

**STERLING HILL COMMUNITY DEVELOPMENT DISTRICT  
HERNANDO COUNTY, FLORIDA  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2005**

**STERLING HILL COMMUNITY DEVELOPMENT DISTRICT  
HERNANDO COUNTY, FLORIDA**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Sterling Hill Community Development District, Hernando County, Florida (the "District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2005. Please read it in conjunction with the District's Independent Auditor's Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

### FINANCIAL HIGHLIGHTS

- The liabilities of the District exceeded its assets at the close of the fiscal year ended September 30, 2005 by (\$232,080) (net assets) a decrease in the deficit of \$1,656,092 in comparison with the prior year. Of this amount, \$41,823 (unrestricted net assets) may be used to meet the District's ongoing obligations.
- At September 30, 2005, the District's governmental funds reported combined ending fund balance of \$12,298,411, a decrease of \$5,797,711 in comparison with the prior year. Of the total fund balance, \$7,186,526 is reserved for debt service and other items, \$5,072,792 is reserved for capital projects and \$39,093 is available for spending at the District's discretion (unreserved fund balance).
- At September 30, 2005, unreserved, undesignated fund balance for the general fund was \$39,093, or 21 percent of total general fund expenditures.

### OVERVIEW OF FINANCIAL STATEMENTS

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

#### Government-Wide Financial Statements

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

The statement of net assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. 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 government's net assets changed during the most recent fiscal 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 include all governmental activities that are principally supported by special assessment revenues. The District does not have any business-type activities. The governmental activities of the District include the general government (management) and maintenance functions.

#### 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.