

STERLING HILL
COMMUNITY
DEVELOPMENT
DISTRICT

FINANCIAL STATEMENTS

Year Ended September 30, 2015

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Sterling Hill Community Development District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of the *Sterling Hill Community Development District* (the "District"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 financial statements are free from material misstatement.

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

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

MCDIRMIT DAVIS & COMPANY, LLC

934 NORTH MAGNOLIA AVENUE, SUITE 100 ORLANDO, FLORIDA 32803
TELEPHONE: 407-843-5406 FAX: 407-649-9339 EMAIL: INFO@MCDIRMITDAVIS.COM

Opinions

Basis for Adverse Opinion Due to Omission of Component Units

Management has not included financial data for the Special Purpose Entities (“SPE”) SPE 1 and SPE 2, which are blended component units, Special Revenue Funds in the Sterling Hill Community Development District’s financial statements. Accounting principles generally accepted in the United States of America require these Special Revenue Funds to be presented as major governmental funds and financial information about these Funds to be part of the governmental activities, thus increasing the activity’s, assets, liabilities, revenues, and expenses, and changing its net position. The amount by which this departure would affect the assets, liabilities, net position, revenues and expenses of the governmental activities and the omitted major funds is not reasonably determinable.

Adverse Opinion on Governmental Activities and SPE 1 and SPE Special Revenue Funds

In our opinion, because of the omission of the Special Revenue Funds, SPE 1 and SPE 2, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Special Revenue Funds and the governmental activities of the Sterling Hill Community Development District, as of September 30, 2015, or the changes in financial position thereof for the fiscal year then ended.

Unmodified Opinions on General Fund, Debt Service Fund and Sterling Hill CDD Holdings SPE Special Revenue Fund

In our opinion, the financial statements of the General Fund, Debt Service Fund, and Sterling Hill CDD Holdings SPE Special Revenue Fund present fairly, in all material respects, the financial position of the governmental activities, each major fund, as of September 30, 2015, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis starting on page 4, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

As discussed in Note 7, due to the nonpayment of assessments by certain significant landowners, the District has been unable to make its debt service payments on the Series 2003 Bonds and the Series 2006 Bonds. Events of default were declared on these bonds. As a result, the Special Purpose Entities referred to above were created to own, manage and sell the property subject to the delinquent assessments.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 9, 2016, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

McDiarmid Davis & Company LLC

Orlando, Florida
March 9, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the *Sterling Hill Community Development District's*, (the "District") financial accomplishments provide an overview of the District's financial activities for the year ended September 30, 2015. Please read it in conjunction with the District's Independent Auditor's Report, financial statements and accompanying notes.

This information is being presented to provide additional information regarding the activities of the District and to meet the disclosure requirements of Government Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* issued June 1999.

Financial Highlights

- The liabilities of the District exceeded its assets at September 30, 2015 by \$1,244,834, a decrease in net position of \$796,901 in comparison with the prior year.
- At September 30, 2015, the District's governmental funds reported negative fund balances of \$3,004,487, an increase in the fund balance deficit of \$98,509 in comparison with the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the *Sterling Hill Community Development District's* financial statements. The District's 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 are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise 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 include all governmental activities that are principally supported by special assessment revenues. The District does not have any business-type activities. The governmental activities of the District include general government, physical environment, culture and recreation, public safety and roads and streets related functions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has one fund category: Governmental Funds.

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

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

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, debt service fund and special revenue fund (Special Purpose Entity). The general fund and debt service fund are considered to be major funds.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with the budget.

Notes to Financial Statements

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

Government-Wide Financial Analysis

Statement of Net Position - The District's net position was a deficit of \$(1,244,834) at September 30, 2015. The analysis that follows focuses on the net position of the District's governmental activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-Wide Financial Analysis (Continued):

Sterling Hill Community Development District
Statement of Net Position

	September 30, 2015	September 30, 2014
Assets, excluding capital assets	\$ 2,935,967	\$ 2,487,814
Capital assets net of depreciation	<u>15,996,359</u>	<u>17,029,751</u>
Total assets	<u>18,932,326</u>	<u>19,517,565</u>
Liabilities, excluding long-term liabilities	6,397,160	5,850,498
Long-term Liabilities	<u>13,780,000</u>	<u>14,115,000</u>
Total liabilities	<u>20,177,160</u>	<u>19,965,498</u>
Net Position:		
Net investment in capital assets	2,503,070	3,828,977
Restricted for debt service	63,308	-
Unrestricted	<u>(3,811,212)</u>	<u>(4,276,910)</u>
Total net position	<u>\$ (1,244,834)</u>	<u>\$ (447,933)</u>

The following is a summary of the District's governmental activities for the fiscal years ended September 30, 2015 and 2014.

Changes in Net Position
Year ended September 30.

