

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

BASIC FINANCIAL STATEMENTS

September 30, 2009

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
BASIC FINANCIAL STATEMENTS
September 30, 2009

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of net assets (deficit) and balance sheet of the governmental activities and major funds of Fiddler's Creek Community Development District #2 (the "District") as of September 30, 2009, and the statement of activities, statement of revenues, expenditures and changes in fund balances and statement of revenues, expenditures and change in fund balance - budget and actual - General Fund for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

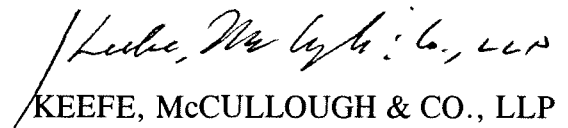
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major funds of the Fiddler's Creek Community Development District #2 as of September 30, 2009, and the changes in its financial position and budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 and 11 to the financial statements, the Developer has failed to fund the debt service assessments due to the District. In the absence of this funding from the Developer, the debt service reserve and construction accounts were used to make the May 1, 2009 and November 1, 2009 required payments. In addition, subsequent to year end, the Developer filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. The financial statements do not include any adjustments that might result from the outcome of this matter.

Fiddler's Creek Community Development District #2

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2010, on our consideration of the District's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.


KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida
March 31, 2010

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2009

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, 2009 and 2008. 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, 2009:

- The District's total liabilities exceeded its assets at September 30, 2009 by \$ 21,194,321 (deficit).
- The District's total revenues were \$ 6,253,715, \$ 3,543,612 from non-ad valorem assessments, \$ 2,644,450 from developer contributions, \$ 65,579 from interest income and \$ 74 from miscellaneous income. The District's expenses for this year were \$ 7,804,579.

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 assets (deficit) presents information on all the District's assets and liabilities, with the difference between the two reported as net assets (deficit). Over time, increases or decreases in net assets 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 assets changed during the year. All changes in net assets 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, 2009

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 24 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following table reflects the condensed government-wide statement of net assets (deficit) as of September 30, 2009 and 2008:

Fiddler's Creek Community Development District #2 Statement of Net Assets (Deficit)		
	2009	2008
Current and other assets	\$ 13,964,419	\$ 19,064,007
Capital assets, net	46,333,939	44,671,817
Total assets	60,298,358	63,735,824
Other liabilities	3,197,679	3,779,281
Long-term liabilities	78,295,000	79,600,000
Total liabilities	81,492,679	83,379,281
Net assets (deficit):		
Invested in capital assets, net of related debt (deficit)	(7,279,910)	(1,929,227)
Unrestricted (deficit)	(13,914,411)	(17,714,230)
Total net assets	\$ (21,194,321)	\$ (19,643,457)

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2009

Governmental Activities

Governmental activities for the year ended September 30, 2009 decreased the District's net assets by \$ 1,550,864, as reflected in the table below:

Fiddler's Creek Community Development District #2 Statement of Activities		
	2009	2008
REVENUES:		
Program revenue:		
Non-ad valorem assessments	\$ 6,188,062	\$ 4,304,422
General revenue:		
Miscellaneous income	74	-
Interest income	65,579	618,382
Total revenues	6,253,715	4,922,804
EXPENSES:		
Interest expense	4,963,515	5,306,310
Physical environment	2,525,082	4,038,042
General government	237,777	230,142
Other debt service costs	78,205	78,205
Total expenses	7,804,579	9,652,699
Change in net assets	(1,550,864)	(4,729,895)
NET ASSETS (DEFICIT), BEGINNING OF YEAR,	(19,643,457)	(14,913,562)
NET ASSETS (DEFICIT), END OF YEAR	\$ (21,194,321)	\$ (19,643,457)

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, unreserved 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 approximately \$ 9,686,900.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2009

CAPITAL ASSETS AND DEBT ADMINISTRATION

The District's investment in capital assets for its governmental activities as of September 30, 2009 amounts to \$ 46,333,939 net of accumulated depreciation and consists of land and improvements, infrastructure, buildings and improvements, and construction in progress.

