



Key Largo Wastewater Treatment District

COMPREHENSIVE ANNUAL FINANCIAL REPORT

September 30, 2005

Key Largo Wastewater Treatment District
 Comprehensive Annual Financial Report
 For the Fiscal Year ended September 30, 2005

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Introductory Section



KEY LARGO WASTEWATER TREATMENT DISTRICT
P.O. BOX 491; KEY LARGO, FLORIDA 33037
(305) 453-5804 FAX (305) 453-5807

February 24, 2006

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, 2005, 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 recorded by District staff. 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 Grau & Associates. They have issued an unqualified opinion on the financial statements for the fiscal year ended September 30, 2005. 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) requires 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.

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 \$1,000 require dual signature, one of which must be a District Officer (commissioner) for disbursements in excess of \$10,000.

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.

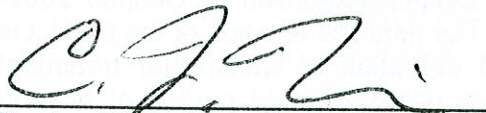
The District's mission is part of larger state and national initiatives to save the Everglades and Florida Bay eco structure for the benefit of future generations. In Key Largo, and typically all the Florida Keys except Key West, the disposal of domestic sewage has been historically handled by septic 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 wastewater treatment and disposal 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. Work in FY2005 focused on construction through approximately 75% completion. Construction is scheduled for full completion in March of FY 2006, with service to customers beginning in April.

In FY 2005 the District also initiated design and engineering for the construction of a main transmission line to sewer the northern half of the island, including connection of commercial businesses and construction of collection systems in several communities along the new main. The project also provides for expansion of the treatment plant from 0.183 to 2.30 million gallons per day. The expanded treatment plant capacity will eventually provide service to the District's entire service area.

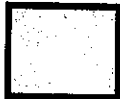
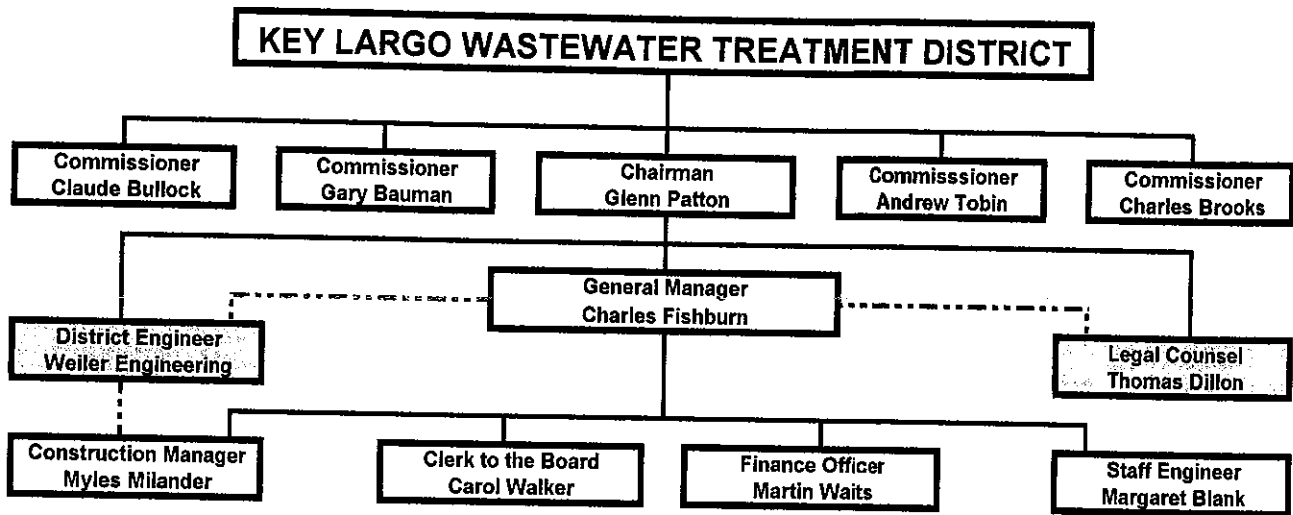
The preparation of this comprehensive annual financial report for the Key Largo Wastewater Treatment District was made possible by the dedicated efforts of all members of the District's staff. Each staff member has our sincere appreciation for the contributions made to this report.