	2015	2014
Revenues:		
Program revenues	\$ 2,572,475	\$ 2,425,553
General revenues	<u>2,843</u>	<u>2,915</u>
Total revenues	<u>2,575,318</u>	<u>2,428,468</u>
Expenses:		
General government	184,432	286,138
Physical environment	737,936	694,654
Culture and recreation	743,073	714,669
Public safety	22,235	42,207
Roads and streets	580,687	586,586
Interest on long-term debt	<u>1,103,856</u>	<u>1,112,573</u>
Total expenses	<u>3,372,219</u>	<u>3,436,827</u>
Change in net position	(796,901)	(1,008,359)
Net Position - beginning	(447,933)	560,426
Net Position - ending	<u>\$ (1,244,834)</u>	<u>\$ (447,933)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-Wide Financial Analysis (Continued):

As noted on the previous page and in the statement of activities, the cost of all governmental activities during the year ended September 30, 2015 was \$3,372,219, primarily comprised of interest on long-term debt, physical environment expense and culture and recreation expense.

Financial Analysis of the Government's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At September 30, 2015, the District's governmental funds reported combined ending fund deficits of \$(3,004,487). Of this total, \$32,941 is nonspendable, \$306,600 is assigned for fiscal year 2016 expenditures and the remainder is a negative unassigned fund balance of \$(3,344,028).

The fund balance of the general fund remained relatively unchanged from the prior year. In the current year, the debt service fund balance decreased by \$93,681 because revenues were not sufficient to fund debt service.

General Fund Budgetary Highlights

An operating budget was adopted and maintained by the governing board for the District pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. There were no amendments to the general fund budget. The legal level of budgetary control is at the fund level.

Capital Asset and Debt Administration

Capital Assets - At September 30, 2015, the District had \$15,996,359 invested in capital assets net of accumulated depreciation. More detailed information about the District's capital assets is presented in the notes to financial statements.

Capital Debt - At September 30, 2015, the District had \$18,775,000 in bonds outstanding, including \$4,995,000 of matured bonds payable. More detailed information about the District's capital debt is presented in the notes to financial statements.

Requests for Information

If you have questions about this report or need additional financial information, contact the *Sterling Hill Community Development District's* Finance Department at 3434 Colwell Avenue, Suite 200, Tampa, Florida 33614.

FINANCIAL STATEMENTS

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF NET POSITION

September 30, 2015

	Governmental Activities
Assets:	
Cash	\$ 1,150,712
Investments	299
Assessments receivable	1,051
Prepaid costs	32,941
Restricted assets:	
Temporarily restricted investments	1,750,964
Capital Assets:	
Capital assets not being depreciated	1,500,000
Capital assets being depreciated, net	14,496,359
Total assets	<u>18,932,326</u>
Liabilities:	
Accounts payable and accrued expenses	41,870
Accrued interest payable	456,706
Matured bonds payable	4,995,000
Matured interest payable	903,584
Noncurrent liabilities:	
Due within one year	355,000
Due in more than one year	13,425,000
Total liabilities	<u>20,177,160</u>
Net Position:	
Net investment in capital assets	2,503,070
Restricted for debt service	63,308
Unrestricted	(3,811,212)
Total net position	<u>\$ (1,244,834)</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF ACTIVITIES

Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenue		Net (Expense)
		Charges for	Operating Grants	Revenue and
		Services	and	Changes in Net
			Contributions	Position
				Governmental
				Activities
Governmental activities:				
General government	\$ 184,432	\$ 95,306	\$ -	\$ (89,126)
Physical environment	737,936	381,125	-	(356,811)
Culture and recreation	743,073	409,780	-	(333,293)
Public safety	22,235	11,484	-	(10,751)
Roads and streets	580,687	299,910	-	(280,777)
Interest on long-term debt	1,103,856	1,374,579	291	271,014
Total governmental activities	<u>\$ 3,372,219</u>	<u>\$ 2,572,184</u>	<u>\$ 291</u>	(799,744)
General Revenues:				
Investment income				2,843
Change in Net Position				(796,901)
Net Position - beginning				(447,933)
Net Position - ending				<u>\$ (1,244,834)</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Special Purpose Entity</u>	<u>Total Governmental Funds</u>
Assets:				
Cash	\$ 1,150,612	\$ -	\$ 100	\$ 1,150,712
Investments	299	1,750,964	-	1,751,263
Assessments receivable	614	437	-	1,051
Due from other funds	-	-	2,000	2,000
Prepaid costs	32,941	-	-	32,941
Total assets	<u>\$ 1,184,466</u>	<u>\$ 1,751,401</u>	<u>\$ 2,100</u>	<u>\$ 2,937,967</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenses	\$ 39,870	\$ -	\$ 2,000	\$ 41,870
Due to other funds	2,000	-	-	2,000
Matured bonds payable	-	4,995,000	-	4,995,000
Matured interest payable	-	903,584	-	903,584
Total liabilities	<u>41,870</u>	<u>5,898,584</u>	<u>2,000</u>	<u>5,942,454</u>
Fund balances:				
Nonspendable	32,941	-	-	32,941
Assigned for subsequent years expenditures	306,600	-	-	306,600
Unassigned	803,055	(4,147,183)	100	(3,344,028)
Total fund balances (deficit)	<u>1,142,596</u>	<u>(4,147,183)</u>	<u>100</u>	<u>(3,004,487)</u>
Total liabilities and fund balances	<u>\$ 1,184,466</u>	<u>\$ 1,751,401</u>	<u>\$ 2,100</u>	

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

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds. 15,996,359

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Accrued interest payable	(456,706)	
Long-term liabilities	<u>(13,780,000)</u>	<u>(14,236,706)</u>

