



Key Largo Wastewater Treatment District

COMPREHENSIVE ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2008

Key Largo Wastewater Treatment District
Comprehensive Annual Financial Report
For the Fiscal Year ended September 30, 2008

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

March 24, 2008

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, 2008, 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 Chief Financial 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, 2008. 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 principal 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 District's 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. Many 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 July, 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 established the first AWT wastewater treatment plant on the island and provided vacuum based collection systems in the Key Largo Trailer Village, Key Largo Park, and Calusa Campground communities containing just over 1,000 equivalent residential connections. This project was completed in 2006 and began providing service to customers in May of that year.

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 all communities along the new main. This 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 and has continued through FY2008.

In FY2008 the District initiated design and engineering for the construction of a main transmission line and associated collection systems to sewer the southern half of the island. Construction is scheduled to begin in mid-FY2009, and when finished will complete construction of the Districts basic wastewater infrastructure throughout its entire service area.

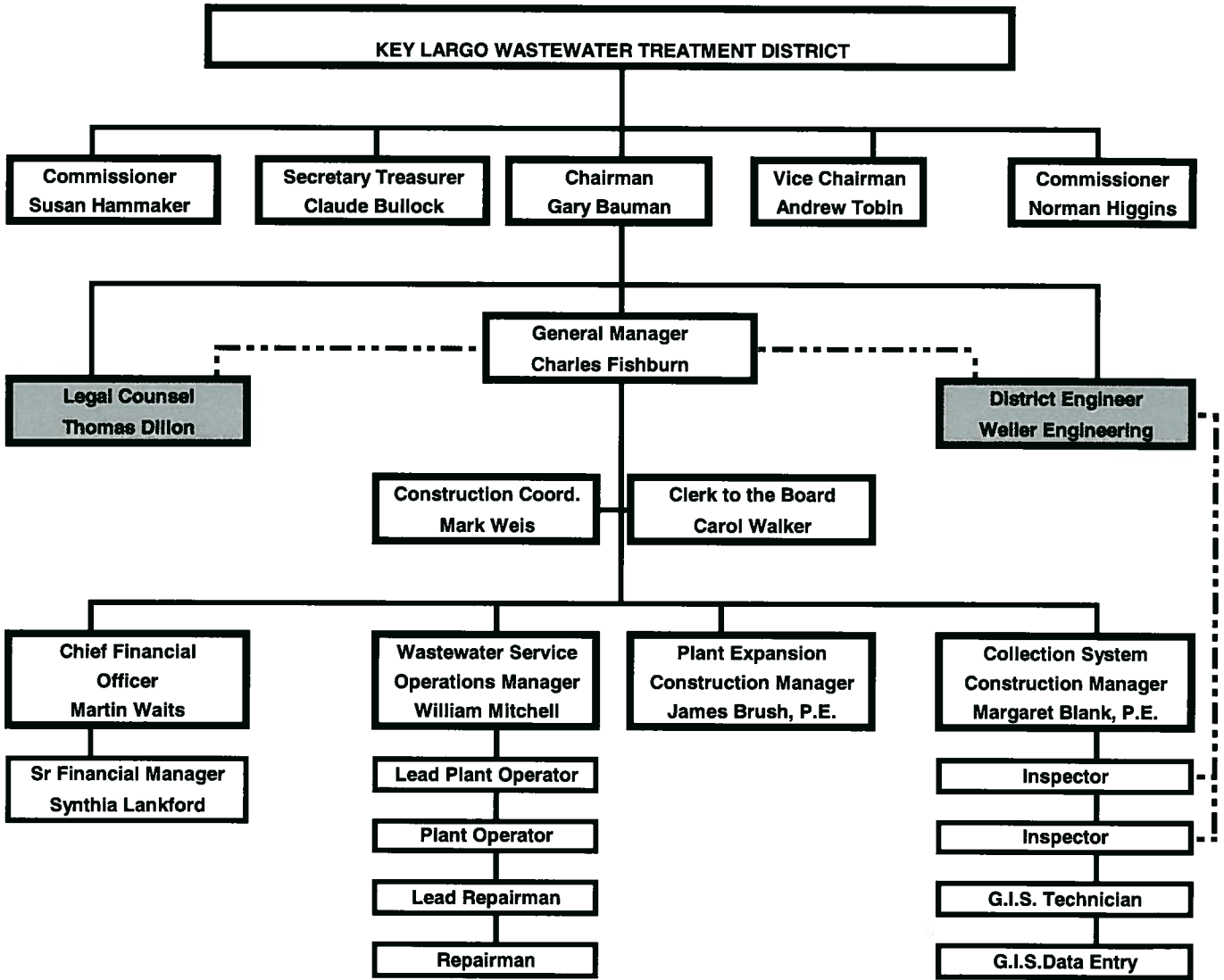
The preparation of this comprehensive annual financial report for the Key Largo Wastewater Treatment District was made possible by the dedicated efforts of all members of the District's staff. Each staff member has our sincere appreciation for the contributions made to this report.

