



Key Largo Wastewater Treatment District

COMPREHENSIVE ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2004

KEY LARGO WASTEWATER TREATMENT DISTRICT

Comprehensive Annual Financial Report
For the Fiscal Year Ended September 30, 2004

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Introductory Section

KEY LARGO WASTEWATER TREATMENT DISTRICT
POST OFFICE BOX 491; KEY LARGO, FLORIDA 33037
(305) 451-5105

January 21, 2005

Honorable Chairman,
Members of the Board of Commissioners, and
Citizens of Key Largo

The comprehensive annual financial report of the Key Largo Wastewater Treatment District, Florida for the fiscal year ended September 30, 2004, is submitted herewith pursuant to Florida Statute Chapter 218.39 and Chapter 189.436(3) governing audit requirements for special districts. The comprehensive annual financial report was compiled by the Finance Officer based upon financial information provided by the District's contracted management team, Government Services Group, through July 31, 2004, and thereafter upon financial information recorded by District staff beginning August 1, 2004. It represents the official report of the District's financial operations and condition to the citizens, Board of Commissioners, rating agencies, and other interested parties.

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of our knowledge and belief, the data is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and results of operations of the single enterprise fund of the District.

State law requires an annual audit by independent certified public accountants. The District's financial statements have been audited by the independent certified public accounting firm of Catarineau & Catarineau, LLC and they have issued an unqualified opinion on the financial statements for the fiscal year ended September 30, 2004. In addition to meeting the requirements set forth in state law, the audit was also designed to meet the requirements of the Single Audit Act and the related Federal OMB Circular A-133. The auditors' report on the financial statements is included in the Financial Section of this report. Auditors' reports related specifically to the single audit are in the Other Reports Section.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent accountants.

The financial and accounting structure of the District consists of a single enterprise fund. The District is an Independent Special District authorized by Chapter 2002-337, Florida Statutes, enacted May 23, 2002. The principle function of the District is to provide for the design, construction and operation of wastewater treatment facilities to serve the island of Key Largo, an unincorporated portion of Monroe County, Florida. The District complies with the operating and reporting requirements of Chapter 189, Florida Statutes as applicable to Special Districts.

All management services, including financial and grant management and District Clerk functions, were provided by Government Services Group, Inc. (GSG) on a contract basis in fiscal 2003 and continuing into 2004. A General Manager was employed by the District on June 1, 2004. Beginning August 1, 2004, a staff of District employees assumed all management and financial reporting responsibilities for the District and the contract with GSG was terminated.

The District maintains an intensive level of internal controls. Every disbursement transaction requires specific approval by the five member Board of Commissioners. All disbursements in excess of \$2,500 require dual signature, one of which must be a District Officer (commissioner) for disbursements in excess of \$10,000. In January, 2005, the threshold for dual signatures was reduced to \$1,000.

The District develops an annual budget to provide for the operations and capital programs of the District. A draft budget is developed by management and presented to the Board of Commissioners for review, revision and ultimate approval. A series of budget presentations, public hearings and budget revisions are conducted in July and August. In September of each year, following public advertisement of the budget, it is adopted by the Board of Commissioners, by resolution, for the upcoming fiscal year of October 1st through September 30th.

The District's mission is part of larger national initiatives to save the Everglades and Florida Bay eco structure for the benefit of future generations. In Key Largo, and typically all the Florida Keys except Key West, the disposal of domestic sewage has been historically handled by septic tanks and cesspits. A few commercial operations utilize small package sewage treatment plants. The statute creating the District established goals which included the introduction of advanced waste disposal treatment infrastructure to serve all residents and commercial operations of Key Largo by the year 2010.

Over 13,000 individual parcels of land exist on Key Largo. In its inaugural year, FY 2003, the District entered into contracts that would provide for the first major wastewater treatment plant on the island and to install vacuum based collection systems in the Key Largo Trailer Village and Key Largo Park communities containing 850 equivalent residential connections. Work on these projects in 2004 focused primarily on design, engineering and permitting. A ground breaking ceremony for the Key Largo Trailer Village project was conducted on October 27, 2004. Plant construction is scheduled for completion by the end of FY 2005, with full scale operation in FY 2006.

In FY 2005 the District has initiated planning for the construction of a main collection line to sewer the northern half of the island. Collection systems will be added in additional communities along the new main in FY2006, and treatment capacity will be expanded from 0.183 MGD to 2.25 MGD to accommodate the increased flow which will be generated.