Net Position of Governmental Activities (page 8) \$ (1,244,834)

The accompanying Notes to Financial Statements are an integral part of this statement.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended September 30, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Special Purpose Entity</u>	<u>Total Governmental Funds</u>
Revenues:				
Special assessments	\$ 1,171,603	\$ 751,268	\$ -	\$ 1,922,871
Special assessments - prepayments	-	623,311	-	623,311
Investment and other income	28,845	291	-	29,136
Total revenues	<u>1,200,448</u>	<u>1,374,870</u>	<u>-</u>	<u>2,575,318</u>
Expenditures:				
Current:				
General government	130,493	29,695	24,244	184,432
Physical environment	436,995	-	-	436,995
Culture and recreation	523,281	-	-	523,281
Public safety	22,235	-	-	22,235
Roads and streets	68,028	-	-	68,028
Debt Service:				
Principal	-	335,000	-	335,000
Interest	-	1,103,856	-	1,103,856
Total expenditures	<u>1,181,032</u>	<u>1,468,551</u>	<u>24,244</u>	<u>2,673,827</u>
Excess (Deficit) of Revenues Over Expenditures	19,416	(93,681)	(24,244)	(98,509)
Other Financing Sources (Uses) :				
Transfers in	-	-	24,344	24,344
Transfers out	(24,344)	-	-	(24,344)
Total other financing sources (uses)	<u>(24,344)</u>	<u>-</u>	<u>24,344</u>	<u>-</u>
Net change in fund balances	(4,928)	(93,681)	100	(98,509)
Fund Balances (deficit) - beginning of year	<u>1,147,524</u>	<u>(4,053,502)</u>	<u>-</u>	<u>(2,905,978)</u>
Fund Balances (deficit) - end of year	<u>\$ 1,142,596</u>	<u>\$ (4,147,183)</u>	<u>\$ 100</u>	<u>\$ (3,004,487)</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

Year Ended September 30, 2015

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Net Change in Fund Balances - total governmental funds (page 11) \$ (98,509)

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources; however, in the statement of net position the cost of those assets is recorded as capital assets.

Capitalized assets	173,879	
Depreciation expense	<u>(1,207,271)</u>	(1,033,392)

The issuance of long term debt provides current financial resources to governmental funds, while the repayment of principal on long-term debt uses current financial resources of governmental funds. Neither transaction however has any effect on net position.

Reclassification to matured bonds payable	<u>335,000</u>
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Change in Net Position of Governmental Activities (page 9) \$ (796,901)

The accompanying Notes to Financial Statements are an integral part of this statement.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

Year Ended September 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
Revenues:				
Special Assessments	\$ 1,231,673	\$ 1,231,673	\$ 1,171,603	\$ (60,070)
Investment and Other Income	-	-	28,845	28,845
Total revenues	<u>1,231,673</u>	<u>1,231,673</u>	<u>1,200,448</u>	<u>(31,225)</u>
Expenditures:				
Current:				
General government	163,168	163,168	130,493	32,675
Physical environment	629,096	629,096	436,995	192,101
Culture and recreation	335,527	335,527	523,281	(187,754)
Public safety	25,000	25,000	22,235	2,765
Roads and streets	<u>169,882</u>	<u>169,882</u>	<u>68,028</u>	<u>101,854</u>
Total expenditures	<u>1,322,673</u>	<u>1,322,673</u>	<u>1,181,032</u>	<u>141,641</u>
Excess (deficit) of revenues over expenditures	(91,000)	(91,000)	19,416	110,416
Other Financing Sources (Uses):				
Transfers Out	-	-	(24,344)	24,344
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>(24,344)</u>	<u>24,344</u>
Net change in fund balance	<u>(91,000)</u>	<u>(91,000)</u>	<u>(4,928)</u>	<u>86,072</u>
Fund Balance - beginning	<u>1,147,524</u>	<u>1,147,524</u>	<u>1,147,524</u>	<u>-</u>
Fund Balance - ending	<u>\$ 1,056,524</u>	<u>\$ 1,056,524</u>	<u>\$ 1,142,596</u>	<u>\$ 86,072</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2015

Note 1 - Summary of Significant Accounting Policies:

Reporting Entity

The *Sterling Hill Community Development District*, (the "District") was established on March 20, 2003, pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes. The Act provides, among other things, the power to manage basic services for community development, the power to borrow money and issue bonds, and the power to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure. The District was established for the purpose of financing and managing the acquisition, construction, maintenance and operation of a portion of the infrastructure necessary for community development within the District.

The District is governed by the Board of Supervisors (the "Board"), which is composed of five members. One of the Supervisors is elected on an at large basis by landowners of the District. Four are elected on an at large basis by qualified electors who reside in the District. The Board of Supervisors of the District exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes. At September 30, 2015, none of the Board members were associated with DEVCO,LLC (the "Developer") and one of the Board members was associated with one of the Special Purpose Entities.

The Board has final responsibility for:

1. Allocating and levying assessments.
2. Approving budgets.
3. Exercising control over facilities and properties.
4. Controlling the use of funds generated by the District.
5. Approving the hiring and firing of key personnel.
6. Financing improvements.

