

**Rolling Hills
Community Development District**

ANNUAL FINANCIAL REPORT

September 30, 2012

Rolling Hills Community Development District

ANNUAL FINANCIAL REPORT

Fiscal Year Ended September 30, 2012

TABLE OF CONTENTS

	<u>Page Number</u>
REPORT OF INDEPENDENT AUDITORS	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-8
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements	
Balance Sheet – Governmental Funds	11
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Recreation Fund	16
Notes to the Financial Statements	17-30
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 <i>GOVERNMENT AUDITING STANDARDS</i>	31-32
MANAGEMENT LETTER	33-34



Berger, Toombs, Elam,
Gaines & Frank

Certified Public Accountants PL

600 Citrus Avenue
Suite 200
Fort Pierce, Florida 34950

772/461-6120 // 461-1155
FAX: 772/468-9278

Report of Independent Auditors

To the Board of Supervisors
Rolling Hills Community Development District
Clay County, Florida

We have audited the accompanying basic financial statements of Rolling Hills Community Development District (the "District") as of and for the year ended September 30, 2012, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2012, and the respective changes in financial position and the 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 June 27, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Berger, Toombs, Elam,
Gaines & Frank

Certified Public Accountants PL

To the Board of Supervisors
Rolling Hills Community Development District

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Berger, Toombs, Elam,
Gaines & Frank*

Berger, Toombs, Elam, Gaines & Frank
Certified Public Accountants PL
Fort Pierce, Florida

June 27, 2013

**Rolling Hills Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012**

Management's discussion and analysis of Rolling Hills Community Development District's (the "District") financial performance provides an objective and easily readable analysis of the District's financial activities. The analysis provides summary financial information for the District and should be read in conjunction with the District's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's basic financial statements comprise three components; 1) *Government-wide financial statements*, 2) *Fund financial statements*, and 3) *Notes to financial statements*. The *Government-wide financial statements* present an overall picture of the District's financial position and results of operations. The *Fund financial statements* present financial information for the District's major funds. The *Notes to financial statements* provide additional information concerning the District's finances.

The *Government-wide financial statements* are the **statement of net assets** and the **statement of activities**. These statements use accounting methods similar to those used by private-sector companies. Emphasis is placed on the net assets of governmental activities and the change in net assets. Governmental activities are primarily supported by special assessments.

The **statement of net assets** presents information on all assets and liabilities of the District, with the difference between assets and liabilities reported as net assets. Net assets are reported in three categories; 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Assets, liabilities, and net assets are reported for all Governmental activities.

The statement of activities presents information on all revenues and expenses of the District and the change in net assets. Expenses are reported by major function and program revenues relating to those functions are reported, providing the net cost of all functions provided by the District. To assist in understanding the District's operations, expenses have been reported as governmental activities. Governmental activities financed by the District include general government, culture recreation, physical environment, transportation and debt service.

Fund financial statements present financial information for governmental funds. These statements provide financial information for the major funds of the District. Governmental fund financial statements provide information on the current assets and liabilities of the funds, changes in current financial resources (revenues and expenditures), and current available resources.

**Rolling Hills Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund financial statements include a **balance sheet** and a **statement of revenues, expenditures and changes in fund balances** for all governmental funds. A **statement of revenues, expenditures, and changes in fund balances – budget and actual** is provided for the District's General Fund. *Fund financial statements* provide more detailed information about the District's activities. Individual funds are established by the District to track revenues that are restricted to certain uses or to comply with legal requirements.

The *government-wide financial statements* and the *fund financial statements* provide different pictures of the District. The *government-wide financial statements* provide an overall picture of the District's financial standing. These statements are comparable to private-sector companies and give a good understanding of the District's overall financial health and how the District paid for the various activities, or functions, provided by the District. All assets of the District, including land, infrastructure, buildings and improvements other than buildings are reported in the **statement of net assets**. All liabilities, including principal outstanding on bonds are included. The **statement of activities** includes depreciation on all long lived assets of the District, but transactions between the different functions of the District have been eliminated in order to avoid "doubling up" the revenues and expenses. The *fund financial statements* provide a picture of the major funds of the District. In the case of governmental activities, outlays for long lived assets are reported as expenditures and long-term liabilities, such as general obligation bonds, are not included in the fund financial statements. To provide a link from the *fund financial statements* to the *government-wide financial statements*, a reconciliation is provided from the *fund financial statements* to the *government-wide financial statements*.

Notes to financial statements provide additional detail concerning the financial activities and financial balances of the District. Additional information about the accounting practices of the District, investments of the District, capital assets and long-term debt are some of the items included in the *notes to financial statements*.

Financial Highlights

The following are the highlights of financial activity for the year ended September 30, 2012.

- ◆ The District's total assets exceeded total liabilities by \$2,351,946 (net assets). Unrestricted net assets for Governmental Activities were (\$692,722). Invested in capital assets, net of related debt was \$3,044,668.
- ◆ Governmental activities revenues totaled \$904,027 while governmental activities expenses totaled \$1,483,597.

**Rolling Hills Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Financial Analysis of the District

The following schedule provides a summary of the assets, liabilities and net assets of the District and is presented by category for comparison purposes.

