30, 2016. The Indenture also has certain restrictions and requirements including a requirement to levy special assessments in amounts adequate to provide payment of debt service. Shortly before the scheduled November 1, 2015 interest payment, excess cash and reserves were available to satisfy the remaining obligations, both principal and interest, on these Bonds. In addition, all remaining cash and reserves balances in the amount of \$87,968 were transferred from the debt service fund to the general fund, and the debt service fund was closed.

The 2012 Notes

On November 30, 2012, the District issued \$3,250,000 of Special Revenue Improvement and Refunding Notes, Series 2012 (the 2012 Notes). The proceeds from the issuance of the 2012 Notes were used to refund the outstanding principal balance of the District's Special Revenue Notes, Series 2003 (the 2003 Notes), and finance the construction and/or acquisition of a new maintenance facility.

The 2012 Notes bear interest at rates from 1.48% to 2.34% per annum. Interest is due semiannually on each May 1 and November 1. Scheduled principal amounts are due each May 1 through May 1, 2025.

The 2012 Notes are subject to early redemption at the option of the District prior to maturity, in whole or in part, on or after May 1, 2013 (at 101% of par), or May 1, 2018 (at par), plus accrued interest. The 2012 Notes are subject to extraordinary mandatory redemption prior to their scheduled maturity from prepayments of special assessments. There were no current year extraordinary mandatory redemptions on the 2012 Notes.

All Bonds and Notes

Payment of the principal and interest on the 2012 Notes is secured equally and ratably by a pledge of and first lien on the special assessments and related accounts of the District.

Long-term Debt Activity

Changes in long-term debt activity for the fiscal year ended September 30, 2016, were as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities					
Long-term Liabilities:					
2006A Bonds	\$ 285,000	\$ 0	\$ (285,000)	\$ 0	\$ 0
2006B Bonds	85,000	0	(85,000)	0	0
2012 Notes	<u>2,585,000</u>	<u>0</u>	<u>(315,000)</u>	<u>2,270,000</u>	<u>320,000</u>
Total	<u>\$ 2,955,000</u>	<u>\$ 0</u>	<u>\$ (685,000)</u>	<u>\$ 2,270,000</u>	<u>\$ 320,000</u>

At September 30, 2016, the scheduled debt service requirements on the long-term debt were as follows:

LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
NOTES TO THE FINANCIAL STATEMENTS
LAKWOOD RANCH, FLORIDA
(Continued)

Note 6 - Long-term Debt (Concluded)

Long-term Debt Activity (Concluded)

<u>Fiscal Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 320,000	\$ 51,097	\$ 371,097
2018	330,000	44,598	374,598
2019	215,000	37,908	252,908
2020	220,000	32,877	252,877
2021	225,000	27,729	252,729
2022-2025	960,000	56,979	1,016,979
Total	<u>\$ 2,270,000</u>	<u>\$ 251,188</u>	<u>\$ 2,521,188</u>

Note 7 - Interfund Transfers

Interfund transfers for the fiscal year ended September 30, 2016, were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer (Out)</u>
General	\$ 87,968	\$ (90,144)
Debt Services	90,144	(87,968)
Total	<u>\$ 178,112</u>	<u>\$ (178,112)</u>

Transfers are used to move revenues from the fund where collection occurs to the fund where funds have been reallocated for use. Transfers from the general fund to the debt service fund were for debt service.

Note 8 - Related Party Transactions

Related Parties

The District is one of five community development districts in the community of Lakewood Ranch, Florida. The other Districts are Lakewood Ranch Community Development Districts 1, 4, 5, and 6 (including District 2, "the Districts"). The Districts are the public entities responsible for providing operation and maintenance of various elements of infrastructure and landscaping within Lakewood Ranch. The Lakewood Ranch Inter-District Authority (the Authority) is a separate public entity created by the Districts, which provides administrative, financial, and operations and maintenance services to the Districts, under terms of an Amended Interlocal Agreement among the parties. A representative from each District sits on the five-member Board of the Authority.

On November 15, 2012, the Districts and Authority entered into an Interlocal Agreement, which replaced prior Interlocal Agreements, identified the Authority as the District Manager for the Districts, and clarified the relationship and financial agreements among the entities, as they related to the following transactions.

LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
NOTES TO THE FINANCIAL STATEMENTS
LAKWOOD RANCH, FLORIDA
(Continued)

Note 8 - Related Party Transactions (Continued)

Shared Expenses

As District Manager, the Authority provides certain administrative, financial, and operation and maintenance services to the Districts. The costs of these services are borne by the Authority, and then allocated and reimbursed by the Districts on a monthly basis. Total shared expenses for 2016 were \$2,437,102, of which the District's share of \$686,274 is included under "other administration" in the expenditure section of the financial statements. The District's share of September's expenses totaling \$85,614 is included in "due to other governments" at September 30, 2016.

Town Hall and Maintenance Facility Lease

The Lakewood Ranch Town Hall (Town Hall) was constructed and financed by the District in 2003; the facility and related liability (the 2003 Notes) were reported on the District's statement of net position. In addition as discussed in Note 6, in 2013 the District issued \$3,250,000 of Special Revenue Improvement and Refunding Notes (the 2012 Notes) to finance the construction of a shared maintenance facility, and to retire the remaining principal balance of the 2003 Notes in the approximate outstanding amount of \$634,000.

The land on which the maintenance facility was constructed was acquired by the Authority in 2013 for \$126,114, and is being leased to the District under terms of a ground lease (the Ground Lease) between the parties dated November 15, 2012. The Ground Lease is for 25 years beginning on the effective date, unless terminated earlier by agreement of the parties. There is no annual lease payment; consideration lies in the mutual promises contained in the Ground Lease.

The lease payments for both Town Hall and the maintenance facility are covered under the terms of an Amended Non-Exclusive Lease Agreement and Operating Agreement dated November 15, 2012, among the Districts and the Authority (the Lease). The original term of the Lease is thirteen years ending on November 15, 2025. The Lease will be extended automatically for additional five-year terms; however, any lessee may give notice at least one year prior to the expiration of its desire not to extend. The facilities will be conveyed to the Authority once the applicable debt service is satisfied.

Rent payments by Districts 1, 4, 5, and 6 to District 2 are based on the allocable shares of the District's related debt service costs (based on equivalent dwelling units – see below). Rents received by the District in 2016 totaled \$83,549 for Town Hall and \$160,681 for the Maintenance Facility, which is included under "contributions" in the debt service funds in the accompanying fund financial statements. The District's share of the debt service costs was \$90,144, and was transferred from the general fund to the debt service fund in 2016.

Monthly "rent" payments are also required by each District to the Authority for their allocable share of the costs (including insurance costs) to operate and maintain the two facilities, as determined in the annual budget of the Authority. Rent received by the Authority in 2016 totaled \$295,661, of which the District's allocable share was \$69,687, which is included under "Town Hall" in the expenditure section of the financial statements. The Lakewood Ranch Town Center Owners Association, Inc. (TCOA), the successor entity to CDD 3, shares in this allocation.

LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
NOTES TO THE FINANCIAL STATEMENTS
LAKWOOD RANCH, FLORIDA
(Concluded)

Note 8 - Related Party Transactions (Concluded)

Town Hall and Maintenance Facility Lease (Concluded)

The 2016 equivalent dwelling units (EDU) for allocation purposes, were as follows:

District 2 Rent Payments			Authority Rent Payments		
	EDU	Percent		EDU	Percent
District 1	1,819	27.05%	District 1	1,819	23.65%
District 2	1,813	26.96%	District 2	1,813	23.57%
District 4	1,688	25.10%	TCOA	967	12.57%
District 5	962	14.30%	District 4	1,688	21.94%
District 6	443	6.59%	District 5	962	12.51%
Totals	6,725	100.00%	District 6	443	5.76%
			Totals	7,692	100.00%

The future debt service requirements on District 2's 2012 Notes (and the District's share based on the 2016 EDU allocation), is as follows:

Year	Principal	Interest	Total	District 2 26.96%
2017	\$ 320,000	\$ 51,097	\$ 371,097	\$ 100,011
2018	330,000	44,598	374,598	100,954
2019	215,000	37,908	252,908	68,157
2020	220,000	32,877	252,877	68,150
2021	225,000	27,729	252,729	68,109
2022-2025	960,000	56,979	1,016,979	274,074
Total	\$ 2,270,000	\$ 251,188	\$ 2,521,188	\$ 679,455

Landscape Contracts

The District manages a landscape contract for the benefit of the District and other entities, including Districts 5 and 6. Total revenue from the arrangement is \$131,700, which is reported as "contributions" in the general fund in the accompanying fund financial statements. Overpayments totaling \$33,135 are due back to the Districts and other entities under these arrangements, and included in "due to other governments" at September 30, 2016.

