

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

BASIC FINANCIAL STATEMENTS

September 30, 2010

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
BASIC FINANCIAL STATEMENTS
September 30, 2010

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BASIC FINANCIAL STATEMENTS



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, 2010, 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 financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major funds of the District as of September 30, 2010, 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 12 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, all of the District's outstanding bonds are considered to be in default. In addition, during the fiscal year ended September 30, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Fiddler's Creek Community Development District #2

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

KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida
March 15, 2011

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2010

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, 2010 and 2009. 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, 2010:

- The District's total liabilities exceeded its assets at September 30, 2010 by \$ 24,116,857 (deficit).
- The District's total revenues were \$ 5,070,007, \$ 2,628,137 from non-ad valorem assessments, \$ 2,429,937 from developer contributions, \$ 4,753 from interest income and \$ 7,180 from miscellaneous income. The District's expenses for this year were \$ 7,992,543.

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, 2010

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 25 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, 2010 and 2009:

| Fiddler's Creek Community Development District #2 Statement of Net Assets (Deficit) | | |
|--|-----------------|-----------------|
| | 2010 | 2009 |
| Current and other assets | \$ 13,914,040 | \$ 13,964,419 |
| Capital assets, net | 45,522,611 | 46,333,939 |
| Total assets | 59,436,651 | 60,298,358 |
| Other liabilities | 6,418,508 | 3,197,679 |
| Long-term liabilities | 77,135,000 | 78,295,000 |
| Total liabilities | 83,553,508 | 81,492,679 |
| Net assets (deficit): | | |
| Invested in capital assets, net of related debt (deficit) | (11,309,656) | (7,279,910) |
| Unrestricted (deficit) | (12,807,201) | (13,914,411) |
| Total net assets (deficit) | \$ (24,116,857) | \$ (21,194,321) |

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2010

Governmental Activities

Governmental activities for the year ended September 30, 2010 decreased the District's net assets by \$ 2,922,536, as reflected in the table below:

Fiddler's Creek Community Development District #2
Statement of Activities

| | <u>2010</u> | <u>2009</u> |
|---|------------------------|------------------------|
| REVENUES: | | |
| Program revenue: | | |
| Non-ad valorem assessments | \$ 2,628,137 | \$ 3,543,612 |
| Developer contributions | 2,429,937 | 2,644,450 |
| General revenue: | | |
| Miscellaneous income | 7,180 | 74 |
| Interest income | 4,753 | 65,579 |
| Total revenues | <u>5,070,007</u> | <u>6,253,715</u> |
| EXPENSES: | | |
| Interest expense | 4,904,972 | 4,963,515 |
| Physical environment | 2,545,526 | 2,525,082 |
| General government | 463,840 | 237,777 |
| Other debt service costs | 78,205 | 78,205 |
| Total expenses | <u>7,992,543</u> | <u>7,804,579</u> |
| Change in net assets | (2,922,536) | (1,550,864) |
| NET ASSETS (DEFICIT), BEGINNING OF YEAR, | <u>(21,194,321)</u> | <u>(19,643,457)</u> |
| NET ASSETS (DEFICIT), END OF YEAR | <u>\$ (24,116,857)</u> | <u>\$ (21,194,321)</u> |

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 \$ 5,806,000.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2010

CAPITAL ASSETS AND DEBT ADMINISTRATION

The District's investment in capital assets for its governmental activities as of September 30, 2010 amounts to \$ 45,522,611 net of accumulated depreciation and consists of land and improvements, infrastructure, buildings and improvements, equipment, and construction in progress.

At the end of the year, the District had total bonded debt outstanding of \$ 79,130,000. 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, 2010 budget. Revenues were under the adopted budget for the year and expenditures were over.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Revenues and expenditures for the fiscal year 2011 adopted budget for the General Fund of the District total approximately \$ 1,264,000.

