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COVES OF THE HIGHLAND COMMUNITY DEVELOPMENT DISTRICT

Annual Financial Statements

As of and for the Year Ended, December 31, 2006

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 5/14/08

LEROY J. CHUSTZ
CERTIFIED PUBLIC ACCOUNTANT
A Professional Accounting Corporation

COVES OF THE HIGHLAND COMMUNITY DEVELOPMENT DISTRICT

Annual Financial Statements

As of and for the Year Ended, December 31, 2006

Coves of the Highland Community Development District

Annual Financial Statements
As of and for the Year Ended, December 31, 2006
With Supplemental Information Schedules

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Independent Auditor's Report on the Basic Financial Statements

Coves of the Highland Community Development District
Tangipahoa Parish, Louisiana

I have audited the accompanying financial statements of the governmental activities, and each major fund of the Coves of the Highland Community Development District, as of and for the year ended December 31, 2006, which collectively comprise the District's Basic Financial Statements as listed in the table of contents. These financial statements are the responsibility of the Coves of the Highland Community Development District's, management. My responsibility is to express my opinion on these basic financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my 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 Coves of the Highland Community Development District, as of December 31, 2006, and the respective changes in financial position, as of and for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, the District has negative net assets of $278,546.80 as of December 31, 2006. The financial statements do not include any adjustment in the amount and classification of liabilities that might be necessary if the District is unable to meet it's obligations as they come due.

In accordance with *Governmental Auditing Standards,* I have also issued my report dated March 27, 2008, on my consideration of the Coves of the Highland Community Development District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

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

Leroy J. Chustz
Certified Public Accountant
March 27, 2008

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Required Supplemental Information (Part I)

Management's Discussion and Analysis

Coves of the Highland Community Development District
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(UNAUDITED)

Our discussion and analysis of Coves of the Highland Community Development District (the "District") financial performance provides an overview of the District's financial activity for the period ended December 31, 2006. It should be read in conjunction with the basic financial statements.

FINANCIAL HIGHLIGHTS

Key financial highlights for the years ended December 31, 2006 include the following:

- The liabilities of the District exceeded its assets at December 31, 2006 by 278,546.80, (net assets).

  Total assets increased by $14,485,410.20 and total liabilities increased by $14,763,957.00.

  The majority of this amount is related to the investment in capital assets and the related bonds payable. The District had no unrestricted assets for these years ended.

OVERVIEW OF THE FINANCIAL STATEMENTS. The MD&A is intended to serve as an introduction to the District's basic financial statements which are the government-wide financial statements, the fund financial statements and the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements are designed by GASB Statement 34 to change the presentation of governmental financial statements. It provides readers with an "entity-wide" Statement of Net Assets and Statement of Activities. This gives the user of the financial statements a board overview of the District's financial position and results of operations in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the District's assets less liabilities, which results in net assets. The statement is designed to display the financial position of the District. Over time, increases or decreases in net assets helps determine whether financial position is improving or deteriorating.

The Statement of Activities provides information that shows how the District's net assets changed as a result of the year's activities. The statement uses accrual basis of accounting, similar to private-sector businesses. All changes in net assets are reported as soon as the underlying event giving rise to the revenue or expense occurs, regardless of when the cash is received or paid.

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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the District are governmental type funds. Governmental funds are used to account for essentially the same functions 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 at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements. Because the focus of the 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. Thus, the readers may get a better understanding of the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The District did not adopt an annual budget for the fiscal year 2006.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT

STATEMENT OF NET ASSETS

	2006
Current Assets	
Cash & Cash Equivalents	$82,001.25
Investments-Restricted	5,649,557.50
Total Current Assets	5,731,558.75
Noncurrent Assets	
Interest Receivable	17,893.54
Assessment Receivable	6,994,755.00
Plant, Property and Equipment (net)	1,403,300.00
Underwriter's Discount	150,052.50
Cost of Issuance	187,850.41
Total Noncurrent Assets	8,753,851.45
Total Assets	14,485,410.20
Non-current Liabilities	
Interest Payable on Bonds	71,820.00
Legal Fees Payable	2,382.00

Deferred Revenue	6,994,755.00
Bonds Payable	7,695,000.00
Total Long-term Liabilities	14,763,957.00
Total Liabilities	14,763,957.00
Net Assets	
Invested in Capital Assets, net of related debt	-10,653,314.92
Restricted for capital projects	4,699,517.83
Restricted for debt service	5,675,250.29
Unrestricted	0.00
Total Net Assets	$(278,546.80)

STATEMENT OF ACTIVITIES

The District provides infrastructure for the District and accounts for the related debt.

Sources of revenue for the District include bond proceeds, earnings on investments and assessments on property. The following condensed Statement of Activities shows the major sources of revenues and expenses.

Revenue	2006
Interest Earned	$32,103.14
Total Revenues	32,103.14
Professional Fees	238,829.94
Interest	71,820.00
Total Expenses	310,649.94
	$(278,546.80)

Revenue

Interest earnings on investments were $32,103.14.

