

**STERLING HILL
COMMUNITY DEVELOPMENT DISTRICT**

FINANCIAL REPORT

Year Ended September 30, 2009

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Sterling Hill Community Development District
Hernando County, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of the *Sterling Hill Community Development District*, Hernando County, Florida, as of and for the year ended September 30, 2009, which collectively comprise the District's basic financial statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 each major fund of the *Sterling Hill Community Development District*, Hernando County, Florida, as of September 30, 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 12, 2010 on our consideration of the *Sterling Hill Community Development District*, Hernando County, Florida'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 result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with the results of our audit.

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

McDiarmid Davis & Company, LLC

March 12, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of *Sterling Hill Community Development District*, Hernando County, Florida's (the District) financial accomplishments provide an overview of the District's financial activities for the year ended September 30, 2009. Please read it in conjunction with the District's Independent Auditor's Report, financial statements, 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 assets of the District exceeded its liabilities at September 30, 2009 by \$5,975,442, a decrease of \$(1,731,535) in comparison with the prior year.
- At September 30, 2009, the District's governmental funds reported fund balance of \$2,844,980, a decrease of \$(4,443,888) in comparison with the prior year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the *Sterling Hill Community Development District's* (the District) basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the 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 assets presents information on all of 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 general government, public safety, physical environment, culture and recreation 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 capital projects fund, all of which 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 Assets - The District's net assets were \$5,975,442 at September 30, 2009. The following analysis focuses on the net assets 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 Assets

	September 30, 2009	September 30, 2008
	<u> </u>	<u> </u>
Assets, excluding capital assets	\$ 4,040,552	\$ 8,349,932
Capital assets, net of depreciation	<u>22,872,676</u>	<u>25,266,481</u>
Total assets	<u>26,913,228</u>	<u>33,616,413</u>
Liabilities, excluding long-term liabilities	562,786	629,436
Long-term liabilities	<u>20,375,000</u>	<u>25,280,000</u>
Total liabilities	<u>20,937,786</u>	<u>25,909,436</u>
Net assets:		
Invested in capital assets, net of related debt	3,336,332	5,496,929
Restricted	1,390,535	1,592,361
Unrestricted	<u>1,248,575</u>	<u>617,687</u>
Total net assets	<u>\$ 5,975,442</u>	<u>\$ 7,706,977</u>

The following is a summary of the District's governmental activities for the fiscal years ended September 30, 2009 and 2008.

Changes in Net Assets
Year ended September 30,

	2009	2008
	<u> </u>	<u> </u>
Revenues:		
Program revenues	\$ 2,970,579	\$ 3,914,068
General revenues	<u>404,808</u>	<u>20,689</u>
Total revenues	<u>3,375,387</u>	<u>3,934,757</u>
Expenses:		
General government	192,908	172,433
Public safety	29,374	-
Physical environment	2,575,192	997,623
Roads and streets	545,690	525,265
Culture and recreation	422,139	398,010
Interest on long-term debt	<u>1,341,619</u>	<u>1,494,741</u>
Total expenses	<u>5,106,922</u>	<u>3,588,072</u>
Change in net assets	(1,731,535)	346,685
Net assets - beginning	<u>7,706,977</u>	<u>7,360,292</u>
Net assets - ending	<u>\$ 5,975,442</u>	<u>\$ 7,706,977</u>

As noted above and in the statement of activities, the cost of all governmental activities during the year ended September 30, 2009 was \$5,106,922. The majority of these costs are comprised of interest on long-term debt and physical environment expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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, unreserved 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, 2009, the District's governmental funds reported combined ending fund balances of \$2,844,980. Only \$266,945 of this total is unreserved and available for spending at the District's discretion. The remainder of the fund balance \$2,578,035 is reserved to indicate it has already been committed to pay debt service and capital project costs.

In the table below we have presented the cost of the largest functions/programs as a percentage of total governmental funds for the fiscal year ended September 30:

	<u>2009</u>		<u>2008</u>	
General government	\$ 242,054	3%	\$ 133,275	2%
Public safety	32,343	0%	-	0%
Physical environment	427,399	6%	530,765	7%
Roads and streets	33,030	1%	70,493	0%
Culture and recreation	337,924	5%	385,144	5%
Principal and interest on long-term debt	5,744,717	80%	5,003,083	65%
Capital outlay	347,894	5%	1,617,206	21%
	<u>\$ 7,165,361</u>	<u>100%</u>	<u>\$ 7,739,966</u>	<u>100%</u>

As noted above, principal and interest on long-term debt and capital outlay comprise the majority of expenditures for total governmental funds.

