



Key Largo Wastewater Treatment District

COMPREHENSIVE ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2006

Key Largo Wastewater Treatment District
Comprehensive Annual Financial Report
For the Fiscal Year ended September 30, 2006

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KEY LARGO WASTEWATER TREATMENT DISTRICT
P.O. BOX 491; KEY LARGO, FLORIDA 330377
(305) 453-5804 FAX (305) 453-5807

February 21, 2007

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, 2006, 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, 2006. 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 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 for a demonstration project that would establish the first AWT wastewater treatment plant on the island and provide vacuum based collection systems in the Key Largo Trailer Village and Key Largo Park communities containing 850 equivalent residential connections. This project has now been completed and service to customers began in May, 2006.

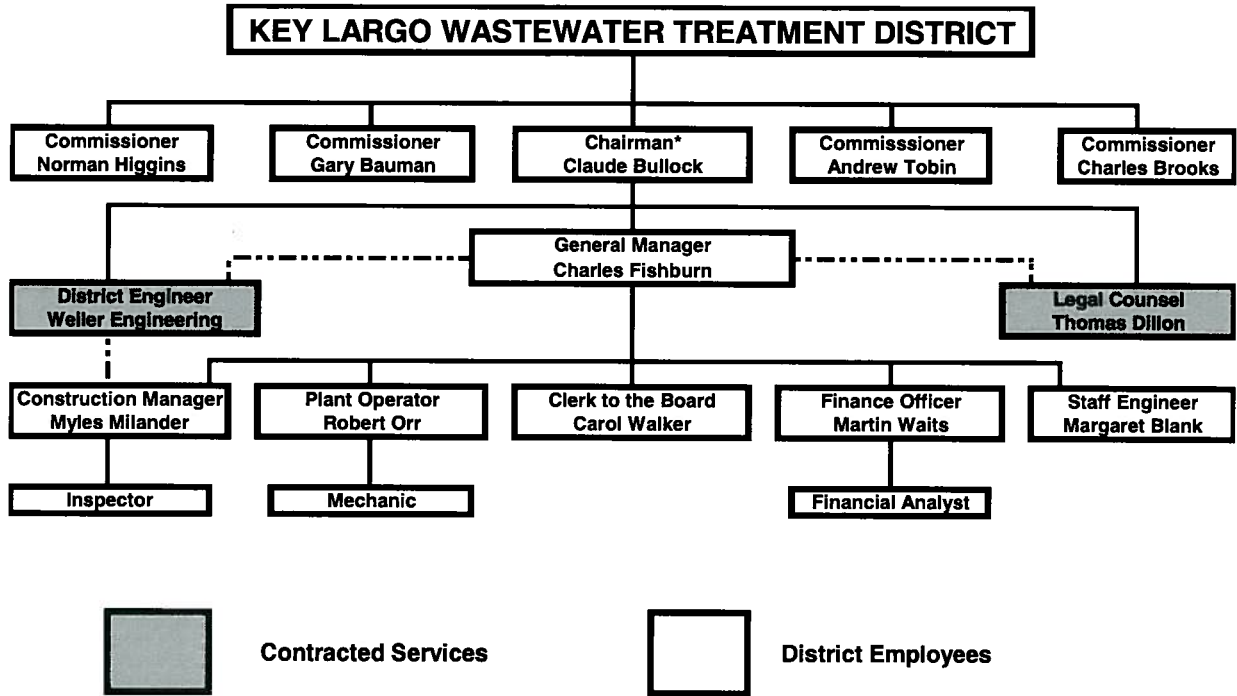
In FY 2005 the District initiated design and engineering for the construction of a main transmission line to sewer the northern half of the island, including connection of commercial businesses and construction of collection systems in several communities along the new main. The project also provides 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. Project construction was initiated in FY2006 with the main transmission line. Project completion is scheduled for FY2008.

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



* Chairman Glenn Patton resigned from the Board in June, 2006.

**Key Largo Wastewater Treatment District
List of Principal Officials**

Board of Commissioners

FY 2006

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

FY 2007

Claude Bullock, Chairman
Gary Bauman, Vice Chairman
Andrew Tobin, Secretary
Susan Hammaker
Norman Higgins

District Management

Charles F. Fishburn, General Manager
Martin D. Waits, Finance Officer
Carol J. Simpkins, 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 basic financial statements of the Key Largo Wastewater Treatment District, Key Largo, Florida (the "District") as of and for the fiscal year ended September 30, 2006, 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2006, 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 20, 2007 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 and analysis 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 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 by Chapter 10.550, 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 section, schedule of revenues and expenses (budgetary basis) -budget and actual, and the statistical section 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 20, 2007

KEY LARGO WASTEWATER TREATMENT DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS

On behalf of the Key Largo Wastewater Treatment District, Key Largo, Florida (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, 2006. We are including 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 and operation 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.