At the end of the year, the District had total bonded debt outstanding of \$ 79,340,000. 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 19 through 22 of this report.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the September 30, 2009 budget. Revenues and expenditures were under the adopted budget for the year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Revenues and expenditures for the fiscal year 2010 adopted budget for the General Fund of the District total approximately \$ 1,252,000.

The prolonged economic downturn, which is heavily concentrated in the housing market, continues to have negative impact on the District's operations in fiscal year 2010. Additional information on this impact can be found in Note 11 on page 24 of this report.

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 ASSETS (DEFICIT)
September 30, 2009

	<u>Governmental Activities</u>
ASSETS:	
Cash and cash equivalents	\$ 9,769,969
Assessment receivable	16,406
Prepaid expenditures	359
Due from other government	332
Due from Developer	2,644,450
Capital assets:	
Non-depreciable	22,823,200
Depreciable, net	23,510,739
Unamortized bond issuance costs	<u>1,532,903</u>
Total assets	<u>60,298,358</u>
 LIABILITIES:	
Accounts payable	47,788
Contracts payable	47,190
Due to other governments	5,232
Accrued interest payable	2,052,469
Bonds payable, due within one year	1,045,000
Bonds payable, due in more than one year	<u>78,295,000</u>
Total liabilities	<u>81,492,679</u>
 COMMITMENTS AND CONTINGENCIES (Notes 8 and 11)	
	-
 NET ASSETS (DEFICIT):	
Invested in capital assets, net of related debt (deficit)	(7,279,910)
Unrestricted (deficit)	<u>(13,914,411)</u>
Total net assets (deficit)	<u>\$ (21,194,321)</u>

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, 2009

		Program Revenues			Governmental Activities Net Revenues (Expenses) and Change in Net Assets (Deficit)
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
FUNCTIONS/PROGRAMS:					
Governmental activities:					
Interest expense	\$ 4,963,515	\$ 2,262,720	\$ 2,644,450	\$ -	\$ (56,345)
Physical environment	2,525,082	1,050,331	-	-	(1,474,751)
General government	237,777	230,561	-	-	(7,216)
Other debt service cost	78,205	-	-	-	(78,205)
Total governmental activities	\$ 7,804,579	\$ 3,543,612	\$ 2,644,450	\$ -	(1,616,517)
General revenues:					
Miscellaneous income					74
Interest income					65,579
Change in net assets					(1,550,864)
Net assets (deficit), October 1, 2008					(19,643,457)
Net assets (deficit), September 30, 2009					\$ (21,194,321)

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, 2009

A S S E T S

	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
ASSETS:								
Cash and cash equivalents	\$ 123,315	\$ 1,817,026	\$ 495,780	\$ 128,966	\$ 1,624,864	\$ 31,034	\$ 5,548,984	\$ 9,769,969
Assessments receivable	7,356	6,464	1,453	1,133	-	-	-	16,406
Prepaid expenditures	359	-	-	-	-	-	-	359
Due from other government	332	-	-	-	-	-	-	332
Due from other funds	1,550	-	-	88	-	-	-	1,638
Due from Developer	-	650,313	479,257	1,514,880	-	-	-	2,644,450
	<u>132,912</u>	<u>2,473,803</u>	<u>976,490</u>	<u>1,645,067</u>	<u>1,624,864</u>	<u>31,034</u>	<u>5,548,984</u>	<u>12,433,154</u>
Total assets	<u>\$ 132,912</u>	<u>\$ 2,473,803</u>	<u>\$ 976,490</u>	<u>\$ 1,645,067</u>	<u>\$ 1,624,864</u>	<u>\$ 31,034</u>	<u>\$ 5,548,984</u>	<u>\$ 12,433,154</u>