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 2008

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

FY 2009

Susan Hammaker, Chairwoman
Norman Higgins, Vice Chairman
Charles Brooks, Secretary
Andrew Tobin
Robert Majeska

District Management

Charles F. Fishburn, General Manager
Martin D. Waits, Chief Financial Officer
Carol J. Walker, Clerk to the Board
Margaret H. Blank P.E., Construction Manager
James R. Brush P.E., Treatment 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



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INDEPENDENT AUDITOR'S 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, 2008, 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008, 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 March 24, 2009 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 considered in assessing 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.

Shaw & Associates

March 24, 2009

Management Discussion and Analysis

KEY LARGO WASTEWATER TREATMENT DISTRICT MANAGEMENT'S 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, 2008. 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 and FY2006 the District commenced construction of the Key Largo Trailer Village and Key Largo Park demonstration project, initiating service to customers in May, 2006. 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 expansion of the treatment plant from 0.183 to 2.30 million gallons per day to ultimately serve the entire island with a single regional treatment facility, construction of a main transmission line serving the northern half of the island, and installing vacuum collection systems in the four northern service areas. Construction of the North Transmission force main was initiated in July, 2006. Contracts for design and engineering of the regional treatment plant and the collection systems serving 3,700 EDU's associated with the North Components project were also awarded. Administrative expenses for FY2005 and FY2006 totaling \$1,250,445 were funded by MSTU ad valorem tax revenues and charges for service to customers. Project costs totaling \$12,863,688 were funded by federal, state and local grants and loans.

In FY2007, construction of the North Transmission force main was completed. Construction of a collection system in the northernmost service area, Basin A, was also initiated. Design and engineering of three other collection systems continued for Basins B, C, and D. Administration and system operating expenses totaling approximately \$1,181,000 were funded by MSTU ad valorem tax revenues and charges for service to customers. Project costs totaling approximately \$4,770,000 were funded by state and local grants and loans, including approximately \$2,728,000 from an interlocal grant agreement with Monroe County.

In FY2008, the subject year of this report, construction in Basin A was essentially completed and construction in Basins B, C, and D was initiated. Design and engineering of the regional treatment plant was completed and scheduled for completion of construction in December, 2009. The District also initiated design and engineering of a South Components project consisting of a main transmission line to serve the southern half of the island and installation of vacuum collection systems in seven southern service areas, Basins E through K. Administration and system operating expenses totaling approximately \$1,458,000 were funded by MSTU ad valorem tax revenues and charges for service to customers. Project costs totaling approximately \$16,143,000 were funded by state and local grants and loans, including approximately \$1,316,000 from an interlocal grant agreement with Monroe County.

Overview of Operations (Continued)

The District has pursued a policy of special assessments on all parcels to be benefited by new construction 1-2 years preceding service availability. This policy was continued in 2008 with the levy of a special assessment in areas scheduled for service in 2010. The assessments on the benefiting property owners are intended to recover a portion of the cost of the improvements. Each parcel owner has the choice to pay the assessment in full or over a 20 year period. Assessment revenues for the FY 2008 totaled approximately \$5,299,000.

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.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The District's Net Assets

Total Assets of the District at September 30, 2008, were \$96,257,857 and Total Liabilities amounted to \$63,790,760. Total Net Assets of the District were \$32,467,097. For the prior year, total assets of the District at September 30, 2007, were \$66,997,045 and Total Liabilities amounted to \$44,301,276 and Total Net Assets of the District were \$22,695,769.

Total Current Assets of \$12,874,030 at September 30, 2008 consisted of \$34,867 in billings due from customers. In addition, restricted current assets included cash of \$10,429,503 from grants and assessment collections restricted for use in construction, \$1,297,408 in receivables due from other governments and \$1,112,252 in reimbursements due from other governments. For the prior year, total Current Assets of \$7,102,703 consisted of \$5,820,231 in cash from grants and assessment collections restricted for use in new construction, \$785,293 in receivables due from other governments, \$140,077 in billings due from customers, and \$357,102 in reimbursements due from other governmental units.

Total Non-Current Assets at September 30, 2008 of \$83,383,827 consisted essentially of \$6,652 in prepaid expenses and other, \$53,479,305 in assessments levied but not received, and \$29,897,870 in land, equipment and infrastructure owned by the District. In the prior year, total Non-Current Assets consisted essentially of \$3,700 in deposits, \$40,323,032 in assessments levied but not received, and \$19,567,610 in land, equipment and infrastructure owned by the District.