The District's activities in FY2003 and FY2004 were focused on administrative responsibilities associated with organization of a new public entity and on implementing demonstration projects to serve 760 residential and commercial customers in the Key Largo Trailer Village and Key Largo Park communities. Contracts to design and build a 0.183 mgd (million gallons per day) wastewater treatment plant and to install collection systems serving 850 EDU's (equivalent dwelling units) were awarded. Administrative expenses totaling approximately \$675,000 were funded by Monroe County grants and MSTU ad valorem tax revenues. Project costs totaling \$1,253,232 were funded by federal, state and local grants.

In 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. The District also focused on the expansion of service to serve the northern half of the island by initiating the design and engineering of the 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. Administrative expenses totaling \$429,042 were funded by Monroe County with MSTU ad valorem tax revenues. Project costs totaling \$7,169,998 were funded by federal, state and local grants.

In FY2006, the subject year of this report, the District's demonstration projects were completed. The cost of these projects will be capitalized in FY2007 upon acceptance of the assets from the contractors. Service to customers began in May, 2006. Construction of the North Transmission force main was initiated in July, 2006. Contracts for design and engineering of a regional treatment plant and the collection systems serving 3,700 EDU's associated with the North Components project were also awarded. Administration and system operating expenses totaling \$821,403 were funded by MSTU ad valorem tax revenues and charges for service to customers. Project costs totaling \$5,693,690 were funded by state and local grants and loans.

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 were directed entirely toward the design, engineering and construction of facilities. Operation of the District as a true enterprise through the delivery of sanitary sewer services to its first customers for a fee was commenced in May, 2006, the subject year of this report.

The District's Net Assets

Total Assets of the District at September 30, 2006, were \$19,606,095 and Total Liabilities amounted to \$5,881,299. Total Net Assets of the District were \$13,724,796.

Total Current Assets of \$1,075,748 consisted of \$695,107 in cash from assessment collections restricted for use in new construction, \$29,440 in cash which can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements, \$21,897 in billings due from customers, and \$329,304 in reimbursements due from other governmental units.

Total Non-Current Assets of \$14,984,448 consisted essentially of \$3,700 in deposits, \$41,294 in owned equipment, \$14,116,920 in grant monies invested in 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, and \$3,542,199 in assessments receivable.

Total Liabilities of the District in the amount of \$5,881,299 consisted of \$63,672 due to vendors for services rendered, \$1,068,446 due to construction contractors, and \$1,206,982 in principal and accrued interest on State Revolving Fund loans, and \$3,542,199 in deferred revenue. Loans payable were \$1,102,093 of which \$33,647 is due next year.

Key Components of Net Assets

September 30,

	<u>2006</u>	<u>2005</u>
Assets, excluding capital assets	\$ 55,037	\$ 206,817
Restricted assets	1,024,411	2,185,055
Assessments	3,542,199	-
Capital assets, net of depreciation	14,984,448	9,256,805
Total assets	<u>19,606,095</u>	<u>11,648,677</u>
Liabilities, excluding long-term liabilities	1,165,765	1,539,357
Long-term liabilities	4,715,534	914,285
Total liabilities	<u>5,881,299</u>	<u>2,453,642</u>
Net Assets		
Invested in capital assets, net of related debt	12,709,020	6,977,866
Restricted for debt service	19,187	-
Restricted for capital assets	1,005,224	2,185,055
Unrestricted	(8,635)	32,114
Total net assets	<u>\$ 13,724,796</u>	<u>\$ 9,195,035</u>

District Revenues, Expenses, and Changes in Net Assets

The District's Net Assets increased by \$4,529,761 in FY 2006 from \$9,195,035 on October 1, 2005 to \$13,724,796 on September 30, 2006. Total revenues for the period were \$5,351,164, and total expenses for the period were \$821,403.

Operating revenue consisted of \$84,022 in charges to customers for service and \$681,289 in Monroe County MSTU funding, which was 60% of approximately \$1,135,000 generated by the .3185 mill MSTU levy in FY 2006. Nonoperating revenues consisted of \$2,095,394 in grant, \$791,699 in intergovernmental revenues, \$661,671 in assessments, \$13,268 in interest income. Other nonoperating income included \$1,023,821 of forgiveness of debt by Monroe County. Unused MSTU funding in FY2004 - FY2006 has been escrowed by the County for use by the District in future years, and totaled approximately \$1,240,000 at September 30, 2006.