In closing, 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 Chart



Contracted Services



District Employees

Key Largo Wastewater Treatment District List of Principal Officials

Board of Commissioners

FY 2005

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

FY 2006

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

District Management

Charles F. Fishburn, General Manager
Martin D. Waits, Finance Officer
Carol J. Walker, Clerk to the Board
Margaret H. Blank P.E., Staff Engineer
Myles E. Milander, Construction Manager

District Counsel

Thomas M. Dillon

District Engineer

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

Financial Section

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 fiscal year ended September 30, 2005, 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 an opinion on these financial statements based on our audit.

We have 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 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, 2005, and the results of its operations and its cash flows 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 a report dated January 12, 2006 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion is not a required part of the basic financial statements but is 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.

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 and state financial assistance 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 Chapter 10.650, Rules of the Auditor General 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.

The information identified in the table of contents as the Introductory and Statistical Sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion thereon.



January 12, 2006

Management Discussion and Analysis

KEY LARGO WASTEWATER TREATMENT DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS

On behalf of the Key Largo Wastewater Treatment District (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, 2005. 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 was formed as a special district 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, FY2003, 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 mgd (million gallons 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 its second year of operation, FY2004, the District's activities focused on administration of the design and engineering 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.

In the subject year of this report, FY2005, the District commenced construction of the Key Largo Trailer Village and Key Largo Park projects through approximately 75% completion, including construction of the 0.183 mgd wastewater treatment plant. Service to customers is anticipated in April, 2006. Administrative expenses totaling \$429,042 were funded by Monroe County with MSTU ad valorem tax revenues. FY2005 project costs totaling \$7,169,998 were funded by federal, state and local grants and loans.

In FY2005 the District also focused on the expansion of service to serve the northern half of the island by initiating the design and engineering of a North Components project. This project consists of constructing a main transmission line for the northern half of the island, including connection of commercial businesses and construction of collection systems in several communities along the new main. The project also provides for expansion of the treatment plant from 0.183 to 2.30 million gallons per day to accommodate the increased flow this expansion of service will generate. The expanded treatment plant capacity will eventually provide service to the District's entire service area.

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 three years of the District's existence have been directed toward the design, engineering and 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 April, 2006. Comparative analysis will be provided once operations have commenced.

The District's Net Assets

Total Assets of the District at September 30, 2005, were \$11,648,677 and Total Liabilities amounted to \$2,453,642. Total Net Assets of the District were \$9,195,035.

Total Current Assets of \$206,817 essentially consisted of cash and cash due from Monroe County MSTU funding. These 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 consisted essentially of \$2,185,055 cash and receivables provided by Federal, State and Local grants to fund capital projects, \$8,423,230 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. Grant funding is restricted in use to fund capital projects in accordance with specific grant covenants and is further restricted in use to the implementation of specific projects.

Total Liabilities of the District in the amount of \$2,453,642 consisted of \$65,168 in payments due for services rendered by vendors and employees, \$1,364,654 due to construction contractors, and \$1,023,820 in principal and accrued interest on loans from Monroe County.

Key Components of Net Assets

| | FY 2005 | FY 2004 |
|---|----------------------------|----------------------------|
| Assets, excluding capital assets | \$ 206,817 | \$ 208,010 |
| Restricted assets | 2,185,055 | 1,285,773 |
| Capital assets, net of depreciation | 9,256,805 | 2,079,466 |
| Total assets | <u>11,648,677</u> | <u>3,573,249</u> |
| Liabilities, excluding long-term liabilities | 1,539,357 | 234,474 |
| Long-term liabilities | 914,285 | 100,000 |
| Total liabilities | <u>2,453,642</u> | <u>334,474</u> |
| Net Assets | | |
| Invested in capital assets, net of related debt | 6,977,866 | 1,897,185 |
| Restricted for capital assets | 2,185,055 | 1,296,136 |
| Unrestricted | 32,114 | 45,454 |
| Total net assets | <u><u>\$ 9,195,035</u></u> | <u><u>\$ 3,238,775</u></u> |

District Revenues, Expenses, and Changes in Net Assets

The District's Net Assets increased by \$5,956,260 in FY 2005 from \$3,238,775 on October 1, 2004 to \$9,195,035 on September 30, 2005. Total revenues for the period, net of accrued interest expense, were \$6,385,302.

There were no general revenues (i.e., fees for services provided to customers) in FY 2005. All District operating revenue was provided by Monroe County MSTU funding in the amount of \$489,328, which was 52.2% of approximately \$937,000 generated by the .35 mill MSTU levy in FY 2005. Unused funding in FY2004 and FY2005 has been escrowed by the County for use by the District in future years, and totaled approximately \$1,073,000 at September 30, 2005.

