

**SOUTHERN HILLS PLANTATION II
COMMUNITY DEVELOPMENT DISTRICT**

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2012

**SOUTHERN HILLS PLANTATION II COMMUNITY DEVELOPMENT DISTRICT
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SEPTEMBER 30, 2012**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Southern Hills Plantation II Community Development District
Hernando County, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of Southern Hills Plantation II Community Development District, Hernando County, Florida ("District") as of and for the fiscal year ended September 30, 2012, 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 opinions on these financial statements based on our audit.

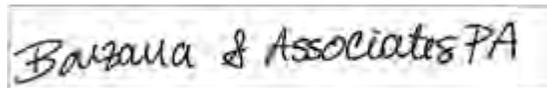
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 opinions.

In our opinion, the 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 thereof for the fiscal year ended September 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 5, 6, 7, 8, 9, 11, 14 and 15 to the basic financial statements, the District's financial conditions are deteriorating. The District did not collect sufficient assessments to make the scheduled debt service payments for fiscal year 2012 on its outstanding Bonds. In addition, unpaid prior years accrued debt service assessments due from the Developer were allowed for in the current year. Subsequent to year end, the District was unable to make the scheduled debt service payment due November 1, 2012. Additionally, the debt service payments that were due on May 1, 2010, November 1, 2010 and May 1, 2011 remain unpaid. The Districts' failure to make its scheduled debt service payment when it is due is considered an event of default. The District has filed foreclosure proceedings on a portion of the land held by the developer that are subject to delinquent assessments. No adjustment has been made to the financial statements as the specific impact on the District cannot be determined at this time. The District is economically dependent on the Developer.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 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, contracts, agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

A rectangular box containing a handwritten signature in black ink that reads "Barzana & Associates PA".

Barzana & Associates, P.A.

Tampa, Florida
February 17, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Southern Hills Plantation II Community Development District, Hernando County, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2012. Please read it in conjunction with the District's Independent Auditor's Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year resulting in a net asset balance of (\$49,951).
- The change in the District's total net assets in comparison with the prior year was (\$700,077), a decrease. The key components of the District's net assets and change in net assets are reflected in the table in the government-wide financial analysis section.
- At September 30, 2012, the District's governmental funds reported combined ending fund balances of (\$256,533), a decrease of (\$299,084) in comparison with the prior year. A portion of fund balance is restricted for capital projects and other items and the remainder is unassigned fund balance which is available for spending at the District's discretion.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements include all governmental activities that are principally supported by special assessment revenues. The District does not have any business-type activities. The governmental activities of the District include the general government (management) and maintenance functions.

Fund Financial Statements

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

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

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 District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance 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 project fund, all of which are considered 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

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities at the close of the most recent fiscal year.

Key components of the District's net assets are reflected in the following table:

	NET ASSETS SEPTEMBER 30,	
	2012	2011
Assets		
Assets, excluding capital assets	\$ 547,635	\$ 1,021,052
Capital assets, net	3,238,391	3,275,469
Total assets	<u>\$ 3,786,026</u>	<u>\$ 4,296,521</u>
Liabilities		
Liabilities, excluding long-term liabilities	\$ 767,644	\$ 513,363
Long-term liabilities	3,068,333	3,133,032
Total Liabilities	3,835,977	3,646,395
Net Assets		
Invested in capital assets, net of related debt	506,881	508,207
Restricted for:		
Capital projects	2,221	2,221
Unrestricted	(559,053)	139,698
Total net assets	<u>(49,951)</u>	<u>650,126</u>
Total liabilities and net assets	<u>\$ 3,786,026</u>	<u>\$ 4,296,521</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The District's net assets reflects its investment in capital assets (e.g. land, land improvements, and infrastructure); less any related debt used to acquire those assets that is still outstanding. These assets are used to provide services to residents; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the District's other obligations.

The District's net assets decreased during the most recent fiscal year. The majority of the decrease represents the extent to which the cost of operations and depreciation expense exceeded ongoing program revenues.