The financial statements were prepared in accordance with GASB Statements 14, 39 and 61. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District Board of Supervisors is considered to be financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that, if excluded, the financial statements of the District would be considered incomplete or misleading. Management has determined that there is one entities considered to be a component unit of the District.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

Note 1 - Summary of Significant Accounting Policies (Continued):

Government-Wide and Fund Financial Statements

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) grants, contributions and investment earnings that are restricted to meeting the operational or capital requirements of a particular function or segment and 3) operating-type special assessments that are treated as charges for services (including assessments for maintenance and debt service). Other items not included among program revenues are reported instead as *general revenues*.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the modified *accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for Developer receivables for retainage, which are collected from the Developer when the amount is due to the contractor. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Assessments, including debt service assessments and operation and maintenance assessments, are non-ad valorem assessments imposed on all lands located within the District and benefited by the District's activities. Operation and maintenance special assessments are levied by the District prior to the start of the fiscal year which begins October 1st and ends on September 30th. These assessments are imposed upon all benefited lands located in the District. Debt service special assessments are imposed upon certain lots and lands as described in each resolution imposing the special assessment for each series of bonds issued by the District. Certain debt service assessments are collected upon the closing of those lots subject to short term debt and are used to prepay a portion of the bonds outstanding.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

Note 1 - Summary of Significant Accounting Policies (Continued):

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued):

Assessments and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following governmental funds:

General Fund - is the District's primary operating fund. It is used to account for and report all financial resources not accounted for and reported in another fund.

Debt Service Fund - accounts for the accumulation of resources for the annual payment of principal and interest on long-term debt.

Special Revenue Fund - accounts for the activity and accumulation of resources of the Special Purpose Entity - Sterling Hill CDD Holdings.

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.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance:

Restricted Assets - These assets represent cash and investments set aside pursuant to bond covenants.

Deposits and Investments - The District's cash and cash equivalents are considered to be cash on hand and demand deposits.

Investments of the District are reported at fair value. The District has elected to proceed under the Alternative Investment Guidelines set forth under Section 218.415, Florida Statutes.

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

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

Note 1 - Summary of Significant Accounting Policies (Continued):

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued):

Capital Assets - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. 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 assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Roadways and Streetlights	20
Water Management Control	25
Security and Landscaping	15
Recreational Facilities	30
Equipment	5-10
Vehicles	5

Long Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of premiums or discounts. Issuance costs are reported as expenditures.

In the fund financial statements, governmental fund types recognize bond premiums and discount during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as expenditures.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any item that qualifies for reporting in this category for the year ended September 30, 2015.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

Note 1 - Summary of Significant Accounting Policies (Continued):

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued):

Deferred Outflows/Inflows of Resources (Continued) - In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District does not have any item that qualifies for reporting in this category for the year ended September 30, 2015.

Net Position Flow Assumption - Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted-net position is applied.

Fund Balance Flow Assumptions - Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies - Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes fund balance amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Board of Supervisors is the highest level of decision-making authority for the government that can, by adoption of an ordinance or resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance or resolution remains in place until a similar action is taken to remove or revise the limitation.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

Note 1 - Summary of Significant Accounting Policies (Continued):

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued):

Fund Balance Policies (Continued) - Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Board of Supervisors has authorized the District Manager to assign amounts for specific purposes. The Board of Supervisors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above an additional action is essential to either remove or revise a commitment.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance and Accountability:

A. Budgetary Information

The District is required to establish a budgetary system and an approved annual budget for the General Fund. Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at the fiscal year end. The legal level of budgetary control is at the fund level. Any budget amendments that increase the aggregate budgeted appropriations, at the fund level, must be approved by the Board of Supervisors.

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

1. Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
2. A public hearing is conducted to obtain comments.
3. Prior to October 1, the budget is legally adopted by the District Board.
4. All budget changes must be approved by the District Board.
5. The budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

B. Deficit Fund Balance

At September 30, 2015, the debt service fund had a deficit fund balance of \$(4,147,183).

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

Note 3 - Deposits and Investments:

Deposits

The District's cash balances were entirely covered by federal depository insurance or by a collateral pool pledged to the State Treasurer. Florida Statutes Chapter 280, "Florida Security for Public Deposits Act", requires all qualified depositories to deposit with the Treasurer or another banking institution eligible collateral equal to various percentages of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. Governmental and agency securities, state or local government debt, or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

Investments

Investments are stated at fair value, which is the amount for which an investment could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Fair value is based on quoted market prices. Changes in the fair value of investments are recognized as revenue and included in investment revenue. Investment revenue is recognized as earned and is recorded in the respective funds related to the investment activity.

Instead of establishing a written investment policy, the District elected to limit investments to those approved by Florida Statutes and the District Trust Indenture. Authorized District investments include:

1. The Local Government Surplus Funds Trust Fund (SBA);
2. Securities and Exchange Commission Registered Money Market Funds with the highest credit quality rating from a nationally recognized rating agency;
3. Interest-bearing time deposits or savings accounts in qualified public depositories;
4. Direct obligations of the U.S. Treasury;

Investments made by the District at September 30, 2015 are summarized below. In accordance with GASB 31, investments are reported at fair value.