Expenses

The accrued bond interest was $71,820.00. Principal and interest payments begin in 2007. Accrued legal fees were $2,382.00.

Budgetary Highlights

The District did not adopt a budget in 2006.

Capital Assets

The District's investment in capital assets, net of depreciation was $1,403,300.00 in 2006. This increase was due acquisition of land.

Long Term Debt

In 2006, the District issued $7,695,000.00 Series 2006 Special Assessment Bonds to fund the construction, installation and acquisition of master infrastructure improvements within the District. At the end of 2006, the District had bonds payable in the amount of $7,695,000.00.

CURRENT AND EXPECTED CONDITIONS

Presently, the Coves of the Highland Community Development District's Supervisors are not aware of any significant changes in conditions that would have a significant effect on the financial position or results of activities of the District in the near future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the District at 106 South Magnolia, Hammond, LA 70403.

Basic Financial Statements

Government-Wide Financial Statements

Coves of the Highland Community Development District

Statement A

Statement of Net Assets
December 31, 2006

ASSETS		
Current Assets		
Cash & Cash Equivalents-Restricted	$	82,001.25
Investments - Restricted		5,649,557.50
Total Current Assets		5,731,558.75
Noncurrent Assets		
Interest Receivable		17,893.54
Assessments Receivable		6,994,755.00
Plant, Property and Equipment (Net)		1,403,300.00
Underwriter's Discount		150,052.50
Cost of Issuance		187,850.41
Total Noncurrent Assets		8,753,851.45
Total Assets		14,485,410.20
LIABILITIES		
Non-current Liabilities		
Interest Payable on Bonds		71,820.00
Legal Fess Payable		2,382.00
Deferred Revenue		6,994,755.00
Bonds Payable		7,695,000.00
Total Long-term Liabilities		14,763,957.00
Total Liabilities		14,763,957.00
NET ASSETS		
Net Assets		
Invested in capital assets, net of related debt		(10,653,314.92)
Restricted for capital projects		4,699,517.83
Restricted for debt service		5,675,250.29
Total Net Assets	$	(278,546.80)

The accompanying notes are an integral part of these financial statements.

Coves of the Highland Community Development District

Statement B

Statement of Activities
For the Year Ended December 31, 2006

	Expenses	Program Revenues Operating Grants	Net Revenue (Expense) and Changes in Net Assets Governmental Activities
Expenses			
Governmental Activities -			
Bond Interest	$ 71,820.00	$ -	$ 71,820.00
Professional Fees	238,829.94	-	238,829.94
Total Expenses	$ 310,649.94	$ -	310,649.94
General Revenues			
Interest			32,103.14
Total General Revenues			32,103.14
Increase (Decrease), in Net Assets			(278,546.80)
Net Assets at the Beginning of the Year			-
Net Assets, End of Year			$ (278,546.80)

The accompanying notes are an integral part of these financial statements.

Basic Financial Statements

Fund Financial Statements

Government-Wide Financial Statements

Coves of the Highland Community Devlopment District

Statement C

Balance Sheet
Governmental Funds
December 31, 2006

	Capital Projects	Debt Service	Total Governmental Funds
Assets			
Cash & Cash Equivalents-Restricted	$ 77,509.19	$ 4,492.06	$ 82,001.25
Investments - Restricted	4,622,008.64	1,027,548.86	5,649,557.50
Assessments Receivable	-	6,994,755.00	6,994,755.00
Due from Debt Service Fund	-	-	-
Total Assets	4,699,517.83	8,026,795.92	12,726,313.75
Liabilities & Fund Balance			
Liabilities:			
Deferred Revenue	-	6,994,755.00	6,994,755.00
Accrued Liabilities	-	-	-
Intergovernmental Payable	-	-	-
Total Liabilities	-	6,994,755.00	6,994,755.00
Fund Balance:			
Restricted for Debt Service	-	1,032,040.92	1,032,040.92
Restricted for Capital Projects	4,699,517.83	-	4,699,517.83
Unreserved	-	-	-
Total Fund Balance	4,699,517.83	1,032,040.92	5,731,558.75
Total Liabilities & Fund Balance	$ 4,699,517.83	$ 8,026,795.92	$ 12,726,313.75

The accompanying notes are an integral part of these financial statements.

Coves of the Highland Community Development District

Statement D

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
December 31, 2006

Total Fund Balances, Governmental Funds	$	5,731,558.75
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Governmental capital assets, net of Accumulated Depreciation		1,403,300.00
Unamortized debt issue cost which are recorded as current expenditures in governmental activities		187,850.41
Unamortized bond discount cost which are recorded as current expenditures in governmental activities		150,052.50
Accrued legal fees not recorded in governmental activities		(2,382.00)
Accrued bond interest not recorded in governmental activities		(71,820.00)
Interest receivable not recorded in governmental activities		17,893.54
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:		
Bonds payable		(7,695,000.00)
Net Assets, Governmental Activities	$	(278,546.80)

The accompanying notes are integral part of these financial statements.