Key elements of the change in net assets are reflected in the following table:

	<u>2012</u>	<u>2011</u>
CHANGES IN NET ASSETS		
FOR THE FISCAL YEAR ENDED SEPTEMBER 30,		
Revenues:		
Program revenues	\$ 76,328	\$ 218,952
General revenues	281	535
Total revenues	76,609	219,487
Expenses:		
General government	61,492	71,272
Maintenance and operations	95,277	104,042
Interest	196,541	198,003
Other costs	423,376	37,896
Total expenses	776,686	411,213
Change in net assets	(700,077)	(191,726)
Net assets, beginning of the year	650,126	841,852
Net assets (deficit), end of the year	<u>\$ (49,951)</u>	<u>\$ 650,126</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2012 was \$776,686. The costs of the District's activities were primarily funded by program revenues. Program revenues are comprised primarily of assessments.

GENERAL BUDGETING 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, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. Actual general fund expenditures exceeded appropriations for the fiscal year ended September 30, 2012.

The variance between budgeted and actual general fund revenues for the 2012 fiscal year is the result of the non-payment of a significant portion of the fiscal year 2012 assessments. The actual general fund expenditures for the 2012 fiscal year were lower than budgeted amounts due primarily to anticipated costs which were not incurred in the current fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2012, the District had \$3,386,703 invested in infrastructure and construction in progress for its governmental activities. In the government-wide financial statements depreciation of \$148,312 has been taken, which resulted in a net book value of \$3,238,391. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Capital Debt

At September 30, 2012, the District had \$3,265,000 in Bonds outstanding for its governmental activities. More detailed information about the District's capital debt is presented in the notes of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND OTHER EVENTS

As discussed in the notes to the basic financial statements, there are significant delinquent fiscal year 2010, 2011 and 2012 assessments that have not been collected due to the Developer's failure to pay its assessments. Consequently, the District did not have sufficient funds to make the May 2010, November 2010, May 2011, November 2011 and May 2012 debt service payments, therefore, the payments were not made. In addition, subsequent to fiscal year end, the District's scheduled November 2012 debt service payment was not made. The District's failure to make its scheduled debt service payment when it is due is considered an event of default. The District has commenced foreclosure proceedings. The District is economically dependent on the Developer. No adjustment has been made to the financial statements as the specific impact on the District cannot be determined at this time.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages and the stewardship of the facilities it maintains. If you have questions about this report or need additional financial information, contact the Southern Hills Plantation II Community Development District's Finance Department at 3434 Colwell Avenue, Suite 200, Tampa, Florida, 33614.

FINANCIAL STATEMENTS

**SOUTHERN HILLS PLANTATION II COMMUNITY DEVELOPMENT DISTRICT
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 2,398
Investments	3,217
Assessments receivable	31,996
Deferred charges	116,108
Prepaid expenses	1,298
Deposits	1,830
Restricted assets:	
Investments	390,788
Capital assets, net	
Non-depreciable assets	2,459,760
Depreciable assets, net	778,631
Total assets	3,786,026
 Liabilities	
Accounts payable	5,141
Due to others	15,414
Due to Bondholders	667,505
Accrued interest payable	79,584
Non-current liabilities:	
Due within one year*	70,000
Due in more than one year	2,998,333
Total liabilities	3,835,977
 Net assets	
Invested in capital assets, net of related debt	506,881
Restricted for:	
Capital projects	2,221
Unrestricted	(559,053)
Total net assets	\$ (49,951)

* Excludes \$190,000 included in Due to Bondholders

See accompanying notes to financial statements.

**SOUTHERN HILLS PLANTATION II COMMUNITY DEVELOPMENT DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary government:					
Governmental activities:					
General government	(61,492)	\$ 27,253	\$ -	\$ -	\$ (34,239)
Maintenance and operations	(95,277)	-	-	17	(95,260)
Interest	(196,541)	48,957	101	-	(147,483)
Other costs	(423,376)	-	-	-	(423,376)
Total governmental activities	<u>\$ (776,686)</u>	<u>\$ 76,210</u>	<u>\$ 101</u>	<u>\$ 17</u>	<u>(700,358)</u>
 General revenues					
Investment interest and other revenues					281
Change in net assets					(700,077)
Net assets - beginning of the year					650,126
Net assets (deficit) - end of the year					<u>\$ (49,951)</u>

See accompanying notes to financial statements.