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. The legal level of budgetary control is at the fund level.

Capital Asset and Debt Administration

Capital Assets - At September 30, 2009, the District had \$22,872,676 invested in capital assets, net of accumulated depreciation of \$3,039,106.

Capital Debt - At September 30, 2009, the District had \$20,375,000 in bonds outstanding as a result of the Bonds issued in October 2003 and July 2006. More detailed information about the District's capital debt is presented in the notes of the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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.

BASIC FINANCIAL STATEMENTS

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

STATEMENT OF NET ASSETS

September 30, 2009

	Governmental Activities
	<hr/>
Assets:	
Cash	\$ 137,233
Investments	166,944
Assessments receivable	300,639
Bond issuance costs	838,656
Prepays	30,535
Restricted assets:	
Temporarily restricted investments	2,566,545
Capital Assets:	
Capital assets not being depreciated	1,500,000
Capital assets being depreciated, net	21,372,676
Total assets	<hr/> <u>26,913,228</u> <hr/>
Liabilities:	
Accounts payable and accrued expenses	67,767
Accrued interest payable	495,019
Noncurrent liabilities:	
Due within one year	245,000
Due in more than one year	20,130,000
Total liabilities	<hr/> <u>20,937,786</u> <hr/>
Net Assets:	
Invested in capital assets, net of related debt	3,336,332
Restricted for:	
Debt service	1,390,535
Unrestricted	1,248,575
Total net assets	<hr/> <u>\$ 5,975,442</u> <hr/>

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, 2009

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
General government	\$ 192,908	\$ 56,317	\$ -	\$ -
Public safety	29,374	8,575	-	-
Physical environment	2,575,192	751,781	-	-
Roads and streets	545,690	159,304	-	-
Culture and recreation	422,139	123,236	-	-
Interest on long-term debt	1,341,619	1,855,692	7,073	8,601
Total governmental activities	<u>\$ 5,106,922</u>	<u>\$ 2,954,905</u>	<u>\$ 7,073</u>	<u>\$ 8,601</u>
General revenues:				
Investment income (loss)				(17)
Miscellaneous				12,344
Gain on early redemption of bonds				392,481
Total general revenues				<u>404,808</u>
Change in net assets				(1,731,535)
Net assets - beginning				<u>7,706,977</u>
Net assets - ending				<u>\$ 5,975,442</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, 2009

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and cash equivalents	\$ 137,233	\$ -	\$ -	\$ 137,233
Investments	166,944	2,566,521	24	2,733,489
Assessments receivable	-	300,639	-	300,639
Prepaid costs	30,535	-	-	30,535
Total assets	<u>\$ 334,712</u>	<u>\$ 2,867,160</u>	<u>\$ 24</u>	<u>\$ 3,201,896</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenses	\$ 67,767	\$ -	\$ -	\$ 67,767
Deferred revenue	-	289,149	-	289,149
Total liabilities	<u>67,767</u>	<u>289,149</u>	<u>-</u>	<u>356,916</u>
Fund balances:				
Reserved:				
Debt service	-	2,578,011	-	2,578,011
Capital projects	-	-	24	24
Unreserved	266,945	-	-	266,945
Total fund balances	<u>266,945</u>	<u>2,578,011</u>	<u>24</u>	<u>2,844,980</u>
Total liabilities and fund balances	<u>\$ 334,712</u>	<u>\$ 2,867,160</u>	<u>\$ 24</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 22,872,676

Bond issuance costs, which are expenditures in the funds, are deferred and amortized over the life of the bond. 838,656

Some assets are not available to pay for current period expenditures and therefore are deferred in the funds. 289,149

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

Accrued interest payable	(495,019)	
Bonds payable	<u>(20,375,000)</u>	<u>(20,870,019)</u>