Coves of the Highland Community Development District

Statement E

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	Capital Projects Fund	Debt Service	Total Governmental Funds
Revenues			
Interest Earned	$ 9,717.54	$ 4,492.06	$ 14,209.60
Total Revenues	9,717.54	4,492.06	14,209.60
Expenditures			
Current Expenditures:			
Capital Outlay:			
Capital Outlay	1,639,747.94	-	1,639,747.94
Debt Service:			
Principal	-	-	-
Interest	-	-	-
Trustee Fee	-	-	-
Bond Discount	150,052.50	-	150,052.50
Cost of Issuance	187,850.41	-	187,850.41
Total Expenditures	1,977,650.85	-	1,977,650.85
Excess Revenues over Expenditures	(1,967,933.31)	4,492.06	(1,963,441.25)
Other Financing Sources			
Transfers In	-	1,027,548.86	1,027,548.86
Transfers Out	(1,027,548.86)	-	(1,027,548.86)
Bond Proceeds	7,695,000.00	-	7,695,000.00
Net Change in Fund Balance	4,699,517.83	1,032,040.92	5,731,558.75
Fund Balance, Beginning of Year	-	-	-
Fund Balance, End of Year	$ 4,699,517.83	$ 1,032,040.92	$ 5,731,558.75

The accompanying notes are an integral part of these financial statements.

Coves of the Highland Community Development District

Statement F

Reconciliation of the Change in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2006

Total Net Change in Fund Balances, Governmental Funds	$ 5,731,558.75
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. These differences consist of:	
Capital outlay	1,403,300.00
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term debt in the statement of net assets	
Proceeds from long term debt	(7,695,000.00)
Bond Discount	150,052.50
Bond Issuance Cost	187,850.41
Some revenue reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in governmental funds. These differences consist of :	
Interest Receivable	17,893.54
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These differences consist of :	
Accrued interest	(71,820.00)
Legal Fees Payable	(2,382.00)
Change in Net Assets, Governmental Activities	$ (278,546.80)

The accompanying notes are integral part of these financial statements.

Basic Financial Statements

Notes to the Financial Statements

Coves of the Highland Community Development District
Notes to the Financial Statements
December 31, 2005 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

"Community Development District" or " District" means a special district as provided in Article VI, Section 19 of he Constitution of Louisiana, which is created pursuant to this Chapter and limited to the performance of those specialized functions authorized by this chapter, the boundaries of which are contained wholly within a single parish; the governing head of which s a body created, organized and constituted and authorized to function specifically as prescribed in this Chapter for the delivery of community development services; and the formation, powers, governing body, operation, duration, accountability, requirements for disclosure, and termination of which are as required by general law.

A. Reporting Entity

Coves of the Highland Community Development District, Parish of Tangipahoa, State of Louisiana (the "District") is a public corporation and community development district organized and existing under the provisions of Chapter 27-B of Title 33 of the Louisiana Statutes of 1950, as amended, specifically La. RS. 33:9039.11 through 9039.37, inclusive (the "Act"), and pursuant to an Ordinance duly adopted by the Council Members of the Tangipahoa Parish Council (primary government), State of Louisiana, effective on September 11, 2006 (the "Ordinance"), which District is comprised of and includes all of the immovable property situated within the described boundaries.

Pursuant to the provisions of the Act, the District is authorized to finance, fund, plan, establish, acquire construct or reconstruct, enlarge, extend, equip, operate and maintain systems, facilities and basic infrastructure for the following: (1) water management and control for the lands on the District, including the connection of some or any of such facilities with road and bridges; (2) water supply, sewer and wastewater management, reclamation and refuse, or any combination thereof, (3) bridges or culverts that may be needed across any drain, ditch, canal, flood way, holding basin, excavation, public highway, tract, grade, fill or cut and roadways over levees and embankment; and (4) roads and streets in the District.

The District is authorized by the Act to levy and collect non-ad valorem special assessments against all immovable property situated in the District that is subject to assessment as a result of the projects to finance, fund, plan, establish, acquire, construct, or reconstruct, enlarge, extend, equip, operate and maintain systems, facilities and basic infrastructure for the District. The Board of the District shall exercise the powers granted to the District pursuant to this Chapter. The board shall consist of five members; except as otherwise provided herein, each member shall hold for a term of four years and until a successor is chosen and qualifies. The initial members of the board shall be residents of the state, and at least one of the initial members shall be a resident of the area immediately adjacent to the District. Commencing six years after the initial appointment of members, the positions of each member whose term has expired shall be filled by a qualified elector of the District, elected by the qualified electors of the district in accordance with Title 18 of the Louisiana Revised Statutes of 1950.

Members of the board shall be known as supervisors and, upon entering into office shall take an oath of office. They shall hold office for the term for which they were elected or appointed and until their

successors are chose and qualified. If, during the term of office, a vacancy occurs, the remaining members of the board shall fill the vacancy by an appointment for the remainder of the unexpired term.

A majority of the members of the board constitutes a quorum for the purposes of conducting its business and exercising its powers and for all other purposes. Actions taken by the District shall be upon vote of a majority of the members present unless general law or a rule of the district requires a greater number.