**SOUTHERN HILLS PLANTATION II COMMUNITY DEVELOPMENT DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
Assets				
Cash and cash equivalents	\$ 2,398	\$ -	\$ -	\$ 2,398
Investments	3,217	337,250	53,538	394,005
Assessments receivable	11,409	20,587	-	31,996
Prepays and deposits	3,128	-	-	3,128
Total assets	<u>\$ 20,152</u>	<u>\$ 357,837</u>	<u>\$ 53,538</u>	<u>\$ 431,527</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 5,141	\$ -	\$ -	\$ 5,141
Due to others	15,414	-	-	15,414
Due to Bondholders	-	667,505	-	667,505
Total liabilities	<u>20,555</u>	<u>667,505</u>	<u>-</u>	<u>688,060</u>
Fund balances				
Non-Spendable:				
Prepaid items	1,298	-	-	1,298
Deposits	1,830	-	-	1,830
Restricted for:				
Capital projects	-	-	53,538	53,538
Unassigned	<u>(3,531)</u>	<u>(309,668)</u>	<u>-</u>	<u>(313,199)</u>
Total fund balances	<u>(403)</u>	<u>(309,668)</u>	<u>53,538</u>	<u>(256,533)</u>
Total liabilities and fund balances	<u>\$ 20,152</u>	<u>\$ 357,837</u>	<u>\$ 53,538</u>	<u>\$ 431,527</u>

See accompanying notes to financial statements.

**SOUTHERN HILLS PLANTATION II COMMUNITY DEVELOPMENT DISTRICT
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

Total fund balances, governmental funds	\$	(256,533)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.		3,238,391
Bond issue costs are not financial resources and therefore are not reported as assets in governmental funds. The Statement of Net Assets includes these costs, net of amortization.		116,108
Liabilities not due and payable from current resources, including accrued interest, are not reported in the fund financial statements.		<u>(3,147,917)</u>
Total net assets - governmental activities	\$	<u>(49,951)</u>

See accompanying notes to financial statements.

**SOUTHERN HILLS PLANTATION II COMMUNITY DEVELOPMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Revenues				
Assessments	\$ 27,253	\$ 48,957	\$ -	\$ 76,210
Interest and other revenues	<u>281</u>	<u>101</u>	<u>17</u>	<u>399</u>
Total revenues	<u>27,534</u>	<u>49,058</u>	<u>17</u>	<u>76,609</u>
Expenditures				
Current:				
General government	37,711	23,781	-	61,492
Maintenance and operations	58,199	-	-	58,199
Debt service:				
Principal	-	65,000	-	65,000
Interest	<u>-</u>	<u>191,002</u>	<u>-</u>	<u>191,002</u>
Total expenditures	<u>95,910</u>	<u>279,783</u>	<u>-</u>	<u>375,693</u>
Net change in fund balances	(68,376)	(230,725)	17	(299,084)
Fund balances (deficit), beginning of year	<u>67,973</u>	<u>(78,943)</u>	<u>53,521</u>	<u>42,551</u>
Fund balances (deficit), end of year	<u>\$ (403)</u>	<u>\$ (309,668)</u>	<u>\$ 53,538</u>	<u>\$ (256,533)</u>

See accompanying notes to financial statements.

**SOUTHERN HILLS PLANTATION II 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 - governmental funds	\$	(299,084)
Depreciation on capital assets is not recognized in the fund financial statements but is reported as an expense in the Statement of Activities.		(37,078)
Amortization of deferred charges is not recognized in the governmental fund statement but is reported as an expense in the statement of activities.		(5,539)
Revenues recognized in the Statement of Activities in the prior year, written off in the current year as other costs, were not recorded as revenue in governmental funds.		(420,388)
Certain revenues were deferred for the fund financial statements in the prior year and recognized as revenues in the statement of activities. In the current year, these revenues were recorded in the fund financial statements and therefore need to be removed in the statement of activities.		(2,988)
Governmental funds report principal payment expenditures on bonds when paid, whereas these payments are eliminated in the Statement of Activities and recognized as a decrease in bonds payable in the Statement of Net Assets.		<u>65,000</u>
Change in net assets of governmental activities	\$	<u><u>(700,077)</u></u>

See accompanying notes to financial statements.