Net assets of governmental activities \$ 5,975,442

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, 2009

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues:				
Special assessments	\$ 1,099,213	\$ 1,326,547	\$ -	\$ 2,425,760
Special assessments-prepayments	-	267,712	-	267,712
Investment income	(17)	7,073	8,601	15,657
Miscellaneous	11,237	1,107	-	12,344
Total revenues	<u>1,110,433</u>	<u>1,602,439</u>	<u>8,601</u>	<u>2,721,473</u>
Expenditures:				
Current:				
General government	155,491	-	86,563	242,054
Public Safety	32,343	-	-	32,343
Physical environment	427,399	-	-	427,399
Roads and streets	33,030	-	-	33,030
Culture and recreation	337,924	-	-	337,924
Debt service:				
Interest and fiscal charges	-	1,446,464	-	1,446,464
Principal	-	4,298,253	-	4,298,253
Capital outlay	-	-	347,894	347,894
Total expenditures	<u>986,187</u>	<u>5,744,717</u>	<u>434,457</u>	<u>7,165,361</u>
Excess (deficit) of revenues over expenditures	<u>124,246</u>	<u>(4,142,278)</u>	<u>(425,856)</u>	<u>(4,443,888)</u>
Other Financing Sources (Uses):				
Transfers in	-	3,630,361	1,272	3,631,633
Transfers out	-	(1,272)	(3,630,361)	(3,631,633)
Total other financing sources (uses)	<u>-</u>	<u>3,629,089</u>	<u>(3,629,089)</u>	<u>-</u>
Net change in fund balances	124,246	(513,189)	(4,054,945)	(4,443,888)
Fund Balances - beginning of year	142,699	3,091,200	4,054,969	7,288,868
Fund Balances - end of year	<u>\$ 266,945</u>	<u>\$ 2,578,011</u>	<u>\$ 24</u>	<u>\$ 2,844,980</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, 2009

Net change in fund balances - total governmental funds: \$ (4,443,888)

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

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

This is the amount by which capital outlays \$354,193 exceeded depreciation \$1,135,255 in the current period. (781,062)

Conveyance of capital assets is recorded as an expense in the statement of activities while the amount does not affect the fund financial statements as it had previously been recorded as an expenditure. (1,612,743)

Special assessment revenue reported in the funds in the current year must be eliminated from the statement of activities since revenue was recognized in the prior year. (27,716)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 289,149

Gain on early redemption of bonds that does not provide current financial resources is not reported as revenue in governmental funds. 606,747

Repayment of long-term liabilities are reported as expenditures in governmental fund statement but such repayments reduce liabilities in the statement of net assets 4,298,253

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Accrued interest	104,845	
Amortization of bond issuance costs	(165,120)	(60,275)

Change in net assets of governmental activities \$ (1,731,535)

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, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Special assessments	\$ 1,063,598	\$ 1,063,598	\$ 1,099,213	\$ 35,615
Investment income (loss)	-	-	(17)	(17)
Miscellaneous	-	-	11,237	11,237
Total revenues	<u>1,063,598</u>	<u>1,063,598</u>	<u>1,110,433</u>	<u>46,835</u>
Expenditures:				
Current:				
General government	142,680	142,680	155,491	(12,811)
Public safety	43,435	43,435	32,343	11,092
Physical environment	473,109	473,109	427,399	45,710
Roads and streets	22,000	22,000	33,030	(11,030)
Culture and recreation	482,374	482,374	337,924	144,450
Total expenditures	<u>1,163,598</u>	<u>1,163,598</u>	<u>986,187</u>	<u>177,411</u>
Excess (deficit) of revenues over expenditures	(100,000)	(100,000)	124,246	224,246
Fund balance - beginning	<u>142,699</u>	<u>142,699</u>	<u>142,699</u>	<u>-</u>
Fund balance - ending	<u>\$ 42,699</u>	<u>\$ 42,699</u>	<u>\$ 266,945</u>	<u>\$ 224,246</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, 2009

Note 1 - Summary of Significant Accounting Policies:

Reporting Entity

The *Sterling Hill Community Development District*, (the "District") was established by Hernando County Ordinance 03-04 enacted 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, power to borrow money and issue bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure. The District was established for the purpose of financing and managing the acquisition, construction, maintenance and operation of a portion of the infrastructure necessary for community development within the District.

The District is governed by the Board of Supervisors (the Board), which is composed of five members. The Supervisors are elected on an at large basis by the owners of the property within the District. Ownership of land within the District entitles the owner to one vote per acre. The board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes. Five of the Board members are affiliated with the Developer "DEVCO V, LLC" which is developing Phase I and II of the Project. Hernando Developers, LLC is developing Phase III and IV of the project.