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 2011. Additional information on this impact can be found in Note 12 on page 25 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, 2010

| | | Governmental Activities |
|---|----|----------------------------|
| ASSETS: | | |
| Cash and cash equivalents | \$ | 6,541,161 |
| Assessment receivable | | 5,910,554 |
| Prepaid expenditures | | 7,252 |
| Due from other government | | 375 |
| Capital assets: | | |
| Non-depreciable | | 23,558,624 |
| Depreciable, net | | 21,963,987 |
| Unamortized bond issuance costs | | 1,454,698 |
| Total assets | | 59,436,651 |
| LIABILITIES: | | |
| Accounts payable | | 517,419 |
| Accrued payroll | | 2,799 |
| Due to other governments | | 3,741 |
| Due to Developer | | 307,677 |
| Accrued interest payable | | 3,591,872 |
| Bonds payable, due within one year | | 1,995,000 |
| Bonds payable, due in more than one year | | 77,135,000 |
| Total liabilities | | 83,553,508 |
| COMMITMENTS AND CONTINGENCIES (Notes 8 and 12) | | |
| | | - |
| NET ASSETS (DEFICIT): | | |
| Invested in capital assets, net of related debt (deficit) | | (11,309,656) |
| Unrestricted (deficit) | | (12,807,201) |
| Total net assets (deficit) | \$ | (24,116,857) |

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, 2010

| | Program Revenues | | | Governmental Activities | |
|-------------------------------|----------------------------|--|--|--|--|
| Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Net Revenues (Expenses) and Change in Net Assets (Deficit) | |
| FUNCTIONS/PROGRAMS: | | | | | |
| Governmental activities: | | | | | |
| Interest expense | \$ 4,904,972 | \$ 1,529,818 | \$ 2,429,937 | \$ - | \$ (945,217) |
| Physical environment | 2,545,526 | 976,092 | - | - | (1,569,434) |
| General government | 463,840 | 122,227 | - | - | (341,613) |
| Other debt service cost | 78,205 | - | - | - | (78,205) |
| | <u>\$ 7,992,543</u> | <u>\$ 2,628,137</u> | <u>\$ 2,429,937</u> | <u>\$ -</u> | <u>(2,934,469)</u> |
| Total governmental activities | | | | | |
| General revenues: | | | | | |
| | | | | | 7,180 |
| | | | | | 4,753 |
| | | | | | <u>11,933</u> |
| | | | | | (2,922,536) |
| | | | | | <u>(21,194,321)</u> |
| | | | | | Net assets (deficit), October 1, 2009 |
| | | | | | <u>\$ (24,116,857)</u> |
| | | | | | Net assets (deficit), September 30, 2010 |

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, 2010

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 | \$ 76,604 | \$ 523,465 | \$ 177,129 | \$ 211,068 | \$ 1,524,484 | \$ 15,296 | \$ 4,013,115 | \$ 6,541,161 |
| Assessments receivable | 496,299 | 1,675,638 | 1,040,293 | 2,698,324 | - | - | - | 5,910,554 |
| Prepaid expenditures | 7,252 | - | - | - | - | - | - | 7,252 |
| Due from other government | 375 | - | - | - | - | - | - | 375 |
| Due from other funds | 23,440 | 11,209 | 5,861 | 419 | - | - | - | 40,929 |
| Total assets | \$ 603,970 | \$ 2,210,312 | \$ 1,223,283 | \$ 2,909,811 | \$ 1,524,484 | \$ 15,296 | \$ 4,013,115 | \$ 12,500,271 |

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 | \$ 114,075 | \$ 14,011 | \$ 7,337 | \$ 2,712 | \$ 3,386 | \$ - | \$ 375,898 | \$ 517,419 |
| Accrued payroll | 2,799 | - | - | - | - | - | - | 2,799 |
| Due to other governments | 3,741 | - | - | - | - | - | - | 3,741 |
| Due to other funds | 17,401 | 51 | 37 | 23,440 | - | - | - | 40,929 |
| Due to Developer | 307,677 | - | - | - | - | - | - | 307,677 |
| Deferred revenue | 416,274 | 1,670,755 | 1,037,740 | 2,697,400 | - | - | - | 5,822,169 |
| Total liabilities | 861,967 | 1,684,817 | 1,045,114 | 2,723,552 | 3,386 | - | 375,898 | 6,694,734 |
| COMMITMENTS AND CONTINGENCIES (Notes 8 and 12) | - | - | - | - | - | - | - | - |
| FUND BALANCES: | | | | | | | | |
| Reserved for prepaid expenditures | 7,252 | - | - | - | - | - | - | 7,252 |
| Reserved for debt service | - | 525,495 | 178,169 | 186,259 | - | - | - | 889,923 |
| Reserved for capital projects | - | - | - | - | 1,521,098 | 15,296 | 3,637,217 | 5,173,611 |
| Unreserved (deficit) | (265,249) | - | - | - | - | - | - | (265,249) |
| Total fund balance (deficit) | (257,997) | 525,495 | 178,169 | 186,259 | 1,521,098 | 15,296 | 3,637,217 | 5,805,537 |
| Total liabilities and fund balances | \$ 603,970 | \$ 2,210,312 | \$ 1,223,283 | \$ 2,909,811 | \$ 1,524,484 | \$ 15,296 | \$ 4,013,115 | \$ 12,500,271 |
| | (257,997) | 525,495 | 178,169 | 186,259 | 1,521,098 | 15,296 | 3,637,217 | |