The preparation of this comprehensive annual financial report for the Key Largo Wastewater Treatment District was made possible in large part by the dedicated efforts of the staff of Government Services Group throughout 10 months of the fiscal year, and thereafter through year end by their active participation in the transitioning of management and financial responsibilities to District employees.

Without the leadership and vision of the Board of Commissioners, preparation of this report would not have been possible.



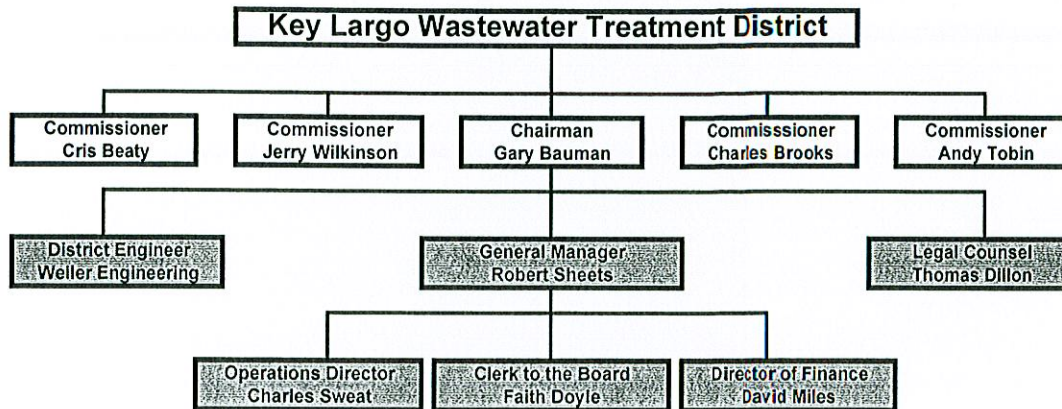
Charles F. Fishburn, General Manager



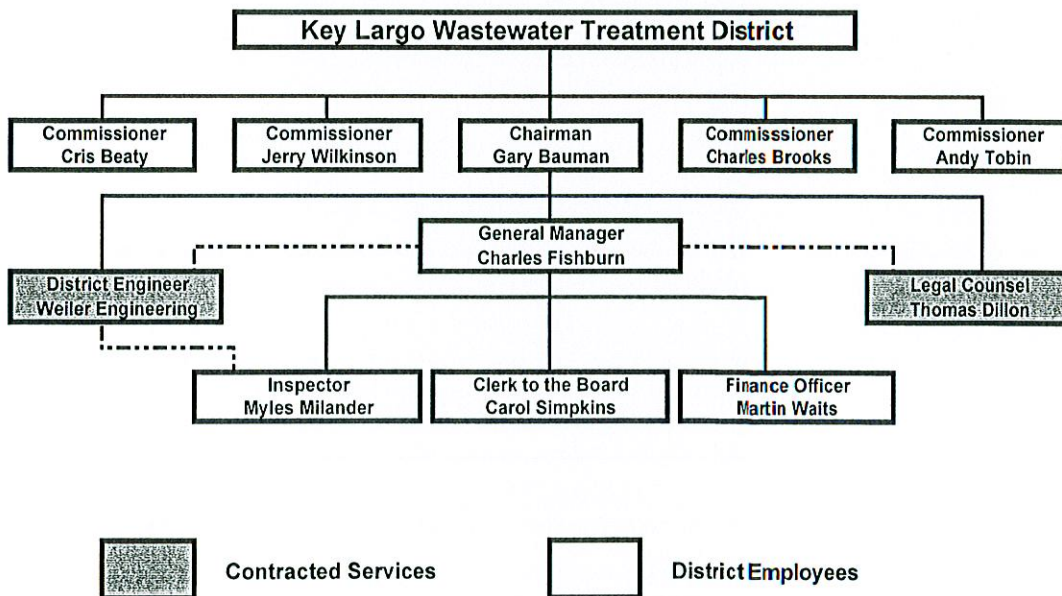
Martin D. Waits, Finance Officer

KEY LARGO WASTEWATER TREATMENT DISTRICT ORGANIZATION CHARTS

Contract Management Organization Responsible For Financial Management Through July 31, 2004



Staff Organization Responsible For Financial Management Beginning August 1, 2004



Key Largo Wastewater Treatment District List of Principal Officials

Board of Commissioners

FY 2004

Gary Bauman, Chairman
Jerry Wilkinson, Vice Chairman
Cris Beaty, Secretary
Charles Brooks
Andrew Tobin