Net Assets

	Governmental Activities	
	2012	2011
Current assets	\$ 21,475	\$ 30,385
Restricted assets	1,483,095	1,802,631
Capital assets	14,432,949	14,879,632
Other non-current assets	177,341	195,461
Total Assets	16,114,860	16,908,109
Current liabilities	1,380,668	810,501
Non-current liabilities	12,382,246	13,166,092
Total Liabilities	13,762,914	13,976,593
Net assets - invested in capital assets, net of related debt	3,044,668	2,978,218
Net assets - restricted		24,827
Net assets - unrestricted	(692,722)	(71,529)
Total Net Assets	\$ 2,351,946	\$ 2,931,516

The decrease in restricted assets is due to the use of reserve and prepayment accounts to pay debt service in the current year.

The decrease in capital assets is mainly due to current year depreciation expense.

The decrease in non-current liabilities is the result of principal payments on debt during the year.

**Rolling Hills Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Financial Analysis of the District (Continued)

The following schedule provides a summary of the changes in net assets of the District and is presented by category for comparison purposes.

Financial Activity

	Governmental Activities	
	2012	2011
Program Revenues		
Charges for services	\$ 782,086	\$ 987,368
Operating grants and contributions	121,221	151,257
General Revenues		
Investment earnings/miscellaneous	720	1,001
Total Revenues	<u>904,027</u>	<u>1,139,626</u>
Expenses		
General government	92,748	88,515
Culture and recreation	192,214	241,343
Transportation	-	228,824
Physical environment	444,611	493,716
Interest on long-term debt	754,024	762,581
Total Expenses	<u>1,483,597</u>	<u>1,814,979</u>
Change in Net Assets	(579,570)	(675,353)
Net Assets - Beginning of Year	<u>2,931,516</u>	<u>3,606,869</u>
Net Assets - End of Year	<u>\$ 2,351,946</u>	<u>\$ 2,931,516</u>

Total revenues decreased due to a decrease in special assessments and operating contributions collected.

Culture and recreation expenses decreased as a result of lower labor costs.

Transportation costs decreased because there was no payment to Clay County in the current year.

Physical environment expenses decreased because of lower landscape maintenance and security costs.

**Rolling Hills Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Capital Assets Activity

The following schedule provides a summary of the District's capital assets activity as of September 30, 2012:

<u>Description</u>	<u>2012</u>	<u>2011</u>
Capital assets being depreciated:		
Improvements other than buildings	\$ 1,269,084	\$ 1,252,944
Infrastructure	9,650,172	9,650,172
Building	4,898,886	4,898,886
Accumulated depreciation	<u>(1,385,193)</u>	<u>(922,370)</u>
Total Capital Assets	<u>\$ 14,432,949</u>	<u>\$ 14,879,632</u>

The activity for the current year included improvement additions of \$16,140 and \$462,823 in depreciation.

General Fund Budgetary Highlights

There were no amendments to the budget during the fiscal year.

Debt Management

Governmental Activities debt includes the following:

- ◆ In November 2006, the District issued \$26,135,000 Series 2006 Special Assessment Bonds. These bonds were issued to finance the cost of acquiring, constructing, installing, and equipping of certain improvements within the District. The District has not made \$325,000 in principal payments, which is reflected as matured bonds payable. The unmatured balance outstanding at September 30, 2012 was \$12,610,000.

**Rolling Hills Community Development District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Economic Factors and Next Year's Budget

There is no way to predict what significant effect the current economic condition and the matured bonds payable will have on the financial position or results of operations of the District in fiscal year 2013.

Request for Information

The financial report is designed to provide a general overview of Rolling Hills Community Development District's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Rolling Hills Community Development District, Governmental Management Services, 5385 N Nob Hill Road, Sunrise, FL 33351.

Rolling Hills Community Development District
STATEMENT OF NET ASSETS
September 30, 2012

	Governmental Activities
ASSETS	
Current Assets	
Cash and equivalents	\$ 6,955
Receivables	14,320
Other assets	200
Total Current Assets	21,475
Non-current Assets	
Restricted	
Investments	1,483,095
Bond issuance costs, net	177,341
Capital assets, being depreciated	
Improvements other than building	1,269,084
Infrastructure	9,650,172
Building	4,898,886
Accumulated depreciation	(1,385,193)
Total Non-current Assets	16,093,385
Total Assets	\$ 16,114,860
LIABILITIES	
Current Liabilities	
Accounts payable and accrued expenses	\$ 128,978
Accrued interest	280,990
Matured interest payable	470,700
Matured bonds payable	325,000
Bonds payable	175,000
Total Current Liabilities	1,380,668
Non-current Liabilities	
Bonds payable, net	12,382,246
Total Liabilities	13,762,914
NET ASSETS	
Invested in capital assets, net of related debt	3,044,668
Unrestricted	(692,722)
Total Net Assets	\$ 2,351,946

See accompanying notes.