Contractor Land Lease

Other payables to Districts (Due to Other Governments) under a contractor land lease totaled \$16,784 at year-end.

Note 9 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has obtained commercial insurance from independent third parties to mitigate the costs of these risks; coverage may not extend to all situations. Settled claims from these risks have not exceeded commercial insurance coverage over the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

LAKWOOD RANCH COMMUNITY DEVELOPMENT DISTRICT 2
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
Revenues				
Assessments	\$ 2,558,880	\$ 2,558,880	\$ 2,980,120	\$ 421,240
Contributions	401,160	401,160	131,700	(269,460)
Interest	1,500	1,500	18,346	16,846
Other Revenues	3,000	3,000	52,606	49,606
Total Revenues	<u>2,964,540</u>	<u>2,964,540</u>	<u>3,182,772</u>	<u>218,232</u>
Expenditures				
Current:				
General Government:				
Town Hall	189,880	189,880	69,687	120,193
Maintenance Facility	256,000	256,000	0	256,000
Other Administration	691,020	691,020	743,302	(52,282)
Maintenance and Operations	1,808,910	1,808,910	1,607,077	201,833
Special Projects	55,770	55,770	15,737	40,033
Reserves	186,000	186,000	0	186,000
(Total Expenditures)	<u>(3,187,580)</u>	<u>(3,187,580)</u>	<u>(2,435,803)</u>	<u>751,777</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(223,040)</u>	<u>(223,040)</u>	<u>746,969</u>	<u>970,009</u>
Other Financing Sources (Uses)				
Transfer in	0	0	87,968	87,968
Transfer (out)	(3,230)	(3,230)	(90,144)	(86,914)
Carry Forward Surplus	226,270	226,270	0	(226,270)
Total Other Financing Sources (Uses)	<u>223,040</u>	<u>223,040</u>	<u>(2,176)</u>	<u>(225,216)</u>
Net Change in Fund Balances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 744,793</u>	<u>\$ 744,793</u>

OTHER INFORMATION

**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
Lakewood Ranch Community Development District 2
Lakewood Ranch, 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 the Lakewood Ranch Community Development District 2 (the District), as of and for the year ended September 30, 2016, 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 31, 2017.

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.

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

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461 • FAX (352) 378-2505
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309
MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Supervisors
Lakewood Ranch Community Development District 2
Lakewood Ranch, 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Purvis, Gray and Company, LLP

January 31, 2017
Sarasota, Florida

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE
WITH FLORIDA STATUTE SECTION 218.415 – INVESTMENTS OF PUBLIC FUNDS**

Board of Supervisors
Lakewood Ranch Community Development District 2
Lakewood Ranch, Florida

We have examined the Lakewood Ranch Community Development District 2's (the District) compliance with Section 218.415, *Florida Statutes*, during the fiscal year ended September 30, 2016. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the fiscal year ended September 30, 2016.

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

Purvis, Gray and Company, LLP

January 31, 2017
Sarasota, Florida

Certified Public Accountants

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461 • FAX (352) 378-2505
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309
MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

MANAGEMENT LETTER

Board of Supervisors
Lakewood Ranch Community Development District 2
Lakewood Ranch, Florida

Report on the Financial Statements

We have audited the financial statements of the Lakewood Ranch Community Development District 2 (the District), as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated January 31, 2017.

Auditors' Responsibility

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 Auditor General*.

Other Reports

We have issued our 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*; and Independent Accountants' Report on Compliance with Section 218.415, *Florida Statutes*. Disclosures in those reports, which are dated January 31, 2017, should be considered in conjunction with this management letter.

Prior Audit Findings

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 significant findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations made in the preceding annual financial audit report.

Official Title and Legal Authority

Section 10.554(1)(i)4., *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. See Note 1 of the District's September 30, 2016 financial statements for this information. There are no component units related to the District.

Financial Condition

Sections 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and report the results of our determination as to whether or not the District 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*.

Certified Public Accountants

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461 • FAX (352) 378-2505
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309
MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Supervisors
Lakewood Ranch Community Development District 2
Lakewood Ranch, Florida

MANAGEMENT LETTER
(Concluded)

Financial Condition (Concluded)

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), *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.

Annual Financial Report

Sections 10.554(1)(i)5.b. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 2016, 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, 2016. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)3., *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.

Purpose of this Letter

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, the Board of Supervisors of the District, 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 31, 2017
Sarasota, Florida