The Board has the final responsibility for:

1. Assessing and levying maintenance taxes and special 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 Governmental Accounting Standards Board ("GASB") Statement 14, and Statement 39, an amendment of GASB Statement 14. 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. There are no entities considered to be component units of the District; therefore, the financial statements include only the operations of the District.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2009

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

Government-Wide and Fund Financial Statements

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

The government-wide financial statements (i.e., the statement of net assets 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 and 2) grants and contributions 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2009

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 major governmental funds:

General Fund - is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

Capital Projects Fund – accounts for the financial resources to be used for the acquisition or construction of major infrastructure within the District.

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 and Net Assets or Equity

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's investments consist of investments authorized per their investment policy adopted in accordance with Section 218.415, Florida Statutes.

Inventories and Prepaid Items - Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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, 2009

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

Assets, Liabilities and Net Assets or Equity (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:

<u>Assets</u>	<u>Years</u>
Roadways and Street Lights	20
Water Management Control	25
Security and Landscaping	15
Recreational Facilities	30
Vehicles and Equipment	5 to 10

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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of premiums or discounts.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, 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, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2009

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

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

Net assets in the government-wide statements are categorized as invested in capital assets, net of related debt, restricted or unrestricted. Invested in capital assets, net of related debt represents net assets related to infrastructure and property, plant and equipment, net of any related debt. Restricted net assets represent the assets restricted by the District's bond covenants.

Other Disclosures

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the 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. Public hearings are conducted to obtain taxpayer 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.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2009

Note 2 - Stewardship, Compliance and Accountability (Continued):

6. The appropriation resolution authorizes District staff to initiate budget reclassifications.

Note 3 - Deposits and Investments:

Deposits

At year-end, the carrying amount of the District's deposits was \$137,233 and the bank balance was \$181,750. 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.

The District's investment policies are governed by State Statutes and the District Trust Indenture. The District investment policy allows investments in any financial institution that is a qualified public depository of the State of Florida as identified by the State Treasurer, in accordance with Chapter 280 of the Florida Statutes. Authorized investments are:

1. The State Board of Administration Local Government Investment Pool (SBA);
2. Securities and Exchange Commission Registered Money Market Funds; with the highest credit quality rating from a nationally recognized rating agency.
3. Savings accounts and certificates of deposit in state-certified qualified public depositories;
4. U.S. Government Agency Securities and U.S. Treasury Bills, Notes and Bonds;

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2009

Note 3 - Deposits and Investments (Continued):

Investments (Continued):

5. Short-term bond funds investing in U.S. Government securities on U.S. Government Agency Securities;
6. Securities of registered investment companies (mutual funds) that are limited to obligations of the U.S. Government or any agency or instrumentality thereof.

The SBA is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating procedures consistent with the requirements for a 2a-7-like fund for the Florida Prime Fund. Therefore, the pool account balance can be used as fair value for financial reporting. Fund B is accounted for as a fluctuating NAVPOOL, not a 2a-7-like money market fund.

Investments made by the District at September 30, 2009 are summarized below. In accordance with GASB 31, investments are reported at fair value.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity</u>
First American Treasury Obligation Fund	\$ 2,728,998	AAAm	47 days
Local Government Investment Pool:			
Florida Prime	1,396	AAAm	36 days
Fund B	<u>3,095</u>	Not rated	7 to 9 years
	<u>\$ 2,733,489</u>		

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.

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, 2009, all of the District's bank deposits were in qualified public depositories.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2009

Note 3 - Deposits and Investments (Continued):

Investments (Continued):

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, 2009, 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's investment policy does not specify limits on the amount the District may invest in any one issuer.

Interest Rate Risk:

The District's investment policy does not specifically address interest rate risk; however, the general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and in general, avoid speculative investments. 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.

Note 4 - Receivables:

Receivables as of year end are as follows:

	<u>Debt Service Fund</u>
Special Assessments	\$ 300,639

Note 5 - Transfers:

During the year, \$3,630,361 was transferred from the capital projects fund to the debt service fund for the partial redemption of the Series 2006 B Bonds. The amount of \$1,272 was transferred from the debt service fund to the capital projects fund as per the trust indenture.