Rolling Hills Community Development District
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2012

<u>Functions/Programs</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Primary Government	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
General government	\$ (92,748)	\$ 41,902	\$ 85,076	\$ 34,230
Culture and recreation	(192,214)	4,369	36,145	(151,700)
Physical environment	(444,611)	56,523	-	(388,088)
Interest on long-term debt	(754,024)	679,292	-	(74,732)
Total Governmental Activities	\$ (1,483,597)	\$ 782,086	\$ 121,221	(580,290)
General Revenues				
Investment earnings				692
Miscellaneous revenues				28
Total General Revenues				720
Change in Net Assets				(579,570)
Net Assets - October 1, 2011				2,931,516
Net Assets - September 30, 2012				\$ 2,351,946

See accompanying notes.

Rolling Hills Community Development District
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2012

	General	Recreation	Debt Service	Capital Projects	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 4,224	\$ 2,731	\$ -	\$ -	\$ 6,955
Receivables	-	14,320	-	-	14,320
Due from other funds	8,706	-	-	-	8,706
Other assets	200	-	-	-	200
Restricted investments	-	-	906,612	576,483	1,483,095
	<u>-</u>	<u>-</u>	<u>906,612</u>	<u>576,483</u>	<u>1,483,095</u>
Total Assets	<u>\$ 13,130</u>	<u>\$ 17,051</u>	<u>\$ 906,612</u>	<u>\$ 576,483</u>	<u>\$ 1,513,276</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable and accrued expenses	\$ 122,025	\$ 6,953	\$ -	\$ -	\$ 128,978
Due to other funds	-	-	-	8,706	8,706
Matured interest payable	-	-	470,700	-	470,700
Matured bonds payable	-	-	325,000	-	325,000
Total Liabilities	<u>122,025</u>	<u>6,953</u>	<u>795,700</u>	<u>8,706</u>	<u>933,384</u>
Fund Balances					
Restricted for debt service	-	-	110,912	-	110,912
Restricted for capital projects	-	-	-	567,777	567,777
Assigned for recreation	-	10,098	-	-	10,098
Unassigned	(108,895)	-	-	-	(108,895)
Total Fund Balances	<u>(108,895)</u>	<u>10,098</u>	<u>110,912</u>	<u>567,777</u>	<u>579,892</u>
Total Liabilities and Fund Balances	<u>\$ 13,130</u>	<u>\$ 17,051</u>	<u>\$ 906,612</u>	<u>\$ 576,483</u>	<u>\$ 1,513,276</u>

See accompanying notes.

Rolling Hills Community Development District
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
September 30, 2012

Total Governmental Fund Balances	\$ 579,892
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets being depreciated (improvements other than building (\$1,269,084), infrastructure (\$9,650,172), building (\$4,898,886), and accumulated depreciation (\$1,385,193)) used in governmental activities are not financial resources and; therefore, are not reported in the funds.	14,432,949
Bond issuance costs being amortized (\$693,184) net of accumulated amortization (\$515,843) used in governmental activities are not financial resources and; therefore, are not reported in the funds. The Statement of Net Assets reports bond issuance costs net of amortization.	177,341
Long-term liabilities, including bonds payable (\$12,610,000) less bond discount, net (\$52,754) are not due and payable in the current period and; therefore, are not reported in the funds.	(12,557,246)
Accrued interest expense is not a financial use and; therefore, is not reported in the funds.	<u>(280,990)</u>
Net Assets of Governmental Activities	<u><u>\$ 2,351,946</u></u>

See accompanying notes.

Rolling Hills Community Development District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
September 30, 2012

	Governmental Funds				Total Governmental Funds
	General	Recreation	Debt Service	Capital Projects	
Revenues					
Special assessments	\$ 98,425	\$ -	\$ 679,292	\$ -	\$ 777,717
Developer contributions	85,076	36,145	-	-	121,221
Charges for services	-	4,369	-	-	4,369
Investment earnings	-	-	399	293	692
Miscellaneous	-	28	-	-	28
Total Revenues	<u>183,501</u>	<u>40,542</u>	<u>679,691</u>	<u>293</u>	<u>904,027</u>
Expenditures					
Current					
General government	87,642	-	-	5,106	92,748
Physical environment	118,225	-	-	-	118,225
Transportation	-	-	-	-	-
Culture/recreation	-	55,777	-	-	55,777
Capital outlay	-	-	-	16,140	16,140
Debt service					
Principal	-	-	865,000	-	865,000
Interest	-	-	728,502	-	728,502
Other	-	-	25,545	-	25,545
Total Expenditures	<u>205,867</u>	<u>55,777</u>	<u>1,619,047</u>	<u>21,246</u>	<u>1,901,937</u>
Excess of revenue over/(under) expenditures	(22,366)	(15,235)	(939,356)	(20,953)	(997,910)
Other Financing Sources/(Uses)					
Transfers-in	-	15,000	-	31	15,031
Transfers-out	(15,000)	-	(31)	-	(15,031)
Total Other Financing Sources/(Uses)	<u>(15,000)</u>	<u>15,000</u>	<u>(31)</u>	<u>31</u>	<u>-</u>
Net change in fund balances	(37,366)	(235)	(939,387)	(20,922)	(997,910)
Fund Balances - October 1, 2011	<u>(71,529)</u>	<u>10,333</u>	<u>1,050,299</u>	<u>588,699</u>	<u>1,577,802</u>
Fund Balances - September 30, 2012	<u>\$ (108,895)</u>	<u>\$ 10,098</u>	<u>\$ 110,912</u>	<u>\$ 567,777</u>	<u>\$ 579,892</u>

See accompanying notes.