Change in Net Assets

Fiscal Year Ended September 30,

	<u>2006</u>	<u>2005</u>
Operating activities:		
Charges for services	\$ 84,022	\$ -
Ad valorem taxes	681,289	489,328
Cost of sales	(68,691)	
Administration	(540,456)	(234,805)
Other	(208,382)	(194,237)
Depreciation	(3,874)	
Net operating Loss	<u>(56,092)</u>	<u>60,286</u>
Nonoperating activities:		
Grant revenue	2,095,394	5,896,498
Intergovernmental	791,699	
Assessments	661,671	-
Interest income	13,268	3,326
Forgiveness of debt	1,023,821	-
Interest expenses	-	(3,850)
Net nonoperating activities	<u>4,585,853</u>	<u>5,895,974</u>
Change in net assets	<u>\$ 4,529,761</u>	<u>\$ 5,956,260</u>

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

In FY 2006 the District received non-operating revenues in the form of grants and intergovernmental funding to implement capital projects as follows:

Federal Emergency Management Agency (FEMA)	\$	1,478
Florida Department of Community Affairs (DCA)		571,766
Florida Department of Environmental Protection (FDEP)		1,522,150
Monroe County Infrastructure Sales Surtax Bond		109,908
Monroe County Cesspit Replacement Fund		681,791
Total	\$	<u>2,887,093</u>
Intergovernmental Matching funding (Monroe County)	\$	<u>1,023,821</u>

The District's Capital Project Plan

During the current year the District incurred approximately \$5,693,690 in planning, engineering and construction costs for the treatment facility, transmission lines and collection systems. In addition the District also purchased approximately \$37,827 equipment to be used in the operations. At the end of the fiscal year 2006, the investment in the District's capital assets totaled approximately \$15 million.

The District adopted a master Facilities Plan in March, 2006. Construction of wastewater collection, transmission and treatment facilities to serve the entire island of Key Largo is projected to cost \$157 million when completed.

Capital Project Spending Projection

	<u>Treatment Facility</u>	<u>Transmission Lines</u>	<u>Collection Systems</u>	<u>Total Costs</u>
Current Spending				
2005 / 2006	\$ 4,300,000	\$ 1,012,980	\$ 7,550,608	\$ 12,863,588
Projected Spending				
2007	4,000,000	2,115,000	17,505,000	23,620,000
2008	12,000,000	2,000,000	18,100,000	32,100,000
2009	6,339,000	2,090,000	27,156,000	35,585,000
2010	-	-	25,193,000	25,193,000
2011	-	-	27,521,000	27,521,000
	<u>\$ 26,639,000</u>	<u>\$ 7,217,980</u>	<u>\$ 123,025,608</u>	<u>\$ 156,882,588</u>

Approximately 50% of project costs are targeted for funding with Federal, State, and local grants. Grant funding received or under firm commitment totaled \$36,754,813 at September 30, 2006. Additional grant funding in the amount of approximately \$45,000,000 is anticipated.

The District's Capital Project Plan (Continued)

The District has implemented a phased non ad valorem assessment program expected to generate approximately \$75,000,000 to fund the balance of construction costs. Assessment revenues will be used to collateralize State Revolving Fund (SRF) loans over 20 years.

Capital Debt

During the fiscal year ended September 30, 2006, the District entered into two State Revolving Loan Fund agreements with the Florida Department of Environmental Protection. More detailed information is included in the notes to the financial statements.

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, 2006**

ASSETS

Current assets:

Unrestricted:

Cash and cash equivalents	\$ 29,440
Accounts receivable	21,897
Total unrestricted current assets	<u>51,337</u>

Restricted:

Cash and cash equivalents	695,107
Due from other government	320,147
Grants receivable	9,157
Total restricted current assets	<u>1,024,411</u>
Total current assets	<u>1,075,748</u>

Noncurrent assets:

Prepaid and other assets	3,700
Assessments	3,542,199
Capital assets:	
Land	826,234
Construction in progress	14,116,920
Equipment	45,168
Less accumulated depreciation	<u>(3,874)</u>
Total capital assets, net	<u>14,984,448</u>
Total noncurrent assets	<u>18,530,347</u>
Total assets	<u>19,606,095</u>

LIABILITIES

Current liabilities:

Accounts payable	63,672
Construction contracts payable	1,068,446
Loans payable	33,647
Total current liabilities	<u>1,165,765</u>

Noncurrent liabilities:

Deferred revenue	3,542,199
Loans payable	1,173,335
Total noncurrent liabilities	<u>4,715,534</u>
Total liabilities	<u>5,881,299</u>

NET ASSETS

Invested in capital assets, net of related debt	12,709,020
Restricted for debt service	19,187
Restricted for capital assets	1,005,224
Unrestricted	<u>(8,635)</u>
Total net assets	<u>\$ 13,724,796</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, 2006**

Operating revenues:	
Charges for services	\$ 84,022
Ad valorem taxes	681,289
Total operating revenues	<u>765,311</u>
Operating expenses:	
Costs of sales and services	68,691
Administration	540,456
Other	208,382
Depreciation	3,874
Total operating expenses	<u>821,403</u>
Operating income (loss)	<u>(56,092)</u>
Nonoperating revenues (expenses):	
Grant revenues	2,095,394
Intergovernmental	791,699
Assessments	661,671
Forgiveness of debt	1,023,821
Interest income	13,268
Total nonoperating revenues (expenses):	<u>4,585,853</u>
Change in net assets	4,529,761
Total net assets - beginning	<u>9,195,035</u>
Total net assets - ending	<u>\$ 13,724,796</u>