**SOUTHERN HILLS PLANTATION II COMMUNITY DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY

Southern Hills Plantation II Community Development District ("District") was established August 2, 2004 by City of Brooksville, Florida Ordinance 677 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 purposes 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 by the owners of the property within the District. The Board of Supervisors of the District exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes. The previous Developers, LandMar, LLC and Levitt & Sons, LLC, both filed for bankruptcy protection in prior years. A significant portion of the land owned by the previous Developers was sold to C.A.S.H. Holdings, LLC ("Developer"). All of the Supervisors are related to the Developers.

The Board has the responsibility for:

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

The financial statements were prepared in accordance with 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; 2) grants 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*.

**SOUTHERN HILLS PLANTATION II COMMUNITY DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 to be recognized as revenue 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

Assessments, including debt service assessments and operations and maintenance assessments, are non-ad valorem assessments imposed on all lands located within the District and benefitted by the District's activities. Operation and maintenance assessments are levied by the District prior to the start of the fiscal year which begins October 1st and ends on September 30th. Operation and maintenance special assessments are imposed upon all benefitted lands in the District. Debt service assessments are imposed upon certain lots and lands described in each resolution imposing the special assessment for each of the series of Bonds issued by the District.

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

The general fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund

The debt service fund is used to account for the accumulation of resources for the annual payment of principal and interest on long-term debt.

Capital Projects Fund

The capital projects fund is used to account for 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 for qualifying expenditures, then unrestricted resources as they are needed.

**SOUTHERN HILLS PLANTATION II COMMUNITY DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity

Restricted Assets

These assets represent cash and investments set aside pursuant to Bond covenants or other contractual restrictions.

Deposits and Investments

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

The District has adopted a written investment policy, which complies with the requirements of Section 218.415 Florida Statutes. All investments comply with the requirements of the written investment policy. The District may invest any surplus public funds in the following:

- a) The Local Government Surplus Trust Funds, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act;
- b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
- c) Interest bearing time deposits or savings accounts in qualified public depositories;
- d) Direct obligations of the U.S. Treasury;
- e) Short-term Bond Funds.

In addition, surplus funds may be deposited into certificates of deposit which are insured. Any unspent proceeds are required to be held in investments as specified in the Bond Indenture.

The District records all interest revenue related to investment activities in the respective funds and reports investments at fair value.

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.

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, sidewalks and similar items) are reported in the government activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) 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>
Stormwater system	25

In the governmental fund financial statements, amounts incurred for the acquisition of capital assets are reported as fund expenditures. Depreciation expense is not reported in the governmental fund financial statements.

**SOUTHERN HILLS PLANTATION II COMMUNITY DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Deferred Charges

In a prior year, in connection with the issuance of certain debt, the District incurred costs totaling \$157,139. In the government-wide financial statements that amount has been capitalized and amortized over the estimated life of the Bonds. At September 30, 2012 the District reported accumulated amortization of \$41,031.

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

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, which does not result in a material difference from the effective interest method. Bonds payable are reported net of applicable premiums or discounts.

In the fund financial statements, governmental fund types recognize premiums and discounts, as well as 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 debt service expenditures.

Fund Balances and Net Assets

In the fund financial statements, fund balances consists of Nonspendable fund balance which includes amounts that cannot be spent because they are not in spendable form, or they are legally or contractually required to be maintained intact. Restricted fund balance are amounts restricted to specific purposes. Committed fund balance are amounts that can only be used for specific purposes as pursuant to official action by the District Board prior to the end of the reporting period. Assigned fund balance are amounts the District intends to use for a specific purpose that are neither restricted nor committed. The District administration has authority to assign fund balance. Unassigned fund balance represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

When restricted and other fund balance resources are available for use, it is the District's policy to use restricted resources first, followed by committed, assigned, and unassigned amounts, respectively.

Net assets in the government-wide financial 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 or other contractual restrictions.

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.