Rolling Hills Community Development District
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2012

Net Change in Fund Balances - Total Governmental Funds	\$ (997,910)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount that depreciation (\$462,823) in the current period exceeded capital outlay (\$16,140).	(446,683)
Governmental funds report bond issuance costs as expenditures. However, in the Statement of Activities, the cost of those assets are allocated based on an effective interest rate as amortization expense. This is the amount of the amortization expense in the current period.	(18,120)
Amortization expense of a bond discount does not require the use of current resources and therefore is not reported in the governmental funds. This is the amount of amortization expense for the current period.	(1,154)
Repayments of bond principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	865,000
In the statement of activities, interest is accrued on outstanding bonds; whereas in governmental funds, interest expenditures are reported when due. This is the change in accrued interest.	<u>19,297</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (579,570)</u></u>

See accompanying notes.

Rolling Hills Community Development District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended September 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Special assessments	\$155,997	\$155,997	\$ 98,425	\$ (57,572)
Developer contributions	<u>68,228</u>	<u>68,228</u>	<u>85,076</u>	<u>16,848</u>
Total Revenues	<u>224,225</u>	<u>224,225</u>	<u>183,501</u>	<u>(40,724)</u>
Expenditures				
Current				
General government	86,675	86,675	87,642	(967)
Physical environment	<u>137,550</u>	<u>137,550</u>	<u>118,225</u>	<u>19,325</u>
Total Expenditures	<u>224,225</u>	<u>224,225</u>	<u>205,867</u>	<u>18,358</u>
Excess of revenue over/(under) expenditures	-	-	(22,366)	(22,366)
Other Financing Sources/(Uses)				
Transfers-out	<u>-</u>	<u>-</u>	<u>(15,000)</u>	<u>(15,000)</u>
Net change in fund balances	-	-	(37,366)	(37,366)
Fund Balances - October 1, 2011	<u>-</u>	<u>-</u>	<u>(71,529)</u>	<u>(71,529)</u>
Fund Balances - September 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$(108,895)</u>	<u>\$ (108,895)</u>

See accompanying notes.

Rolling Hills Community Development District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - RECREATION FUND
For the Year Ended September 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Developer contributions	\$ 182,551	\$ 182,551	\$ 36,145	\$ (146,406)
Charges for service	-	-	4,369	4,369
Miscellaneous revenues	7,700	7,700	28	(7,672)
Total Revenues	<u>190,251</u>	<u>190,251</u>	<u>40,542</u>	<u>(149,709)</u>
Expenditures				
Current				
Culture/recreation	<u>190,251</u>	<u>190,251</u>	<u>55,777</u>	<u>134,474</u>
Excess of revenue over/(under) expenditures	-	-	(15,235)	(15,235)
Other Financing Sources/(Uses)				
Transfers-in	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>15,000</u>
Net change in fund balances	-	-	(235)	(235)
Fund Balances - October 1, 2011	<u>-</u>	<u>-</u>	<u>10,333</u>	<u>10,333</u>
Fund Balances - September 30, 2012	<u><u>\$ -</u></u>	<u><u>-</u></u>	<u><u>10,098</u></u>	<u><u>10,098</u></u>

See accompanying notes.

Rolling Hills Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

The District was created on March 14, 2006, pursuant to the Uniform Community Development District Act of 1980, Chapter 190, Florida Statutes. The District was established for the purposes of financing and managing the acquisition, construction, maintenance and operation of the infrastructure necessary for community development within its jurisdiction. The District is authorized to issue bonds for the purpose, among others, of financing, funding, planning, establishing, acquiring, constructing or re-constructing, enlarging or extending, equipping, operating and maintaining water management, bridges or culverts, district roads, landscaping, street lights and other basic infrastructure projects within or without the boundaries of the Rolling Hills Community Development District. The District is governed by a five-member Board of Supervisors who were elected by landowners of the District for two and four year terms.. The District operates within the criteria established by Chapter 190.

As required by GAAP, these financial statements present the Rolling Hills Community Development District (the primary government) as a stand-alone government. The reporting entity for the District includes all functions of government in which the District's Board exercises oversight responsibility including, but not limited to, financial interdependency, selection of governing authority, designation of management, significant ability to influence operations and accountability for fiscal matters.

Based upon the application of the above-mentioned criteria as set forth in Governmental Accounting Standards, the District has identified no component units.

2. Measurement Focus and Basis of Accounting

The basic financial statements of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to financial statements

Rolling Hills Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Measurement Focus and Basis of Accounting (Continued)

a. Government-wide Financial Statements

Government-wide financial statements report all non-fiduciary information about the reporting government as a whole. These statements include all the governmental activities of the primary government. The effect of interfund activity has been removed from these statements.

Governmental activities are supported by special assessments. Program revenues include charges for services and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the Statement of Activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as an other financing source.

Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

b. Fund Financial Statements

The underlying accounting system of the District is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually.