See accompanying notes to financial statements

**KEY LARGO WASTEWATER TREATMENT DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

Cash flows from operating activities:	
Receipts from customers and users	\$ 62,125
Receipts from ad valorem taxes	520,206
Payments to employees	(360,374)
Payments to suppliers	(462,351)
Net cash (used) by operating activities	<u>(240,394)</u>
Cash flows from capital and related financing activities:	
Grants and other intergovernmental	4,465,453
Assessments	661,671
Loan from other governmental units	1,206,982
Acquisition and construction of capital assets	(6,027,844)
Net cash provided by capital and related financing activities	<u>306,262</u>
Cash flows from investing activities:	
Investment earnings	13,268
Net cash provided by investing activities	<u>13,268</u>
Net increase in cash and cash equivalents	<u>79,136</u>
Cash and cash equivalents (including restricted), October 1	<u>645,291</u>
Cash and cash equivalents (including restricted), September 30	<u>\$ 724,427</u>
Cash and cash equivalents per statement of net assets:	
Unrestricted	\$ 29,440
Restricted	695,107
	<u>\$ 724,547</u>
Reconciliation of operating (loss) to net cash (used) by operating activities:	
Operating income (loss)	\$ (56,092)
Adjustments to reconcile operating loss to net cash (used) by operating activities:	
Depreciation expense	3,874
(Increase) in accounts receivable	(21,897)
(Increase) in due from other government for ad valorem taxes	(161,083)
(Increase) in prepaids	(3,700)
(Decrease) in accounts payable	(1,496)
Total adjustments	<u>(184,302)</u>
Net cash (used) by operating activities	<u>\$ (240,394)</u>
Noncash capital and related financing activities:	
Forgiveness of debt from Monroe County	<u>\$ 1,014,285</u>

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, Key Largo, Florida (“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.

Under the provisions of Governmental Accounting Standards Board Standards, the financial reporting entity consists of the primary government, organizations for which the District is considered to be financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that, if excluded, the financial statements of the District would be considered incomplete or misleading. There are no entities considered to be component units of the District; therefore, the financial statements include only the operations of the District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 a proprietary 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.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund’s principal ongoing operations. The operating revenues of the District are charges to customers for sales and services and Monroe County ad valorem taxes. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

Prepays – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

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 capital improvement projects.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets – Capital assets include property, plant, equipment and wastewater system. The District maintains a \$750 threshold and estimated useful life of more than one year for additions to equipment. The remainder of capital assets with a value in excess of \$5,000 and an estimated useful life of in excess of two years are capitalized. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. For the fiscal year ended September 30, 2006 there was no material interest to be included as part of the cost of capital assets under construction in connection with the wastewater treatment facilities construction projects.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized but expensed as incurred. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment – field and plant equipment	7-10
Equipment – vehicles	5

Depreciation will begin on the District’s wastewater system when the project is complete and all sections are placed in service.

Long-term Obligations – The long-term debt of the District is reported as a liability in the statement of net assets. The loans interest and fees were nominal at September 30, 2006.

Revenue Recognition – Revenues that do not meet revenue recognition requirements (not earned) are recorded as deferred revenue.

Assessments are non-ad valorem assessments on parcels to be served within the District. The assessments will be levied in phases one to two years before the related infrastructure for the area is expected to be completed. The assessments may be paid in one lump sum or allocated over a 20 year period. The fiscal year for which annual assessments are levied begins on October 1 with discounts available for payments through February 28 and become delinquent on April 1. The District’s annual assessments are billed and collected by the County Tax Assessor/Collector. The amounts remitted to the District are net of applicable discounts or fees and include interest on monies held from the day of collection to the day of distribution. The assessments were levied to fund a portion of the costs of the infrastructure being constructed to benefit parcels served and are reported as nonoperating revenues.

Assessments, operating revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of assessments receivable due and earned within the current fiscal period is considered to be revenue of the current period. The remainder is recorded as deferred revenue in the statement of net assets.

Fund Equity/Net Assets - Net assets of the District are categorized as invested in capital assets, net of related debt, restricted or unrestricted. Invested in capital assets, net of related debt represents net assets related to infrastructure and property, plant and equipment, net of depreciation and any related debt used to construct or purchase those assets. Restricted net assets represent the assets restricted by third-party limitations on their use.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

The table below summarizes the capital activity for the fiscal year ended September 30, 2006.

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 826,234	\$ -	\$ -	\$ 826,234
Construction in progress	8,423,230	5,693,690	-	14,116,920
Total capital assets, not being depreciated	9,249,464	5,693,690	-	14,943,154
Capital assets, being depreciated:				
Equipment	7,341	37,827	-	45,168
Total capital assets, being depreciated	7,341	37,827	-	45,168
Less accumulated depreciation for:				
Equipment	-	(3,874)	-	(3,874)
Total accumulated depreciation	-	(3,874)	-	(3,874)
Total capital assets, being depreciated, net	7,341	33,953	-	41,294
Total capital assets, net	\$ 9,256,805	\$ 5,727,643	\$ -	\$ 14,984,448

Capital assets of the District includes land transferred from Monroe County on December 17, 2003 which is used as the site for the wastewater treatment.