The District is an entity administered by a Board of Supervisors ("Board") that acts as the authoritative and legislative body of the entity. The Board is compromised of five board members, serving a term of four years. Of the five, two are elected as officers of the District; Chair (person) and Secretary. Each Officer serves a term of four years.

The Board of Supervisors appoints the Chairman of the Board from existing board members. The Chair's responsibilities are to preside at all meeting of the board; be the chief officer of the District; perform all duties commonly incident to the position of presiding officer of a board, commission or business organization and exercise supervision over the business of the District, its officers and employees.

The accompanying general purpose financial statements comply with the provisions of GASB Statement No. 14 "The Financial Reporting Entity", in that the financial statements include all organizations, activities, and functions that compromise the District. Component units are legally separate entities for which the District (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and whether (1) the District's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden, on the District. Using these criteria, the District has no component units.

B. Government-wide and fund financial statements

The government -wide financial statements (i.e., the statement of net assets and the statements of changes in net assets) report information on all of the nonfiduciary activities of the component unit government.

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) changes to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *basis of accounting*. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. Grants and similar items are 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 sixty-one days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Grant and entitlements and interest associated with the current fiscal period are all considered being susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered measurable and available only when the District receives cash.

Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The District has two governmental funds.

The District reports the following governmental funds:

> **Debt Service Fund** — The Debt Service Fund accounts for the accumulation of financial resources for payment of interest and principal on the debt of the District.
>
> **Capital Projects Fund** - The Capital Projects Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items.

Revenues and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty-one days of fiscal year-end.

Under the modified accrual basis, only interest is considered to be both measurable and available at fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving value in return, includes grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

Expenses/Expenditures

On an accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

D. Cash and Cash Equivalents

The entity's cash and cash equivalents are considered to be considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash received by the District is deposited into demand deposits and daily investment accounts. The District utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in this account is presented on the financial statements as "Repurchase Investments". For presentation in the financial statements, investments in the Money Market Accounts are considered to be cash equivalents.

E. Restricted Assets

Restricted assets are cash, cash equivalents and investments whose use is limited by legal requirements. Restricted cash, cash equivalents and investments represent amounts required by debt covenant to be segregated for final year debt payment and accrued interest on the bonds. Restricted cash, cash equivalents and investments also represent special assessment proceeds restricted for completion of the District's infrastructure projects. The Trustee, pursuant to the Master Indenture Agreement, has established accounts for the following purposes:

a) *Interest Funds*- An account used to transfer funds to pay interest payments.

b) *Principal Funds*- An account used to transfer funds to pay principal payments.

c) *Debt Service Reserve Fund*- An account funded from bond proceeds used to replenish the interest and principal accounts in case of deficiency or to pay debt service if no other money is lawfully available (i.e. insurance proceeds).

d) *Acquisition and Construction Fund*- Account to which bond proceeds are deposited. Payments are to be made for any unpaid issuance cost and cost of planning, financing,

acquisition, construction, reconstruction, equipping and installation of the applicable Project. Before any disbursements are made from this fund, the Issuer must file with the Trustee a fully executed requisition.

e) *Capitalized Interest Fund*- used to fund bond interest during the construction period.

f) *Revenue Fund*- Account to which special assessments are deposited. These special assessments are not the prepayments which are deposited into the Prepayment Account.

g) *Prepayment Fund*- account in which prepaid assessments are deposited.

h) *Rebate Fund*- account used to make all rebate payments to the United States of America pursuant to the Arbitrage Rebate Covenants.

I) *Bond Redemption Fund*- account into which all funds from special assessments and acquisition and construction monies are deposited.

j) *Administration Account* - in which 1% of the prepaid assessments are deposited used to fund annual and ongoing expenses associated with the bond issue.

Each bond issue has the following accounts, set up by the Trustee and the amounts in these accounts are restricted to the use as the account dictates.

2006 Bond Issue

Interest Fund	-
Principal Fund	-
Debt Service Reserve Fund	$ 733,802.28
Acquisition and Construction Fund	4,699,517.83
Capitalized Interest Fund	258,238.64
Administration Fund	-
Principal Prepayment Fund	-
Total 2006 Bond Issue	$5,691,558.75

Reserve Requirement

Bond Issue	Date	Requirement	Amount
2006	12/31/08	$ 769,500.00	$ 773,802.28

F. Interfund Transaction

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

G. Capital Assets

General capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

Description	Estimated
Land, Right of Ways, Lakes and Ponds	N/A
Roads, Streets and Drainage	40
Utility Plants & Systems	25
Fire Hydrant	25

H. Intergovernmental Revenues

For governmental fund, intergovernmental revenues, such as contributions awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available.

I. Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

K. Assessment Methodology

The District uses an Assessment Methodology Consultant to determine and establish the special assessment that will be levied against all assessable property in the District. The Consultant determines that the assessments will be an amount sufficient to pay all interest that is expected to become due on the District's outstanding bonds (the "Bonds"), to fund any sinking fund requirements on the bonds, to fund any reserve required by the Bond indenture, and to pay all expenses relating to the Bonds.