Rolling Hills Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Measurement Focus and Basis of Accounting (Continued)

b. Fund Financial Statements (Continued)

Governmental Funds

When both restricted and unrestricted resources are combined in a fund, qualified expenses are considered to be paid first from restricted resources, and then from unrestricted resources. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collected within the current period or soon 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.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Interest associated with the current fiscal period is considered to be an accrual item and so has been recognized as revenue of the current fiscal period.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of “available spendable resources”. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources are expended, rather than as fund assets. The proceeds of long-term debt are recorded as an other financing source rather than as a fund liability. Debt service expenditures are recorded only when payment is due.

The District implemented the Governmental Accounting Standards Board Statement 54 - *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement requires the fund balance for governmental funds to be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The classifications include non-spendable, restricted, committed, assigned and unassigned.

Rolling Hills Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Measurement Focus and Basis of Accounting (Continued)

b. Fund Financial Statements (Continued)

Governmental Funds (Continued)

The District has various policies governing the fund balance classifications.

Nonspendable Fund Balance – This classification consists of amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted Fund Balance – This classification includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Assigned Fund Balance – This classification consists of the Board of Supervisors' intent to be used for specific purposes, but are neither restricted nor committed. The assigned fund balances can also be assigned by the District's management company.

Unassigned Fund Balance – This classification is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. Unassigned fund balance is considered to be utilized first when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Fund Balance Spending Hierarchy - For all governmental funds except special revenue funds, when restricted, committed, assigned, and unassigned fund balances are combined in a fund, qualified expenditures are paid first from restricted or committed fund balance, as appropriate, then assigned and finally unassigned fund balances.

3. Basis of Presentation

a. Governmental Major Funds

General Fund - The 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.

Recreation Fund - Accounts for revenues and expenditures related to the recreation facilities of the District.

Debt Service Fund - Accounts for debt service requirements to retire the capital improvement bonds which were used to finance the construction of District infrastructure improvements.

Rolling Hills Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Basis of Presentation (Continued)

a. Governmental Major Funds (Continued)

Capital Projects Fund - Accounts for the financial resources used for the acquisition, construction, installation and equipping of infrastructure improvements.

b. Non-current Governmental Assets/Liabilities

GASB Statement 34 requires that non-current governmental assets, such as land and buildings, and non-current governmental liabilities, such as general obligation bonds, be reported in the governmental activities column in the government-wide Statement of Net Assets.

4. Assets, Liabilities, and Net Assets or Equity

a. Cash and Investments

Chapter 280, Florida Statutes require state and local governmental units to deposit monies with financial institutions classified as "Qualified Public Depositories," a multiple financial institution pool whereby groups of securities pledged by the various financial institutions provide common collateral from their deposits of public funds. This pool is provided as additional insurance to the federal depository insurance and allows for additional assessments against the member institutions, providing full insurance for public deposits.

The District is authorized to invest in those financial instruments as established by Section 218.415, Florida Statutes. The authorized investments consist of:

1. Direct obligations of the United States Treasury;
2. The Local Government Surplus Funds Trust or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperative Act of 1969;
3. Interest-bearing time deposits or savings accounts in authorized qualified public depositories;
4. Securities and Exchange Commission, registered money market funds with the highest credit quality rating from a nationally recognized rating agency.

Rolling Hills Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Assets, Liabilities, and Net Assets or Equity (Continued)

b. Restricted Assets

Certain net assets of the District will be classified as restricted assets on the statement of net assets because their use is limited either by law through constitutional provisions or enabling legislation; or by restrictions imposed externally by creditors. In a fund with both restricted and unrestricted assets, qualified expenses are considered to be paid first from restricted net assets and then from unrestricted net assets.

c. Capital Assets

Capital assets, which include land improvements, improvements other than buildings, and equipment are reported in governmental activities.

The District defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of two years. The valuation basis for all assets is historical cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Depreciation of capital assets is computed and recorded by utilizing the straight-line method over the assets' estimated useful lives ranging from 5 to 40 years.

d. Bond Discounts and Issuance Costs

Bond discounts and legal fees associated with the issuance of bonds are amortized over the life of the bonds using the effective interest method of accounting.

e. Net Assets

Net assets represent the difference between assets and liabilities and are reported in three categories. Net assets invested in capital assets, net of related debt, represent capital assets, net of accumulated depreciation and any outstanding debt related to those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by legislation, or external restrictions imposed by other governments, creditors, or grantors. Unrestricted net assets are assets that do not meet definitions of the classifications previously described.

Rolling Hills Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. Explanation of Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

“Total fund balances” of the District’s governmental funds (\$579,892) differs from “net assets” of governmental activities (\$2,351,946) reported in the Statement of Net Assets. This difference primarily results from the long-term economic focus of the Statement of Net Assets versus the current financial resources focus of the Governmental Fund Balance Sheet. The effect of the differences is illustrated below.

Capital related items

When capital assets (improvements and equipment that are to be used in governmental activities) are purchased or constructed, the cost of those assets is reported as expenditures in governmental funds. However, the Statement of Net Assets included those capital assets among the assets of the District as a whole.