District Revenues, Expenses, and Changes in Net Assets (Continued)

Change in Net Assets

| | <u>FY 2005</u> | <u>FY 2004</u> |
|----------------------|---------------------|---------------------|
| Operating revenues: | | |
| Ad valorem taxes | \$ 489,328 | \$ 477,151 |
| Grant revenue | 5,896,498 | 2,364,057 |
| Contributed assets | | 826,234 |
| Interest income | 3,326 | 298 |
| Total revenues | <u>6,389,152</u> | <u>3,667,740</u> |
| Operating expenses: | | |
| General government | 429,042 | 348,576 |
| Interest | 3,850 | 4,227 |
| Total expenses | <u>432,892</u> | <u>352,803</u> |
| Change in net assets | <u>\$ 5,956,260</u> | <u>\$ 3,314,937</u> |

Operating expenses for the District totaled \$429,042 in FY 2005, which was \$222,101 less than the \$651,143 budgeted for the year.

Actual vs. Budgeted Operating Expenses

| | <u>FY 2005 Actual</u> | <u>FY 2005 Budget</u> | <u>Over (Under) Budget</u> |
|--------------------------|---------------------------|---------------------------|--------------------------------|
| Management Expenses | | | |
| District Staff | \$ 185,460 | \$ 214,114 | \$ (28,654) |
| Commissioners | 41,700 | 45,000 | (3,300) |
| | <u>227,160</u> | <u>259,114</u> | <u>(31,954)</u> |
| Administrative Expenses | | | |
| General Overhead | 65,866 | 57,801 | 8,065 |
| Office Rent | 15,700 | 30,000 | (14,300) |
| Legal Counsel | 47,948 | 80,000 | (32,052) |
| Audit Service | 16,500 | 10,600 | 5,900 |
| | <u>146,014</u> | <u>178,401</u> | <u>(32,387)</u> |
| Other Expenses | | | |
| Professional Services | 36,325 | 205,000 | (168,675) |
| Miscellaneous | 19,543 | 8,628 | 10,915 |
| | <u>55,868</u> | <u>213,628</u> | <u>(157,760)</u> |
| Total Operating Expenses | <u>\$ 429,042</u> | <u>\$ 651,143</u> | <u>\$ (222,101)</u> |

Actual expenditures for legal representation and professional services, particularly project planning and legal services, were significantly less than budgeted. Expenses associated with developing the North Components project anticipated in the FY2005 budget were deferred into FY2006, and similar levels of spending have been reflected in the FY 2006 budget now that design and engineering has commenced.

District Revenues, Expenses, and Changes in Net Assets (Continued)

In FY 2005 the District received non-operating revenues of \$5,896,498 in the form of grants to implement capital projects as follows:

| | |
|---|---------------------|
| Federal Emergency Management Agency (FEMA) | \$ 3,418,245 |
| Florida Department of Community Affairs (DCA) | 1,223,748 |
| Florida Department of Environmental Protection (FDEP) | 223,696 |
| Monroe County Infrastructure Sales Surtax Bond | 1,000,000 |
| Monroe County Planning / Zoning Fund (148 Fund) | 17,464 |
| Monroe County Infrastructure Fund (304 Fund) | 13,345 |
| Total Grant Revenue FY 2005 | <u>\$ 5,896,498</u> |

The District's Capital Projects

The District is expending approximately \$50 million to implement three capital projects. When completed in 2008, wastewater treatment service will be provided to over 3,000 equivalent residential connections.

In FY 2005 the District focused on the construction phase of the Key Largo Trailer Village (KLTV) and Key Largo Park (KLP) projects. The KLTV project includes construction of a 0.183 mgd wastewater treatment plant. Project completion is scheduled for April, 2006, and will initially serve approximately 700 residential and commercial customers.

In FY 2005 the District also initiated engineering and design of the Key Largo North Components (KLNC) project to extend service into the northern half of the District's service area. The project includes construction of a 5.5 mile long main transmission line and connection of approximately 2,500 equivalent commercial and residential connections. The treatment plant will also be expanded into a 2.3 mgd regional facility, which is sufficient capacity to ultimately provide wastewater treatment for the District's entire service area.

Capital Project Costs

| | <u>KLTV Project</u> | <u>KLP Project</u> | <u>KLNC Project</u> |
|---------------------------------------|---------------------|---------------------|----------------------|
| Expenditures FY 2003-2005* | \$ 8,323,321 | \$ 932,010 | \$ 56,384 |
| Scheduled Expenditures FY 2006 | 912,938 | 2,817,073 | 3,523,616 |
| Anticipated Expenditures FY 2007-2008 | - | - | 33,200,000 |
| Total Estimated Project Costs | <u>\$ 9,236,259</u> | <u>\$ 3,749,083</u> | <u>\$ 36,780,000</u> |

* Includes \$697,485 in grant funding expended by others prior to District formation.