L I A B I L I T I E S A N D F U N D B A L A N C E S

LIABILITIES:								
Accounts payable	\$ 47,788	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47,788
Contracts payable	-	-	-	-	-	-	47,190	47,190
Due to other governments	5,232	-	-	-	-	-	-	5,232
Due to other funds	-	51	37	1,550	-	-	-	1,638
Deferred revenue	-	650,313	479,257	1,514,880	-	-	-	2,644,450
	<u>53,020</u>	<u>650,364</u>	<u>479,294</u>	<u>1,516,430</u>	<u>-</u>	<u>-</u>	<u>47,190</u>	<u>2,746,298</u>
Total liabilities	<u>53,020</u>	<u>650,364</u>	<u>479,294</u>	<u>1,516,430</u>	<u>-</u>	<u>-</u>	<u>47,190</u>	<u>2,746,298</u>
COMMITMENTS AND CONTINGENCIES (Notes 8 and 11)								
	-	-	-	-	-	-	-	-
FUND BALANCES:								
Reserved for prepaid expenditures	359	-	-	-	-	-	-	359
Reserved for debt service	-	1,823,439	497,196	128,637	-	-	-	2,449,272
Reserved for capital projects	-	-	-	-	1,624,864	31,034	5,501,794	7,157,692
Unreserved	79,533	-	-	-	-	-	-	79,533
	<u>79,892</u>	<u>1,823,439</u>	<u>497,196</u>	<u>128,637</u>	<u>1,624,864</u>	<u>31,034</u>	<u>5,501,794</u>	<u>9,686,856</u>
Total fund balance	<u>79,892</u>	<u>1,823,439</u>	<u>497,196</u>	<u>128,637</u>	<u>1,624,864</u>	<u>31,034</u>	<u>5,501,794</u>	<u>9,686,856</u>
Total liabilities and fund balances	<u>\$ 132,912</u>	<u>\$ 2,473,803</u>	<u>\$ 976,490</u>	<u>\$ 1,645,067</u>	<u>\$ 1,624,864</u>	<u>\$ 31,034</u>	<u>\$ 5,548,984</u>	<u>\$ 12,433,154</u>

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 ASSETS (DEFICIT)
September 30, 2009

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

Total fund balances of governmental funds in the balance sheet, page 9	\$	9,686,856
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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		51,684,658
Less accumulated depreciation		(5,350,719)

Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:

Deferred charge on issuance costs (to be amortized over the life of the debt)		1,909,498
Less accumulated amortization		(376,595)

Due from developer is not available to pay for current period expenditures and, therefore, is deferred in the funds.		2,644,450
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Certain liabilities are not due and payable in the current period, and therefore are not reported in the governmental funds:

Accrued interest payable		(2,052,469)
Governmental revenue bonds payable		<u>(79,340,000)</u>

NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES, PAGE 7	\$	<u><u>(21,194,321)</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, 2009

	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
REVENUES:								
Non-ad valorem assessments	\$ 1,280,892	\$ 1,546,812	\$ 532,278	\$ 183,630	\$ -	\$ -	\$ -	\$ 3,543,612
Interest income	940	9,689	3,660	10,935	7,774	122	32,459	65,579
Miscellaneous income	74	-	-	-	-	-	-	74
Total revenues	1,281,906	1,556,501	535,938	194,565	7,774	122	32,459	3,609,265
EXPENDITURES:								
Current:								
General government	210,041	18,131	4,084	5,521	-	-	-	237,777
Physical environment	885,320	-	-	-	-	-	-	885,320
Capital outlay	-	-	-	-	437,580	72	2,864,232	3,301,884
Debt service:								
Principal	-	400,000	155,000	715,000	-	-	-	1,270,000
Interest	-	1,817,844	853,200	2,324,700	-	-	-	4,995,744
Total expenditures	1,095,361	2,235,975	1,012,284	3,045,221	437,580	72	2,864,232	10,690,725
Excess (deficiency) of revenues over expenditures	186,545	(679,474)	(476,346)	(2,850,656)	(429,806)	50	(2,831,773)	(7,081,460)
OTHER FINANCING SOURCES:								
Transfers in	1,550	-	-	-	-	-	-	1,550
Transfers out	-	-	-	(1,550)	-	-	-	(1,550)
Total other financing sources	1,550	-	-	(1,550)	-	-	-	-
Net change in fund balances	188,095	(679,474)	(476,346)	(2,852,206)	(429,806)	50	(2,831,773)	(7,081,460)
FUND BALANCES (deficit), October 1, 2008	(108,203)	2,502,913	973,542	2,980,843	2,054,670	30,984	8,333,567	16,768,316
FUND BALANCES, September 30, 2009	\$ 79,892	\$ 1,823,439	\$ 497,196	\$ 128,637	\$ 1,624,864	\$ 31,034	\$ 5,501,794	\$ 9,686,856