In connection with the District's wastewater treatment project, the District has entered into various contracts with engineers and contractors to construct the collection system and treatment plant. Total outstanding commitments on these contracts were approximately \$1,616,000 at September 30, 2006. The majority of the commitment for the wastewater treatment facilities is being financed by grants and loans from the State.

NOTE 5 – INTERLOCAL AGREEMENTS

The District entered into an Interlocal Agreement with Monroe County for the purpose of funding the development of the wastewater and reclaimed water projects of the District. The County created a municipal services taxing unit (MSTU) in which to levy ad valorem taxes on real estate within the District's entire service area. Under the agreement, the County will reimburse the District for certain costs related to the planning, development and implementation of the project from the MSTU tax revenues. For the fiscal year ended September 30, 2006 the millage rate was .3185. At September 30, 2006 the District has recorded a receivable of \$161,082 for costs submitted but not yet reimbursed. In addition, as of September 30, 2006, the County has collected approximately \$1,240,000 which is subject to future release to the District. The collection of ad valorem taxes as authorized by the agreement will cease at the end of the County fiscal year 2006-2007. Subsequent to September 30, 2006 the County reduced the MSTU millage rate to .2612 for fiscal year 2006/2007.

The District has also entered into an Interlocal Agreement with Monroe County related to the design, permitting and construction of a portion of the regional wastewater system for service within the District's boundaries identified as North Component portion of the wastewater system. Under the agreement, the County will reimburse to the District up to \$20,000,000. The reimbursement amount includes an advance of funds in the amount of \$1,000,000 to the District which was received in the prior fiscal year.

NOTE 6 – FORGIVENESS OF DEBT

In a prior year 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 in meeting organizational expenses in its inaugural year. In addition, the District obtained a loan in the amount of \$914,285 from Monroe County. These funds were used to comply with a local matching funds requirement related to federal grants awarded to fund facilities construction. During the fiscal year ended September 30, 2006 Monroe County forgave repayment of the loans, including accrued interest of \$9,536. As a result, the District has recognized nonoperating revenue of \$1,023,821 in the statement of revenue, expenses and changes in net assets.

NOTE 7 – LONG-TERM DEBT

During the fiscal year ended September 30, 2006 the District entered into two State Revolving Loan Fund Agreements with the Florida Department of Environmental Protection. The loans are considered federal financial assistance under CFDA number 66.458 passed through the state.

Under agreement WW46401P the District is authorized to draw up to \$2,670,199 to be used for the wastewater project construction. In addition the District is charged a loan service fee in the amount of \$53,404 and capitalized interest of \$79,600. The loan will bear interest at a rate of 2.51% per annum charged on the unpaid balance and shall be repaid in 40 semiannual. At September 30, 2006 the District has draw down approximately \$534,000 on the loan. The District plans to refinance this debt with a future loan from the Florida Department of Environmental Protection.

Under agreement WW464020 the District is authorized to draw up to \$1,161,845 to be used for wastewater project construction. In addition the District is charged a loan service fee in the amount of \$23,237 and capitalized interest of \$2,300. The loan will bear interest at a rate of 2.61% per annum charged on the unpaid balance and shall be repaid in 40 semiannual payments. At September 30, 2006 the District has drawn down approximately \$673,000 on the loan. Subsequent to September 30, 2006 the loan was reduced by \$270,423. As a result, semiannual payments commencing January 1, 2007 were reduced to \$29,189.

Under the terms of the agreements the District is to set aside certain funds for the future repayment of the loans and will be required to comply with other covenants once the draw downs are complete. As a result, the District has \$19,187 in a debt service account for that purpose.

NOTE 7 – LONG-TERM DEBT (CONTINUED)

Changes in long-term liability activity for the fiscal year ended September 30, 2006 were as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Monroe County Loan	\$ 100,000	\$ -	\$ 100,000	\$ -	\$ -
Monroe County Loan	914,285		914,285	-	
State Revolving Loan WW46401P		534,040		534,040	
State Revolving Loan WW46420		672,942		672,942	33,647
Total loans payable	\$ 1,014,285	\$ 1,206,982	\$ 1,014,285	\$ 1,206,982	\$ 33,647

While the terms of the loans have not yet been finalized, the District has estimated scheduled debt service requirements, including anticipated loan draws, as follows:

Year ending September 30,	Principal	Interest	Total
2007	\$ 33,647	\$ 22,593	\$ 56,240
2008	126,263	56,851	183,114
2009	149,369	88,141	237,510
2010	153,161	84,349	237,510
2011	157,048	80,462	237,510
2012-2016	847,107	340,443	1,187,550
2017-2021	960,229	227,321	1,187,550
2022-2026	1,088,451	99,099	1,187,550
2027-2028	264,175	4,523	268,698
	\$ 3,779,450	\$ 1,003,782	\$ 4,783,232