The District has secured firm commitments for grants and loans from federal, state and local agencies in the total amount of \$35,789,949 to fund these projects, which includes a State Revolving Fund (SRF) Preconstruction loan to fund engineering and design of the KLNC project. Upon completion of facilities planning, design and engineering of the KLNC project, additional SRF funding estimated at \$14,000,000 is planned to complete construction.

The District's Capital Projects (Continued)

Capital Project Funding Commitments

| | <u>KLTV Project</u> | <u>KLP Project</u> | <u>KLNC Project</u> |
|----------------|----------------------------|----------------------------|-----------------------------|
| Federal: | | | |
| FEMA | \$ 5,485,714 | \$ - | \$ - |
| State: | | | |
| DCA | 2,002,306 | 137,580 | - |
| FDEP | | 1,847,312 | - |
| SFWMD | 100,000 | 1,161,845 | 17,000,000 |
| | <u>2,102,306</u> | <u>3,146,737</u> | <u>17,000,000</u> |
| Local: | | | |
| MC 148 Fund | - | 100,000 | - |
| MC 304 Fund | 1,554,285 | 406,000 | - |
| MC Surtax Bond | - | - | 20,000,000 |
| | <u>1,554,285</u> | <u>506,000</u> | <u>20,000,000</u> |
| Total Funding | <u><u>\$ 9,142,305</u></u> | <u><u>\$ 3,652,737</u></u> | <u><u>\$ 37,000,000</u></u> |

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 Key Largo Wastewater Treatment District's Finance Department at P.O. Box 491, Key Largo, Florida, 33037.

Basic Financial Statements

**KEY LARGO WASTEWATER TREATMENT DISTRICT
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005**

ASSETS

| | |
|--------------------------------------|----------------------|
| Current Assets: | |
| Cash and cash equivalents | \$ 141,529 |
| Due from other governmental units | 65,288 |
| Total current assets | <u>206,817</u> |
| Noncurrent assets: | |
| Restricted cash and cash equivalents | 503,762 |
| Restricted accounts receivable | 1,681,293 |
| Capital assets: | |
| Land | 826,234 |
| Construction in progress | 8,423,230 |
| Buildings and equipment | 7,341 |
| Total capital assets, net | <u>9,256,805</u> |
| Total noncurrent assets | <u>11,441,860</u> |
| Total assets | <u>\$ 11,648,677</u> |

LIABILITIES

| | |
|--|------------------|
| Current liabilities: | |
| Accounts payable and accrued liabilities | \$ 63,517 |
| Accrued salaries and benefits payable | 1,651 |
| Construction contracts payable | 1,364,654 |
| Due to Monroe County | 109,535 |
| Total current liabilities | <u>1,539,357</u> |
| Noncurrent liabilities: | |
| Due to Monroe County | 914,285 |
| Total noncurrent liabilities | <u>914,285</u> |
| Total liabilities | <u>2,453,642</u> |

NET ASSETS

| | |
|---|---------------------|
| Invested in capital assets, net of related debt | 6,977,866 |
| Restricted for capital projects | 2,185,055 |
| Unrestricted | 32,114 |
| Total net assets | <u>\$ 9,195,035</u> |

See accompanying notes to financial statements

**KEY LARGO WASTEWATER TREATMENT DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

| | |
|--|---------------------------|
| Operating revenues: | |
| Ad valorem taxes | \$ 489,328 |
| Total operating revenues | <u>489,328</u> |
| Operating expenses: | |
| Personal services | 193,105 |
| Board member compensation | 41,700 |
| Professional fees | 102,082 |
| Other expenses | <u>92,155</u> |
| Total operating expenses | <u>429,042</u> |
| Operating income (loss) | <u>60,286</u> |
| Nonoperating revenues (expenses): | |
| Grants | 5,896,498 |
| Investment income | 3,326 |
| Interest expense | <u>(3,850)</u> |
| Total nonoperating revenues (expenses): | <u>5,895,974</u> |
| Income (Loss) before contributions and transfers | <u>5,956,260</u> |
| Total net assets, October 1 | <u>3,238,775</u> |
| Total net assets, September 30 | <u><u>\$9,195,035</u></u> |