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, 2009

NET CHANGES IN FUND BALANCES - TOTAL
GOVERNMENTAL FUNDS, PAGE 11 \$ (7,081,460)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives:

Expenditures for capital assets	3,301,884
Less current year provision for depreciation	(1,554,556)
Less conveyance of fixed assets to other entities	(85,206)

Repayment of debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets:

Principal payment	1,270,000
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Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.	2,644,450
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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:

Provision for amortization of bond issuance costs	(78,205)
Change in accrued interest payable	<u>32,229</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES, PAGE 8 \$ (1,550,864)

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, 2009

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES:			
Non-ad valorem assessments	\$ 1,284,564	\$ 1,280,892	\$ (3,672)
Interest income	2,000	940	(1,060)
Miscellaneous income	<u>-</u>	<u>74</u>	<u>74</u>
Total revenues	<u>1,286,564</u>	<u>1,281,906</u>	<u>(4,658)</u>
EXPENDITURES:			
Current:			
General government:	234,425	210,041	24,384
Physical environment	<u>1,017,423</u>	<u>885,320</u>	<u>132,103</u>
Total expenditures	<u>1,251,848</u>	<u>1,095,361</u>	<u>156,487</u>
Excess of revenues over expenditures	34,716	186,545	(161,145)
OTHER FINANCING SOURCES:			
Transfers in	<u>-</u>	<u>1,550</u>	<u>(1,550)</u>
Total other financing sources	<u>-</u>	<u>1,550</u>	<u>(1,550)</u>
Net change in fund balance	34,716	188,095	(162,695)
FUND BALANCE, October 1, 2008,	<u>(108,203)</u>	<u>(108,203)</u>	<u>-</u>
FUND BALANCE (DEFICIT), September 30, 2009	<u>\$ (73,487)</u>	<u>\$ 79,892</u>	<u>\$ (162,695)</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, 2009

NOTE 1 - ORGANIZATION AND OPERATIONS

Fiddler's Creek Community Development District #2 (the District) was created November 19, 2002 under the provisions of Chapter 190 of the Florida Statutes by the Collier County Board of County Commissions. 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 assets, 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, 2009, the District had \$ 6,188,062 in program revenues.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2009

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 assets 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.

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.

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, 2009

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 platted lots 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 November 30 and become delinquent on April 1.

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

Deferred revenues:

Deferred revenues include amounts collected before the revenue recognition criteria are met and receivables which, under the modified accrual basis of accounting, are measurable but not yet available. The deferred items consist of assessments which are due but have not been collected within the sixty day availability period.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity classifications:

Government-wide statements

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

- a. Invested in capital assets, net of related debt - 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 assets - consists of net assets 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 assets - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund statements

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations, if applicable, of fund balance represent tentative management plans that are subject to change.

Bond issuance costs:

Bond issuance costs will be amortized over the life of the applicable bond issue using the straight-line method.

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 \$ 123,315 and the bank balance was \$ 154,185.

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.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2009

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Investments as of September 30, 2009 of \$ 9,646,654 were in money market mutual funds.

These deposits and investments are reflected in the accompanying statement of net assets 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 AAAM by Standard and Poor's and Aaa by Moody's Investors Service.