Investment Type	Fair Value	Credit Rating	Weighted Average Maturity
US Bank Money Market Managed	\$ 1,750,964	NA	NA
Local Government Investment Pool			
Florida Prime	299	AAAm	29 days
	<u>\$ 1,751,263</u>		

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

Note 3 - Deposits and Investments (Continued):

Investments (Continued)

Credit Risk:

The District's investment policy limits credit risk by restricting authorized investments to those described. Investments in U.S. Government securities and agencies must be backed by the full faith and credit of the United States Government. Short term bond funds shall be rated by a nationally recognized ratings agency and shall maintain the highest credit quality rating. Investment ratings by investment type are included in the preceding summary of investments.

Custodial Credit Risk:

In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires that bank deposits be secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida, and creates the Public Deposits Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2015, all of the District's bank deposits were in qualified public depositories.

For an investment, this is the risk that, in the event of the failure of the counterparty, the government 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, 2015, none of the investments listed are exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk:

The District places no limit on the amount the District may invest in any one issuer.

Interest Rate Risk:

The District does not have a formal policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. The District manages its exposure to declines in fair values by investing primarily in pooled investments that have a weighted average maturity of less than three months.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

Note 4 - Capital Assets:

Capital asset activity for the year ended September 30, 2015 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital Assets not Being Depreciated:				
Land	\$ 1,500,000	\$ -	\$ -	\$ 1,500,000
Total capital assets not being depreciated	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>1,500,000</u>
Capital Assets Being Depreciated:				
Roadways and Streetlights	10,253,189	-	-	10,253,189
Water Management Control	7,042,774	-	-	7,042,774
Security and Landscaping	4,558,288	-	-	4,558,288
Recreational Facilities	2,526,458	173,879	-	2,700,337
Equipment	112,495	-	-	112,495
Vehicles	37,259	-	-	37,259
Total capital assets being depreciated	<u>24,530,463</u>	<u>173,879</u>	<u>-</u>	<u>24,704,342</u>
Less Accumulated Depreciation for:				
Roadways and Streetlights	(4,101,275)	(512,659)	-	(4,613,934)
Water Management Control	(2,132,390)	(281,711)	-	(2,414,101)
Security and Landscaping	(2,074,599)	(303,886)	-	(2,378,485)
Recreational Facilities	(618,892)	(89,785)	-	(708,677)
Equipment	(70,365)	(11,778)	-	(82,143)
Vehicles	(3,191)	(7,452)	-	(10,643)
Total Accumulated Depreciation	<u>(9,000,712)</u>	<u>(1,207,271)</u>	<u>-</u>	<u>(10,207,983)</u>
Total Capital Assets Being Depreciated, net	<u>15,529,751</u>	<u>(1,033,392)</u>	<u>-</u>	<u>14,496,359</u>
Governmental Activities Capital Assets, net	<u>\$ 17,029,751</u>	<u>\$ (1,033,392)</u>	<u>\$ -</u>	<u>\$ 15,996,359</u>

Depreciation was charged as follows: \$512,659 to roads and streets expense, \$393,671 to culture and recreation expense and \$300,941 to physical environment expense. The District improvements are complete.

Note 5 - Interfund Transfers and Balances

The general fund transferred \$24,344 to the special revenue fund for management expenses. At September 30, 2015, the general fund owes the special revenue fund \$2,000 for these expenses.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

Note 6 - Long-Term Liabilities:

Series 2003 Capital Improvement Revenue Bonds

On October 29, 2003, the District issued \$39,000,000 of Capital Improvement Revenue Bonds, consisting of \$4,765,000 Series 2003A Term Bonds due May 1, 2023 with a fixed interest rate of 6.1%, \$7,770,000 Series 2003A Term Bonds due on May 1, 2035 with a fixed interest rate of 6.2% and \$26,465,000 Series 2003B Term Bonds due on November 1, 2010 with a fixed interest rate of 5.5%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the property within the District and to pay off the Bond Anticipation Notes. Interest is to be paid semiannually on each May 1 and November 1. Principal on the 2003A Bonds is paid annually commencing May 1, 2006 through May 1, 2035. Principal on the 2003B Bonds is due in one lump sum on November 1, 2010. The principal payment due of \$4,225,000 on November 1, 2010 for the Series 2003B Bonds was not made. The remaining unpaid balance of \$4,055,000 has been accrued on the fund financial statements as matured bonds payable.

The Series 2003A Bonds are subject to redemption at the option of the District in whole or in part at any time on or after May 1, 2013 at a redemption price as set forth in the Bond Indenture. The Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Indenture.

The Bond Indenture requires that the District maintain adequate funds in a reserve account to meet the debt service reserve requirements as defined in the Indenture. The requirement has not been met at September 30, 2015.

The Bond Indenture has certain restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agreed to levy special assessments in annual amounts adequate to provide payment of debt service. Payment of principal and interest on the 2003 Bonds is secured by a pledge of and a first lien upon the pledged special assessment revenue. The District is not in compliance with the certain requirements of the Bond Indenture.