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, 2010

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 | \$ | 5,805,537 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds: | | |
| The cost of capital assets is | | 52,427,206 |
| Less accumulated depreciation | | (6,904,595) |
| 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 | | (454,800) |
| Deferred revenue is not reported in the governmental funds | | 5,822,169 |
| Certain liabilities are not due and payable in the current period, and therefore are not reported in the governmental funds: | | |
| Accrued interest payable | | (3,591,872) |
| Governmental revenue bonds payable | | <u>(79,130,000)</u> |
| NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES, PAGE 7 | \$ | <u>(24,116,857)</u> |

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

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended September 30, 2010

| | 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 | \$ 853,865 | \$ 565,102 | \$ 297,219 | \$ 164,169 | \$ - | \$ - | \$ - | \$ 1,880,355 |
| Interest income | 628 | 131 | 36 | 111 | 372 | 4 | 3,471 | 4,753 |
| Miscellaneous income | 7,180 | - | - | - | - | - | - | 7,180 |
| Total revenues | 861,673 | 565,233 | 297,255 | 164,280 | 372 | 4 | 3,471 | 1,892,288 |
| EXPENDITURES: | | | | | | | | |
| Current: | | | | | | | | |
| General government | 413,227 | 31,604 | 13,128 | 5,881 | - | - | - | 463,840 |
| Physical environment | 998,774 | - | - | - | - | - | - | 998,774 |
| Capital outlay | - | - | - | - | 67,946 | - | 667,478 | 735,424 |
| Debt service: | | | | | | | | |
| Principal | - | - | 160,000 | 50,000 | - | - | - | 210,000 |
| Interest | - | 1,794,750 | 426,769 | 1,144,050 | - | - | - | 3,365,569 |
| Total expenditures | 1,412,001 | 1,826,354 | 599,897 | 1,199,931 | 67,946 | - | 667,478 | 5,773,607 |
| Excess (deficiency) of revenues over expenditures | (550,328) | (1,261,121) | (302,642) | (1,035,651) | (67,574) | 4 | (664,007) | (3,881,319) |
| OTHER FINANCING SOURCES: | | | | | | | | |
| Transfers in | 212,439 | 36,192 | 15,742 | 1,202,872 | - | - | - | 1,467,245 |
| Transfers out | - | (73,015) | (32,127) | (109,599) | (36,192) | (15,742) | (1,200,570) | (1,467,245) |
| Total other financing sources | 212,439 | (36,823) | (16,385) | 1,093,273 | (36,192) | (15,742) | (1,200,570) | - |
| Net change in fund balances | (337,889) | (1,297,944) | (319,027) | 57,622 | (103,766) | (15,738) | (1,864,577) | (3,881,319) |
| FUND BALANCES, October 1, 2009 | 79,892 | 1,823,439 | 497,196 | 128,637 | 1,624,864 | 31,034 | 5,501,794 | 9,686,856 |
| FUND BALANCES (deficit), September 30, 2010 | \$(257,997) | \$ 525,495 | \$ 178,169 | \$ 186,259 | \$ 1,521,098 | \$ 15,296 | \$ 3,637,217 | \$ 5,805,537 |

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, 2010

NET CHANGES IN FUND BALANCES - TOTAL
GOVERNMENTAL FUNDS, PAGE 11 \$ (3,881,319)