See accompanying notes to financial statements

**KEY LARGO WASTEWATER TREATMENT DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

| | |
|---|-------------------|
| Cash flows from operating activities: | |
| Cash received from ad valorem taxes | \$ 489,328 |
| Cash paid to employees | (257,611) |
| Cash paid to suppliers | (151,569) |
| Net cash provided by operating activities | <u>80,148</u> |
| Cash flows from capital and related financing activities: | |
| Grants | 4,237,598 |
| Loan from other governmental units | 814,285 |
| Acquisition and construction of capital assets | (5,994,966) |
| Net cash (used by) capital and related financing activities | <u>(943,083)</u> |
| Cash flows from investing activities: | |
| Investment earnings | 3,326 |
| Interest and financing expenses | 99,623 |
| Net cash provided by investing activities | <u>102,949</u> |
| Net (decrease) in cash and cash equivalents | <u>(759,986)</u> |
| Cash and cash equivalents, October 1 | <u>1,405,277</u> |
| Cash and cash equivalents, September 30 | <u>\$ 645,291</u> |
| Cash and cash equivalents per statement of net assets: | |
| Unrestricted | \$ 141,529 |
| Restricted | 503,762 |
| | <u>\$ 645,291</u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 60,286 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Change in assets and liabilities: | |
| Decrease in prepaid items and other assets | 825 |
| Increase in accounts payable and accrued liabilities | 41,843 |
| (Decrease) in accrued payroll | (22,806) |
| Total adjustments | <u>19,862</u> |
| Net cash provided by operating activities | <u>\$ 80,148</u> |

Prior to the district's formation, the Florida Keys Aqueduct Authority ("FKAA") performed engineering services on behalf of the District in the amount of \$115,998. The amount was capitalized in construction in progress in FY 2005.

See accompanying notes to financial statements

**KEY LARGO WASTEWATER TREATMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS**

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 an 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District operates as a proprietary fund type, specifically an enterprise fund. 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 focus of proprietary a fund is the measurement of economic resources. Under this method revenues are recorded when earned and expenses are recorded when the liability is incurred, and all assets and liabilities associated with the entity are included on the balance sheet. The generally accepted accounting principles applicable to proprietary funds are similar to those applicable in the private sector.

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 pronouncements issued by the Financial Accounting Standards Board issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents – Cash and cash equivalents consist 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.

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.

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 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.

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 recorded at its value at its fair market value at the time of the transfer. Construction in progress represents the capital costs incurred on the Key Largo Trailer Village and Key Largo Park projects as of September 30, 2005.

The table below summarizes the capital activity for the year ended September 30, 2005.

| | Balance September 30, 2004 | Additions | Deletions | Balance September 30, 2005 |
|-------------------------------|----------------------------------|--------------|-----------|----------------------------------|
| Non-depreciable assets: | | | | |
| Land | \$ 826,234 | \$ - | \$ - | \$ 826,234 |
| Depreciable assets: | | | | |
| Construction in progress | 1,253,232 | 7,169,998 | - | 8,423,230 |
| Equipment | - | 7,341 | - | 7,341 |
| Totals depreciable assets | 1,253,232 | 7,177,339 | - | 8,430,571 |
| Less accumulated depreciation | - | - | - | - |
| Total depreciable assets | 1,253,232 | 7,177,339 | - | 8,430,571 |
| Total capital assets, net | \$ 2,079,466 | \$ 7,177,339 | \$ - | \$ 9,256,805 |

NOTE 5 – AD VALOREM TAXES

The District entered into an Interlocal Agreement with Monroe County for the purpose of funding the administration, planning and development of the wastewater and reclaimed water projects. The County created a municipal services taxing unit (MSTU) in which to levy ad valorem taxes on real estate within the MSTU boundaries. Under the agreement the County will reimburse the District for costs related to the planning, development and implementation of wastewater projects from the MSTU tax revenues. For the fiscal year ending September 30, 2005 the millage rate was .35.

NOTE 6 – 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 principal balance plus interest calculated at the adjusted rate per annum established by the State Revolving Loan Fund by January 7, 2006. At September 30, 2004 and September 30, 2005 the principle balance of this loan was \$100,000. At September 30, 2005, the interest payable was \$9,535 which includes interest expense of \$3,850 based on a rate of 3.85% for the fiscal year ended September 30, 2005.