The benefitted assessment cost allocation is derived by calculation the equivalent residential lot usage of infrastructure improvements for all properties eligible for assessment and applying a factor

weighted to each lot's appraised value in an amount sufficient to cover the cost of financing the infrastructure acquisitions improvements.

The District's Special Assessments are a type of non-ad valorem benefit special assessments which are levied against District Lands based upon the special benefit to accrue to such District Lands as a result of the implementation of the Projects. Non-ad valorem assessments are not based upon millage and can become a lien against homestead property as permitted under the provisions of the Act. The methodology used to establish and determine the benefit special assessments which will pay the cost of the Project has been presented to and approved by the Board of Supervisors of the District and is set forth in the Allocation of Infrastructure Cost & Assessment Methodology Report (the "Allocation of Infrastructure Cost & Assessment Methodology Report") prepared by District Manager Inc., the Assessment Methodology Consultant to the District.

The term "Special Assessment" means (a) the net proceeds derived from the levy and collection of "special assessments", as provided for in La. R.S. 33:9039.29 (A) of the Act (except for any such special assessments levied and collected for maintenance purposes), against the lands located within the District that are subject assessments regarding the Phase I Project or any portion thereof, and (b) the net proceeds derived from the levy and collection of "benefit special assessments", as provided for in La. R.S. 33:9039.29(A) of the Act, against the lands within the District that are subject to assessment regarding the Project or any portion thereof, and in case of both "special assessments" and "benefit special assessments", including the interest and penalties on such assessments, pursuant to all applicable provisions of the Act (and any successor statutes thereto), including, without limitation, any amount received from any foreclosure proceeding for the enforcement of collection of such assessments or from the issuance and sale of tax deeds with respect to such assessments. "Special Assessments" shall not include "maintenance special assessments", if any, levied and collected by the Issuer under the Act.

L. Prepaid Items

Prepaid items reflect items that have been paid that benefit future periods.

M. Special Bond Provisions

The Series 2006 bonds are limited obligations of the District payable solely from and secured by the pledge and assignment of and lien upon the pledged revenues pursuant to the indenture and neither the property, the full faith and credit, nor the taxing power of the District, the Parish, the State of Louisiana, or any political subdivision thereof, is pledged as security for the payment of the Bonds, except that the District is obligated under the indenture and the Act to levy and to evidence and certify, or cause to be certified, for collection, special assessments to secure and pay the Bonds. The Bonds do not constitute an indebtedness of the District, the Parish, the State of Louisiana, or any political subdivision thereof within the meaning of any constitutional or statutory provision or limitation.

The Series 2006 Bonds authorized under the indenture and the obligation evidenced thereby shall not constitute a lien upon any property of the District, including, without limitation, the project or any portion thereof in respect of which such Bonds are being issued, or any part thereof, but shall constitute a lien only on the pledged revenues as set forth in the indenture. Nothing in the Bonds authorized under the indentures or in the indentures shall be construed as obligating the District to

pay the Bonds or the redemption price thereof or the interest thereon except from the pledged revenues, or as pledging the faith and credit of the District, the Parish or the State of Louisiana or any political subdivision thereof, or as obligating the District, the Parish or the State of Louisiana or any of its political subdivisions, directly or indirectly or contingently, to levy (except for the special assessments levied by the District) or to pledge any form of taxation whatever therefore.

2. STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY

By its nature as a state agency, the District is subject to various state laws and regulations.

The District complies with all state laws and regulations requiring the use of separate funds.

3. CASH & INVESTMENTS

The District is authorized to make direct investments in United States government bonds, treasury notes, treasury bills or certificates, or time certificates of deposit of state banks organized under the laws of Louisiana and national banks having their principal office in the state of Louisiana or any other federally insured investment, or guaranteed investment contracts issued by a financial institution having one of the two highest rating categories or in mutual or trust fund institutions which are registered with the SEC and which have underlying investments consisting solely of and limited to securities of government or its agencies.

The District's investments are categorized below to give an indication of the level of risk assumed by the District at year end. Category 1 provides for investments insured or registered, or securities held by the District or its agents in the District's name. Category 2 provides for uninsured and unregistered securities held by the counter party's trust department or agent in the District's name. Category 3 includes uninsured and unregistered, with securities held by the counter party or by its trust department or agent but not in the District's name.

In 2006, the Regions Bank (Buyer), as the District's Trustee, entered into a repurchase investment contract with Hypo Public Finance Bank (Seller) and DEPFA Bank plc (Seller) to invest certain moneys held by the Trustee as per the Indenture Agreement. The investments are recorded at cost.