Total principal and interest remaining on the Series 2003 Bonds at September 30, 2015 is \$18,649,965, excluding matured principal of \$4,315,000. For the year ended September 30, 2015, interest paid was \$888,071, principal due was \$260,000, but not paid. Total special assessment revenue pledged was \$862,787.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

Note 6 - Long-Term Liabilities (Continued):

Series 2006 Capital Improvement Revenue Bonds

On July 12, 2006, the District issued \$8,305,000 of Capital Improvement Revenue Bonds, consisting of \$3,755,000 Series 2006A Term Bonds due May 1, 2037 with a fixed interest rate of 5.5%, and \$4,550,000 Series 2006B Term Bonds due on May 1, 2011 with a fixed interest rate of 5.1%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the property within the District. Interest is to be paid semiannually on each May 1 and November 1. Principal on the 2006A Bonds is due annually commencing May 1, 2008 through May 1, 2037. Principal on the 2006B Bonds is due in one lump sum on May 1, 2011. The remaining principal balance due of \$295,000 on May 1, 2011 for the Series 2006B Bonds was not made. This amount has been accrued on the fund financial statements.

The Series 2006A Bonds are subject to redemption at the option of the District in whole or in part at any time on or after May 1, 2013 at a redemption price as set forth in the Bond Indenture. The Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Indenture.

The Bond Indenture requires that the District maintain adequate funds in a reserve account to meet the debt service reserve requirements as defined in the Indenture. The requirement has not been met at September 30, 2015.

The Bond Indenture has certain restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agreed to levy special assessments in annual amounts adequate to provide payment of debt service. Payment of principal and interest on the 2006 Bonds is secured by a pledge of and a first lien upon the pledged special assessment revenue. The District is not in compliance with the certain requirements of the Bond Indenture.

Total principal and interest remaining on the Series 2006 Bonds at September 30, 2015 is \$5,720,200, excluding matured principal and interest of \$1,583,584. For the year ended September 30, 2015, principal and interest due was \$290,796, which was not paid. Total special assessment revenue pledged was \$511,792.

As discussed in Notes 8 and 9, significant prior and current fiscal year assessments remain delinquent. As a result, the District did not have sufficient funds to make certain scheduled debt service payments. These amounts are accrued on the financial statements as matured bonds payable of \$4,995,000 and matured interest payable of \$903,584.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

Note 6 - Long-Term Liabilities (Continued):

Long-term liabilities activity for the year ended September 30, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds Payable:					
Series 2003A	\$ 10,775,000	\$ -	\$ (260,000)	\$ 10,515,000	\$ 275,000
Series 2006A	3,340,000	-	(75,000)	3,265,000	80,000
Governmental activity long-term liabilities	<u>\$ 14,115,000</u>	<u>\$ -</u>	<u>\$ (335,000)</u>	<u>\$ 13,780,000</u>	<u>\$ 355,000</u>

The reductions above include \$335,000 of principal expensed in the current year but not paid. This amount is included in matured bonds payable. The beginning balance excludes \$4,660,000 of matured bonds payable.

At September 30, 2015, the scheduled debt service requirements on the bonds payable were as follows:

Year Ending September 30,	Governmental Activities	
	Principal	Interest
2016	\$ 355,000	\$ 828,760
2017	380,000	807,585
2018	395,000	784,915
2019	420,000	761,330
2020	445,000	736,250
2021 - 2025	2,705,000	3,244,035
2026 - 2030	3,645,000	2,320,825
2031 - 2035	4,950,000	1,066,040
2036 - 2037	485,000	40,425
	<u>\$ 13,780,000</u>	<u>\$ 10,590,165</u>

Note 7 - Deficit Net Assets

The District has a government-wide net deficit of \$(1,244,934) at September 30, 2015 resulting from the non-payment of assessments by major landowners.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

Note 8 - Bond Default and Special Purpose Entities:

On January 12, 2010, the District declared an event of default on the Series 2006 Bonds as a result of non-collection of assessments from landowners to make the necessary debt service payments. Pursuant to the Bond Indenture, the Trustee, on behalf of the Bondholders, has access to the funds held on deposit in the trust accounts. As a result of the default, SPE 1 was created by the Trustee in January 2010 to own and maintain the property subject to delinquent 2006 assessments. SPE 1 accepted lots owned by the delinquent landowners (including the Developer) in lieu of foreclosure. In addition, an agreement was entered into between the District and SPE 1, whereby, debt service assessments on the Bond would be forborne but continue to constitute a lien on the property. The operation and maintenance assessments for the lots will be billed to SPE 1. For fiscal year ended September 30, 2015, SPE 1 paid \$91,421 of operation and maintenance assessments and \$506,821 of debt service prepayments. The agreement also states that in the event funds are no longer available in the trust accounts and another funding source has not been secured or changes affecting the delinquent lands results in increased risk to SPE 1 or related parties, SPE 1 may convey the lands to the District for ownership and maintenance. The District paid \$24,344 of SPE expenses in the current year.

Further, on September 14, 2010, the District declared an event of default on the Series 2003 Bonds as a result of non-collection of assessments to make the lump sum principal payment on the Series 2003B Bonds on November 1, 2010. Consequently, the District filed foreclosure lawsuits against three landowners for failure to pay assessments due on the Series 2003B Bonds. SPE 2 was created by the Trustee in September 2011 and one of the landowners conveyed their land to the SPE. In accordance with the SPE 2 agreement, the District agreed to defer collection of the Series 2003 assessments encumbering the property until direction to the contrary is given by the Trustee, but will continue to constitute a lien on the property. Under the agreement, operations and maintenance assessments will be directly billed to the SPE as District expenses accrue. However, no assessments related to the SPE 2 were billed in the current year. In the current year, SPE 2 did not pay any assessments.