During the current year the District obtained a loan in the amount of \$914,285 from Monroe County. The funds were used to comply with a local matching funds requirement related to federal grants. The District will repay the loan in ten equal payments of \$91,428.50, beginning on July 1, 2008. Monroe County has agreed not to charge interest on the loan. In addition, the agreement contains a provision that will allow the District to renegotiate the term if sufficient funds are unavailable at the time the amount is due. Loan payments by the District must be escrowed by Monroe County for use by the District in implementing future capital projects.

The payment schedule is as follows:

| Fiscal Year Ending | Principal |
|---------------------------|-------------------|
| September 30, | |
| 2008 | \$ 91,429 |
| 2009 | 91,429 |
| 2010 | 91,429 |
| 2011 | 91,429 |
| 2012 | 91,429 |
| 2011-2015 | 457,140 |
| | <u>\$ 914,285</u> |

NOTE 7 – COMMITMENTS AND CONTINGENCIES

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 outstanding commitments on these contracts were \$3,541,514 at September 30, 2005.

NOTE 8 – 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. Settled claims from these risks have not exceeded commercial insurance coverage over the past three years.

Supplementary Information

**KEY LARGO WASTEWATER TREATMENT DISTRICT
SCHEDULE OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

| | Budgeted Amounts, Original & Final | Actual Amounts | Variance with Actual Amounts, Positive (Negative) |
|---|--|-------------------|---|
| OPERATING REVENUES: | | | |
| Ad valorem taxes | \$ 827,685 | \$ 489,328 | \$ (338,357) |
| OPERATING EXPENSES: | | | |
| Board Meeting Compensation | 45,000 | 41,700 | 3,300 |
| Salaries | 195,700 | 168,738 | 26,962 |
| Payroll Taxes | 18,414 | 16,722 | 1,692 |
| Copier Maintenance/Supplies | 8,200 | 3,321 | 4,879 |
| Postage/Delivery | 2,330 | 9,993 | (7,663) |
| Insurance | 13,500 | 16,157 | (2,657) |
| Miscellaneous Expenses | 1,850 | 11,762 | (9,912) |
| Legal Advertisements | 4,818 | 9,115 | (4,297) |
| Office Supplies | 4,500 | 13,471 | (8,971) |
| Dues & Subscriptions | 325 | 602 | (277) |
| Travel | 2,000 | 2,176 | (176) |
| Rents & Leases | 30,000 | 15,700 | 14,300 |
| Telephone | 6,000 | 7,515 | (1,515) |
| Utilities | 6,128 | 2,207 | 3,921 |
| Compter Support | 10,000 | 1,309 | 8,691 |
| Regulatory / Permits Fees | 2,000 | - | 2,000 |
| Vehicle Expense | - | 4,500 | (4,500) |
| Reserve for Contingencies | 4,778 | 763 | 4,015 |
| Audit & Accounting Services | 10,600 | 16,500 | (5,900) |
| Utility Rate Consultant | 15,000 | 27,879 | (12,879) |
| Legal - General Counsel | 60,000 | 47,948 | 12,052 |
| Legal - Litigation Reserve | 20,000 | - | 20,000 |
| Financial Advisor | - | 6,802 | (6,802) |
| GSG Management Services | 20,000 | 1,644 | 18,356 |
| Engineering Services | 50,000 | - | 50,000 |
| Project Plannin g Contingency | 120,000 | - | 120,000 |
| Repairs | - | 2,518 | (2,518) |
| Total operating expenses | <u>651,143</u> | <u>429,042</u> | <u>222,101</u> |
| Operating income (loss) | <u>176,542</u> | <u>60,286</u> | <u>(116,256)</u> |
| NON OPERATING REVENUES (EXPENSES): | | | |
| Investment Earnings | 1,000 | 3,326 | 2,326 |
| Debt service / interest expense | - | (3,850) | (3,850) |
| Total non operating revenues (expenses) | <u>1,000</u> | <u>(524)</u> | <u>(1,524)</u> |
| Budgeted income (loss) | <u>\$ 177,542</u> | <u>\$ 59,762</u> | <u>\$ (117,780)</u> |

**KEY LARGO WASTEWATER TREATMENT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

| <u>Federal/State Agency Pass-through Entity, Federal/State Program</u> | <u>CFDA/ CSFA Number</u> | <u>Agency or Pass-through Number</u> | <u>Expenditures</u> |
|--|----------------------------------|--|----------------------------|
| MAJOR PROGRAMS | | | |
| Federal Emergency Management Agency Pass-Through - Florida Department of Community Affairs Hazard Mitigation | 97.039 | N/A | \$ 3,418,245 |
| Florida Department of Community Affairs Cesspit Grant Funds | 52.003 | N/A | 654,039 |
| NON-MAJOR PROGRAMS | | | |
| Florida Department of Environmental Protection State Surface Water Restoration and Wastewater Projects | 37.039 | N/A | 223,696 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE | | | <u><u>\$ 4,295,980</u></u> |

NOTE A – BASIS OF PRESENTATION

The accompanying schedule expenditures of federal awards and State Financial Assistance includes the federal and state 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 and the Florida Single Audit Act. 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 \$555,299 in state matching funds related to the above federal awards for the year ended September 30, 2005. In addition the District expended \$1,045,219 in County grant funds.

