

**WATERS EDGE  
COMMUNITY DEVELOPMENT DISTRICT  
PASCO COUNTY, FLORIDA  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2008**

**WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT  
PASCO COUNTY, FLORIDA**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors  
Waters Edge Community Development District  
Pasco County, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund, of Waters Edge Community Development District, Pasco County, Florida (the "District") as of and for the fiscal year ended September 30, 2008, 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 the 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, 2008, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts, and 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 important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information 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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

August 13, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Waters Edge Community Development District, Pasco County, Florida ("District") would like to offer the readers of the District's financial statements this discussion and analysis of the District's financial activities for the fiscal year ended September 30, 2008. Please read it in conjunction with the District's Independent Auditor's Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

### FINANCIAL HIGHLIGHTS

- The liabilities of the District exceeded its assets at the close of the fiscal year ended September 30, 2008 resulting in a net asset deficit balance of (\$5,195,538). Of this amount, \$52,315 is unrestricted net assets which may be used to meet the District's ongoing obligations.
- The change in the District's total net assets in comparison with the prior year was (\$70,973), 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, 2008, the District's governmental funds reported combined ending fund balances of \$886,717, an increase of \$47,051 in comparison with the prior year. Of the total fund balance, \$834,402 is reserved for debt service; and \$52,315 is unreserved, undesignated fund balance which is available for spending at the District's discretion.

### OVERVIEW OF FINANCIAL STATEMENTS

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

#### Government-Wide Financial Statements

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

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

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

The government-wide financial statements include all governmental activities that are principally supported by 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. All of the funds of the District can be divided into one 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 outflow 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 balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund and capital projects fund. All funds are considered to be major funds.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with the budget.

### Notes to the 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, liabilities exceeded assets by (\$5,195,538) at the close of the fiscal year ended September 30, 2008.

A portion of 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 landowners; 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.

An additional portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. They are funds set aside for debt service under the Bond Indenture. The remaining balance of unrestricted net assets may be used to meet the District's other obligations.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

	NET ASSETS	
	SEPTEMBER 30,	
	Governmental Activities	
	2008	2007
Assets, excluding capital assets	\$ 1,178,836	\$ 1,203,913
Capital assets, net of depreciation	6,236,954	6,534,143
Total assets	7,415,790	7,738,056
Liabilities, excluding long-term liabilities	296,328	362,621
Long-term liabilities	12,315,000	12,500,000
Total liabilities	12,611,328	12,862,621
Net Assets		
Invested in capital assets, net of related debt	(5,810,300)	(5,609,335)
Restricted for debt service	562,447	417,418
Unrestricted	52,315	67,352
Total net assets (deficit)	\$ (5,195,538)	\$ (5,124,565)

The District's net assets decreased by (\$70,973) during the fiscal year ended September 30, 2008. Key elements of the change in net assets are reflected in the following table:

	CHANGES IN NET ASSETS	
	FOR THE FISCAL YEAR END SEPTEMBER 30,	
	Governmental Activities	
	2008	2007
Revenues:		
Program revenues	\$ 1,109,403	\$ 1,264,380
General revenues	3,577	6,067
Total revenues	1,112,980	1,270,447
Expenses:		
General government	82,902	99,260
Physical environment	432,716	5,207,188
Interest	668,335	668,198
Total expenses	1,183,953	5,974,646
Change in net assets	(70,973)	(4,704,199)
Net assets (deficit) beginning	(5,124,565)	(420,366)
Net assets (deficit) ending	\$ (5,195,538)	\$ (5,124,565)

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2008 was \$1,183,953. The majority of the costs of the District's activities were paid by program revenues. Program revenues, comprised primarily of assessments, decreased during the fiscal year as a result of a decrease in interest income earned on investments and a decrease in assessment revenues. The decrease in assessment revenues is associated with a decrease in budgeted operating and maintenance expenditures.

## FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

## FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS (Continued)

In the table below, we have presented the cost of the largest functions/programs as a percentage of total governmental funds.

	FOR THE FISCAL YEAR END SEPTEMBER 30,			
	2008		2007	
General government	\$ 73,143	7%	\$ 89,339	3%
Physical environment	135,527	13%	210,337	6%
Roads and streets	-	-%	626	-%
Interest and principal on long-term debt	847,500	79%	882,835	26%
Capital outlay	9,759	1%	2,163,608	65%
Total	<u>\$ 1,065,929</u>	<u>100%</u>	<u>\$ 3,346,745</u>	<u>100%</u>

As noted above, debt service comprises the majority of expenditures for total governmental activities for the current year and capital outlay for the prior year.