In fiscal year 2014, Sterling Hill CDD Holdings, LLC, a third SPE, was created. This SPE is considered a blended component unit and is presented as a separate fund.

Note 9 - Deteriorating Financial Conditions:

The District's activity is dependent upon the continued involvement of the major landowners and the SPE's. Delinquent assessments from the landowners and the abeyance of assessments on land owned by the SPE's have had a material adverse effect on the District's operations. The District's financial condition is deteriorating. A significant portion of the assessments for the prior and current fiscal years were delinquent and remain delinquent as of the report date. These amounts have not been recognized in the financial statements. Consequently, the District did not have sufficient available funds and certain scheduled debt service payments in the prior fiscal years were made, in part, by a draw on the Debt Service Reserve Account. In addition, the District did not have sufficient funds to make certain scheduled debt service payments in the current and prior years and as a result, the payments were not made.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2015

Note 10 - Risk Management:

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

Note 11 - Subsequent Events:

Subsequent to year end, the District did not pay the November 2015 debt service payments due on the Series 2003 Bonds or the Series 2006 Bonds.

COMPLIANCE SECTION

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

To the Board of Supervisors
Sterling Hill Community Development District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and each major fund of the *Sterling Hill Community Development District* (the "District") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 9, 2016, which includes an explanatory paragraph regarding the adverse opinion for the omission of the blended component units.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we identified a deficiency that we consider to be a material weakness as described in Appendix A.

MCDIRMIT DAVIS & COMPANY, LLC

934 NORTH MAGNOLIA AVENUE, SUITE 100 ORLANDO, FLORIDA 32803
TELEPHONE: 407-843-5406 FAX: 407-649-9339 EMAIL: INFO@MCDIRMITDAVIS.COM

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. See Appendix A.

We noted certain other matters that we reported to management of the District, in a separate letter dated March 9, 2016. The District's response to our findings identified in our audit is included in this report. We did not audit the District's response, and accordingly, we express no opinion on it.

Purpose of this Report

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

McDiernit Davis & Company, LLC

Orlando, Florida
March 9, 2016

MANAGEMENT COMMENTS

Board of Supervisors
Sterling Hill Community Development District

Report on the Financial Statements

We have audited the financial statements of the *Sterling Hill Community Development District*, (the “District”) as of and for the fiscal year ended September 30, 2015, and have issued our report thereon dated March 9, 2016 which included an adverse opinion due to the exclusion of the blended component units.

Auditor’s Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Auditor General.

Other Reports

We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Auditor’s Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated March 9, 2016, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i).1., Rules of the Auditor General, require that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, except as noted below.

Tabulation of Uncorrected Audit Findings		
Current Year Finding #	2013-14 FY Finding #	2012-2013 FY Finding #
12-01	12-01	12-01
12-03	12-03	12-03
12-04	12-04	12-04

MCDIRMIT DAVIS & COMPANY, LLC

934 NORTH MAGNOLIA AVENUE, SUITE 100 ORLANDO, FLORIDA 32803
 TELEPHONE: 407-843-5406 FAX: 407-649-9339 EMAIL: INFO@MCDIRMITDAVIS.COM

Official Title and Legal Authority

Section 10.554(1)(i)4. And 10.556(7), 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. This information has been disclosed in the notes to the financial statements.

Financial Condition

Section 10.554(1)(i)5.a., Rules of the Auditor General, requires that we report the results of our determination as to whether or not the District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District met the following condition described in Section 218.503(1), Florida Statutes, as listed in Appendix C.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. Deteriorating financial conditions were noted as indicated above under Section 10.554(1)(i)5.a.

Annual Financial Report

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, requires that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 2015, 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, 2015. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

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

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

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

McDiernit Davis & Company LLC

Orlando, Florida
March 9, 2016

APPENDIX A - MATERIAL WEAKNESS

Year Ended September 30, 2015

12-01 - Failure to Include Component Unit Financial Statements in the Financial Report

Criteria

Generally accepted accounting principles require that the District include the financial statements of the Special Purpose Entities ("SPE's") in their audited financial report as blended component units.

Condition

The SPE's are not included as component units in the District's financial report.

Cause

It is the District's position that the SPE's are not component units of the District.

Effect

McDermitt Davis could not audit these records nor include them as blended component units in the District's government-wide financial statements.

Recommendation

We recommend the District include the SPE's as blended components unit of the District's government-wide financial statements.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

APPENDIX B - COMPLIANCE VIOLATIONS OF LAWS, REGULATIONS AND CONTRACTUAL PROVISIONS

Year Ended September 30, 2015

12-03 - Failure to Meet Debt Service Reserve Account Requirement

Criteria

The Trust Indenture requires the District to maintain a minimum balance in the Series 2003 and Series 2006 Debt Service Reserve Accounts.

Condition

At September 30, 2015, the Debt Service Reserve Accounts were deficient.

