



Key Largo Wastewater Treatment District

COMPREHENSIVE ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2010

Key Largo Wastewater Treatment District
Comprehensive Annual Financial Report
For the Fiscal Year ended September 30, 2010

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

March 31, 2011

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, 2010, 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, 2010. 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. Florida statute 99-395 mandated the District establish goals which included the introduction of advanced wastewater treatment (AWT) and disposal infrastructure to serve all residents and commercial operations of Key Largo by July, 2010. This was later amended by the legislature in 2010 and the deadline for advanced wastewater treatment standards has been extended to 2015.

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, continued through FY2010, and was completed and placed into operation in October of 2010.

In FY 2008 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 was initiated in FY2009, and when finished in FY2011, which is 4 years earlier than the extended deadline, 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.



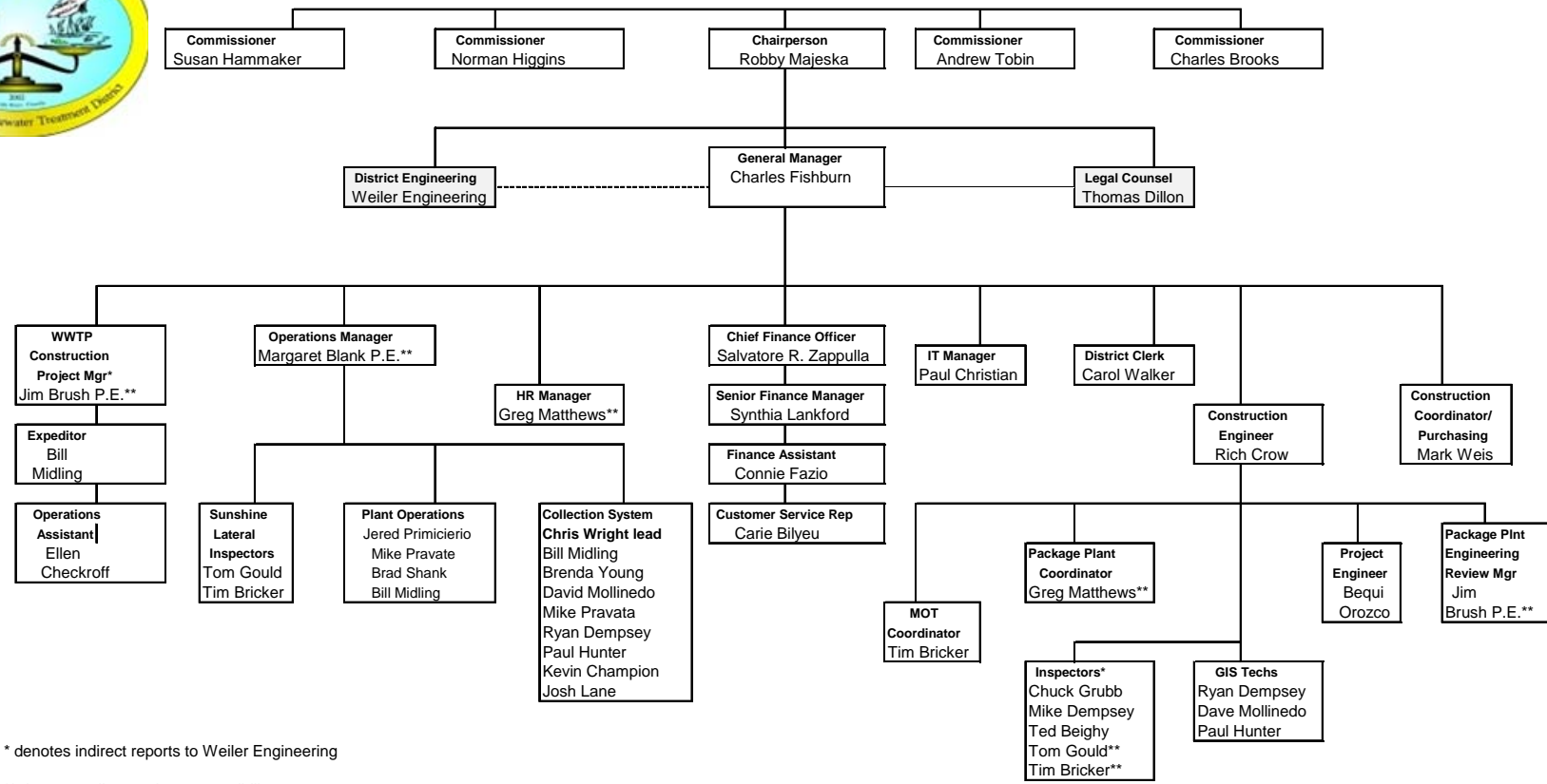
Charles F. Fishburn, General Manager



Salvatore R. Zappulla, Finance Officer



Key Largo Wastewater Treatment District



* denotes indirect reports to Weiler Engineering

** denotes split reporting responsibility

Contracted Services

District Employees

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

Board of Commissioners

FY 2010

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

FY 2011

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

District Management

Charles F. Fishburn, General Manager
Salvatore R. Zappulla, Chief Financial Officer
Carol J. Walker, Clerk to the Board
Margaret H. Blank P. E., Operations Manager
Chris Wright, Collection System Construction Manager
James R. Brush P.E., Treatment Plant 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 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, 2010, 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2010, 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 our report March 31, 2011, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The introductory section, statistical section, and budgetary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory, statistical sections and budgetary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in blue ink, appearing to read "G. R. [unclear]".