**SOUTHERN HILLS PLANTATION II COMMUNITY DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 3 – BUDGETARY INFORMATION

The District is required to establish a budgetary system and an approved Annual Budget. Annual Budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

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

- a) Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
- b) A public hearing is conducted to obtain comments.
- c) Prior to October 1, the budget is legally adopted by the District Board.
- d) All budget changes must be approved by the District Board.
- e) The budgets are adopted on a basis consistent with generally accepted accounting principles.

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

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

Investments

The District's investments were held as follows at September 30, 2012:

	Fair Value	Credit Risk	Weighted Average Maturities
State Board of Administration Florida PRIME	\$ 1,992	S&P AAAM	39 days
State Board of Administration Investment Pool B	1,225	not rated	4.08 years
Short-Term Money Market Funds	<u>390,788</u>	S&P AAAM	> 90 days
Total investments	<u>\$ 394,005</u>		

Custodial risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The District has no formal policy for custodial risk. The investments are not evidenced by securities that exist in physical or book entry form.

Credit risk – For investments, credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investment ratings by investment type are included in the preceding summary of investments.

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

Interest rate risk – The District does not have a formal policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

The Bond Indenture limits the type of investments held for unspent bond proceeds.

**SOUTHERN HILLS PLANTATION II COMMUNITY DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 5 – CAPITAL ASSETS

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

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated				
Infrastructure under construction	\$ 2,459,760	\$ -	\$ -	\$ 2,459,760
Total capital assets, not being depreciated	<u>2,459,760</u>	<u>-</u>	<u>-</u>	<u>2,459,760</u>
Capital assets, being depreciated				
Stormwater system	926,943	-	-	926,943
Total capital assets, being depreciated	<u>926,943</u>	<u>-</u>	<u>-</u>	<u>926,943</u>
Less accumulated depreciation for:				
Stormwater system	111,234	37,078	-	148,312
Total accumulated depreciation	<u>111,234</u>	<u>37,078</u>	<u>-</u>	<u>148,312</u>
Total capital assets, being depreciated, net	<u>815,709</u>	<u>(37,078)</u>	<u>-</u>	<u>778,631</u>
Governmental activities capital assets, net	<u>\$ 3,275,469</u>	<u>\$ (37,078)</u>	<u>\$ -</u>	<u>\$ 3,238,391</u>

The infrastructure intended to serve the District has been estimated at a total cost of approximately \$19.6 million. The infrastructure will include roadways, potable water and wastewater systems, recreational facilities and land improvements including wetland mitigation areas. Upon completion of the project, certain improvements are to be conveyed to other governmental entities. Due to the bankruptcy of the previous Developers and current economic conditions, the project has been placed on hold. Further, due to the uncertainty as to the completion of the project within a reasonable period of time, the infrastructure may not be able to be used for its intended purpose as anticipated in the original project description. There is no estimate at this time for the additional funding that might be required if there is a change to the project.

In connection with the 2004 project, the District established a deferred cost investment account reported in the capital projects fund. At September 30, 2012, there is a balance of \$51,317 in the deferred cost account. The District has not yet determined if a liability exists for deferred costs.

Depreciation expense was charged to the maintenance and operations function.

NOTE 6 – LONG TERM LIABILITIES

On December 1, 2004 the District issued \$3,610,000 of Capital Improvement Revenue Bonds Series 2004, due on May 1, 2034 with a fixed interest rate of 5.85%. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is to be paid semiannually on each May 1 and November 1. Principal is paid annually commencing May 1, 2005 through May 1, 2034.

The Series 2004 Bonds are subject to redemption at the option of the District prior to their maturity. The Bonds are subject to extraordinary mandatory redemption prior to their selected maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture.

The Bond Indenture established a debt service reserve requirement as well as other 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 in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The District was not in compliance with certain requirements of the Bond Indenture at September 30, 2012.

**SOUTHERN HILLS PLANTATION II COMMUNITY DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 6 – LONG TERM LIABILITIES (Continued)

During the current fiscal year, the Developers did not pay the fiscal year 2012 special assessments which ultimately secure the Bonds. As a result, the District did not have sufficient funds for the debt service payments due on November 1, 2011 and May 1, 2012, therefore the debt service payment was not made. The amounts have been accrued on the fund financial statements as due to Bondholders. The inability of the District to pay its debt service is considered an event of default. See Note 15 for additional information subsequent to fiscal year end.