The repurchase investment contract with Hypo Public Finance Bank (Seller) is for an initial deposit of $4,880,057.50 for the Construction Fund and Cap I Fund. With a 4.40% rate of earnings per annum. The repurchase investment contract with DEPFA Bank is for an initial deposit of $769,500.00 to the Initial Debt Service Fund with a 4.37% rate of earnings per annum The Buyer's Margin Percentage is 104% of the Repurchase Price for Treasuries, 104% of the Repurchase Price for GNMAs and 105% Repurchase Price for Agencies. The permitted securities are a) direct obligations of or obligations the timely payment of principal of and interest on which are unconditionally guaranteed by the United States (collectively, *"Treasuries:)* b) senior debt or mortgage pass through obligations of GNMAs and c) senior debt obligations of FNMA, FHLB or FFCB, or obligations of agencies or instrumentalities of the United States government issued by or on behalf of such agencies or instrumentalities or mortgage pass-through obligations of any such agencies or instrumentalities (collectively, "*Agencies*").

This agreement terminates at the first occurrence of; a) the respective Funds Maturity Date, b) the date of any termination pursuant to events of default per the agreement, c)the date of any termination pursuant to a Rating Downgrade and d) such date that all Securities have been repurchased. The Funds maturity date is as follows:

Fund	Maturity Date
Construction and Cap I Fund	November 1, 2007
Debt Service Reserve Fund	November 1, 2021

As of December 31, 2006, the District had $5,649,557.50 entered into a repurchase agreement with Hypo Public Finance Bank. The District finalized the repurchase agreement with Hypo Public Finance Bank on November 21, 2006 and carries interest rate of 4.37% per annum. Hypo Public Finance Bank's agreement utilizes government backed investment vehicles lessening default risk. However, since the investments are purchased in the name of Hypo Public Finance Bank, the District is still exposed to custodial, credit concentration risk and interest rate risk.

Custodial risk is the risk that, in the event of failure by party holding the investment in their name, the District will not be able to recover the value of its investments in the possession of the defunct party. Credit Concentration risk is the risk that due to the lack of diversification in the District's investment portfolio, the District's custodial risk is completely reliant on a single institution's performance. Interest rate is the risk that interest rate may change, due to market or other influences, significantly enough to lessen the value of the District's investment.

The repurchase agreement balances as of December 31, 2006 are as follows:

United State Treasury Notes & Bills	$5,649,557.50

The anticipated repurchases are as follows:

Date	Anticipated Repurchase
01/16/07	$ 390,054.14
03/16/07	817,529.08
05/01/07	198,702.00
05/16/07	911,446.24
07/16/07	1,001,295.25
09/16/07	1,405,145.42
11/01/07	925,385.37
	$5,649,557.50

Type of Investments	Total Bank Balance	Custody Credit Risk Category 1	2	3	Not Required To Be Collateralized	Total Carrying Value
Trust Accounts	$ 82,001.25	-	-	-	$ 82,001.25	$ 82,001.25
Repurchase Agreements	5,649,557.50	-	-	-	5,649,557.50	5,649,557.50
Total	$ 5,731,558.75	-	-	-	$ 5,731,558.75	$ 5,731,558.75

The District's Investments, excluding cash and cash equivalents at December 31, 2006 are summarized below:

Investment	Maturity Year	1 - 5 Years to Maturity
Repurchase Agreement - Construction & Cap I	2007	$ 4,880,057.50
Repurchase Agreement - Debt Service Reserve	2021	769,500.00
Total		$ 5,649,557.50

4. BENEFIT AND MAINTENANCE SPECIAL ASSESSMENTS

Levy of Maintenance Special Assessment

There were no maintenance special assessment levied in 2006.

Levy of Benefit Special Assessments

Pursuant to the provisions of the Act, particularly Section 9039.29 (A), this Board hereby determines, orders, and levies the annual installment for year 2006 regarding the Special Benefit Assessments on all specially benefitted immovable property in the District, all as specified on the Assessment Schedule. The board shall annually determine, order and levy the annual installment of the total benefit special assessments for bonds issued and related expenses to finance district facilities and projects which are levied under state law. These assessments may be due and collected during each year that parish taxes are due and collected, in which case such annual installment and levy shall be evidences and certified to the assessor by the board not later than August 31, of each year, and such assessment shall be entered by the assessor on the parish tax rolls, and shall be collected and enforced by the tax collector in the same manner and at the same time as parish taxes, and the proceeds thereof shall be paid to the district. The District Board has opted to collect its own assessments and does not utilize the parish assessor nor tax collector

At the time of sale of the property subject to the Special Assessments the owner shall prepay the special assessments and extinguish the lien upon its property by paying to the Issuer on the date of the sale the entire amount of the assessment plus accrued interest as calculated and certified to the Trustee in the appropriate Interest Account of the Debt Service Fund. The amount of the assessment will be deposited by the Trustee into the appropriate Prepayment Account.

Enforcement of Lien Nonpayment

Collection of the Special Assessment levied under this Ordinance will be enforceable in the manner provided by law, particularly the provisions of Sections 9039.29 and 9039.30 of the Act. Special Assessments constitute a lien on the property against which assessed until paid and shall be on parity with the lien of state, parish, municipal and school board taxes a lien in favor of the district arising under RS 33:9039.30 may be enforced by the district in a court of competent jurisdiction as provided by law. Such proceedings may be brought at ant time after the expiration of one year from the date of any tax, or installment thereof, becomes delinquent.