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 45 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, 2009, the District's investments were not subject to custodial credit risk.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2009 was as follows:

	<u>Balance at October 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2009</u>
Governmental Activities:				
Capital assets, not being depreciated				
Land and improvements	\$ 16,226,776	\$ -	\$ -	\$ 16,226,776
Construction-in-progress	<u>3,294,540</u>	<u>3,301,884</u>	<u>-</u>	<u>6,596,424</u>
Total capital assets, not being depreciated	<u>19,521,316</u>	<u>3,301,884</u>	<u>-</u>	<u>22,823,200</u>
Capital assets, being depreciated:				
Infrastructure	16,189,355	-	88,593	16,100,762
Buildings and improvements	<u>12,760,696</u>	<u>-</u>	<u>-</u>	<u>12,760,696</u>
Total capital assets, being depreciated	<u>28,950,051</u>	<u>-</u>	<u>88,593</u>	<u>28,861,458</u>
Total capital assets	<u>48,471,367</u>	<u>3,301,884</u>	<u>88,593</u>	<u>51,684,658</u>

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2009

NOTE 4 - CAPITAL ASSETS (continued)

	Balance at October 1, 2008	<u>Additions</u>	<u>Deletions</u>	Balance at September 30, 2009
Less accumulated depreciation for:				
Infrastructure	1,818,401	631,634	3,387	2,446,648
Buildings and improvements	<u>1,981,149</u>	<u>922,922</u>	<u>-</u>	<u>2,904,071</u>
Total accumulated depreciation	<u>3,799,550</u>	<u>1,554,556</u>	<u>3,387</u>	<u>5,350,719</u>
Total capital assets, being depreciated, net	<u>25,150,501</u>	<u>(1,554,556)</u>	<u>85,206</u>	<u>23,510,739</u>
Governmental activities capital assets, net	\$ <u>44,671,817</u>	\$ <u>1,747,328</u>	\$ <u>85,206</u>	\$ <u>46,333,939</u>

Provision for depreciation was charged to functions as follows:

Governmental Activities:	
Physical environment	\$ <u>1,554,556</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, 2009 is comprised of the following bond issues:

\$ 4,715,000 Special Assessment Revenue Bonds, Series 2003A; due in annual installments commencing May 2006 through 2016; interest payable semiannually at 6.00%.	\$ 3,275,000
\$ 21,670,000 Special Assessment Revenue Bonds, Series 2003A; due in annual installments commencing May 2017 through 2035; interest payable semiannually at 6.375%.	21,670,000
\$ 9,905,000 Special Assessment Revenue Bonds, Series 2003B; due in one lump-sum payment May 2013; interest payable semiannually at 5.75%.	3,770,000
\$ 13,145,000 Special Assessment Bonds, Series 2004; due in annual installments commencing May 2008 through 2037; interest payable semiannually at 6.75%.	12,490,000
\$ 38,850,000 Special Assessment Bonds, Series 2005; due in annual installments commencing May 2009 through 2038; interest payable semiannually at 6.00%.	<u>38,135,000</u>
	<u>\$ 79,340,000</u>

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2009

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, 2009:

	<u>Balance October 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2009</u>	<u>Due Within One Year</u>
Special Assessment Revenue Bonds, Series 2003A	\$ 3,675,000	\$ -	\$ 400,000	\$ 3,275,000	\$ 390,000
Special Assessment Revenues bonds, Series 2003A	21,670,000	-	-	21,670,000	-
Special Assessment Revenue Bonds, Series 2003B	3,770,000	-	-	3,770,000	-
Special Assessment Revenue Bonds, Series 2004	12,645,000	-	155,000	12,490,000	155,000
Special Assessment Revenue Bonds, Series 2005	<u>38,850,000</u>	<u>-</u>	<u>715,000</u>	<u>38,135,000</u>	<u>500,000</u>
	<u>\$ 80,610,000</u>	<u>\$ -</u>	<u>\$ 1,270,000</u>	<u>\$ 79,340,000</u>	<u>\$ 1,045,000</u>

b. Summary of Significant Debt Terms of Governmental Activities

\$ 4,715,000 Special Assessment Revenue Bonds, Series 2003A - The District previously issued \$ 4,715,000 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 2016. Interest at 6.00% 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 2016, 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, 2009, the reserve fund account balance was not sufficient to satisfy this requirement. \$ 83,895 was withdrawn from the reserve fund account in order to make the May 1, 2009 principal and interest payment (Note 11).