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 (BUDGETARY BASIS) – BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
OPERATING REVENUES:				
Ad valorem taxes	\$ 586,941	\$ 573,056	\$ 681,289	\$ 108,233
Charges for Services	297,792	75,000	73,924	(1,076)
Other revenues	10,098	10,098	10,098	-
Total operating revenues	<u>894,831</u>	<u>658,154</u>	<u>765,311</u>	<u>107,157</u>
OPERATING EXPENSES:				
Board Meeting Compensation	45,000	45,000	33,900	11,100
Salaries	265,343	236,175	271,998	(35,823)
Payroll Taxes	23,740	21,562	27,911	(6,349)
Group health insurance	34,495	30,543	13,256	17,287
Copier Maintenance/Supplies	3,500	3,500	4,616	(1,116)
Postage/Delivery	5,500	5,500	28,883	(23,383)
Insurance	70,340	55,948	54,875	1,073
Miscellaneous Expenses	56,200	18,200	25,423	(7,223)
Legal Advertisements	7,000	7,000	9,547	(2,547)
Office Supplies	12,500	20,000	37,660	(17,660)
Dues & Subscriptions	700	700	1,315	(615)
Travel	5,000	5,000	6,388	(1,388)
Rents & Leases	29,400	29,400	29,400	-
Telephone	7,200	7,200	11,719	(4,519)
Utilities	27,860	10,360	9,925	435
Computer Support	2,000	2,000	11,823	(9,823)
FKAA billing services	17,000	3,800	2,611	1,189
Vehicle Expense	10,130	10,000	8,541	1,459
Start up costs	15,000	27,000	40,067	(13,067)
Audit & Accounting Services	16,000	16,000	17,000	(1,000)
Utility Rate Consultant	15,000	15,000	923	14,077
Legal - General Counsel	60,000	60,000	54,806	5,194
Legal - Litigation Reserve	20,000	20,000	-	20,000
Legal bond council	10,000	10,000	-	10,000
Financial Advisor	25,000	25,000	-	25,000
GSG Management Services	-	-	1,000	(1,000)
Engineering Services	50,000	50,000	103,595	(53,595)
Reserve ffor contingency	1,200	1,200	-	1,200
Project Planning Contingency	10,000	10,000	3,280	6,720
Repairs	15,000	1,200	7,067	(5,867)
Bad debts	2,978	750	-	750
Depreciation	-	-	3,874	(3,874)
Total operating expenses	<u>863,086</u>	<u>748,038</u>	<u>821,403</u>	<u>(73,365)</u>
Operating income (loss)	<u>31,745</u>	<u>(89,884)</u>	<u>(56,092)</u>	<u>33,792</u>
NON OPERATING REVENUES (EXPENSES):				
Investment Earnings	2,500	4,610	13,268	8,658
Debt service / interest expense	109,273	-	-	-
Total non operating revenues (expenses)	<u>111,773</u>	<u>4,610</u>	<u>13,268</u>	<u>8,658</u>
Budgetary basis income (loss)	<u>\$ 143,518</u>	<u>\$ (85,274)</u>	<u>\$ (42,824)</u>	<u>\$ 42,450</u>

Statistical Section

This part of the District's comprehensive annual financial report represents information as a context for understanding what the information in the accompanying financial statements and notes to the basic financial statements says about the District's overall financial health.

Financial Trends:

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

Revenue Capacity:

These Schedules contain information to help readers assess the factors affecting the District's ability to generate revenues.

Debt Capacity:

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to incur additional debt in the future.

Demographic and Economic Information:

These schedules offer demographic and economic indications to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time with other agencies.

Operating Information:

These schedules contain information about the District's operations and resources to help the reader understand how the District's financial information relates to the services the District provides and the activities it performs.

Sources: Unless otherwise indicated, information in these schedules is derived from the comprehensive annual financial reports for the respective years.

**KEY LARGO WASTEWATER TREATMENT DISTRICT
NET ASSETS BY COMPONENT
SINCE INCEPTION**

	Fiscal Year			
	2006	2005	2004	2003
Invested in capital assets, net of related debt	\$ 12,709,020	\$ 6,977,866	\$ 1,897,185	\$ -
Restricted	1,024,411	2,185,055	1,296,136	-
Unrestricted	(8,635)	32,114	45,454	(76,163)
Total net assets	\$ 13,724,796	\$ 9,195,035	\$ 3,238,775	\$ (76,163)