Changes in long-term liability activity for the fiscal year ended September 30, 2012 were 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:					
Series 2004	\$ 3,140,000 *	\$ -	\$ 65,000 **	\$ 3,075,000	\$ 70,000
Less issuance discount	(6,968)	-	301	(6,667)	-
Total	<u>\$ 3,133,032</u>	<u>\$ -</u>	<u>\$ 65,301</u>	<u>\$ 3,068,333</u>	<u>\$ 70,000</u>

* Includes a reduction of \$125,000 in past due debt service payments included in Due to Bondholders in the accompanying financial statements.

**Amount included in Due to Bondholders in the accompanying financial statements.

At September 30, 2012, the scheduled debt service requirements on the long - term debt were as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2013	\$ 70,000	\$ 191,002	\$ 261,002
2014	75,000	186,908	261,908
2015	80,000	182,520	262,520
2016	85,000	177,840	262,840
2017	90,000	172,868	262,868
2018 - 2022	535,000	779,222	1,314,222
2023 - 2027	715,000	602,844	1,317,844
2028 - 2032	955,000	367,088	1,322,088
2033 - 2034	470,000	69,324	539,324
	<u>\$ 3,075,000</u>	<u>\$ 2,729,616</u>	<u>\$ 5,804,616</u>

NOTE 7 – DEFICIT FUND EQUITY

The District has government-wide net assets (deficit) of (\$49,951) as of September 30, 2012. The deficit primarily relates to unpaid prior years accrued debt service assessments due from the Developer that was allowed for due to the uncertainty as to the timing of collection in the current year.

The District reported a deficit in the debt service fund of (\$309,668) as of September 30, 2012. The deficit is the result of the Developer's failure to fully fund its share of the assessment for the fiscal years 2010, 2011 and 2012. Through a foreclosure action, the District is pursuing delinquent assessments.

The District reported a deficit in the general fund of (\$403) as of September 30, 2012. The deficit is the result of the Developer's failure to fully fund its share of the assessment for the fiscal year.

**SOUTHERN HILLS PLANTATION II COMMUNITY DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 8 – RELATED PARTY TRANSACTIONS

Developers

The Developer owns the majority of land within the District, therefore, assessment revenues in the general and debt service funds include the assessments levied on those lots owned by the Developer. The Developer did not pay their share of the current year assessments. The District has initiated foreclosure proceedings on land owned by Cashp 3, LLC for which there are delinquent assessments that were directly billed by the District. In addition there are also significant delinquent on-roll assessment billed by the tax collector – see Note 9 for more information.

Other Related Parties

The District entered into an Inter-Local Agreement in a prior year which allocated costs between Southern Hills Plantation I Community Development District, Southern Hills Plantation II Community Development District, and Southern Hills Plantation III Community Development District. The Districts were related through a common Developer. Southern Hills Plantation I Community Development District pays certain expenditures in association with Southern Hills Plantation, and is reimbursed by Southern Hills Plantation II Community Development District and Southern Hills Plantation III Community Development District for their pro rata share of allocable expenditures incurred for those Districts, per the Inter-Local Agreement. During the fiscal year ended September 30, 2012 the District reimbursed Southern Hills Plantation I Community Development District \$41,122 for shared costs and owed \$2,944 to Southern Hills Plantation I Community Development District.

NOTE 9 – ASSESSMENTS

A significant portion of the assessments for the fiscal year ended September 30, 2012 were delinquent. As of September 30, 2012, only about 18% of the assessments for the fiscal year ended September 30, 2012 were collected. Assessments for the fiscal year ended September 30, 2012 levied on the Developer amounting to \$150,457 were allowed for and \$31,996 of on-roll fiscal year 2012 assessments remain delinquent.

NOTE 10 – CONCENTRATION

The District's activity is dependent upon the continued involvement of the Developer, the loss of which could have a material adverse effect on the District's operations.