Cause

The balance in the Debt Service Reserve Accounts were used to pay prior year debt service on the Bonds.

Effect

The District is not in compliance with the Trust Indentures.

Recommendation

We recommend the District utilize all remedies available to replenish the Debt Service Reserve Account.

12-04 - Failure to Make Debt Service Payments When Due

Criteria

The Special Assessment Revenue Bonds Series 2003B and Series 2006 require semiannual interest payments and annual principal payments as per the Bond Indenture.

Condition

In the current and prior years, the District did not pay principal and/or interest due on these Bonds.

Cause

The District is not receiving debt service assessments due to landowner nonpayment and Special Purpose Entity purchase of the land within the District.

Effect

At September 30, 2015, the District was not in compliance with the requirements of the Bond Indenture and has met a financial emergency condition as described in Florida Statute Section 218.503(1).

Recommendation

We recommend the District utilize all remedies available to bring debt service payments current.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

APPENDIX C - FINANCIAL EMERGENCY

Year Ended September 30, 2015

12-04 - Failure to Make Debt Service Payments When Due

In the current and prior years, the District did not pay principal and/or interest due on the Series 2003 and Series 2006 Bonds as a result of lack of funds; therefore the District meets Section 218.503(1)(a) as a financial emergency condition.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

DISTRICT OFFICE · 5844 OLD PASCO ROAD · SUITE 100 · WESLEY CHAPEL, FLORIDA 33544

March 9, 2016

Response to the Management Letter for the fiscal year ended September 30, 2015

Management Letter finding 12-01:

The auditor noted that the SPEs are not included as blended component units of the District.

District response to the finding:

Management does not agree that the Special Purpose Entities should be included as blended component units on the government-wide financial statements. In summary, management feels that it would be misleading to the users of the financial statements to include the SPEs as component units for the following reasons. The District has no ownership and/or control over the SPEs and in no way can it impose its will on the SPEs. In addition, the District will not benefit from the activities of the SPEs. When the land held by the SPEs is sold, the proceeds will be paid to the Bondholders to satisfy the Bond debt. The District will not be responsible for any deficiency between the net proceeds of the sale and the associated Bond debt.

Management Letter finding 12-03:

The auditor noted that the District's Debt Service Reserve Account was deficient at September 30, 2015, as a result of funds from the Reserve Accounts being used to pay prior year debt service payments.

District response to the finding:

The District and the Bondholders have been working to alleviate this issue. As discussed in the Notes to the Financial Statements, during a prior year, the Trustee formed a Special Purpose Entity (SPE 1) to own and maintain the property subject to delinquent Series 2006 assessments. In addition, during a prior year, the District filed foreclosure against three landowners for failure to pay assessments due on the Series 2003B Bonds. During a prior year the Trustee formed SPE 2 to own and maintain the property subject to the delinquent Series 2003B Bond assessments upon transfer of ownership to the SPE.

In a prior year, one landowner conveyed their land to the SPE by delivering an executed deed in lieu of foreclosure. The foreclosure lawsuits are still pending against the other two. A third SPE was formed in the prior year to own and maintain property relating to the foreclosure proceedings mentioned above. The District is taking all necessary and available actions in order to collect both O&M assessments and Debt assessments. Once the assessments have been collected, the Trustee, on behalf of the Bondholders, and the District will need to discuss the status of the debt service reserve funds and determine if the debt service reserve funds will be replenished to an appropriate level based on the Bond indenture.

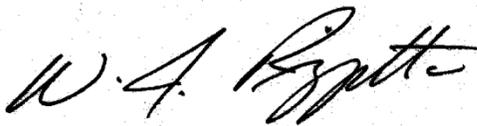
Management Letter finding 12-04:

The auditor noted that the District did not make the required debt service interest and principal payments on the Series 2003B and Series 2006 bonds.

District response to the finding:

The District and the Bondholders have been working to alleviate this issue. As discussed in the Notes to the Financial Statements, during a prior year, the Trustee formed a Special Purpose Entity (SPE 1) to own and maintain the property subject to delinquent Series 2006 assessments. In addition, during the prior year, the District filed foreclosure against three landowners for failure to pay assessments due on the Series 2003B Bonds. During a prior year the Trustee formed SPE 2 to own and maintain the property subject to the delinquent Series 2003B Bond assessments upon transfer of ownership to the SPE.

In a prior year, one landowner conveyed their land to the SPE by delivering an executed deed in lieu of foreclosure. The foreclosure lawsuits are still pending against the other two. A third SPE was formed in the prior year to own and maintain property relating to the foreclosure proceedings mentioned above. The District is taking all necessary and available actions in order to collect both O&M assessments and Debt assessments. Once the assessments have been collected the delinquent debt service payments will be made.



William J. Rizzetta
Treasurer
Sterling Hill Community Development District

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
THE REQUIREMENTS OF SECTION 218.415, FLORIDA STATUTES**

Board of Supervisors
Sterling Hill Community Development District

We have examined Sterling Hill Community Development District's (the "District") compliance with the requirements of Section 218.415, Florida Statutes, during the year ended September 30, 2015. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

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

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2015.

MCDIRMIT DAVIS & COMPANY, LLC

Orlando, Florida
March 9, 2015