Total Liabilities at September 30, 2008 of \$63,790,760 included \$188,049 due to vendors for services rendered, \$2,170,072 due to construction contractors, \$7,953,334 in principal and accrued interest on State Revolving Fund loans of which \$37,655 is due next year, and \$53,479,305 for assessments levied not yet received. In the prior year, Total Liabilities of the District consisted of \$32,744 due to vendors for services rendered, \$751,645 due to construction contractors, \$3,193,855 in principal and accrued interest on State Revolving Fund loans, and \$40,323,032 for assessments receivable.

The District's Net Assets (Continued)

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

	September 30,	
	2008	2007
Current and other assets	\$ 66,359,987	\$ 47,429,435
Capital assets, net of depreciation	29,897,870	19,567,610
Total assets	<u>96,257,857</u>	<u>66,997,045</u>
Long-term liabilities	61,394,984	43,480,178
Other liabilities	2,395,776	821,098
Total liabilities	<u>63,790,760</u>	<u>44,301,276</u>
Net Assets		
Invested in capital assets, net of related debt		
Invested in capital assets, net of related debt	19,774,464	15,622,110
Restricted for debt service	21,597	24,434
Restricted for capital assets	12,817,566	6,938,192
Unrestricted	(146,530)	111,033
Total net assets	<u>\$ 32,467,097</u>	<u>\$ 22,695,769</u>

District Revenues, Expenses, and Changes in Net Assets

The District's Net Assets increased by \$9,771,328 in FY 2008 from \$22,695,769 on October 1, 2007 to \$32,467,097 on September 30, 2008. Total revenues for the period were \$11,622,723 and total expenses for the period were \$1,851,395. For the prior year, the District's Net Assets increased by \$8,970,973 in FY 2007 from \$13,724,796 on October 1, 2006 to \$22,695,769 on September 30, 2007. Total revenues for the period were \$10,379,024 and total expenses for the period were \$1,408,051.

For FY 2008, operating revenue consisted of \$603,047 in charges to customers for service and \$843,001 in Monroe County MSTU funding. Non-operating revenues consisted of \$2,224,498 in grant funds, \$2,448,767 in intergovernmental revenues, \$5,298,845 in assessments, and \$204,565 in interest income. As the District continues to develop it is expected that assessments will increase as infrastructure development continues and assessments are levied in anticipation of service availability. As for MSTU revenue, as in the prior year, a portion of the funds have been escrowed by the County and may be used by the District subject to certain restrictions. At September 30, 2008 the escrow amount totaled approximately \$737,000. For FY 2007, operating revenue consisted of \$516,765 in charges to customers for service and \$787,643 in Monroe County MSTU funding. Non-operating revenues consisted of \$907,829 in grants, \$5,518,395 in intergovernmental revenues, \$2,474,159 in assessments, \$174,233 in interest income.

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

Key elements of the change in net assets are reflected in the following table:

	Fiscal Year Ended September 30,	
	2008	2007
Operating activities:		
Charges for services	\$ 603,047	\$ 516,765
Ad valorem taxes	843,001	787,643
Cost of sales	(467,754)	(381,279)
Administration	(636,691)	(558,753)
Other	(353,386)	(240,709)
Depreciation	(371,420)	(188,327)
Net operating (loss)	<u>(383,203)</u>	<u>(64,660)</u>
Nonoperating activities:		
Grant revenue	2,224,498	907,829
Intergovernmental	2,448,767	5,518,395
Assessments	5,298,845	2,474,159
Interest income	204,565	174,233
Interest expense	(22,144)	(38,983)
Net nonoperating activities	<u>10,154,531</u>	<u>9,035,633</u>
Change in net assets	<u>9,771,328</u>	<u>8,970,973</u>
Net assets, beginning	<u>22,695,769</u>	<u>13,724,796</u>
Net assets, ending	<u>\$ 32,467,097</u>	<u>\$ 22,695,769</u>

Capital Assets and Project Plan

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. Of that amount, approximately 50% of project costs are targeted for funding with Federal, State, and local grants. In addition, 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.

At September 30, 2008, the District had \$30,461,491 invested in land, infrastructure and equipment. Depreciation of \$563,621 has been taken, which resulted in a net book value of \$29,897,870. More detailed information about the District's capital assets is presented in the notes to the financial statements.