FY 2005

Charles Brooks, Chairman
Gary Bauman, Vice Chairman
Andrew Tobin, Secretary
Glenn Patton
Claude Bullock

District Management

Charles F. Fishburn, General Manager
Martin D. Waits, Finance Officer
Carol J. Simpkins, Clerk to the Board
Myles E. Mylander, Inspector

District Counsel

Thomas M. Dillon

District Engineer

The Weiler Engineering Corp.
R. Jeff Weiler P.E., President
Edward R. Castle, Project Manager

Financial Section



CATARINEAU & CATARINEAU, LLC

CERTIFIED PUBLIC ACCOUNTANTS

91760 Overseas Highway
Tavernier, Florida 33070

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Key Largo Wastewater Treatment District
Key Largo, Florida

We have audited the accompanying financial statements of the Key Largo Wastewater Treatment District (the "District") as of and for the year ended September 30, 2004. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with auditing standards accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2005 on our consideration of the District's internal control over financial reporting and our 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 our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of revenues, expenses, and changes in fund net assets-budget and actual are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Catarineau & Catarineau, LLC

January 12, 2005

Key Largo Wastewater Treatment District
Management Discussion and Analysis

On behalf of the Key Largo Wastewater Treatment District, management presents this narrative overview and analysis of financial activities of the District to readers of the District's financial statements for the fiscal year ended September 30, 2004. We are providing this discussion and analysis in order to provide the reader with a better understanding of the District's overall financial position. This narrative should be considered in conjunction with the additional information contained in the introductory transmittal letter and the District's financial statements which follow in this section.

Overview of Operations

The District is a relatively new governmental entity formed with the election of inaugural commissioners on November 5, 2002, as provided in Chapter 2002-337, Florida Statutes. The District's mission includes the introduction of advanced wastewater treatment and disposal infrastructure to serve all residents and commercial operations on the unincorporated island of Key Largo by the year 2010.

In its inaugural year, FY 2003, the District's activities were focused entirely on administrative responsibilities associated with organization of a new public entity and on selecting contractors to begin implementing its mission to design, construct and operate a wastewater treatment system to serve the citizens of Key Largo. Contracts to design and build a 0.183 million gallon per day wastewater treatment plant and to install collection systems in the Key Largo Trailer Village and Key Largo Park communities serving 850 equivalent residential connections were awarded. Administrative expenses totaling approximately \$326,000 were funded by a \$100,000 loan from Monroe County and a County grant which provided the balance of funds required.

In the subject year of this report, FY 2004, the District's activities focused on administration of the engineering design of these projects. The District also established an employee staff to manage construction of projects in FY 2005 and beyond, to provide service to customers and operate the new facilities upon startup, and to implement future projects extending wastewater treatment service to all residents of Key Largo by 2010. Administrative expenses totaling \$348,576 were funded by Monroe County with MSTU ad valorem tax revenues. Project costs totaling \$1,253,232 were funded by federal, state and local grants.

The District expects to complete construction of these initial projects and to begin operation of the treatment plant by mid-FY2006. The District is also planning for the construction of a main collection line for the northern half of the island, installing collection systems in additional communities along the new main, and expanding the treatment plant to accommodate the increased flow these new projects will generate.

The District's Single Enterprise Fund

The District uses proprietary fund accounting to record and report its results of operation as a single enterprise fund. This method of accounting is used when an entity charges customers for the services it provides.

Activities in the first two years of the District's existence have been directed toward the construction of facilities. Operation of the District as a true enterprise through the delivery of sanitary sewer services to the first customers for a fee is expected to begin in FY 2006. Comparative analysis will be provided once operations have commenced.

The District's Assets

Total Assets of the District at September 30, 2004, were \$3,573,249 and Total Liabilities amounted to \$334,474. Total Net Assets of the District were \$3,238,775.

Total Current Assets of \$208,010 essentially consisted of cash provided and cash due from Monroe County MSTU funding. Total Non-Current Assets consisted of \$1,285,773 cash provided by Federal and State grants to fund capital projects, \$1,253,232 in grant monies invested in uncompleted capital projects, and the value of land deeded to the District by Monroe County in the amount of \$826,234 as an in-kind transfer for a site to construct the wastewater treatment facility.

Total Current Assets can be used to finance day-to-day operations of the fund without constraints established by debt covenants, enabling legislation, or other legal requirements and are therefore classified as unrestricted. Total Non-Current Assets are restricted in use to fund capital projects in accordance with specific grant covenants and are further restricted in use to the implementation of specific projects.