### 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. The general fund budget for the fiscal year ended September 30, 2008 was amended to decrease both revenues and appropriations by (\$141,460).

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At September 30, 2008, the District had \$6,633,196 invested in infrastructure. In the government-wide financial statements, depreciation of \$396,242 has been taken, which resulted in a net book value of \$6,236,954. More detailed information about the District's capital assets is presented in the notes of the financial statements.

#### Capital Debt

At September 30, 2008, the District had \$12,315,000 in Bonds outstanding for its governmental activities, a decrease of approximately 1% from the prior year. No new debt was issued during the year, and the District had no immediate need to issue additional debt. More detailed information about the District's capital debt is presented in the notes of the financial statements.

#### Contacting the District's Financial Management

This financial report is designed to provide our citizens, landowners, 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 District's Finance Department at 3434 Colwell Avenue, Suite 200, Tampa, Florida, 33614.

**WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT  
PASCO COUNTY, FLORIDA  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2008**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash	\$ 23,244
Investments	52,755
Interest receivable	157
Assessments receivable	1,096
Restricted assets:	
Investments	832,939
Interest receivable	899
Deferred charges	267,746
Capital assets:	
Depreciable, net	<u>6,236,954</u>
Total assets	<u>7,415,790</u>
 <b>LIABILITIES</b>	
Accounts payable	975
Due to lot owners	23,398
Accrued interest payable	271,955
Non-current liabilities:	
Due within one year	195,000
Due in more than one year	<u>12,120,000</u>
Total liabilities	<u>12,611,328</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	(5,810,300)
Restricted for debt service	562,447
Unrestricted	<u>52,315</u>
Total net assets (deficit)	<u>\$ (5,195,538)</u>

See notes to the financial statements

**WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT  
PASCO COUNTY, FLORIDA  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
General government	\$ 82,902	\$ 82,902	\$ -	\$ -
Physical environment	432,716	152,114	843	(279,759)
Interest on long-term debt	668,335	851,831	21,713	205,209
Total governmental activities	<u>1,183,953</u>	<u>1,086,847</u>	<u>22,556</u>	<u>(74,550)</u>
General revenues:				
				3,577
Unrestricted investment earnings				<u>3,577</u>
Total general revenues				<u>3,577</u>
Change in net assets				(70,973)
Net assets (deficit) - beginning				<u>(5,124,565)</u>
Net assets (deficit) - ending				<u>\$ (5,195,538)</u>

See notes to the financial statements

**WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT  
PASCO COUNTY, FLORIDA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2008**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
<b>ASSETS</b>				
Cash	\$ 23,244	\$ -	\$ -	\$ 23,244
Investments	52,755	832,939	-	885,694
Assessments receivable	532	564	-	1,096
Interest receivable	157	899	-	1,056
Total assets	<u>\$ 76,688</u>	<u>\$ 834,402</u>	<u>\$ -</u>	<u>\$ 911,090</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	975	-	-	975
Due to lot owners	23,398	-	-	23,398
Total liabilities	<u>24,373</u>	<u>-</u>	<u>-</u>	<u>24,373</u>
Fund balances:				
Reserved for:				
Debt service	-	834,402	-	834,402
Unreserved, reported in:				
General fund	52,315	-	-	52,315
Total fund balances	<u>52,315</u>	<u>834,402</u>	<u>-</u>	<u>886,717</u>
Total liabilities and fund balances	<u>\$ 76,688</u>	<u>\$ 834,402</u>	<u>\$ -</u>	<u>\$ 911,090</u>

See notes to the financial statements

**WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT  
PASCO COUNTY, FLORIDA  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2008**

Fund balance - governmental funds		\$ 886,717
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p> <p>Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in the governmental funds. The statement of net assets includes those capital assets, net of any accumulated depreciation, in the net assets of the government as a whole.</p>		
Cost of capital assets	\$ 6,633,196	
Accumulated depreciation	<u>(396,242)</u>	6,236,954
<p>Bond issuance costs are not financial resources and, therefore are not reported as assets in the governmental funds. The statements of net assets includes these costs, net of amortization.</p>		
Bond issuance costs	297,644	
Accumulated amortization	<u>(29,898)</u>	267,746
<p>Liabilities not due and payable from current available resources are not reported as liabilities in the governmental fund statements. All liabilities, both current and long-term, are reported in the government-wide statements.</p>		
Accrued interest payable	(271,955)	
Bonds payable	<u>(12,315,000)</u>	<u>(12,586,955)</u>
Net assets of governmental activities		<u><u>\$ (5,195,538)</u></u>