Note 6 - Bond Issue Costs:

In connection with the issuance of long-term debt discussed in Note 8, the District incurred bond issuance costs totaling \$1,174,734. In the government-wide financial statements, this amount has been capitalized and amortized over the estimated life of the bonds. Amortization for the year ended September 30, 2009 was \$37,417. During the year, the Series 2006 B Bonds was redeemed and the related unamortized issuance costs of \$127,703 were written off.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2009

Note 7 - Capital Assets:

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,500,000	\$ -	\$ -	\$ 1,500,000
Infrastructure under construction	3,403,734	347,894	(3,751,628)	-
Total capital assets, not being depreciated	<u>4,903,734</u>	<u>347,894</u>	<u>(3,751,628)</u>	<u>1,500,000</u>
Capital assets, being depreciated:				
Roadways and Street Lights	10,253,189	-	-	10,253,189
Water Management Control	5,911,071	1,036,819	-	6,947,890
Security and Landscaping	3,456,222	1,102,066	-	4,558,288
Equipment	107,207	-	-	107,207
Vehicle	12,451	6,299	-	18,750
Recreational Facilities	2,526,458	-	-	2,526,458
Total capital assets, being depreciated	<u>22,266,598</u>	<u>2,145,184</u>	<u>-</u>	<u>24,411,782</u>
Less accumulated depreciation for:				
Roadways and Street Lights	1,025,319	512,660	-	1,537,979
Water Management Control	472,886	257,179	-	730,065
Security and Landscaping	288,019	267,150	-	555,169
Equipment	2,780	10,721	-	13,501
Vehicle	1,245	3,330	-	4,575
Recreational Facilities	113,602	84,215	-	197,817
Total accumulated depreciation	<u>1,903,851</u>	<u>1,135,255</u>	<u>-</u>	<u>3,039,106</u>
Total capital assets, being depreciated, net	<u>20,362,747</u>	<u>1,009,929</u>	<u>-</u>	<u>21,372,676</u>
Governmental activities capital assets, net	<u>\$ 25,266,481</u>	<u>\$ 1,357,823</u>	<u>\$ (3,751,628)</u>	<u>\$ 22,872,676</u>

Depreciation expense for 2009 was charged as follows:

Physical Environment	\$ 535,050
Culture and Recreation	84,215
Public Safety	3,330
Roads and Streets	<u>512,660</u>
Total	<u>\$1,135,255</u>

The Series 2006 project was certified as complete by the district engineer in March 2009.

The total projected cost of all infrastructure improvements for the District has been estimated at approximately \$38,400,000. The land was acquired from the Developer in accordance with the acquisition agreement. The majority of the current year improvements relates to Phase III and IV of the project and has been acquired from the Developer of Phase III and IV ("Hernando Developers, LLC").

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2009

Note 7 - Capital Assets (Continued):

The District conveyed \$1,612,743 of finished projects to other governmental entities in 2009. The District will continue to convey certain infrastructure improvements to other governmental entities upon completion of the project.

Note 8 - Long-Term Liabilities:

Series 2003

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 on 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 5.50%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District and to payoff the Bond Anticipation Notes. Interest is paid semiannually on each May 1 and November 1. Principal on the Series 2003A Bonds is paid serially commencing May 1, 2006 through May 1, 2035. Principal on the Series 2003B Bonds is due in one lump sum on November 1, 2010.

The Series 2003A Bonds are subject to redemption at the option of the District, in whole or in part at anytime on or after May 1, 2013 at a redemption price as set forth in the Bond Indenture.

The Series 2003A 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 requirement as defined in the Indenture. The District is in compliance with the requirements of the Bond Indenture.

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 and to meet the reserve requirements. The District is in compliance with the requirements of the Bond Indenture.

Total principal and interest remaining on the Series 2003 Bonds as of September 30, 2009 is \$29,157,943. For the year ended September 30, 2009, principal and interest paid was \$1,602,675 and total special assessment revenue pledged for the year was \$1,469,955.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2009

Note 8 - Long-Term Liabilities (Continued):

Series 2006

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 on May 1, 2037 with a fixed interest rate of 5.5%, \$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 District. Interest is paid semiannually on each May 1 and November 1. Principal on the Series 2006A Bonds is paid serially commencing May 1, 2008 through May 1, 2037. Principal on the Series 2006B Bonds is due in one lump sum on May 1, 2011.

The Series 2006A Bonds are subject to redemption at the option of the District, in whole or in part at anytime on or after May 1, 2015 at a redemption price as set forth in the Bond Indenture.

The Series 2006A Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Indenture.

The District's Series 2006 project was declared complete within the meaning of the indenture, and on March 31, 2009 with the consent of the bondholders, the District redeemed part of the outstanding Series 2006B Bonds utilizing the funds available in the related Series 2006 trust accounts. The Series 2006B Bonds were partially redeemed at about 86% of par value in the amount of \$3,628,253. The remaining balance of \$295,000 is to be paid by the developer with annual payments of \$15,045.