Total Liabilities of the District in the amount of \$334,474 consisted of \$234,474 in payments due for services rendered by contractors, vendors and employees, as well as principal and accrued interest on a \$100,000 loan provided to the District in its inaugural year to assist in funding District startup.

District Revenues, Expenses, and Changes In Fund Assets

The District's Net Assets increased by \$3,314,938 in FY 2004 from a deficit of \$76,163 on October 1, 2003 to \$3,238,775 on September 30, 2004. Total revenues for the period were \$2,841,506, plus an \$826,234 in-kind transfer of land for the plant site.

There were no general revenues (i.e., fees for services provided to customers) in FY 2004. All District operating revenue was provided by Monroe County MSTU funding in the amount of \$477,151, which was 65.8% of approximately \$725,000 generated by the .35 mill MSTU levy in FY 2004. Unused funding has been escrowed by the County for use by the District in future years.

Operating expenses for the District totaled \$348,576 in FY 2004, which was \$158,752 less than the \$507,328 budgeted for the year.

Actual vs. Budgeted Operating Expenses

	<u>FY 2004 Actual</u>	<u>FY 2004 Budget</u>	<u>Under (Over) Budget</u>
Management Expense:			
Contract Staff	\$ 104,464	\$ 129,600	\$ 25,136
District Staff	57,541	-	(57,541)
Commissioners	<u>42,300</u>	<u>48,500</u>	<u>5,000</u>
	204,305	178,100	(26,205)
Administrative Expense:			
General Overhead	39,697	49,928	10,231
Legal Counsel	50,511	108,000	57,489
Audit Service	<u>10,520</u>	<u>10,300</u>	<u>(220)</u>
	100,728	168,228	67,500
Other Expenses:			
Professional Services	39,934	149,000	109,066
Miscellaneous	<u>3,609</u>	<u>12,000</u>	<u>8,391</u>
	43,543	161,000	117,457
Total Operating Expense	<u>\$ 348,576</u>	<u>\$ 507,328</u>	<u>\$ 158,752</u>

Actual expenditures for legal representation and professional services, particularly engineering support, were significantly less than budgeted. The FY 2004 budget anticipated starting construction in mid-summer, but actual groundbreaking did not occur until just before the fiscal year end. Expenditures in these areas were therefore deferred, and similar levels of spending have been reflected in the FY 2005 budget now that construction has commenced.

In FY 2004 the District received non-operating revenues of \$2,364,057 in the form of grants to implement capital projects as follows:

Federal Emergency Management Agency (FEMA)	\$ 1,839,550
Florida Department of Community Affairs (DCA)	306,591
Florida Department of Environmental Protection (FDEP)	101,466
South Florida Water Management District (SFWMD)	100,000
Monroe County Planning / Zoning Fund (148 Fund)	16,450
Monroe County Infrastructure Fund (304 Fund)	<u> -</u>
Total Grant Revenue FY 2004	<u>\$ 2,364,057</u>

The District's Capital Projects

In FY 2004 the District fully implemented the engineering and design phase of two capital projects which were authorized in FY 2003. The Key Largo Trailer Village (KLTV) project provides for the design and construction of a 0.183 MGD advanced wastewater treatment plant and the installation of a vacuum collection system in the KLTV community. The Key Largo Park (KLP) project provides for the design and installation of a vacuum collection system in the KLP community and connection to the treatment plant. The total capital commitment to these two projects is estimated to be \$11,865,458 when completed in FY 2005.

Capital Project Costs

	<u>KLTV Project</u>	<u>KLP Project</u>
Encumbrances & Expenses – FY 2003 / 2004	\$ 8,571,483	\$ 1,616,042
Anticipated Encumbrances & Expenses – FY 2005	<u>452,708</u>	<u>1,225,225</u>
Total Estimated Project Costs	<u>\$ 9,024,191</u>	<u>\$ 2,841,267</u>

The district has secured firm commitments for grants and loans from federal, state and local agencies in the total amount of \$11,927,905 to fund these projects as follows:

Capital Project Funding Commitments

	<u>KLTV Project</u>	<u>KLP Project</u>	<u>Total Commitment</u>
Federal:			
FEMA	\$ 5,485,714	-	\$ 5,485,714
State:			
DCA	1,739,286	400,600	2,139,886
FDEP	-	1,847,312	1,847,312
SFWMD	<u>100,000</u>	<u>-</u>	<u>100,000</u>
	1,839,286	2,247,912	4,087,198
Local:			
MC 148 Fund	-	456,000	456,000
MC 304 Fund	<u>1,708,993</u>	<u>190,000</u>	<u>1,898,993</u>
	1,708,993	646,000	2,354,993
Total Commitments	<u>\$ 9,033,993</u>	<u>\$ 2,893,912</u>	<u>\$ 11,927,905</u>