Statistical Section

**KEY LARGO WASTEWATER TREATMENT DISTRICT
MISCELLANEOUS STATISTICAL DATA (UNAUDITED)**

| | |
|-----------------------------------|---|
| Date of Formation | November 19, 2002 |
| Form of Government | Independent Special District |
| Board of Elections | Non-partisan |
| Employees | 5 Staff, 5 Commissioners |
| Population | 14,101 (2000 census, tracts 9703 - 9707) |
| 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) \$3,375,533,340 (2005) |
| Water System | Supplied by the Florida Keys Aqueduct Authority |
| Electric Service | Provided by the Florida Electric Co-op |
| Sanitary Sewage | Key Largo Wastewater Treatment District (Under Construction) replacing privately owned package plants, septic tanks and cesspits. |

Other Reports

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

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

We have audited the financial statements of the Key Largo Wastewater Treatment District, Monroe County, Florida ("District") as of and for the fiscal year ended September 30, 2005, and have issued our report thereon dated January 12, 2006. 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 Key Largo Wastewater Treatment District's 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 an opinion 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 material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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 its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Key Largo Wastewater Treatment 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the management, Board of Commissioners of the Key Largo Wastewater Treatment District, Monroe County, Florida and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.



January 12, 2006

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

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

Compliance

We have audited the compliance of the Key Largo Wastewater Treatment District, Florida (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that are applicable to each of its major federal programs and state projects for the fiscal year ended September 30, 2005. The Districts' major federal awards program and state projects 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 its major federal awards program and state projects is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.650, Rules of the Auditor General. Those standards, OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General, 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 direct and material effect on a major federal awards program or state project 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 on the District's compliance with those requirements.

In our opinion, the District complied, in all material aspects, with the requirements referred to above that are applicable to its major federal awards programs and state projects for the fiscal year ended September 30, 2005.

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 awards programs and state projects. 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 major federal awards programs and state projects in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General.

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 awards programs and state projects 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the District's General Manager, Board of Commissioners, management and the grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.



January 12, 2006

**KEY LARGO WASTEWATER TREATMENT DISTRICT
BOARD OF COMMISSIONERS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

| | | |
|--|----------------------------|-----------------|
| Type of auditor's report issued: | <i>Unqualified Opinion</i> | |
| Material weakness(es) identified? | ___ yes | <u> X </u> no |
| Reportable condition(s) identified not considered to be material weakness? | ___ yes | <u> X </u> none |
| Noncompliance material to financial statements noted? | ___ yes | <u> X </u> no |

Federal Awards Programs and State Projects

| | | |
|---|---------|---------------|
| Internal Control over major federal awards programs and state projects: | | |
| Material weakness(es) identified? | ___ yes | <u> X </u> no |
| Reportable condition(s) identified not considered to be Material weakness | ___ yes | <u> X </u> |

| | | |
|---|----------------------------|---------------|
| Type of auditor's report issued on compliance for major federal awards and state financial assistance. | <i>Unqualified Opinion</i> | |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) and Chapter 10.650 Rules of the Auditor General. | ___ yes | <u> X </u> no |

Identification of major federal awards programs and state financial assistance

| | |
|--------------------------|-----------------|
| <u>Federal Program</u> | <u>CFDA No.</u> |
| Public Assistance Grants | 97.036 |

| | |
|-----------------------|--------|
| <u>State Programs</u> | |
| Cesspit Grant | 52.003 |

| | |
|--|-----------------------|
| Dollar threshold used to distinguish between Type A and Type B programs: | <u> \$ 300,000 </u> |
| Auditee qualified as low risk auditee for audit of federal awards program? | ___ yes <u> X </u> no |

FINDINGS – FINANCIAL STATEMENTS AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS AUDIT

None

FINDINGS AND QUESTIONED COSTS – STATE FINANCIAL ASSISTANCE AUDIT

None

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

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

We have audited the accompanying basic financial statements of Key Largo Wastewater Treatment District ("District") as of and for the fiscal year ended September 30, 2005, and have issued our report thereon dated January 12, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In addition, we have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters dated January 12, 2006. 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 District's General Management, Board of Commissioners of Key Largo Wastewater Treatment District, Key Largo, Florida and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.