Improvements other than buildings	\$ 1,269,084
Infrastructure	9,650,172
Building	4,898,886
Accumulated depreciation	<u>(1,385,193)</u>
Total	<u>\$ 14,432,949</u>

Bond issuance costs

When intangible assets (legal fees, trustee fees, discounts or premiums and other bond related costs to be used in governmental activities) are expended, the cost of those assets is reported as expenditures in governmental funds. However, the Statement of Net Assets includes those costs as intangible assets and amortizes them over the life of the bond.

Bond issuance costs	\$ 693,184
Accumulated amortization	<u>(515,843)</u>
Total	<u>\$ 177,341</u>

Rolling Hills Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

1. Explanation of Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets (Continued)

Long-term debt transactions

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Assets. Balances at September 30, 2012 were:

Bonds payable	\$ (12,610,000)
Bond discount, net	<u>52,754</u>
Total	<u>\$ (12,557,246)</u>

Accrued interest

Accrued liabilities in the Statement of Net Assets differ from the accrued interest on bonds, which are not reported on the fund level because they do not use current resources.

Accrued interest	<u>\$ (280,990)</u>
------------------	---------------------

2. Explanation of Differences Between the Governmental Fund Operating Statements and the Statement of Activities

The "net change in fund balances" for government funds (\$(997,910)) differs from the "change in net assets" for governmental activities (\$(579,570)) reported in the Statement of Activities. The differences arise primarily from the long-term economic focus of the Statement of Activities versus the current financial resources focus of the governmental funds. The effect of the differences is illustrated below.

Capital related items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balances decrease by the amount of financial resources expended, whereas net assets decrease by the amount that depreciation expense exceeded capital outlay.

Depreciation expense	\$ (462,823)
Capital outlay	<u>6,140</u>
Total	<u>\$ (445,477)</u>

**Rolling Hills Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2012**

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

2. Explanation of Differences Between the Governmental Fund Operating Statements and the Statement of Activities (Continued)

Bond issuance costs

Amortization expense of the bond issuance costs does not require the use of current resources and therefore are not reported in the governmental funds.

Amortization of bond issuance cost	\$ <u>(18,120)</u>
------------------------------------	--------------------

Long-term debt transactions

Some expenses reported in the Statement of Activities do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds.

Net decrease in accrued interest payable	\$ <u>19,297</u>
--	------------------

Repayment of long-term liabilities are reported as expenditures in the governmental fund statement but such repayments reduce liabilities in the statement of net assets and are eliminated in the statement of activities.

Debt principal payments	\$ <u>865,000</u>
-------------------------	-------------------

Amortization expense of the bond discount does not require the use of current resources and therefore is not reported in the governmental funds.

Amortization of bond discount	\$ <u>(1,154)</u>
-------------------------------	-------------------

NOTE C – CASH AND DEPOSITS

All deposits are held in qualified public depositories and are included on the accompanying balance sheet as cash and investments.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk; however, they follow the provisions of Chapter 280, Florida Statutes regarding deposits and investments. As of September 30, 2012, the District's bank balance was \$8,410 and the carrying value was \$4,866. Exposure to custodial credit risk was as follows. The District maintains all deposits in a qualified public depository in accordance with the provisions of Chapter 280, Florida Statutes, which means that all deposits are fully insured by Federal Depositors Insurance or collateralized under Chapter 280, Florida Statutes.

Rolling Hills Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE C – CASH AND DEPOSITS (CONTINUED)

As of September 30, 2012, the District had the following investments and maturities:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Cost</u>
First American Prime Obligation Fund Class Z	N/A	<u>\$ 1,483,095</u>	<u>\$ 1,483,095</u>

Interest Rate Risk

The formal investment policy of the District conforms with State statutory requirements and bond indentures for investment maturities as a means of managing its exposure to increasing interest rates. Direct obligations of the United States Treasury are held in a money market fund that allows daily demand withdrawals at par in the event of a decrease in interest rates.

Credit Risk

The District's investments in treasury funds, commercial paper, and government loans are limited by state statutory requirements and bond compliance. As of September 30, 2012, the District's investments in the First American Government Obligation Fund was rated AAAM by Standard & Poor's.

Concentration of Credit Risk

The District places no limit on the amount it may invest in any one fund. The District's only investments are in the First American Government Obligation Fund. The types of deposits and investments and their level of risk exposure as of September 30, 2012 were typical of these items during the fiscal year then ended. The District considers any decline in fair value to be temporary.

NOTE D – SPECIAL ASSESSMENT REVENUES

Assessments are non-ad valorem assessments on benefitted property within the District. Operating and Maintenance Assessments are based upon adopted budget and levied annually. Debt Service Assessments are levied when bonds are issued and collected annually. The District may collect assessments directly or utilize the uniform method of collection (Chapter 197.3632, Florida Statutes). Direct collected assessments are due as determined by annual assessment resolution adopted by the Board of Supervisors. Assessments collected under the uniform method are mailed by County Tax Collector on November 1 and due on or before March 31 of each year. Property owners may prepay a portion or all of the Debt Service Assessments on their property subject to various provisions in the bond documents.

Rolling Hills Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE D – SPECIAL ASSESSMENT REVENUES (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 government.