Basic Financial Statements

KEY LARGO WASTEWATER TREATMENT DISTRICT

STATEMENT OF NET ASSETS

September 30, 2004

ASSETS:

Current assets

Cash and cash equivalents	\$	119,504
Due from other governmental units		87,681
Prepaid rent		825
Total current assets		<u>208,010</u>

Noncurrent Assets

Restricted cash and cash equivalents		1,285,773
Land		826,234
Construction in progress		1,253,232
Total noncurrent assets		<u>3,365,239</u>

Total assets	\$	<u><u>3,573,249</u></u>
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LIABILITIES:

Current liabilities:

Accounts payable and accrued expenses	\$	21,674
Accrued salaries and benefits payable		24,457
Construction contracts payable		182,281
Accrued interest payable		6,062
Total current liabilities		<u>234,474</u>

Non current liabilities:

Due to Monroe County		<u>100,000</u>
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Total liabilities	\$	<u><u>334,474</u></u>
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NET ASSETS:

Restricted		3,193,321
Unrestricted		45,454
Total net assets	\$	<u><u>3,238,775</u></u>

See accompanying notes to financial statements

KEY LARGO WASTEWATER TREATMENT DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For The Year Ended September 30, 2004

OPERATING REVENUES:

Ad valorem taxes	\$ 477,151
Total operating revenues	<u>477,151</u>

OPERATING EXPENSES:

Board meeting compensation	42,300
Personal services	57,541
Contractual services	205,954
Other expenses	42,781
Total operating expenses	<u>348,576</u>

Operating income (loss)	128,575
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NON OPERATING REVENUES (EXPENSES):

Grants	2,364,057
Contributed land	826,234
Investment income	298
Interest and financing expense	(4,227)
Total non operating revenues (expenses)	<u>3,186,363</u>

Increase in net assets	3,314,938
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Total net assets beginning of year	<u>(76,163)</u>
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Total net assets end of year	<u>\$ 3,238,775</u>
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See accompanying notes to financial statements

KEY LARGO WASTEWATER TREATMENT DISTRICT

STATEMENT OF CASH FLOWS

For The Year Ended September 30, 2004

Cash Flows From Operating Activities:

Ad valorem taxes	\$ 424,217
Payments for personal services	(33,084)
Payments for contractual services	(221,852)
Payments for other operating expenses	<u>(85,907)</u>

Net cash provided by operating activities 83,374

**Cash Flows From Capital And Related
Financing Activities:**

Grants	2,364,057
Net Purchases/Construction of capital assets	<u>(1,070,951)</u>

Net cash flows from capital and related financing activities 1,293,106

Cash Flows From Investing Activities:

Investment earnings	298
Interest and financing expense	<u>(376)</u>

Net cash flows from investing activities (78)

Net increase in cash and cash equivalents 1,376,402

Cash and cash equivalents beginning of year 28,875

Cash and cash equivalents end of year \$ 1,405,277

See accompanying notes to financial statements

KEY LARGO WASTEWATER TREATMENT DISTRICT

STATEMENT OF CASH FLOWS

For The Year Ended September 30, 2004

**Reconciliation of operating income to
net cash provided by operating activities:**

Operating income (loss)	\$ 128,575
(Increase)/decrease in assets:	
Increase in accounts receivable	(52,935)
Increase in prepaid rent	(825)
Increase/(decrease) in liabilities:	
Increase in accounts payable	(15,898)
Increase in accrued salaries and benefits payable	<u>24,457</u>
Net cash provided by operating activities	<u>\$ 83,374</u>

Noncash investing, capital, and financing activities:

On December 17, 2004, Monroe County transferred a parcel of land valued at \$826,234 to the District for use as the site for a wastewater treatment plant.

See accompanying notes to financial statements

KEY LARGO WASTEWATER TREATMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2004

Note 1 **REPORTING ENTITY**

The Key Largo Wastewater Treatment District (District) is an autonomous Independent Special District and political body formed in 2002 by the Legislature of the State of Florida by House Bill 471, enacted as Chapter 2002-37, Laws of Florida, for the purpose of carrying out the planning, acquisition, development, operation, and management of a wastewater management system within the District's boundaries in Key Largo, Monroe County, Florida. This responsibility was transferred from the Florida Keys Aqueduct Authority (FKAA) to the District pursuant to a Interlocal Agreement dated February 26, 2003 between the District, Monroe County, and FKAA. The District is governed by a five member Board of Directors which are elected in a nonpartisan election. The District currently has four employees. Previously the District contracted with Government Services Group, Inc. for management functions. The contract covering management responsibilities was terminated effective May 9, 2004.