Capital Debt

During the fiscal year ended September 30, 2008, 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, 2008**

ASSETS	
Current assets:	
Unrestricted:	
Accounts receivable	\$ 34,867
Total unrestricted current assets	<u>34,867</u>
Restricted:	
Cash and cash equivalents	10,429,503
Due from other governments	1,297,408
Grants receivable	1,112,252
Total restricted current assets	<u>12,839,163</u>
Total current assets	<u>12,874,030</u>
Noncurrent assets:	
Prepaid and other assets	6,652
Assessments	53,479,305
Capital assets:	
Land	826,234
Construction in progress	17,371,203
Depreciable assets	12,264,054
Less accumulated depreciation	<u>(563,621)</u>
Total capital assets, net	<u>29,897,870</u>
Total noncurrent assets	<u>83,383,827</u>
Total assets	<u>96,257,857</u>
LIABILITIES	
Current liabilities:	
Accounts payable	188,049
Construction contracts payable	2,170,072
Loans payable	37,655
Total current liabilities	<u>2,395,776</u>
Noncurrent liabilities:	
Deferred revenue	53,479,305
Loans payable	7,915,679
Total noncurrent liabilities	<u>61,394,984</u>
Total liabilities	<u>63,790,760</u>
NET ASSETS	
Invested in capital assets, net of related debt	19,774,464
Restricted for debt service	21,597
Restricted for capital assets	12,817,566
Unrestricted	<u>(146,530)</u>
Total net assets	<u>\$ 32,467,097</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, 2008**

Operating revenues:	
Charges for services	\$ 603,047
Ad valorem taxes	843,001
Total operating revenues	<u>1,446,048</u>
Operating expenses:	
Costs of sales and services	467,754
Administration	636,691
Other	353,386
Depreciation	371,420
Total operating expenses	<u>1,829,251</u>
Operating income (loss)	<u>(383,203)</u>
Nonoperating revenues (expenses):	
Grant revenues	2,224,498
Intergovernmental	2,448,767
Assessments	5,298,845
Interest income	204,565
Interest expense	(22,144)
Total nonoperating revenues (expenses):	<u>10,154,531</u>
Change in net assets	9,771,328
Total net assets - beginning	<u>22,695,769</u>
Total net assets - ending	<u>\$ 32,467,097</u>

See accompanying notes to financial statements

**KEY LARGO WASTEWATER TREATMENT DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**

Cash flows from operating activities:	
Receipts from customers and users	\$ 708,257
Receipts from ad valorem taxes	843,001
Payments to employees	(611,096)
Payments to suppliers	(694,382)
Net cash provided by operating activities	<u>245,780</u>
Cash flows from capital and related financing activities:	
Grants and other intergovernmental	3,406,000
Assessments	5,298,845
Loan from other governmental unit	4,795,714
Payments and fees on loan from other government	(36,235)
Interest payments	(22,144)
Acquisition and construction of capital assets	(9,283,253)
Net cash provided by capital and related financing activities	<u>4,158,927</u>
Cash flows from investing activities:	
Investment earnings	<u>204,565</u>
Net cash provided by investing activities	<u>204,565</u>
Net increase in cash and cash equivalents	<u>4,609,272</u>
Cash and cash equivalents (including restricted), October 1	<u>5,820,231</u>
Cash and cash equivalents (including restricted), September 30	<u>\$ 10,429,503</u>
Cash and cash equivalents per statement of net assets:	
Restricted	<u>\$ 10,429,503</u>
	<u>\$ 10,429,503</u>
Reconciliation of operating (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	<u>\$ (383,203)</u>
Adjustments to reconcile operating loss to net cash (used) by operating activities:	
Depreciation expense	371,420
Decrease in accounts receivable	105,210
(Increase) in prepaid	(2,952)
Increase in accounts payable	155,305
Total adjustments	<u>628,983</u>
Net cash provided by operating activities	<u>\$ 245,780</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, 2008 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
Infrastructure and building	30-40

The District's wastewater system is to be completed in sections. Depreciation begins when the section is completed and placed in service.

Long-term Obligations – The long-term debt of the District is reported as a liability in the statement of net assets.

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. For assessments paid over a 20 year period, interest will be the lesser of the District's borrowing rate or 8% per year. There is no penalty for prepayments or deferred payments. There was no significant interest due for the fiscal year ended September 30, 2008. 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. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Included in cash and cash equivalents are amounts restricted for specific use by outside parties or the District Board. Restricted amounts at September 30, 2008 are as follows:

Restricted for Construction	\$ 10,341,250
Restricted for Debt Service on Loans	21,597
Restricted for Repair, Replacement and Windstorm Damage	66,656
	<u>\$ 10,429,503</u>

NOTE 4 – CAPITAL ASSETS

The table below summarizes the capital activity for the fiscal year ended September 30, 2008.