NOTE 11 – EVENT OF DEFAULT

The District did not make its May 2010, November 2010, May 2011, November 2011 and May 2012 debt service payments. The inability of the District to pay its debt service is considered an event of default. The occurrence of an event of default creates certain remedial rights and remedies in favor of the Trustee. Pursuant to the Indenture, the owners of a majority in aggregate principal amount of the Bonds then outstanding may direct the Trustee with regard to such rights and remedies following an event of default and upon provision of indemnity satisfactory to the Trustee and in accordance with provisions of the Indenture. See Note 15 for additional information subsequent to the end of the fiscal year.

NOTE 12 – MANAGEMENT COMPANY

The District has contracted with a management company to perform management advisory services, which include financial advisory and accounting services. Certain employees of the management company also serve as officers (Board appointed non-voting positions) of the District. Under the agreement, the District compensates the management company for management, accounting, financial reporting, and other administrative costs.

**SOUTHERN HILLS PLANTATION II COMMUNITY DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 13 – RISK MANAGEMENT

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

NOTE 14 – CONTINGENCIES:

Foreclosure

In May 23, 2010, the District filed a special assessment foreclosure action against the Developer to collect delinquent assessments levied in association with its Series 2004A Bonds. Subsequently, the Developer filed a responsive pleading in the above mentioned foreclosure case. The District is confident that it will either foreclose the land as required by the bond indenture or will assist in resolving this matter through a negotiated settlement that will be in the interest of the District.

NOTE 15 – SUBSEQUENT EVENTS

Events of Default

Subsequent to year end, the District was unable to make the scheduled debt service payments due November 1, 2012 Series 2004A Bonds.

Foreclosure Proceedings

Subsequent to the end of the fiscal year, the District continues to pursue a lawsuit seeking foreclosure on a portion of the land owned by the Developer for which there are delinquent assessments. No adjustment has been made to the financial statements as the impact on the District cannot be determined at this time since it is unclear how events will unfold.

**SOUTHERN HILLS PLANTATION II COMMUNITY DEVELOPMENT DISTRICT
BUDGET TO ACTUAL COMPARISON STATEMENT – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues			
Assessments	\$ 123,956	\$ 27,253	\$ (96,703)
Interest and other revenues	-	281	281
Total revenues	<u>123,956</u>	<u>27,534</u>	<u>(96,422)</u>
Expenditures			
General government	57,475	37,711	19,764
Maintenance and operations	<u>66,481</u>	<u>58,199</u>	<u>8,282</u>
Total expenditures	<u>123,956</u>	<u>95,910</u>	<u>28,046</u>
Excess (deficiency) of revenues over expenditures	-	(68,376)	(68,376)
Fund balance, beginning of year	<u>-</u>	<u>67,973</u>	<u>67,973</u>
Fund balance (deficit), end of year	<u>\$ -</u>	<u>\$ (403)</u>	<u>\$ (403)</u>

**SOUTHERN HILLS PLANTATION II COMMUNITY DEVELOPMENT DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2012**

The District is required to establish a budgetary system and an approved Annual Budget for the general fund. The District's budgeting process is based on estimates of cash receipts and cash expenditures which are approved by the Board. The budget approximates a basis consistent with accounting principles generally accepted in the United States of America (generally accepted accounting principles). The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. Actual expenditures exceeded appropriations in the general fund.

The variance between budgeted and actual general fund revenues for the 2012 fiscal year is the result of the non-payment of a significant portion of the fiscal year 2012 assessments. The actual general fund expenditures for the 2012 fiscal year were lower than budgeted amounts due primarily to anticipated costs which were not incurred in the current fiscal year.



**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
Southern Hills Plantation II Community Development District
Hernando County, Florida

We have audited the financial statements of the governmental activities and each major fund of Southern Hills Plantation II Community Development District, Hernando County, Florida ("District") as of and for the fiscal year ended September 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 17, 2013, which included an emphasis of a matter paragraph. 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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.

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, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated February 17, 2013.

This report is intended for the information of the management, Board of Supervisors of Southern Hills Plantation II Community Development District, Hernando County, Florida 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.