See notes to the financial statements

**WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT  
PASCO COUNTY, FLORIDA  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
<b>REVENUES</b>				
Assessments	\$ 235,016	\$ 851,831	\$ -	\$ 1,086,847
Interest	3,577	21,713	843	26,133
Total revenues	<u>238,593</u>	<u>873,544</u>	<u>843</u>	<u>1,112,980</u>
<b>EXPENDITURES</b>				
Current:				
General government	73,143	-	-	73,143
Physical environment	135,527	-	-	135,527
Debt Service:				
Principal	-	185,000	-	185,000
Interest	-	662,500	-	662,500
Other costs	-	-	9,759	9,759
Total expenditures	<u>208,670</u>	<u>847,500</u>	<u>9,759</u>	<u>1,065,929</u>
Excess (deficiency) of revenues over (under) expenditures	29,923	26,044	(8,916)	47,051
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	16,611	-	16,611
Transfers out	-	-	(16,611)	(16,611)
Total other financing sources (uses)	<u>-</u>	<u>16,611</u>	<u>(16,611)</u>	<u>-</u>
Net change in fund balances	29,923	42,655	(25,527)	47,051
Fund balances (deficit) - beginning	<u>22,392</u>	<u>791,747</u>	<u>25,527</u>	<u>839,666</u>
Fund balances (deficit) - ending	<u>\$ 52,315</u>	<u>\$ 834,402</u>	<u>\$ -</u>	<u>\$ 886,717</u>

See notes to the financial statements

**WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT  
PASCO COUNTY, FLORIDA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**

Net change in fund balances - total governmental funds	\$ 47,051
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation of capital assets is not recognized in the governmental fund statements but is reported as an expense in the statement of activities.	(297,189)
Repayments of long-term liabilities are reported as expenditures in the governmental fund statement but such repayments reduce liabilities in the statement of net assets and are eliminated in the statement of activities.	185,000
Amortization of deferred charges is not recognized in the governmental fund statement, but is reported as an expense in the statement of activities.	(9,921)
The change in accrued interest on long-term liabilities between the current and prior fiscal year is recorded in the statement of activities but not in the fund financial statements.	<u>4,086</u>
Change in net assets of governmental activities	<u><u>(70,973)</u></u>

See notes to the financial statements

**WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT  
PASCO COUNTY, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

Waters Edge Community Development District ("District") was established on February 14, 2005 by Ordinance 05-02 of Pasco County, Florida, 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 ("Board"), which is composed of five members. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes. The Supervisors are elected on an at large basis by the owners of the property within the District. At September 30, 2008, all of the Board members are affiliated with Ryland Homes ("Developer"). In addition, the Developers own the majority of the land; therefore, the District is economically dependent on the Developers.

The Board has the responsibility for:

1. Assessing 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.

**Government-Wide and Fund Financial Statements**

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

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment. Operating-type special assessments for maintenance and debt service are treated as charges for services. and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not included among program revenues are reported instead as *general revenues*.

## NOTE 1 – 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 are non-ad valorem assessments imposed on assessable lands located within the District. Assessments may be levied on property to pay for the operations and maintenance of the District. The fiscal year for which annual assessments may be levied begins on October 1 with discounts available for payments through February 28 and become delinquent on April 1. For debt service assessments, amounts collected as advance payments are used to prepay a portion of the Bonds outstanding. Otherwise, assessments are collected annually to provide funds for the debt service on the portion of the Bonds which are not paid with prepaid assessments.

Assessments and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. The portion of assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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**

This fund accounts for the financial resources to be used for the acquisition or construction of major infrastructure within the District.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first for qualifying expenditures, then unrestricted resources as they are needed.

## NOTE 1 – 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.

#### 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 allowed in 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
Landscaping and entry	15

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Assets, Liabilities and Net Assets or Equity (Continued)**

#### Capital Assets (Continued)

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.

#### Deferred Charges

In a prior year, in connection with the issuance of certain debt, the District incurred costs totaling \$297,644. In the government-wide financial statements that amount has been capitalized and amortized over the estimated life of the Bonds. At September 30, 2008 the District reported accumulated amortization of \$29,898.

#### 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 ratably over the life of the Bonds. 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 Equity/Net Assets

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

Net assets in the government-wide 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.