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 826,234	\$ -	\$ -	\$ 826,234
Construction in progress	6,868,887	10,502,316		17,371,203
Total capital assets, not being depreciated	<u>7,695,121</u>	<u>10,502,316</u>	-	<u>18,197,437</u>
Capital assets, being depreciated:				
Buildings	429,185	4,245		433,430
Vacuum and treatment facilities	3,195,428	145,781		3,341,209
Collection system	8,324,225			8,324,225
Equipment	115,852	49,338		165,190
Total capital assets, being depreciated	<u>12,064,690</u>	<u>199,364</u>	-	<u>12,264,054</u>
Less accumulated depreciation for:				
Buildings	(7,153)	(14,306)		(21,459)
Vacuum and treatment facilities	(60,291)	(125,679)		(185,970)
Collection system	(104,053)	(208,105)		(312,158)
Equipment	(20,704)	(23,330)		(44,034)
Total accumulated depreciation	<u>(192,201)</u>	<u>(371,420)</u>	-	<u>(563,621)</u>
Total capital assets, being depreciated, net	<u>11,872,489</u>	<u>(172,056)</u>	-	<u>11,700,433</u>
Total capital assets, net	<u>\$ 19,567,610</u>	<u>\$ 10,330,260</u>	\$ -	<u>\$ 29,897,870</u>

NOTE 4 – CAPITAL ASSETS (Continued)

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. At September 30, 2008 contracts payable totaled approximately \$2,170,000. In addition, the District had commitments of approximately \$4,200,000 on open contracts.

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. The collection of ad valorem taxes as authorized by the agreement ceased at the end of the County fiscal year 2006-2007. However, at September 30, 2007, the County had collected approximately \$1,768,000 of which \$843,000 was released and therefore recognized as revenue during the fiscal year ended September 30, 2008. At September 30, 2008 the District's due from other Governments balance includes a receivable of \$210,463 related to the revenue released by the County. In addition, as of September 30, 2008, the County has collected approximately \$737,000 which has not yet been released to the District, however, the ultimate amount and date of release is not currently known, therefore, a receivable has not been reported in the accompanying financial statements.

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 approximately \$3,700,000 received in prior years. During the fiscal year ended September 30, 2008 total revenues under the agreement were \$2,403,025 which includes a receivable of \$1,086,994 included in due from other Governments at September 30, 2008.

The District entered into an agreement with the Army Corps of Engineers to receive funds from a federal grant awarded to the Army Corps of Engineers for the Florida Keys Water Quality Improvement Program Regional Wastewater Treatment and Collection Facility Project. Funds are provided on reimbursement basis.

NOTE 6 – LONG-TERM DEBT

During the fiscal year ended September 30, 2007 the District entered into two State Revolving Fund Loan 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. 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 payments. During the fiscal year ended September 30, 2007 and September 30, 2008 the loan was amended twice and the award amount was increased by an additional \$5,000,000 in each year. The District is currently authorized to draw up to \$12,670,199. At September 30, 2008, the unpaid balance on the loan is approximately \$7,115,555 including capitalized interest of \$160,553. The first semiannual repayment is due January 15, 2010.

NOTE 6 – LONG-TERM DEBT (CONTINUED)

Under agreement WW464020 the District was authorized to draw up to \$1,161,845 to be used for wastewater project construction. In addition the District was charged a loan service fee and included capitalized interest. The loan was set to bear interest at a rate of 2.61% per annum charged on the unpaid balance and subject to repayment in 40 semiannual payments. During the fiscal year ended September 30, 2007 the authorized draw amount was reduced by \$270,423 and 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 \$21,597 in a debt service account for that purpose.

Under the terms of the loan agreements, pledged revenues shall be the gross revenues, together with system development charges and annual wastewater assessments, derived yearly from the operation of the sewer system after payment of operating and maintenance expenses and any yearly payment obligation of any senior debt obligations.

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

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
State Revolving Loan WW46401P	\$ 2,319,841	\$ 4,795,714	\$ -	\$ 7,115,555	\$ -
State Revolving Loan WW464020	874,014		36,235	837,779	37,655
Total loans payable	<u>\$ 3,193,855</u>	<u>\$ 4,795,714</u>	<u>\$ 36,235</u>	<u>\$ 7,953,334</u>	<u>\$ 37,655</u>

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

Year ending September 30,	Total		
	Principal	Interest	Total
2009	\$ 37,655	\$ 20,725	\$ 58,380
2010	360,158	210,272	570,430
2011	369,274	201,156	570,430
2012	378,621	191,809	570,430
2013	388,205	182,225	570,430
2014-2018	2,093,486	758,664	2,852,150
2019-2023	2,372,198	479,952	2,852,150
2024-2028	2,490,143	167,962	2,658,105
	<u>\$ 8,489,740</u>	<u>\$ 2,212,765</u>	<u>\$ 10,702,505</u>

NOTE 7 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts and errors and omissions. During fiscal year 2008, the District maintained liability and errors and omissions insurance through the Florida Municipal Insurance Trust (FMIT), operated by the Florida League of Cities to mitigate the costs of these risks; coverage may not extend to all situations. Settled claims from these risks have not exceeded commercial insurance coverage over the past three years. Effective October, 1, 2008, the District contracted with Preferred Governmental Insurance Trust (PGIT) to provide this coverage.