Barzana & Associates PA

Barzana & Associates, P.A.
Tampa, Florida
February 17, 2013



MANAGEMENT LETTER

To the Board of Supervisors
Southern Hills Plantation II Community Development District
Hernando County, Florida

We have audited the accompanying basic financial statements of Southern Hills Plantation II Community Development District, Hernando County, Florida ("District") as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated February 17, 2013, which included an emphasis of a matter paragraph.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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.

In addition, we have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters dated February 17, 2013. Disclosures in that report should be considered in conjunction with this management letter.

The purpose of this letter is to comment on those matters required by Chapter 10.550 of the Rules of the Auditor General for the State of Florida. Accordingly, in connection with our audit of the financial statements of the District, as described in the first paragraph, we report the following:

- I. Current year findings and recommendations.**
- II. Status of prior year findings and recommendations.**
- III. Compliance with the Provisions of the Auditor General of the State of Florida.**

This report is intended for the information of the management, Board of Supervisors of Southern Hills Plantation II Community Development District, Hernando County, Florida 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.

We wish to thank Southern Hills Plantation II Community Development District, Hernando County, Florida and the personnel associated with it, for the opportunity to be of service to them in this endeavor as well as future engagements, and the courtesies extended to us.

Barzana & Associates PA

Barzana & Associates, P.A.

Tampa, Florida
February 17, 2013

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND ECOMMENDATIONS

2012-01 Financial Condition Assessment:

Observation: The District's financial conditions continue to deteriorate. The Developers did not pay their share of the fiscal year 2012 assessments. In addition, a considerable portion of the fiscal years 2010 and 2011 assessments levied remain delinquent. As a result, the debt service payments due on May 1, 2010, November 1, 2010, May 1, 2011, November 1, 2011 and May 1, 2012 were not made. Additionally, the November 1, 2012 Series 2004 debt service payment was not made. The District's inability to make its scheduled debt service payments when they are due are considered event of defaults.

Recommendation: The District should take the necessary steps to alleviate the deteriorating financial condition.

Management Response: As mentioned in the Notes to the Financial Statements, subsequent to the end of the fiscal year, the District is pursuing a lawsuit seeking to foreclose on a portion of the land owned by the Developer for which there are delinquent assessments. In addition, the District continues to work with the landowners to collect past due assessments.

2012-02 Reserve Requirement:

Observation: The Debt Service Reserve Requirement was not met during the entire fiscal year ended September 30, 2012.

Recommendation: The District should make the necessary arrangements to ensure funds are available to meet the requirements of the Bonds covenants.

Management Response: The District is pursuing delinquent assessments to replenish the debt service reserve funds.

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2011-01: Financial Condition Assessment:

2010-01: Financial Condition Assessment:

Current Status: See finding no. 2012-01 above.

2011-02 Reserve Requirement:

Current Status: See finding no. 2012-02 above.

2011-03 Budget:

Current Status: Cleared

III. COMPLIANCE WITH THE PROVISIONS OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

Unless otherwise required to be reported in the auditor's report on compliance and internal controls, the management letter shall include, but not be limited to the following:

REPORT TO MANAGEMENT (Continued)

1. A statement as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

There were no significant findings and recommendations made in the preceding annual financial audit report for the fiscal year ended September 30, 2011, except as noted above.

2. A statement as to whether or not the local governmental entity complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

The District complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

3. Any recommendations to improve the local governmental entity's financial management.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported for the fiscal year ended September 30, 2012, except as noted above.

4. Violations of provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported, for the fiscal year ended September 30, 2012, except as noted above.

5. For matters that have an inconsequential effect on the financial statements, considering both quantitative and qualitative factors, the following may be reported based on professional judgment:

- a. Violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse.
- b. Deficiencies in internal control that are not significant deficiencies.

There were no such matters discovered by, or that came to the attention of, the auditor, that, in our judgment, are required to be reported, for the fiscal year ended September 30, 2012, except as noted above.

6. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.
7. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2012 financial audit report.
8. In connection with our audit, we determined that the District has met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes. The District did not make the scheduled debt service payments during the current fiscal year. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and determined that a deteriorating financial condition was noted. See Findings section above for additional information. It is management's responsibility to monitor 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.