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2009

NOTE 5 - LONG-TERM DEBT (continued)

\$ 21,670,000 Special Assessment Revenue Bonds, Series 2003A - The District previously issued \$ 21,670,000 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 commencing May 2017 through 2035. Interest at 6.375% 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 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, 2009, the reserve fund account balance was not sufficient to satisfy this requirement. \$ 555,117 was withdrawn from the reserve fund account in order to make the May 1, 2009 principal and interest payment (Note 11).

\$ 9,905,000 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 2013. Interest at 5.75% 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 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, 2009, the reserve fund account balance was not sufficient to satisfy this requirement. \$ 91,236 was withdrawn from the reserve fund account in order to make the May 1, 2009 principal and interest payment (Note 11).

\$ 13,145,000 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 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.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2009

NOTE 5 - LONG-TERM DEBT (continued)

The Bonds are subject to mandatory redemption at par plus accrued interest to the date of redemption on a schedule of annual redemptions commencing in May 2008 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, 2009, the reserve fund account balance was not sufficient to satisfy this requirement. \$ 83,773 was withdrawn from the reserve fund account in order to make the May 1, 2009 principal and interest payment (Note 11).

\$ 38,850,000 Special Assessment Bonds, Series 2005 - The District issued \$ 17,275,000 during the current year and \$ 21,575,000 previously 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 2038. Interest at 6.00% 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 commencing in May 2009 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, 2009, the reserve fund account balance was not sufficient to satisfy this requirement. \$ 1,365,765 was withdrawn from the reserve fund account in order to make the May 1, 2009 principal and interest payment (Note 11).

The annual debt service requirements for the Series 2003, 2004 and 2005 Special Assessment Revenue Bonds consist of:

<u>Year Ending September 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,045,000	\$ 4,925,926	\$ 5,970,926
2011	1,115,000	4,862,062	5,977,062
2012	1,175,000	4,793,926	5,968,926
2013	5,020,000	4,722,110	9,742,110
2014	1,340,000	4,428,898	5,768,898
2015-2019	8,115,000	20,798,642	28,913,642
2020-2024	11,105,000	17,913,902	29,018,902
2025-2029	15,190,000	13,958,192	29,148,192
2030-2034	20,780,000	8,544,134	29,324,134
2035-2038	14,455,000	2,017,668	16,472,668
	<u>\$ 79,340,000</u>	<u>\$ 86,965,460</u>	<u>\$ 166,305,460</u>

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2009

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, 2009. 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.

NOTE 7 - ECONOMIC DEPENDENCY AND RELATED PARTY TRANSACTIONS

There was \$ 650,313 due from the Developer in the 2003 Debt Service Fund, \$ 479,257 due from the Developer in the 2004 Debt Service Fund and \$ 1,514,880 in the 2005 Debt Service Fund at September 30, 2009.

A significant portion of the District's activity is dependent upon the continued involvement of the Developer the loss of which would have a materially adverse effect on the District's operations.

NOTE 8 - 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 9 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A summary of due to/from funds for the year ended September 30, 2009 is as follows:

	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 1,550	\$ -
Series 2003 Debt Service Fund	-	51
Series 2004 Debt Service Fund	-	37
Series 2005 Debt Service Fund	<u>88</u>	<u>1,550</u>
-----	<u>\$ 1,638</u>	<u>\$ 1,638</u>

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.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2009

NOTE 9 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (continued)

A summary of interfund transfers for the year ended September 30, 2009 is as follows:

		Transfer in - General Fund
		<u> </u>
Transfer out - Series 2005 Debt Service Fund	\$	<u>1,550</u>

The transfer was due to expenditures funded by the debt service fund and was transferred out to keep only expenses related to debt service in the debt service funds.