NOTE 8 – CONTINGENCY

In August 2007 a certain condominium association filed a memorandum against the District requesting relief from monthly wastewater charges. In October 2007 the condominium association filed a lawsuit seeking a declaration that unit owners were not liable for monthly wastewater charges. The District and the condominium association reached a settlement for \$148,000 for current fiscal year charges. However, the balance outstanding for fiscal year ended September 30, 2007 was not recovered. As a result, the District wrote off the full amount of the receivable of \$104,000.

Supplementary Information

**KEY LARGO WASTEWATER TREATMENT DISTRICT
SCHEDULE OF REVENUES AND EXPENSES (BUDGETARY BASIS) – BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts			Variance with
	Original	Final	Actual Amounts	Final Budget Positive (Negative)
OPERATING REVENUES:				
Ad valorem taxes	\$ 950,000	\$ 950,000	\$ 843,001	\$ (106,999)
Charges for services	568,000	568,000	557,822	(10,178)
Other revenues	4,500	4,500	45,225	40,725
Total operating revenues	1,522,500	1,522,500	1,446,048	(76,452)
OPERATING EXPENSES:				
Board meeting compensation	39,000	39,000	38,100	900
Salaries	438,353	438,353	389,336	49,017
Inspector and Engineer salaries	115,000	115,000	100,980	14,020
Payroll taxes	45,376	45,376	39,904	5,472
Group health insurance	37,000	37,000	54,379	(17,379)
Workers compensation insurance	18,300	18,300	26,497	(8,197)
Copier maintenance and supplies	5,300	5,300	3,789	1,511
Postage and delivery	30,000	30,000	32,289	(2,289)
Property and liability insurance	83,892	83,892	83,453	439
Miscellaneous expenses	21,500	21,500	22,009	(509)
Legal advertisements	8,000	8,000	6,709	1,291
Office supplies and bank fees	35,750	35,750	42,969	(7,219)
Dues and subscriptions	2,000	2,000	1,775	225
Travel	10,000	10,000	20,082	(10,082)
Rents and leases	32,110	32,110	31,745	365
Telephone	15,100	15,100	13,687	1,413
Utilities (water and electric)	28,580	28,580	31,586	(3,006)
Chemicals, sludge and lab services	83,840	83,840	71,314	12,526
Repairs and maintenance	46,000	46,000	58,905	(12,905)
Computer support	5,000	5,000	-	5,000
FKAA billing services	16,000	16,000	16,025	(25)
Vehicle Expense	12,500	12,500	12,700	(200)
Audit and accounting services	22,000	22,000	23,000	(1,000)
Utility Rate consultant	2,000	2,000		2,000
Legal - General Counsel	65,000	65,000	35,970	29,030
Legal - Litigation Reserve	20,000	20,000	20,231	(231)
Lobbyists	65,000	65,000	75,183	(10,183)
Government relations	15,000		23,817	(23,817)
GSG management services			2,000	(2,000)
Engineering services	75,000	75,000	72,360	2,640
Contingencies	43,500	43,500	3,830	39,670
Total operating expenses	1,436,101	1,421,101	1,354,624	66,477
Budgetary basis operating income (loss)	86,399	101,399	91,424	(9,975)
NON OPERATING REVENUES (EXPENSES):				
Assessments	3,550,000	3,550,000	5,298,845	1,748,845
Investment income	260,000	260,000	204,565	(55,435)
Interest expense	(58,380)	(58,380)	(22,144)	36,236
Total non operating revenues (expenses)	3,751,620	3,751,620	5,481,266	1,729,646
Budgetary basis income (loss)	3,838,019	3,853,019	5,572,690	1,719,671
Intergovernmental			4,673,265	4,673,265
Bad debts			(103,207)	(103,207)
Depreciation			(371,420)	(371,420)
GAAP basis change in net assets	\$ 3,838,019	\$ 3,853,019	\$ 9,771,328	\$ 5,918,309

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					
	2008	2007	2006	2005	2004	2003
Invested in capital assets, net of related debt	\$ 19,774,464	\$ 15,622,110	\$ 12,709,020	\$ 6,977,866	\$ 1,897,185	\$ -
Restricted	12,839,163	6,962,626	1,024,411	2,185,055	1,296,136	-
Unrestricted	(146,530)	111,033	(8,635)	32,114	45,454	(76,163)
Total net assets	\$ 32,467,097	\$ 22,695,769	\$ 13,724,796	\$ 9,195,035	\$ 3,238,775	\$ (76,163)