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 | 742,548 |
| Less current year provision for depreciation | (1,553,876) |

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 | 210,000 |
|-------------------|---------|

| | |
|---|-----------|
| Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds. | 3,177,719 |
|---|-----------|

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>(1,539,403)</u> |

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES, PAGE 8 \$ (2,922,536)

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, 2010

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--|--|---------------------|---------------------|
| REVENUES: | | | |
| Non-ad valorem assessments | \$ 1,284,810 | \$ 853,865 | \$ (430,945) |
| Interest income | 2,000 | 628 | (1,372) |
| Miscellaneous income | <u>-</u> | <u>7,180</u> | <u>7,180</u> |
| Total revenues | <u>1,286,810</u> | <u>861,673</u> | <u>(425,137)</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| General government: | 272,457 | 413,227 | (140,770) |
| Physical environment | <u>979,631</u> | <u>998,774</u> | <u>(19,143)</u> |
| Total expenditures | <u>1,252,088</u> | <u>1,412,001</u> | <u>(159,913)</u> |
| Excess (deficiency) of revenues over expenditures | 34,722 | (550,328) | (585,050) |
| OTHER FINANCING SOURCES: | | | |
| Transfers in | <u>-</u> | <u>212,439</u> | <u>212,439</u> |
| Total other financing sources | <u>-</u> | <u>212,439</u> | <u>212,439</u> |
| Net change in fund balance | 34,722 | (337,889) | (372,611) |
| FUND BALANCE, October 1, 2009, | <u>79,892</u> | <u>79,892</u> | <u>-</u> |
| FUND BALANCE (DEFICIT), September 30, 2010 | <u>\$ 114,614</u> | <u>\$ (257,997)</u> | <u>\$ (372,611)</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, 2010

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, 2010, the District had \$ 4,049,362 in program revenues.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2010

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, 2010

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, 2010

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.

Date of management review:

Subsequent events have been evaluated through March 15, 2011, which is the date the financial statements were available to be issued.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

The District's deposits must be placed with banks and savings and loans which are qualified as public depositories prior to receipt of public monies under Chapter 280, Florida Statutes. These deposits are insured by the FDIC up to \$ 250,000. Monies deposited in amounts greater than the insurance coverage are secured by the banks pledging securities with the State Treasurer in the collateral pool. At year end, the carrying amount of the District's General Fund deposits was \$ 76,604 and the bank balance was \$ 101,225.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2010

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Investments

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

Investments as of September 30, 2010 of \$ 6,464,557 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 42 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, 2010, the District's investments were not subject to custodial credit risk.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010 was as follows:

| | Balance at October 1, 2009 | Additions | Deletions | Balance at September 30, 2010 |
|--|----------------------------------|--------------------|-------------------|-------------------------------------|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Governmental Activities: | | | | |
| Capital assets, not being depreciated | | | | |
| Land and improvements | \$ 16,226,776 | \$ - | \$ - | \$ 16,226,776 |
| Construction-in-progress | <u>6,596,424</u> | <u>735,424</u> | <u>-</u> | <u>7,331,848</u> |
| Total capital assets, not being depreciated | <u>22,823,200</u> | <u>735,424</u> | <u>-</u> | <u>23,558,624</u> |

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2010

NOTE 4 - CAPITAL ASSETS (continued)

| | Balance at October 1, 2009 | Additions | Deletions | Balance at September 30, 2010 |
|--|----------------------------------|---------------------|-------------|-------------------------------------|
| Capital assets, being depreciated: | | | | |
| Infrastructure | 16,100,762 | - | - | 16,100,762 |
| Buildings and improvements | 12,760,696 | - | - | 12,760,696 |
| Equipment | - | 7,124 | - | 7,124 |
| Total capital assets, being depreciated | <u>28,861,458</u> | <u>7,124</u> | <u>-</u> | <u>28,868,582</u> |
| Total capital assets | <u>51,684,658</u> | <u>742,548</u> | <u>-</u> | <u>52,427,206</u> |
| Less accumulated depreciation for: | | | | |
| Infrastructure | 2,446,648 | 630,359 | - | 3,077,007 |
| Equipment | - | 594 | - | 594 |
| Buildings and improvements | 2,904,071 | 922,923 | - | 3,826,994 |
| Total accumulated depreciation | <u>5,350,719</u> | <u>1,553,876</u> | <u>-</u> | <u>6,904,595</u> |
| Total capital assets, being depreciated, net | <u>23,510,739</u> | <u>(1,546,752)</u> | <u>-</u> | <u>21,963,987</u> |
| Governmental activities capital assets, net | <u>\$ 46,333,939</u> | <u>\$ (811,328)</u> | <u>\$ -</u> | <u>\$ 45,522,611</u> |