January 12, 2006

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

ACCRUED INTEREST PAYABLE

Observation – The trial balance did not reflect accrued interest on a \$100,000 loan from Monroe County

Recommendation – Interest expense should be recorded on the books of the District at least quarterly to insure that the general ledger is accurate and the interim financial reports to the Board reflect this expense. If the Borrowings become more significant, the interest should be recorded monthly.

Current Status – The District has established procedures to insure that all material interest costs are accrued on a regular basis. Finding shall not be repeated.

POLICIES AND PROCEDURES

Observation – During our testing of internal controls, we noted that there were no formal accounting policies and procedures. In addition, we found that other formal policies and procedures, such as ethical standards, had not been developed and distributed to the District's staff.

Recommendation – Formal accounting policies and procedures need to be documented and distributed to appropriate personnel. As the accounting staff for the District is very small, the procedures need to clearly describe how management compensates for the lack of segregation of duties. The formalization of other policies and procedures are also needed to provide the District's organization the control framework which serves as the basis on how they conduct business. During our discussions, management indicated that they recognize this need and planned to incorporate the development of the needed policies and procedures into the strategic planning process.

Current Status – The District has adopted written policies related to the processing of financial transactions. Finding shall not be repeated.

CASH BALANCES

Observation - The District maintained cash balances that were in excess of the FDIC \$100,000 threshold, and were not collateralized as required by Chapter 280, Florida Statutes. The amount not collateralized was due to a bank error.

Recommendation – The funds should be deposited into a Qualified Public Depository and properly identified as public funds.

Current Status – All bank accounts were held by a Qualified Public Depository, and properly identified. Finding shall not be repeated.

CASH DEPOSITS

Observation – During our review of cash procedures, we noted that the Finance Officer controlled any funds received in the office from when received through depositing the funds in the bank. The fiancé Officer then performed the bank reconciliation.

Recommendation – Recognizing the small size of the office as a constraint, management still needs to implement a control over this process. During the audit, the District Secretary was given the responsibility to copy checks when received. She will then verify that the checks are properly deposited in the bank by opening the bank statement when it is received and verifying that all checks were properly deposited.

Current Status – The recommendation above have been implemented. In addition, there are other controls in place to mitigate the lack of segregation of duties. The finding shall not be repeated.

PROJECT ENGINEERING EXPENDITURES

Observation – The District was paying the project engineer a fixed amount per month. The fees were based on a work authorization dated August 27, 2003, which was in the process of being updated. As of September 30, 2004 there was no written documentation supporting the monthly amounts paid to the project engineer.

Current Status – The work authorization was updated in February 2005 and adopted by the Board. Finding shall not be repeated.

REPORTING

Observation – The initial quarterly report to the Florida Department of Community Affairs dated 9/30/04 did not agree to the District's general ledger in a couple of categories and in total.

Recommendation – While the differences were not material, these reports should agree to the general ledger totals.

Current Status – The District has segregated the cost within their general ledger to identify items to be reported to grantor agencies. We noted no instances in which the reported were not adequately supported. Finding shall not be repeated.

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

1. Unless otherwise required to be reported in the auditor's report on compliance and on internal controls, the management letter shall include, but not be limited to a statement as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. See findings and current status above for fiscal year ended September 30, 2004
2. The District complied with Section 218.415, Florida Statutes, regarding the investment of public funds.
3. There were no violations of laws, rules, regulations, and contractual provisions or abuse, that were not clearly inconsequential, that have occurred, or were likely to have occurred, that were discovered within the scope of the audit.
4. There were no illegal or improper expenditures that were not clearly inconsequential, discovered within the scope of the audit that may not materially affect the financial statements.

5. There were no deficiencies in internal control that are not reportable conditions, including but not limited to, improper or inadequate accounting procedures, failure to properly record financial transactions or other inaccuracies, shortages, defalcations, or instances of fraud discovered by, or that came to the attention of, the auditor.
6. The District has not met one or more of the conditions described in Section 218.503(1), Florida Statutes.
7. The name and legal authority for the District are disclosed in the notes to the financial statements.
8. 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, 2005 financial audit report.
9. The District was in compliance with the provisions of Chapter 10.400 on Tangible Personal Property.
10. 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.