**KEY LARGO WASTEWATER TREATMENT DISTRICT
CHANGE IN NET ASSETS
SINCE INCEPTION**

	Fiscal Year			
	2003	2004	2005	2006
Operating revenues:				
Charges for service	\$ -	\$ -	\$ -	\$ 84,022
Ad volorem taxes	-	477,151	489,328	681,289
Total operating revenues	-	477,151	489,328	765,311
Operating expenses:				
Cost of sales and services	-	-	-	68,691
Administration	147,356	229,441	234,805	540,336
Professional and other	178,738	119,135	194,237	208,382
Depreciation	-	-	-	3,994
Total operating expenses	326,094	348,576	429,042	821,403
Total operating income (loss)	(326,094)	128,575	60,286	(56,092)
Nonoperating revenues (expenses):				
Grant revenue	250,425	2,364,057	5,896,498	2,095,394
Intergovernmental	-	826,234	-	791,699
Assessments	-	-	-	661,671
Forgiveness of debt	-	-	-	1,023,821
Other	1,632	-	-	-
Interest income	86	298	3,326	13,268
Interest expense	(2,212)	(4,227)	(3,850)	-
Total nonoperating revenues	249,931	3,186,362	5,895,974	4,585,853
Change in net assets	\$ (76,163)	\$ 3,314,937	\$ 5,956,260	\$ 4,529,761

**KEY LARGO WASTEWATER TREATMENT DISTRICT
REVENUES BY SOURCE
SINCE INCEPTION**

Fiscal Year	Operating		Total Operating Revenue	Nonoperating					Total Non-Operating Revenue	Total Combined Revenue
	Sewer Service	Ad Valorem Taxes ¹		Grants	Intergovernmental	Assessments	Interest	Other		
2006	\$ 84,022	\$ 681,289	\$ 765,311	\$ 2,095,394	\$ 791,699	\$ 661,671	\$ 13,268	\$ 1,023,821	\$ 4,585,853	\$ 5,351,164
2005		489,328	489,328	5,896,498	-	-	3,326	-	5,899,824	6,389,152
2004		477,151	477,151	2,364,057	826,234	-	298	-	3,190,589	3,667,740
2003		-	-	250,425	-	-	86	1,632	252,143	252,143

¹ Ad valorem taxes are levied and collected by Monroe County on property within the District. See Note 5 to the financial statements for details.

**KEY LARGO WASTEWATER TREATMENT DISTRICT
EXPENSES BY FUNCTION
SINCE INCEPTION**

Fiscal Year	Operating Expenses				Total Operating Expenses	Total Non-Operating Expenses	Combined Expenses
	Cost of Sales and Service	Administration	Contractual Services	Depreciation			
2006	\$ 68,691	\$ 540,336	\$ 208,382	\$ 3,994	\$ 821,403	\$ -	\$ 821,403
2005	-	234,805	194,237	-	429,042	3,850	432,892
2004	-	229,441	119,135	-	348,576	4,227	352,803
2003	-	147,356	178,738	-	326,094	2,212	328,306

**KEY LARGO WASTEWATER TREATMENT DISTRICT
MONTHLY RATE STRUCTURE SINCE INCEPTION**

	Base Charge (EDU)	Flow Charge (1,000 Gal.)	Average Monthly Service Fees			
			Residential	Non-Residential	Accounts	EDU's
2006	\$33.60	\$5.27	\$19,509	\$286	426	435
2005	0	0	0	0	0	0
2004	0	0	0	0	0	0
2003	0	0	0	0	0	0

**KEY LARGO WASTEWATER TREATMENT DISTRICT
SYSTEM DEVELOPMENT CHARGE STRUCTURE SINCE INCEPTION**

	Fee Structure		Assessment		
	Capacity Charge (EDU)	Connection Charge (Each)	Residential	Non-Residential	Total
	2006	\$2,820	\$2,150	\$ 11,790,338	\$ 7,906,212
2005	\$2,700	\$2,070	\$ 4,527,049	\$ 266,641	\$ 4,793,690
2004	0	0	0	0	0
2003	0	0	0	0	0

**KEY LARGO WASTEWATER TREATMENT DISTRICT
RATIO OF OUTSTANDING DEBT
SINCE INCEPTION**

	Loans	Assessed Property Value	Percentage of Assessed Value	Pledged Revenue
2006	\$ 1,206,982	\$4,306,056,741	0.0280%	\$73,924
2005	\$ 1,014,285	\$3,375,533,340	0.0300%	0
2004	\$ 100,000	\$2,737,790,340	0.0037%	0
2003	\$ 100,000	\$2,262,644,965	0.0044%	0

**KEY LARGO WASTEWATER TREATMENT DISTRICT
DEMOGRAPHIC AND ECONOMIC STATISTICS
SINCE INCEPTION**

	Assessed Property Value	Estimated Resident Population	
		Key Largo District	Monroe County
2006	\$4,306,644,965	14,655	83,219
2005	\$3,375,533,340	14,340	81,433
2004	\$2,737,790,904	14,310	81,236
2003	\$2,262,644,965	14,183	80,537

**KEY LARGO WASTEWATER TREATMENT DISTRICT
DISTRICT EMPLOYEES BY FUNCTION
SINCE INCEPTION**

	2006	2005	2004	2003
Executive (Commissioners)	5	5	5	5
Administration	5	5	4	0
Operations	2	0	0	0
Construction	2	0	0	0
	<hr/> 14	<hr/> 10	<hr/> 9	<hr/> 5