### **Other Disclosures**

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

## NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### 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) Public hearings are 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.
- f) Unused appropriation for annually budgeted funds lapse at the end of the year.

## NOTE 3 – CASH AND INVESTMENTS

### Cash

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, 2008:

	Fair Value	Credit Risk	Maturities
Money Market Mutual Funds - First American Treasury Obligations	\$ 885,097	S&P AAAm	Weighted average of the fund portfolio: 14 days
Local Government Surplus Trust Funds Investment Pool - Fund A	22	S&P AAAm	Weighted average of the fund portfolio: 8.5 days
Local Government Surplus Trust Funds Investment Pool - Fund B	575	Not rated	Weighted average life of the fund: 9.36 years
Total Investments	<u>\$ 885,694</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 using unspent proceeds.

#### NOTE 4 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended September 30, 2008 were as follows:

Fund	Transfer in	Transfer out
Debt service fund	\$ 16,611	\$ -
Capital projects fund	-	16,611
Total	\$ 16,611	\$ 16,611

Transfers are used to move revenues from the fund where collection occurs to the fund where funds have been reallocated for use per the terms of the Bond Indenture.

#### NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2008 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Capital assets, being depreciated				
Stormwater system	\$ 5,438,383	\$ -	\$ -	\$ 5,438,383
Landscaping and entry	1,194,813	-	-	1,194,813
Total capital assets, being depreciated	6,633,196	-	-	6,633,196
Less accumulated depreciation for:				
Stormwater system	72,505	217,535		290,040
Landscaping and entry	26,548	79,654	-	106,202
Total accumulated depreciation	99,053	297,189	-	396,242
Total capital assets, being depreciated, net	6,534,143	(297,189)	-	6,236,954
Governmental activities capital assets, net	\$ 6,534,143	\$ (297,189)	\$ -	\$ 6,236,954

The costs of the infrastructure and capital assets of the District were funded, in part, by the Series 2005 Bonds discussed in Note 6, with the remaining portion funded by the Developer. Improvements included roadways, stormwater management and water distribution systems, landscaping, and entrance features. Upon completion, certain improvements were conveyed to other entities for ownership and maintenance and, therefore, have been excluded from the schedule above.

During the fiscal year, excess reserve funds were transferred to the deferred cost account per the bond indenture. The Developer was paid \$9,759 from the deferred cost account as payment for funds advanced for the project. All future excess funds in the Series 2005 reserve account will be transferred to the prepayment account and used for the extraordinary mandatory redemption of the Series 2005 bonds.

#### NOTE 6 – LONG-TERM LIABILITIES

On September 28, 2005, the District issued \$12,710,000 of Capital Improvement Revenue Bonds, Series 2005 due on May 1, 2036 with a fixed interest rate of 5.3%. 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 on the Bonds is to be paid serially commencing May 1, 2007 through May 1, 2036.

The Series 2005 Bonds are subject to redemption at the option of the District prior to their maturity. In addition, 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. This occurred subsequent to fiscal year end as the District used excess reserves and funds transferred from the deferred cost account to prepay \$40,000 of the Series 2005 Bonds.

**NOTE 6 – LONG-TERM LIABILITIES (Continued)**

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 is in compliance with those requirements of the Bond Indenture at September 30, 2008.

Changes in long-term liability activity for the fiscal year ended September 30, 2008 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 2005	\$ 12,500,000	\$ -	\$ 185,000	\$ 12,315,000	\$ 195,000
Total	\$ 12,500,000	\$ -	\$ 185,000	\$ 12,315,000	\$ 195,000

At September 30, 2008, the scheduled debt service requirements on the long-term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2009	\$ 195,000	\$ 652,695	\$ 847,695
2010	210,000	642,360	852,360
2011	220,000	631,230	851,230
2012	230,000	619,570	849,570
2013	245,000	607,380	852,380
2014 - 2018	1,425,000	2,828,875	4,253,875
2019 - 2023	1,870,000	2,406,730	4,276,730
2024 - 2028	2,430,000	1,855,000	4,285,000
2029 - 2033	3,175,000	1,136,055	4,311,055
2034 - 2036	2,315,000	248,305	2,563,305
Total	\$ 12,315,000	\$ 11,628,200	\$ 23,943,200

**NOTE 7 – DEFICIT FUND EQUITY**

The District has a government-wide net asset deficit of (\$5,195,538) as of September 30, 2008. There is no such deficit reflected in the governmental fund financial statements. The deficit in the government-wide statement of net assets primarily relates to the excess of the amount of long-term debt outstanding over the amount of capital assets, net of accumulated depreciation. In a prior year various infrastructure improvements necessary to complete the District were financed through the issuance of long-term debt but were conveyed to other entities for maintenance. Those capital assets are not included in the assets of the District; however, the long-term debt associated with those assets remains a liability of the District.