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

	Fiscal Year					
	2008	2007	2006	2005	2004	2003
Operating revenues:						
Charges for service	\$ 603,047	\$ 516,765	\$ 84,022	\$ -	\$ -	\$ -
Ad volorem taxes	843,001	787,643	681,289	489,328	477,151	-
Total operating revenues	1,446,048	1,304,408	765,311	489,328	477,151	-
Operating expenses:						
Cost of sales and services	428,281	381,279	68,691	-	-	-
Administration	636,691	558,753	540,336	234,805	229,441	147,356
Professional and other	392,859	240,709	208,382	194,237	119,135	178,738
Depreciation	371,420	188,327	3,994	-	-	-
Total operating expenses	1,829,251	1,369,068	821,403	429,042	348,576	326,094
Total operating income (loss)	(383,203)	(64,660)	(56,092)	60,286	128,575	(326,094)
Nonoperating revenues (expenses):						
Grant revenue	2,224,498	907,829	2,095,394	5,896,498	2,364,057	250,425
Intergovernmental	2,448,767	5,518,395	791,699	-	826,234	-
Assessments	5,298,845	2,474,159	661,671	-	-	-
Forgiveness of debt	-	-	1,023,821	-	-	-
Other	-	-	-	-	-	1,632
Interest income	204,565	174,233	13,268	3,326	298	86
Interest expense	(22,144)	(38,983)	-	(3,850)	(4,227)	(2,212)
Total nonoperating revenues	10,154,531	9,035,633	4,585,853	5,895,974	3,186,362	249,931
Change in net assets	\$ 9,771,328	\$ 8,970,973	\$ 4,529,761	\$ 5,956,260	\$ 3,314,937	\$ (76,163)

**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		
2008	\$ 603,047	\$ 843,001	\$ 1,446,048	\$ 2,224,498	\$ 2,448,767	\$ 5,298,845	\$ 204,565	\$ -	\$ 10,176,675	\$ 11,622,723
2007	\$ 516,765	\$ 787,643	\$ 1,304,408	\$ 907,829	\$ 5,518,395	\$ 2,474,159	\$ 174,233	\$ -	\$ 9,074,616	\$ 10,379,024
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 and Other	Depreciation			
2008	\$ 428,281	\$ 636,691	\$ 289,652	\$ 371,420	\$ 1,726,044	\$ 125,351	\$ 1,851,395
2007	\$ 381,279	\$ 558,753	\$ 240,709	\$ 188,327	\$ 1,369,068	\$ 38,983	\$ 1,408,051
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
2008	\$ 33.60	\$ 5.27	\$ 42,710	\$ 5,605	657	1023
2007	\$ 33.60	\$ 5.27	\$ 43,760	\$ 2,400	656	681
2006	\$ 33.60	\$ 5.27	\$ 19,509	\$ 286	426	435
2005	\$ -	\$ -	\$ -	\$ -	-	-
2004	\$ -	\$ -	\$ -	\$ -	-	-
2003	\$ -	\$ -	\$ -	\$ -	-	-

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

	Fee Structure					
	Capacity Charge (EDU)	Connection Charge (Each)	Assessment			Total
			Residential	Non-Residential		
2008	\$ 2,950	\$ 2,250	\$ 14,941,820	\$ 8,412,311	\$ 23,354,131	
2007	\$ 2,850	\$ 2,200	\$ 16,439,222	\$ 4,354,407	\$ 20,793,629	
2006	\$ 2,820	\$ 2,150	\$ 11,790,338	\$ 7,906,212	\$ 19,696,550	
2005	\$ 2,700	\$ 2,070	\$ 4,527,049	\$ 266,641	\$ 4,793,690	
2004	\$ -	\$ -	\$ -	\$ -	\$ -	
2003	\$ -	\$ -	\$ -	\$ -	\$ -	

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

	Loans	Assessed Property Value	Percentage of Assessed Value	Pledged Revenue
2008	\$ 7,953,334	\$ 4,464,565,476	0.1781%	\$ 58,380
2007	\$ 3,193,855	\$ 4,818,870,865	0.0663%	\$ 58,380
2006	\$ 1,206,982	\$ 4,306,056,741	0.0280%	\$ 58,380
2005	\$ 1,014,285	\$ 3,375,533,340	0.0300%	\$ -
2004	\$ 100,000	\$ 2,737,790,340	0.0037%	\$ -
2003	\$ 100,000	\$ 2,262,644,965	0.0044%	\$ -

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

	Assessed Property Value	Estimated Resident Population	
		Key Largo District	Monroe County
2008	\$ 4,464,565,476	12,886	76,081
2007	\$ 4,818,870,865	14,078	79,942
2006	\$ 4,306,056,741	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**

	2008	2007	2006	2005	2004	2003
Executive (Commissioners)	5	5	5	5	5	5
Administration	4	4	5	5	4	0
Operations	4	4	2	0	0	0
Construction	9	5	2	0	0	0
	22	18	14	10	9	5

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

	2008	2007	2006	2005	2004	2003
Number of Employees	22	18	14	10	9	5
Number of Customers	657	656	426	0	0	0
Collection Main (feet)	72,000	45,000	41,000	19,000	0	0
Transmission Main (feet)	27,000	27,000	7,000	0	0	0
Number of Vacuum Pits	470	320	219	85	0	0
Number of Vacuum Stations	1	1	1	0	0	0
Average Daily Flow (gallons)	49,800	46,000	21,000	0	0	0
Peak Daily Flow (gallons)	58,550	58,000	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, 2008, and have issued our report thereon dated March 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Key Largo Wastewater Treatment District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Key Largo Wastewater Treatment District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of 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*.