Since one of the developers failed to pay their 2011 and 2012 direct assessments, the District failed to make the May 2011 and May 2012 debt service payments on the Series 2006A Bond.

NOTE E – CAPITAL ASSETS

Capital Asset activity for the year ended September 30, 2012 was as follows:

	Balance 10/1/2011	Additions	Deletions	Balance 09/30/12
Capital Assets, Being Depreciated:				
Improvements other than building	\$ 1,252,944	\$ 16,140	\$ -	\$ 1,269,084
Infrastructure	9,650,172	-	-	9,650,172
Building	4,898,886	-	-	4,898,886
Total Capital Assets, Being Depreciated	<u>15,802,002</u>	<u>16,140</u>	<u>-</u>	<u>15,818,142</u>
Less accumulated depreciation for:				
Improvements other than building	(122,161)	(62,719)	-	(184,880)
Infrastructure	(548,984)	(274,492)	-	(823,476)
Building	(251,225)	(125,612)	-	(376,837)
Total Accumulated Depreciation	<u>(922,370)</u>	<u>(462,823)</u>	<u>-</u>	<u>(1,385,193)</u>
Total Capital Assets Depreciated, Net	<u>14,879,632</u>	<u>(446,683)</u>	<u>-</u>	<u>14,432,949</u>
Governmental Activities Capital Assets	<u>\$ 14,879,632</u>	<u>\$ (446,683)</u>	<u>\$ -</u>	<u>\$ 14,432,949</u>

Depreciation expense of \$462,823 was allocated to the physical environment (\$326,386) and cultural recreation (\$136,437).

Rolling Hills Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE F – LONG-TERM DEBT

The following is a summary of debt activity for the District for the year ended September 30, 2012:

	Beginning Balance 10/1/2011	Additions	Deletions	Ending Balance 9/30/2012	Due Within One Year
<u>Bonds Payable</u>					
Series 2006	\$ 13,475,000	\$ -	\$ (865,000)	\$ 12,610,000	\$ 175,000
Series 2006 discount	(53,908)	-	1,154	(52,754)	-
	<u>\$ 13,421,092</u>	<u>\$ -</u>	<u>\$ (863,846)</u>	<u>\$ 12,557,246</u>	<u>\$ 175,000</u>

District debt is comprised of the following at September 30, 2012:

Special Assessment Refunding Bond

\$14,805,000 Series 2006A Capital Improvement Revenue Bonds due in annual installments through May 1, 2037, a fixed interest rate of 5.45%, payable May 1 and November 1.	\$ 8,650,000
\$11,330,000 Series 2006B Capital Improvement Revenue Bonds due in annual installments through May 1, 2013, a fixed interest rate of 5.13%, payable May 1 and November 1.	3,960,000
Series 2006 discount, net	<u>(52,754)</u>
Total long-term debt	<u>\$ 12,557,246</u>

The annual requirements to amortize the principal and interest of bonded debt outstanding as of September 30, 2012 are as follows:

Year Ending September 30,	Principal	Interest	Total
2013	\$ 175,000	\$ 674,375	\$ 849,375
2014	4,145,000	563,363	4,708,363
2015	195,000	451,805	646,805
2016	205,000	441,178	646,178
2017	220,000	430,005	650,005
2018-2022	1,285,000	1,957,368	3,242,368
2023-2027	1,690,000	1,565,240	3,255,240
2028-2032	2,225,000	1,050,488	3,275,488
2033-2037	2,470,000	373,053	2,843,053
Totals	<u>\$ 12,610,000</u>	<u>\$ 7,506,875</u>	<u>\$ 20,116,875</u>

**Rolling Hills Community Development District
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2012**

NOTE F – LONG-TERM DEBT (CONTINUED)

Significant Bond Provisions

The Series 2006 Bonds are subject to redemption at the option of the District prior to their maturity, in whole or in part, at a redemption price set in the Bond indenture. The Bonds are subject to extraordinary mandatory redemption prior to maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond indenture.

The Bond Indenture established certain amounts be maintained in a reserve account. In addition, 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 agrees to levy special assessments and collect such assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements

Depository Funds

The bond resolution establishes certain funds and determines the order in which revenues are to be deposited into these funds. A description of the significant funds, including their purposes, is as follows:

Reserve Fund - The 2006 Reserve Account is funded from the proceeds of the Series 2006 Bonds in an amount established in the Trust Indenture. Monies held in the reserve accounts will be used only for the purposes established in the Trust Indenture.

Special Assessment Refunding Bonds		
	Reserve Balance	Reserve Requirement
Series 2006A	\$ 364,858	\$ 566,924
Series 2006B	58,989	101,475
	\$ 423,847	\$ 668,399

A portion of the Series 2006A reserve account was utilized for debt service payments during the year.

NOTE G – 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 for which the District carries commercial insurance.