**NOTE 8 – DEVELOPER TRANSACTIONS**

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. Prior to a current year refund, total Developer revenues of \$660,636 consisted of \$611,378 of assessment revenues and \$49,258 of Developer contributions. Subsequent to the disbursement of the Developer's refund in the amount of \$76,905, Developer assessment revenues totaled \$583,731 for the fiscal year ended September 30, 2008.

#### **NOTE 9 – COST SHARE AGREEMENT**

The District has an agreement with the Waters Edge Master Association (“Association”) to share certain maintenance costs, including landscaping of common areas and gate repairs. The agreement provides that the District is responsible for paying 40% of maintenance costs associated with the landscaping of common areas whereas the Association is responsible for paying the remaining 60%. In addition, in the event that damages occur to the Association’s entry gates, both parties agree to split the cost. In connection with the agreement, the District’s portion of shared costs for the fiscal year ended September 30, 2008 totaled approximately \$91,300.

#### **NOTE 10 – MANAGEMENT COMPANY**

The District has contracted with a management company to perform management advisory services, which include financial and accounting advisory services. Certain employees of the management company also serve as 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.

#### **NOTE 11 – RISK MANAGEMENT**

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

#### **NOTE 12 – SUBSEQUENT EVENTS**

##### **Bond Payments**

In November 2008, the District prepaid \$40,000 of the Series 2005 Bonds. The prepayment was an extraordinary mandatory redemption as outlined in the Bond Indenture.

**WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT  
PASCO COUNTY, FLORIDA  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Assessments	\$ 284,000	\$ 233,315	\$ 235,016	\$ 1,701
Developer contributions	90,775	-	-	-
Interest	-	-	3,577	3,577
Total revenues	374,775	233,315	238,593	5,278
<b>EXPENDITURES</b>				
Current:				
General government	99,275	75,815	73,143	2,672
Physical environment	271,000	153,000	135,527	17,473
Roads and streets	4,500	4,500	-	4,500
Total expenditures	374,775	233,315	208,670	24,645
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	29,923	\$ 29,923
Fund balance - beginning			22,392	
Fund balance - ending			\$ 52,315	

See notes to required supplementary information

**WATERS EDGE COMMUNITY DEVELOPMENT DISTRICT  
PASCO COUNTY, FLORIDA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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. The general fund budget for the fiscal year ended September 30, 2008 was amended to decrease both revenues and appropriations by (\$141,460).

**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  
Waters Edge Community Development District  
Pasco County, Florida

We have audited the financial statements of the governmental activities and each major fund of Waters Edge Community Development District, Pasco County, Florida ("District") as of and for the fiscal year ended September 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 13, 2009. 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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

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

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

This report is intended for the information and use of the management, Board of Supervisors of the District, 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.

A handwritten signature in black ink, appearing to read "D. J. ...", is positioned above the date.

August 13, 2009

**MANAGEMENT LETTER PURSUANT TO THE RULES OF  
THE AUDITOR GENERAL FOR THE STATE OF FLORIDA**

To the Board of Supervisors  
Waters Edge Community Development District  
Pasco County

We have audited the accompanying basic financial statements of Waters Edge Community Development District, Pasco County, Florida ("District") as of and for the fiscal year ended September 30, 2008, and have issued our report thereon dated August 13, 2009.

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 State. 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 August 13, 2009. 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 the District, 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 the District, 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.



August 13, 2009

## REPORT TO MANAGEMENT

### I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None

### II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

None

### 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:

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, 2007.

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, 2008.

4. Violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement amounts 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, 2008.

5. For matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors, the following may be reported based on professional judgment:

- a. Violations of laws, regulations, and contracts or grant agreements, or abuse that have occurred, or are likely to have occurred.

- b. Control deficiencies that are not significant deficiencies, including, but not limited to:

1. Improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements).

2. Failures to properly record financial transactions.

3. Inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

## **REPORT TO MANAGEMENT (Continued)**

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, 2008.

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, 2008 financial audit report.
8. The District has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
9. We applied financial condition assessment procedures pursuant to Rule 10.556(7), and no deteriorating financial conditions were noted. 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.