Board of Directors
Key Largo Wastewater Treatment District

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.

Gau & Associates

March 24, 2009

**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, Key Largo, 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, 2008. The Districts' major federal awards program and state financial assistance 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 each of its major federal awards program and state financial assistance 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 financial assistance projects 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 financial assistance projects for the fiscal year ended September 30, 2008.

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 financial assistance 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 a major federal awards program and state financial assistance projects in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned or state project functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program or state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program or state project that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented or detected by the entity's internal control.

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

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.

Graud Associates

March 24, 2009

**KEY LARGO WASTEWATER TREATMENT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**

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	\$ 4,795,714
Florida Department of Environmental Protection			
State Surface Water Restoration and Wastewater Projects	37.039	N/A	<u>2,224,498</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE			<u>\$ 7,020,212</u>

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, 2008**

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. 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 payments. During fiscal year ended September 30, 2007 the loan was amended and the award was increased by \$5,000,000. During the fiscal year ended September 30, 2008 the loan was again amended and the award amount was increased by an additional \$5,000,000. At September 30, 2008, the unpaid balance on the loan is approximately \$7,115,555 including capitalized interest of \$160,553. The first semiannual repayment is due January 15, 2010.

Under agreement WW464020 the District was authorized to draw up to \$1,161,845 to be used for wastewater project construction. In addition the District was charged a loan service fee and included capitalized interest. The loan was set to bear interest at a rate of 2.61% per annum charged on the unpaid balance and subject to repayment in 40 semiannual payments. During the fiscal year ended September 30, 2008 the authorized draw amount was reduced by \$270,423 and semiannual payments commencing January 1, 2007 were reduced to \$29,189.

**KEY LARGO WASTEWATER TREATMENT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified Opinion

Material weakness(es) identified?

yes no

Control deficiency(s) identified not considered to be material weakness?

yes none

Noncompliance material to financial statements noted?

yes no

Federal Awards Programs and State Projects

Internal Control over major federal awards programs and state projects:

Material weakness(es) identified?

yes no

Control deficiency(s) identified not considered to be Material weakness

yes 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 no

Identification of major federal awards programs and state financial assistance

<u>Federal</u>	<u>CFDA No.</u>
Public Assistance Grants	66.458

<u>State</u>	<u>CSFA No.</u>
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? yes no

SECTION II - FINDINGS – FINANCIAL STATEMENT

None

SECTION III - FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAM

None

SECTION IV - FINDINGS AND QUESTIONED COSTS – MAJOR STATE FINANCIAL ASSISTANCE

None

SECTION V - FINDINGS – PRIOR YEAR

None



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**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, 2008, and have issued our report thereon dated March 24, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United 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 March 24, 2009. Disclosures in that report should be considered in conjunction with this management letter.

The purpose of this letter is to comment on those matters required by Chapter 10.550 of the Rules of the Auditor General for the State of Florida. Accordingly, in connection with our audit of the financial statements of the District, as described in the first paragraph, we report the following:

- I. Current year findings and recommendations.**
- II. Status of prior year findings and recommendations.**
- III. Compliance with the Provisions of the Auditor General of the State of Florida.**

This report is intended for the information of the 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.

We wish to thank Key Largo Wastewater Treatment District, Key Largo, Florida and the personnel associated with it, for the opportunity to be of service to them in this endeavor as well as future engagements, and the courtesies extended to us.

Grau & Associates

March 24, 2009

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

None

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

Unless otherwise required to be reported in the auditor's report on compliance and internal controls, the management letter shall include, but not be limited to the following:

1. A statement as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report.

There were no significant findings and recommendations made in the preceding annual financial audit report for the fiscal year ended September 30, 2007.

2. A statement as to whether or not the local governmental entity complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

The District complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

3. Any recommendations to improve the local governmental entity's financial management, accounting procedures, and internal controls.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported.

4. Violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported.

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

- a. Violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements.

- b. Improper expenditures or illegal acts that would have an immaterial effect on the financial statements.

REPORT TO MANAGEMENT (Continued)

- c. Control deficiencies that are not significant deficiencies, including, but not limited to:
1. Improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements).
 2. Failures to properly record financial transactions.
 3. Other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

There were no such matters discovered by, or that came to the attention of, the auditor, that, in our judgment, are required to be reported.

6. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.
7. The District has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
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, 2008 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.