NOTE 10 – NET ASSETS (DEFICIT)

The District has a government-wide net assets deficit of \$ 21,194,321 as of September 30, 2009, while there is no such deficit reflected in the governmental fund statements. 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 (Note 7) or through assessment to benefitted property owners. The deficit also relates to various infrastructure improvements which have been financed through the issuance of long-term debt, but were conveyed to other entities.

NOTE 11 – CONTINGENCIES

The prolonged deterioration in the housing markets and a decrease in housing demand within the region the District is located has negatively impacted the fair market value of the assessable property located within District boundaries, a substantial amount of which is held by the Developer. These conditions resulted in the Developer being unable to provide the District with non-ad valorem special assessments sufficient to satisfy a portion of the November 2009 debt service requirements. The nonpayment of non-ad valorem special assessments by the Developer resulted in the District transferring \$ 563,278 from Series 2003A Bond reserve accounts, \$ 108,223 from Series 2003B Bond reserve accounts, \$ 370,661 from Series 2004 Bond reserve accounts and \$ 1,144,040 from Series 2005 Capital Projects Fund to meet the November 2009 debt service obligations. The amount of delinquent assessments owed to the District as of February 28, 2010 is \$ 4,823,738.

In October 2010, with the consent of the bondholders, the District approved the first amendment to the supplemental trust indentures to allow funds within the Series 2003, 2004 and 2005 acquisition and construction subaccounts to be used to establish default expenditure accounts to be used to pay the legal fees and expenses, and consultant charges related to the preparation for and enforcement of a foreclosure action to enforce the collection of delinquent special assessments.

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. The foreclosure action is currently on hold as a result of a stay provision in the Chapter 11 motion that was filed in February.

Due to the Developer’s bankruptcy, it is unknown at this time whether future debt service payments will be able to be made as scheduled (Note 5). The financial statements do not reflect any adjustment that may result from this uncertainty.

**OTHER REPORTS OF
INDEPENDENT AUDITORS**



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**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**

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

We have audited the statement of net assets (deficit) and balance sheet of Fiddler's Creek Community Development District #2 (the "District") as of September 30, 2009, and the statement of activities, statements of revenues, expenditures and changes in fund balances and revenues, expenditures and change in fund balance - budget and actual - General Fund for the year then ended and have issued our report thereon dated March 31, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Fiddler's Creek Community Development District #2

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic 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 that are required to be reported under Government Auditing Standards and which are described in the Report to District Management under Section 10.554(1)(i)4.

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


KEEFE, McCULLOUGH & CO., LLP

Ft. Lauderdale, Florida
March 31, 2010



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INDEPENDENT AUDITORS' REPORT TO DISTRICT MANAGEMENT

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

We have audited the basic financial statements of Fiddler's Creek Community Development District #2 (the "District"), as of and for the year ended September 30, 2009, and have issued our report thereon dated March 31, 2010.

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 Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, which are dated March 31, 2010, 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 auditors' reports.

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

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's 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, accounting procedures and internal controls. In connection with our audit, we did not have any such recommendations.

Fiddler's Creek Community Development District #2

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we determined that the District incurred unscheduled draws on the Series 2003A, 2003B, 2004 and 2005 Debt Service Reserve accounts in May 2009. As a result, at September 30, 2009, the Series 2003A Reserve Account reflects a deficit of approximately \$ 364,000, the Series 2003B Reserve Account reflects a deficit of approximately \$ 91,000, the Series 2004 Reserve Account reflects a deficit of approximately \$ 78,000 and the Series 2005 Reserve Account reflects a deficit of approximately \$ 1,378,000.

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government 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)7.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)(e), Florida Statutes.

Section 10.554(1)(i)7.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, 2009, 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, 2009. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. We noted deteriorating financial conditions as further described in Note 11.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.


KEEFE, McCULLOUGH & CO., LLP