5. ASSESSMENTS RECEIVABLE

The assessments levied for the 2006 bonds were $6,994,755. This represents the bond par value of $7,695,000.00 less the amount for the debt service reserve of $769,500 plus an administrative fee of $69,255.00.

The assessments levied have been accounted for in accounts receivable and deferred revenue. At the time the assessment are prepaid, the amount in the corresponding accounts and reduced by the prepayment.

The amount in assessments receivable at the end of December 31 2006 is as follows:

2006 Bond Issue

Original Assessment	$ 6,944,755.00
Paid in 2006	0.00
Balance of Assessment Receivable 2005B Bond Issue	$ 6,944,755.00

6. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance 12/31/05	Increases	Decreases	Balance 12/31/06
Capital Assets Not Being Depreciated:				
Land for Infrastructure	-	$ 1,403,300.00	-	$ 1,403,300.00
Total Capital Assets Not Being Depreciated	-	1,403,300.00	-	1,403,300.00
Total Capital Assets, Net	-	$ 1,403,300.00	-	$ 1,403,300.00

7. BOND ISSUE AND BOND DISCOUNT COSTS

Bond issuance and discount cost are amortized over the life of the bonds using the straight-line method. The changes in bond issuance and discounts are as follows:

Cost of Issuance
2006

	Balance at 12/31/05	Additions	Deletions	Balance at 12/31/06
2006 Bond Issue	-	$ 187,850.41	-	$ 187,850.41
Less: Amortization	-	-	-	-
Total	-	$ 187,850.41	-	$ 187,850.41

Bond Discount
2006

	Balance at 12/31/05	Additions	Deletions	Balance at 12/31/06
2006 Bond Issue	-	$ 150,052.50	-	$ 150,052.50
Less: Amortization	-	-	-	-
Total	-	$ 150,052.50	-	$ 150,052.50

8. LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during the period consist of:

2006

	Principal Outstanding 12/31/05	Additions	Reductions	Principal Outstanding 12/31/06
2006 Bond Issue	-	$ 7,695,000.00	$ 0.00	$ 7,695,000.00
Total	-	$ 7,695,000.00	$ 0.00	$ 7,695,000.00

Future Requirements
2006 Bond Issue

Fiscal Year Ending	Principal	Interest	Total
2007	-	$ 430,920.00	$ 430,920.00
2008	-	430,920.00	430,920.00
2009	-	430,920.00	430,920.00
2010	-	430,920.00	430,920.00
2011	$ 150,000.00	430,920.00	580,920.00
2012-2016	875,000.00	2,020,200.00	2,895,200.00
2017-2021	6,670,000.00	1,746,080.00	8,416,080.00
Total	$ 7,695,000.00	$ 5,920,880.00	$ 13,615,880.00

This Board of Supervisors duly adopted on September 26, 2006, (the "Initial Resolution) authorizing the issuance of not exceeding $8,695,000.00 aggregate principal amount of its Coves of the Highland Community Development District, Tangipahoa Parish, State of Louisiana, Special Assessment Bonds, Series 2006 (the "Bonds"), in order to pay all or a portion of the design, acquisition and construction costs of certain infrastructure improvements from time to time constructed, established, or installed in

the District, for the District, which Bonds will be issued pursuant to the Act and a Master Trust Indenture dated as (the "Master Trust Indenture") entered into between the District and Regions Bank, Baton Rouge, Louisiana as Trustee (the "Trustee").

The Master Trust Indenture dated as of November 1, 2006, included provisions for the issuance of the Special Assessment Bonds, Series 2006, in the aggregate principal amount of not to exceed $30,000,000.00. The First Supplemental Trust Indenture dated November 1, 2006, included provisions for the issuance of the Special Assessment Bonds, Series 2006, in the aggregate principal amount of $7,695,000.00.

The bond issue is collateralized by the pledged revenues of special assessments levied against the benefitted property. The District is not obligated in any manner for the special assessment debt.

2006 Bonds were issued as a single term bond and shall bear interest and mature in principal amount on November 1 as set forth below, subject to the right of prior redemption in accordance with their terms:

YEAR	PRINCIPAL AMOUNT	INTEREST
2011	$ 150,000.00	5.6%
2012	155,000.00	5.6%
2013	165,000.00	5.6%
2014	175,000.00	5.6%
2015	185,000.00	5.6%
2016	195,000.00	5.6%
2017	205,000.00	5.6%
2018	215,000.00	5.6%
2019	230,000.00	5.6%
2020	245,000.00	5.6%
2021	$ 5,775,000.00	5.6%

At the end of 2006, the District accrued legal fees payable in the amount of $2,382.00. These fees are to be paid as monies become available in the 2006 Administrative Account per Section 4.01(e) 1 of the First Supplemental Trust Agreement.

9. CONSTRUCTION COMMITMENTS

The District has no outstanding contracts for professional and contract services, as of December 31, 2006.