Rolling Hills Community Development District
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

NOTE H – ECONOMIC DEPENDENCY AND RELATED PARTIES

A substantial portion of the District's activity is dependent upon the continued involvement of the developer, the loss of which could have a materially adverse effect on the District. At September 30, 2012, the developer held the majority of the assessable property located within District boundaries. The Developer has agreed to partially fund operations of the District where special assessments are not sufficient. The amount contributed by the developer for District operations and debt service during the year ended September 30, 2012 was \$195,233. As of September 30, 2012, the developer owed the District \$523,952 that the District assessed as an allowance for doubtful collection. All of the Board of Supervisors are employed by the developer or its affiliates at September 30, 2012.

NOTE I – SUBSEQUENT EVENTS

Forbearance Agreement

The Original Developer and Common Bond Capital Partners, LLC ("New Developer") entered into a Real Estate Purchase Agreement dated November 19, 2012 to purchase all of the property's that failed to pay their maintenance and debt service assessments. On February 1, 2013, the District, New Developer and Trustee entered into a Forbearance Agreement ("Agreement") that deferred the collection and enforcement of delinquent assessments on their property until February 1, 2015 subject to various provisions of the agreement.

Debt Service Payments

Subsequent to year end, the District made principal payments of \$425,000 and interest payments of \$539,915 on the Series 2006A Bonds and principal payments of \$225,000 and interest payments of \$154,872 on the Series 2006B Bonds. The debt service payments on the Series 2006A Bonds represent all past due principal and interest payments as of September 30, 2012.



Berger, Toombs, Elam,
Gaines & Frank

Certified Public Accountants PL

600 Citrus Avenue
Suite 200
Fort Pierce, Florida 34950

772/461-6120 // 461-1155
FAX: 772/468-9278

**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
Rolling Hills Community Development District
Clay County, Florida

We have audited the financial statements of Rolling Hills Community Development District as of and for the year ended September 30, 2012 and have issued our report thereon dated June 27, 2013. 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

Management of Rolling Hills Community Development District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Rolling Hills Community Development 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 Rolling Hills Community Development District internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Rolling Hills Community Development District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



To the Board of Supervisors
Rolling Hills Community Development District

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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board, Management, others within the entity the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than those specified parties.

*Berger Toombs Elam
Gaines & Frank*

Berger, Toombs, Elam, Gaines & Frank
Certified Public Accountants, PL
Fort Pierce, Florida

June 27, 2013



Berger, Toombs, Elam, Gaines & Frank

Certified Public Accountants PL

600 Citrus Avenue
Suite 200
Fort Pierce, Florida 34950

772/461-6120 // 461-1155
FAX: 772/468-9278

MANAGEMENT LETTER

To the Board of Supervisors
Rolling Hills Community Development District
Clay County, Florida

We have audited the financial statements of the Rolling Hills Community Development District, Florida as of and for the year ended September 30, 2012, and have issued our report thereon dated June 27, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States; 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 Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report which is dated June 26, 2012 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. Those rules (Section 10.554(1)(i)) require that we address in the Management Letter, if not already addressed in the auditors' report on compliance and internal control whether or not inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules, regulations, and contractual provisions reported in the preceding annual financial audit report have been corrected.

2011-01

Rolling Hills Community Development District failed to make the scheduled bond principal payments during the fiscal year ended September 30, 2011. Although the District made certain bond payments during the fiscal year ended September 30, 2012, the District failed to make a scheduled bond payment on May 1, 2012.

Management Response

Certain lands within the District have been sold to a new owner and the District anticipates that it will receive all past due assessments and make the bond principal payments in accordance with the Forbearance Agreement, which is consistent with the directions of the bond holders.

The Rules of the Auditor General (Section 10.554(1)(i)1.) require that we address in the Management Letter, if not already addressed in the auditor's report on compliance and internal controls, whether or not recommendations made in the preceding annual financial report have been followed. There were no recommendations made in the preceding audit report.

To the Board of Supervisors
Rolling Hills Community Development District

As required by the Rules of the Auditor General (Section 10.554(1)(i)2.) the scope of our audit included 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 Rolling Hills Community Development District complied with Section 218.415, Florida Statutes.

The Rules of the Auditor General (Section 10.554(1)(i)3, 4 and 5.) require that we address in the Management Letter, if not already addressed in the auditor's report on compliance and internal controls: improvements in financial management and violations of contracts or grant agreements, fraud, illegal acts or abuse and deficiencies in internal control that are not significant deficiencies, other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of the auditor. Our audit did not discover any of the above items that require to be disclosed.

As required by the Rules of the Auditor General (Section 10.554(1)(i)7.c and Section 10.556(7)), we applied financial conditions assessment procedures. It is Management's responsibility to monitor the entity's financial condition; our financial condition assessment was based in part on the representations made by management and the review of the financial information provided by the same.

Rolling Hills Community Development District has met one or more of the conditions described in Section 218.503(1), Florida Statutes (See finding 2011-01).

As required by the Rules of the Auditor General (Section 10.554(1)(i)7.b.), we determined that the annual financial report for the District for the fiscal year ended September 30, 2012, filed with the Department of Financial Services pursuant to Section 218.32, Florida Statutes, is in agreement with our annual financial audit report for the fiscal year ended September 30, 2012.

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 and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

*Berger, Toombs, Elam,
Gaines & Frank*

Berger, Toombs, Elam, Gaines & Frank
Certified Public Accountants PL
Fort Pierce, Florida

June 27, 2013