Total principal and interest remaining on the Series 2006 Bonds as of September 30, 2009 is \$7,585,565. For the year ended September 30, 2009, principal and interest paid was \$4,748,787 (including redemption of bonds discussed above) and total special assessment revenue pledged for the year was \$385,737.

The Bond Indenture requires that the District maintain adequate funds in a reserve account to meet the debt service reserve requirement as defined in the Indenture. The District is not in compliance with this requirement of the Bond Indenture at September 30, 2009 or as of the date of audit report.

Long-term debt activity for the year ended September 30, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
Special assessment debt					
with District commitment:					
Series 2003	\$ 17,025,000	\$ -	\$ (595,000)	\$ 16,430,000	\$ 190,000
Series 2006	8,255,000	-	(4,310,000)	3,945,000	55,000
Governmental activity long-term liabilities	<u>\$ 25,280,000</u>	<u>\$ -</u>	<u>\$ 4,905,000</u>	<u>\$ 20,375,000</u>	<u>\$ 245,000</u>

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2009

Note 8 - Long-Term Liabilities (Continued):

At September 30, 2009, the scheduled debt service requirements on the bonds payable were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 245,000	\$ 1,198,465
2011	5,115,000	1,058,588
2012	275,000	902,475
2013	295,000	886,060
2014	315,000	868,455
2015-2019	1,885,000	4,035,910
2020-2024	2,545,000	3,400,425
2025-2029	3,440,000	2,532,115
2030-2034	4,660,000	1,351,360
2035-2037	1,600,000	134,655
	<u>\$ 20,375,000</u>	<u>\$ 16,368,508</u>

Note 9 - Developer Transactions:

Hernando Developers, LLC paid special assessments of \$765,395 in the current year. This represents 28% of total special assessment revenue reported on the statement of revenues, expenditures, and changes in fund balances.

Note 10 - Management Company:

The District has contracted with a management company to perform management advisory services, which include financial and accounting advisory services. Certain employees of the management company also serve as non-voting officers of the District. Under the agreement the District compensates the management company for management, accounting, financial reporting, and other administrative costs. The amount paid to the management company in the current fiscal year totaled \$69,538.

Note 11 - 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. These risks are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage since inception of the District.

STERLING HILL COMMUNITY DEVELOPMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended September 30, 2009

Note 12 - Subsequent Events:

Subsequent to year end, the District prepaid \$180,000 of the Series 2003B Bonds as allowed in the Bond Indenture.

COMPLIANCE SECTION

**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
Hernando County, Florida

We have audited the financial statements of the *Sterling Hill Community Development District* (the "District") as of and for the year ended September 30, 2009, and have issued our report thereon dated March 12, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that is required to be reported under *Government Auditing Standards*.

We noted certain matters that we report to management of the District in a separate letter dated March 12, 2010. 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.

This report is intended solely for the information and use of management, 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.

McDiarmid Davis & Company, LLC

March 12, 2010

MCDIRMIT  DAVIS
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS
MANAGEMENT COMMENTS

Board of Supervisors
Sterling Hill Community Development District
Hernando County, Florida

We have audited the financial statements of the *Sterling Hill Community Development District*, as of and for the fiscal year ended September 30, 2009, and have issued our report thereon dated March 12, 2010.

We conducted our audit in accordance with United States generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, which is dated March 12, 2010, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida, and unless otherwise required to be reported in the report on compliance and internal controls or schedule of findings and questioned costs, this letter is required to include the following information.

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations made in the preceding annual financial audit report.
- 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 *Sterling Hill Community Development 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 findings and recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we did not have any comments.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we have the following finding:

Reserve Account Requirement

There is a deficiency in the Series 2006 A Reserve Account at September 30, 2009. This deficiency is a result of the Reserve Account being used to pay debt service amounts due May 1, 2009, because the developer has not paid debt service assessments due to the District.

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- Section 10.554(1)(i)5., Rules of the Auditor General, requires based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failure to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information has been disclosed in the notes to the financial statements.
- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the *Sterling Hill Community Development District* did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the *Sterling Hill Community Development District* for the fiscal year ended September 30, 2009, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2009. We determined that these two reports are in agreement.
- Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity'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.

This management letter is intended solely for the information of the *Sterling Hill Community Development District* and management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

McDiernit Davis & Company, LLC

March 12, 2010