Note 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The District's financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The focus of proprietary fund measurement is the determination of net income, financial position and cash flows. The generally accepted accounting principles applicable to proprietary funds are similar to those applicable in the private sector. Enterprise funds account for activities (i) that are financed with debt that is secured solely by the pledge of the net revenues from fees and charges of the activity; or(ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Cash and Cash Equivalents – Cash and cash equivalents consists of cash on hand and deposited in banks. Investments with a maturity of three months or less, when purchased, are considered to be cash equivalents.

KEY LARGO WASTEWATER TREATMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2004

Revenue Recognition – During the planning, acquisition, and development phase of the District, grants, ad valorem taxes and other revenues received to cover non-capital functions will be recorded as operating revenues. Receipts from federal, state, and local government grants to construct capital assets will be recorded as non operating revenue. Revenue will be recognized when the District has filed for reimbursement from the appropriate government agency.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, and changes therein, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Restricted Assets – Restricted assets are cash and cash equivalents whose use is restricted by legal requirements. Restricted cash and cash equivalents represent amounts restricted for the construction of the Key Largo Trailer Village and Key Largo Park projects.

Capital Assets – Fixed assets are recorded at historical costs. The District maintains a \$750 threshold for additions to equipment. Construction period interest cost is capitalized as part of fixed asset cost. Contributed assets are recorded at estimated value at time of acquisition. Depreciation will begin when depreciable assets are placed in service and will be based on the estimated useful lives of the related assets.

Note 3

CASH AND CASH EQUIVALENTS

The carrying amount of the District's deposits at September 30, 2004, was \$ 1,405,277 and the related bank balance was \$ 1,664,138. The difference between the bank balance and the carrying amount represents outstanding checks.

\$100,000 of the bank balance at September 30, 2004 was insured by Federal Depository Insurance. The remaining balance of \$1,564,138 was not collateralized as required by Chapter 280, Florida Statutes. This statute requires that public funds be deposited in a bank or savings association that is designated by the State Treasurer as authorized to receive deposits in the State and that meets the collateral requirements. The collateral requirements for the bank or savings association are that the greater of (i) the average daily balance of public deposits multiplied by the depository's minimum collateral pledging level, established by the State treasurer, (ii) 25 percent of the average monthly balance of public deposits or (iii) 125 percent of the average daily balance of public deposits greater than capital must be deposited with the State Treasurer as security for public deposits. The

KEY LARGO WASTEWATER TREATMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2004

District's funds were deposited in a qualified depository, but because the account was not properly classified by the depository as a public funds account, the funds over \$100,000 were not collateralized. This oversight has subsequently been corrected.

Note 4 CAPITAL ASSETS

Capital Assets include land transferred from Monroe County on December 17, 2003 to be used as the site for the treatment plant. This land is valued at its fair market value. Construction in progress represents the capital costs incurred on the Key Largo Trailer Village and Key Largo Park projects as of September 30, 2004.

Note 5 DUE TO MONROE COUNTY

The District entered into an Interlocal Agreement with Monroe County pursuant to Sec. 163.01, Florida Statutes on December 18, 2002, in which Monroe County agreed to lend \$100,000 to the District to assist the District in completion of its projects. The District received the funds in January and deposited them at a financial institution authorized by the State of Florida to receive public fund deposits. The District must repay Monroe County the principle balance plus interest calculated at the adjusted rate per annum established by the State Revolving Loan Fund by January 7, 2006. At September 30, 2003 and September 30, 2004 the principle balance of this loan was \$100,000. At September 30, 2004, the interest payable was \$ 6,063 which includes interest expense of \$3,850 based on a rate of 3.85% for the fiscal year ended September 30, 2004.

Note 6 COMMITMENTS AND CONTINGENCIES

On December 3, 2003, the District obtained a \$150,000 line of credit to provide bridge funding for normal operating expenses. This line of credit has a term of eighteen months with an interest rate of Wall Street Journal Prime plus .50%. No funds were utilized from this line of credit during the fiscal year ended September 30, 2004.