Provision for depreciation was charged to functions as follows:

Governmental Activities:

Physical environment \$ 1,553,876

NOTE 5 - LONG-TERM DEBT

a. Summary of Long-Term Debt of Governmental Activities

Long-term debt of the governmental activities at September 30, 2010 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%. | 12,330,000 |
| \$ 38,850,000 Special Assessment Bonds, Series 2005; due in annual installments commencing May 2009 through 2038; interest payable semiannually at 6.00%. | <u>38,085,000</u> |
| | <u>\$ 79,130,000</u> |

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2010

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, 2010:

| | <u>Balance October 1, 2009</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance September 30, 2010</u> | <u>Due Within One Year</u> |
|---|--|------------------|-------------------|---|------------------------------------|
| Special Assessment Revenue Bonds, Series 2003A | \$ 3,275,000 | \$ - | \$ - | \$ 3,275,000 | \$ 805,000 |
| 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 | 12,490,000 | - | 160,000 | 12,330,000 | 165,000 |
| Special Assessment Revenue Bonds, Series 2005 | <u>38,135,000</u> | <u>-</u> | <u>50,000</u> | <u>38,085,000</u> | <u>1,025,000</u> |
| | <u>\$ 79,340,000</u> | <u>\$ -</u> | <u>\$ 210,000</u> | <u>\$ 79,130,000</u> | <u>\$ 1,995,000</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, 2010, the reserve fund account balance was not sufficient to satisfy this requirement (Note 11).

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2010

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, 2010, the reserve fund account balance was not sufficient to satisfy this requirement (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, 2010, the reserve fund account balance was not sufficient to satisfy this requirement (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, 2010

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, 2010, the reserve fund account balance was not sufficient to satisfy this requirement (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, 2010, the reserve fund account balance was not sufficient to satisfy this requirement (Note 11).

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

| Year Ending September 30, | Principal | Interest | Total |
|------------------------------|----------------------|----------------------|-----------------------|
| 2011 | \$ 1,995,000 | \$ 4,862,363 | \$ 6,857,363 |
| 2012 | 1,175,000 | 4,794,225 | 5,969,225 |
| 2013 | 5,025,000 | 4,722,413 | 9,747,413 |
| 2014 | 1,335,000 | 5,403,394 | 6,738,394 |
| 2015 | 1,415,000 | 4,347,263 | 5,762,263 |
| 2016-2020 | 8,645,000 | 20,296,575 | 28,941,575 |
| 2021-2025 | 11,815,000 | 17,220,281 | 29,035,281 |
| 2026-2030 | 16,165,000 | 13,006,219 | 29,171,219 |
| 2031-2035 | 22,090,000 | 7,238,250 | 29,328,250 |
| 2036-2038 | 9,470,000 | 1,120,050 | 10,590,050 |
| | <u>\$ 79,130,000</u> | <u>\$ 83,011,033</u> | <u>\$ 162,141,033</u> |

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2010

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, 2010. 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

A significant portion of the District's activity was dependent upon the continued involvement of the Developer. Due to their lack of involvement in the current year, the District has experienced materially adverse financial conditions (Note 11).