**KEY LARGO WASTEWATER TREATMENT DISTRICT
OPERATING INDICATORS
SINCE INCEPTION**

	2006	2005	2004	2003
Number of Employees	14	10	9	5
Number of Customers	426	0	0	0
Collection Main (feet)	41,000	19,000	0	0
Transmission Main (feet)	7,000	0	0	0
Number of Vacuum Pits	219	85	0	0
Number of Vacuum Stations	1	0	0	0
Average Daily Flow (gallons)	21,000	0	0	0
Peak Daily Flow (gallons)	32,000	0	0	0

KEY LARGO WASTEWATER TREATMENT DISTRICT
MISCELLANEOUS STATISTICAL INFORMATION

Date of Formation	November 19, 2002
Form of Government	Independent Special District
Board Elections	Non-partisan
Equivalent Dwelling Units (EDU's)	14,300 (Estimate)
Geographic Size	14.4 Square Miles
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.

**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 basic financial statements of the Key Largo Wastewater Treatment District, Key Largo, Florida ("District") as of and for the fiscal year ended September 30, 2006, and have issued our report thereon dated January 20, 2007. 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, grantor agencies, 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 20, 2007

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

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, 2006. 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 10.550, Rules of the Auditor General. Those standards, OMB Circular A-133 and Chapter 10.550, 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, 2006.

Board of Directors
Key Largo Wastewater Treatment District

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 10.550, 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 20, 2007

**KEY LARGO WASTEWATER TREATMENT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

Federal/State Grantor Pass through Program Title	Federal/State CFDS/CSFA Number	Agency or Pass-through Number	Disbursements/ Expenditures
<u>MAJOR PROGRAMS</u>			
U.S. Department of Environmental Protection			
Pass-Through - Florida Department of Environmental Protection			
Capitalization Grants for State Revolving Funds	66.458	CS120001-050	\$ 1,206,982
Florida Department of Environmental Protection			
State Surface Water Restoration and Wastewater Projects	37.039	N/A	1,522,150
<u>NON-MAJOR PROGRAMS</u>			
Federal Emergency Management Agency			
Pass-Through - Florida Department of Community Affairs			
Hazard Mitigation	97.039	N/A	1,478
Florida Department of Community Affairs			
Cesspit Grant Funds	52.003	N/A	571,522
TOTAL EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE			\$ 3,302,132

See accompanying notes to schedule of expenditures of federal awards and state financial assistance

**KEY LARGO WASTEWATER TREATMENT DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

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 – OTHER INFORMATION

The Capital Grants for State Revolving Funds are two Revolving Loan Fund Agreements with the Florida Department of Environmental Protection. The loans are considered federal financial assistance under CFDA number 66.458 passed through the state.

Under agreement WW46401P the District is authorized to draw up to \$2,670,199 to be used for the wastewater project construction. In addition the District is charged a loan service fee in the amount of \$53,404 and capitalized interest of \$79,600. The loan will bear interest at a rate of 2.51% per annum charged on the unpaid balance and shall be repaid in 40 semiannual. At September 30, 2006 the District has draw down approximately \$534,000 on the loan.

Under agreement WW464020 the District is authorized to draw up to \$1,161,845 to be used for wastewater project construction. In addition the District is charged a loan service fee in the amount of \$23,237 and capitalized interest of \$2,300. The loan will bear interest at a rate of 2.61% per annum charged on the unpaid balance and shall be repaid in 40 semiannual payments. At September 30, 2006 the District has drawn down approximately \$673,000 on the loan. Subsequent to September 30, 2006 the loan was reduced by \$270,423.

**KEY LARGO WASTEWATER TREATMENT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified Opinion

Material weakness(es) identified?

___ yes X no

Reportable condition(s) identified not considered to be material weakness?

___ yes X none

Noncompliance material to financial statements noted?

___ yes X no

Federal Awards Programs and State Projects

Internal Control over major federal awards programs and state projects:

Material weakness(es) identified?

___ yes X no

Reportable condition(s) identified not considered to be Material weakness

___ yes X no

Type of auditor's report issued on compliance for major federal awards and state financial assistance.

Unqualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) and Chapter 10.550 Rules of the Auditor General.

___ yes X no

Identification of major federal awards programs and state financial assistance

Federal

CFDA No.

Public Assistance Grants

66.458

State

CSFA No.

Surface Water Restoration

37.039

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as low risk auditee for audit of federal awards program?

X yes ___ no

FINDINGS – FINANCIAL STATEMENT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAM

None

FINDINGS AND QUESTIONED COSTS – MAJOR STATE FINANCIAL ASSISTANCE

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, 2006, and have issued our report thereon dated January 20, 2007.


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 20, 2007. 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 20, 2007

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

None

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

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. There were no such matters reporting in the preceding annual financial audit for the fiscal year ended September 30, 2005.
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, 2006 financial audit report.
9. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and no deteriorating financial conditions were noted. It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.