10. RISK MANAGEMENT

The District is exposed to carious risks of loss related to torts, damage to, and theft or destruction, of assets, errors and omissions and natural disaster. During 2006 the District caused to be carried, though MGD Partners, LLC , a policy with the Colony Insurance Company for liability. Coverage provided by the company is as follows:

Commercial General Liability	$ 1,000,000.00

11. RELATED PARTIES

All of the board members of the CDD are related parties as defined by Louisiana Statutes. Rodney Cashe, William Bodin, John Mills, J.B. Gutierrez and Caron E. Davis all have a financial interest in some from or fashion with the development.

12. CONTINGENCIES

As of December 31, 2006, according to legal council, the District did not have any pending litigation or potential nondisclosed liabilities that management believes would have a material effect on the financial statements.

13. PER DIEM PAID TO BOARD MEMBERS

Board Members of the Coves of the Highland Community Development District did not receive any per diem payments during 2006.

14. NEGATIVE NET ASSETS

The District has negative net assets (liabilities exceed assets) of $278,546.80 as of December 31 2006. The District's ability to early pay or make payments according to the redemption schedule is dependent on lot sales and on real estate demand locally as well as regionally and nationally. The residential housing market is undergoing a nationwide realignment and while those adverse national trends have not severely impacted the local real estate market, it is unclear what the eventual effects will be on lot sales and the District's ability to meet its future obligations.

15. FIDELITY BOND COVERAGE

Section 9.23 of the Master Trust Indenture requires that every officer, agent or employee of the District having custody or control of any revenues pledged pursuant to the Master Trust Indenture be bonded by a responsible corporate surety in an amount not less than the greatest amount reasonably anticipated to be within the custody or control of such officer, agent or employee at one time. Upon advice of legal counsel, the board adopted resolution 2007-3 on August 23, 2007 finding and determining that none of the District's officers, employees or agents have custody or control of any revenues pledged pursuant to the Master Trust Indenture and further finding and determining that it is unnecessary for the District to obtain fidelity bond coverage specified in Section 9.23 of the Master Trust Indenture of any of the current employees, officers or agents (other than the Trustee).

Coves of the Highland Community Development District
Notes to the Budget
December 31, 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District did not adopt a budget for the year 2006.

The Master Trust Indenture between the District and Regions Bank, Baton Rouge, Louisiana, Section 9.18, requires the District to adopt a budget as required by applicable law. The Trust Indenture further requires that "On or before the first day of each Fiscal Year the Issuer shall adopt a final Annual Budget with respect to each Project for such Fiscal Year for the payment of anticipated operating and maintenance expense and shall supply a copy of such budget promptly upon the approval thereof to the Trustee and to any Bondholders who shall have so requested in writing and shall have filed their names and addresses with the Secretary of the Board for such purpose."

LEROY J. CHUSTZ, CPA, APAC
[redacted]
P.O. BOX 158
DENHAM SPRINGS, LA 70727
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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL STRUCTURE OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Coves of the Highland Community Development District
Tangipahoa Parish, Louisiana

I have audited the financial statements of **Coves of the Highland Community Development District,** as of and for the year ended December 31, 2006, which collectively comprise the **Coves of the Highland Community Development District** basic financial statements and have issued my report thereon dated March 27, 2008. I conducted my 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 my audit, I considered **Coves of the Highland Community Development District** internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Coves of the Highland Community Development District's** internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the **Coves of the Highland Community Development District's** internal control over financial reporting.

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

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

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

Compliance

As part of obtaining reasonable assurance about whether **Coves of the Highland Community Development District's** financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed two instances of noncompliance or other matters that are required to reported under

Governmental Auditing Standards, as Findings 2006-1 and 2006-2 in the accompanying Schedule of Findings and Questioned Costs.

This report is intended solely for the information and use of management, **Coves of the Highland Community Development District**, others within the entity, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Leroy J. Chustz
Certified Public Accountant, APAC
March 27, 2008

Coves of the Highland Community Development District
Schedule of Findings and Questioned Costs
Year Ended December 31, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of the Coves of the Highland Community Development District.

2. No reportable conditions were disclosed during the audit of the basic financial statements.

3. Two instances of noncompliance was disclosed during the audit of the basic financial statements.

4. There were no federal awards received by Coves of the Highland Community Development District.

B. FINDINGS--FINANCIAL STATEMENTS AUDIT

None

C. COMPLIANCE AND INTERNAL CONTROL FINDINGS

2006-1 The Audit of the year ended December 31, 2006 should have been completed by June 30, 2007. The audit was issued subsequent to the deadline on March 27, 2008. The District should take the necessary steps to insure that the annual audit is completed and submitted to the Louisiana Legislative Audit's Office within statutory requirements.

2006-2 The District did not adopt a budget on or before the first day of the fiscal year (January 1, 2006). The Master Trust Indenture between the District and Regions Bank requires the District to adopt a final annual budget for the years anticipated operating and maintenance fees. In future years the District should adopt a budget on or before the beginning of the fiscal year.

Management's Response:

Management has or is taking steps to remedy the two above findings.

D. FINDINGS - FEDERAL PROGRAMS

None

Coves of the Highland Community Development District
Schedule of Prior Year Findings
Year Ended December 31, 2006

The audit was the first audit of Coves of the Highland Community Development District.