In order to carry out the development of a wastewater management system, the District has entered into contracts with engineers and contractors to construct the collection system and treatment plant. Total commitments on these contracts were \$9,411,042 at September 30, 2004 with \$182,281 of this amount payable on that date.

KEY LARGO WASTEWATER TREATMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2004

Note 7 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts and errors and omissions. The District has liability and errors and omissions insurance through the Florida Municipal Insurance Trust (FMIT), operated by the Florida League of Cities.

On September 8, 2004, the Haskell Company made a claim for additional compensation in the amount of \$269,093, which represents additional material and labor costs claimed to have been incurred as the results of delays. The District will contest the claim vigorously and believes that while an unfavorable outcome is unlikely, it will attempt to settle the claim for a nominal amount.

Management is of the opinion that there are no lawsuits or other contingencies outstanding that would have a material adverse effect on the District's financial position.

Supplementary Information

KEY LARGO WASTEWATER TREATMENT DISTRICT
 SCHEDULE OF REVENUES AND EXPENSES, -BUDGET AND ACTUAL
 For The Year Ended September 30, 2004

	Budgeted Amounts, Original & Final	Actual Amounts	Variance with Actual Amounts, Favorable(Unfav)
OPERATING REVENUES:			
Ad valorem taxes	\$ 599,562	\$ 477,151	\$ (122,411)
Total operating revenues	<u>599,562</u>	<u>477,151</u>	<u>(122,411)</u>
OPERATING EXPENSES:			
Board Meeting Compensation	45,000	42,300	2,700
General Manager	-	30,668	(30,668)
Board Clerk	-	8,833	(8,833)
Finance Officer	-	10,365	(10,365)
Inspector	-	488	(488)
P/R Tax - FICA	2,835	5,825	(2,990)
P/R Tax - Medicare	665	1,362	(697)
Rents & Leases	7,200	2,925	4,275
Utilities	2,160	188	1,972
Telephone	600	2,859	(2,259)
Legal Advertisements	2,880	4,830	(1,950)
Office Supplies	800	6,454	(5,654)
Postage Expense	4,300	2,932	1,368
Copy Expense	8,000	8,101	(101)
Travel	4,500	547	3,953
Liability Insurance	11,500	7,538	3,962
Bank Fees	-	156	(156)
Dues & Subscriptions	300	175	125
Regulatory/Permits Fees	2,000	-	2,000
Miscellaneous Expenses	1,800	2,764	(964)
Reserve For Contingencies	3,888	228	3,660
Computer Support	5,000	525	4,475
Audit & Accounting Services	10,300	10,520	(220)
Engineering Services	-	39,934	(39,934)
Project Planning Contingency	122,000	-	122,000
Legal - General Counsel	60,000	50,511	9,489
Legal - Litigation Reserve	48,000	-	48,000
Financail Advisor	27,000	-	27,000
GSG Management Services	129,600	104,464	25,136
Capital Expenditures A&O	7,000	3,084	3,916
Total operating expenses	<u>507,328</u>	<u>348,576</u>	<u>158,752</u>
Operating income (loss)	<u>92,234</u>	<u>128,575</u>	<u>36,341</u>
NON OPERATING REVENUES (EXPENSES):			
Investment Earnings	6,500	298	(6,202)
Debt service/interest expense	(21,525)	(4,227)	17,298
Total non operating revenues (expenses)	<u>(15,025)</u>	<u>(3,929)</u>	<u>11,096</u>
Budgeted income(loss)	<u>\$ 77,209</u>	<u>\$ 124,646</u>	<u>\$ 47,437</u>

**Key Largo Wastewater Treatment District
Schedule of Expenditures of Federal Awards
for the Year Ended September 30, 2004**

<u>Federal Grantor/Pass-through Grantor or Program</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Federal Emergency Management Agency Unmet Needs	97.039		\$ 894,353

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of federal awards includes the federal grant activity of the Key Largo Wastewater Treatment District and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - ADDITIONAL FUNDING

The District expended \$148,059 in funds from the state share of the above federal grant in the year ended September 30, 2004. In addition, \$100,000 in state funding from the South Florida Water Management District for use in the construction of the wastewater treatment plant was expended.