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, 2010 is as follows:

| | <u>Receivables</u> | <u>Payables</u> |
|-------------------------------|--------------------|------------------|
| General Fund | \$ 23,440 | \$ 17,401 |
| Series 2003 Debt Service Fund | 11,209 | 51 |
| Series 2004 Debt Service Fund | 5,861 | 37 |
| Series 2005 Debt Service Fund | <u>419</u> | <u>23,440</u> |
| | <u>\$ 40,929</u> | <u>\$ 40,929</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, 2010

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

A summary of interfund transfers for the year ended September 30, 2010 is as follows:

| Transfer Out | Transfer In | | | | Total |
|--------------------------------------|-------------------|--|--|--|---------------------|
| | General Fund | Series 2003 Debt Service Fund | Series 2004 Debt Service Fund | Series 2005 Debt Service Fund | |
| Series 2003 Debt Service Fund | \$ - | \$ - | \$ - | \$ 73,015 | \$ 73,015 |
| Series 2004 Debt Service Fund | - | - | - | 32,127 | 32,127 |
| Series 2005 Debt Service Fund | 109,599 | - | - | - | 109,599 |
| Series 2003 Capital Projects Fund | - | 36,192 | - | - | 36,192 |
| Series 2004 Capital Projects Fund | - | - | 15,742 | - | 15,742 |
| Series 2005 Capital Projects Fund | <u>102,840</u> | <u>-</u> | <u>-</u> | <u>1,097,730</u> | <u>1,200,570</u> |
| Total | <u>\$ 212,439</u> | <u>\$ 36,192</u> | <u>\$ 15,742</u> | <u>\$ 1,202,872</u> | <u>\$ 1,467,245</u> |

All transfers during the year were made to either fund operating expenses of the District or debt service requirements. These transfers were necessary as a result of the District's financial position (Note 12).

NOTE 10 – NET ASSETS (DEFICIT)

The District has a government-wide net assets deficit of \$ 24,116,857 as of September 30, 2010. 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 – FUND BALANCE (DEFICIT)

The District has a deficit of \$ 257,997 reflected in the governmental fund statements for the General Fund as of September 30, 2010. This deficit is the result of the lack of developer funding for general District operations, as discussed in Note 12. The District expects this deficit to be eliminated from assessments collected and recognized during fiscal year 2011 along with a reduction in expenses.

FIDDLER'S CREEK COMMUNITY DEVELOPMENT DISTRICT #2
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2010

NOTE 12 – 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 and May 2010 debt service requirements and therefore all outstanding bonds of the District are considered to be in default.

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.

In May 2010, the Trustees notified the Bondholders that an event of default had occurred as a result of the nonpayment of principal on the Series 2003A and 2003B and nonpayment of interest on the Series 2004 and 2005.

Additionally, the District transferred funds from the respective debt service reserve accounts in order to make debt service payments. As a result of this, the 2003A, 2003B, 2004 and 2005 reserve funds are underfunded by \$ 1,508,081, \$ 313,202, \$ 476,067, and \$ 1,401,543 respectively.

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 November 2010, the District failed to make the required debt service payments for the Series 2003A, 2003B, 2004 and 2005 Bonds.

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.

NOTE 13 – ASSESSMENTS RECEIVABLE

Amounts reported on the basic financial statements as assessments receivable include amounts due from property owners for special assessments as well as amounts due from the county tax collector. As of September 30, 2010, the total amount of assessments due is \$5,910,554 of which \$1,022,422 is due from the tax collector and \$4,888,132 is due from property owners.

**OTHER REPORTS OF
INDEPENDENT AUDITORS**



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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fiddler's Creek Community Development District #2 (the "District") as of and for the year ended September 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 15, 2011. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

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 over financial reporting that might be deficiencies, 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 due to the Series 2003A, 2003B, 2004 and 2005 Reserve Accounts reflecting deficits of \$ 1,508,081, \$ 312,202, \$ 476,067, and \$ 1,401,543, respectively at September 30, 2010. In addition, the Series 2003A, 2003B, 2004 and 2005 debt service payments are in default at September 30, 2010.

Fiddler's Creek Community Development District #2

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

Fort Lauderdale, Florida
March 15, 2011



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, 2010, and have issued our report thereon dated March 15, 2011.

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 Compliance and Other Matters. Disclosures in that report, which are dated March 15, 2011, 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 complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

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 occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

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) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Fiddler's Creek Community Development District #2

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 of financial emergency 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 met the condition described in Section 218.503(1)(e), Florida Statutes. The District reported deficit unreserved fund balance of \$ 265,249 as of September 30, 2010. The financial emergency condition met was a result of deteriorating financial conditions as discussed in Note 12, page 25 of this report.

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, 2010, 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, 2010. 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 12.

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

Fort Lauderdale, Florida
March 15, 2011