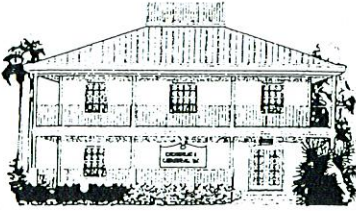
Statistical Section

KEY LARGO WASTEWATER TREATMENT DISTRICT

Miscellaneous Statistical Data (Unaudited)

Date of Formation	November 19, 2002
Form of Government	Independent Special District
Board Elections	Non-partisan
Employees	4 Staff, 5 Commissioners
Population	11,688 (2000 census, tracts 9402-04 & 9706)
Equivalent Dwelling Units (EDU's)	13,000 (Estimate)
Geographic Size	14.4 Square Miles
Assessed Property Value	\$2,262,644,965 (2003), \$2,737,790,904 (2004)
Water System	Supplied by the Florida Keys Aqueduct Authority
Electric Service	Provided by the Florida Keys Electric Co-op
Sanitary Sewage	Key Largo Wastewater Treatment District (Under Construction) replacing privately owned package plants, septic tanks and cesspits.

Other Reports



CATARINEAU & CATARINEAU, LLC

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Key Largo Wastewater Treatment District
Key Largo, Florida

We have audited the financial statements of the Key Largo Wastewater Treatment District (District) for the year ended September 30, 2004, and have issued our report thereon dated January 12, 2005. 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. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local government entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.554 (1) (h) 1.) require that we comment as to whether corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. As there were no such items reported in the annual financial audit report for the fiscal year ended September 30, 2003, this section is not applicable.

Section 10.554 (1) (h) 3. of the Rules of the Auditor General require that we comment as to whether or not recommendations made in the preceding annual financial audit report to improve the District's financial management, accounting procedures and internal controls have been made. See the Prior Year's Comments section of the separate letter to management dated January 12, 2005.

The Rules of the Auditor General (Section 10.554 (1) (g) 2.) required that we comment as to whether or not the District complied with Section 218.415, Florida Statutes, regarding the investment of public funds. The District was in compliance with the alternative investment guidelines in Subsection (17) of the statute for the year ended September 30, 2004.

As required by Rules of the Auditor General (Section 10.554 (1) (h) 6. a., the scope of our audit included a review of the provisions of Section 218.503 (1), Florida Statutes, "Determination of Financial Emergency." In connection with our audit, we determined that the Key Largo Wastewater Treatment District is not in a state of financial emergency as a consequence of the conditions described by Section 218.503 (1), Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554 (1) (h) 6. b., we determined that the annual financial report for the Key Largo Wastewater Treatment District to be filed with the Florida Department of Banking and Finance pursuant to Section 218.32 (1) (a), Florida Statutes, and is in substantial agreement with the annual financial audit report for the year ended September 30, 2004.

As required by the Rules of the Auditor General (Section 10.554 (1) (h) 6. c., we applied financial condition assessment procedure pursuant to Rule 10.556(8), and noted that the District's financial conditions were not deteriorating.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instance of noncompliance, which we have reported to management of Key Largo Wastewater Treatment District in a separate letter dated January 12, 2005.

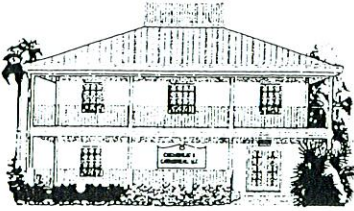
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Districts' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and the District's operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Key Largo Wastewater Treatment District in a separate letter dated January 12, 2005.

This report is intended solely for the information and use of the Board of Directors, management, the State of Florida Office of the Auditor General, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Catarineau & Colbourne, LLC

January 12, 2005



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Key Largo Wastewater Treatment District
Key Largo, Florida

Compliance

We have audited the compliance of Key Largo Wastewater Treatment District (District) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Districts' compliance with those requirements.

In our opinion the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2004

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Catarmine & Colarneau, LLC

January 12, 2005

KEY LARGO WASTEWATER TREATMENT DISTRICT
BOARD OF COMMISSIONERS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Key Largo Wastewater Treatment District.
2. No reportable conditions in internal control related to the audit of the financial statements were noted in the auditor's report on the financial statements and schedule of expenditures of federal awards.
3. No instances of noncompliance material to the financial statements of Key Largo Wastewater Treatment District were disclosed during the audit.
4. No reportable conditions related to the audit of the major federal awards program are reported in the auditor's report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.
5. The auditor's report on compliance for the Federal Emergency Management Agency Unmet Needs program is unqualified.
6. There are no audit findings that are to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program is Federal Emergency Management Agency Unmet Needs, CFDA No. 97.039.
8. The threshold for distinguishing between Type A and Type B programs was \$300,000.
9. Key Largo Wastewater Treatment District did not qualify as a low risk auditee.

FINDINGS – FINANCIAL STATEMENTS AUDIT

None

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS
AUDIT**

None