March 31, 2011

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, 2010. 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 and FY2008 the District focused on construction of the North Components project. A north transmission force main was completed. Construction in all four northern service area collection systems was undertaken (Basins A, B, C, and D), and construction of the 2.3 mgd treatment plant expansion was initiated in October, 2008. The District also initiated design and engineering of a South Components project consisting of a transmission line to serve the southern half of the island and installation of vacuum collection systems in seven southern service areas (Basins E - K). Administration and system operating expenses totaling approximately \$2,638,000 were funded by MSTU ad valorem tax revenues and charges for service to customers. Project costs totaling approximately \$20,913,000 were funded by federal, state and local grants and loans, including approximately \$4,044,000 from an inter-local grant agreement with Monroe County.

In FY2009, construction of the North Components collection systems was essentially completed. Expansion of the regional treatment plant continued with completion of a 3,700 ft. deep injection well and all treatment tanks. Construction of the South Components project was initiated in Basins E and F. Administration and system operating expenses totaling approximately \$1,558,000 were funded by MSTU ad valorem tax revenues, charges for service to customers, and a bank line of credit. Project costs totaling approximately \$36,602,000 were funded by federal, state and local grants and loans, including approximately \$4,107,000 from an inter-local grant agreement with Monroe County.

Overview of Operations (Continued)

Beginning in 2005, the District has annually 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 2009 with the levy of a special assessment on essentially all remaining parcels in the District's service area. 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 as a non- ad valorem tax over a 20 year period. Assessment revenues for FY2010 totaled approximately \$5.5 million.

2010 was a banner year for the project in the following ways. The District has completed its 2.3 mgd (million gallons per day) regional treatment plant and placed it into service on October 19, 2010. This facility is currently meeting AWT (Advanced Wastewater Standards.)

The American Recovery and Reinvestment Act (ARRA) provided substantial grant funding totaling \$13.5 million in addition to an additional \$2.5 million in other grant funding provided by the Army Corps of Engineers. Additionally, over \$32 million of low interest loans were provided by the State Revolving Fund Program (SRF) through September 30, 2010.

As a result of this funding, over 8,500 customers are in the process of connecting, and the South Component of the project is well under way with five of the seven vacuum stations already in operation.

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, 2010, were \$183,029,621 and Total Liabilities amounted to \$117,116,996. Total Net Assets of the District were \$65,912,625. For the prior year, total assets of the District at September 30, 2009, were \$131,487,280 and Total Liabilities amounted to \$85,062,326 and Total Net Assets of the District were \$46,424,954.

Total Current Assets of \$38,474,167 at September 30, 2010 consisted approximately \$60,000 in billings due from customers. In addition, restricted current assets included cash and investments of \$37,045,932 from loan proceeds and other sources restricted for use in construction, \$643,701 in receivables due from other governments, \$700,338 in grant reimbursements due from other governments. For the prior year, total Current Assets of \$27,260,515 at September 30, 2009 consisted \$2,737 in billings due from customers. In addition, restricted current assets included cash and investments of \$25,153,678 from loan proceeds and other sources restricted for use in construction, \$1,311,216 in receivables due from other governments, and \$511,884 in reimbursements due from other governments.

The District's Net Assets (Continued)

Total Non-Current Assets at September 30, 2010 of \$144,555,454 consisted essentially of \$156,936 in prepaid expenses and other, \$31,804,303 in assessments levied but not received, and \$112,594,215 in land, equipment and infrastructure owned by the District. In the prior year, total Non-Current Assets at September 30, 2009 of \$104,226,765 consisted essentially of \$6,700 in prepaid expenses and other, \$38,396,282 in assessments levied but not received, and \$65,823,783 in land, equipment and infrastructure owned by the District. Assessments were restated for 2010 and 2009 to reflect them at the estimated net present value as the assessments had been recorded gross and included interest charged in order for cover the total debt service on the project.

Total Liabilities at September 30, 2010 of \$117,116,996 included \$82,933 due to vendors for services rendered, \$4,923,717 due to construction contractors, \$256,875 in accrued bond interest on Bonds, \$80,049,168 in principal on debt of which \$3,828,720 is due next year, and \$31,804,303 for assessments levied not yet received. In the prior year, total Liabilities at September 30, 2009 of \$85,062,326 included \$72,854 due to vendors for services rendered, \$5,380,992 due to construction contractors, \$41,212,198 in principal and accrued interest on debt of which \$954,060 is due next year, and \$38,396,282 for assessments levied not yet received.

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

<u>Key Components of Net Assets</u>		
September 30,		
	2010	2009 (Restated)
Current and other assets	\$ 70,435,406	\$ 65,663,497
Capital assets, net of depreciation	112,594,215	65,823,783
Total assets	<u>183,029,621</u>	<u>131,487,280</u>
Long-term liabilities	108,024,751	78,654,420
Other liabilities	9,092,245	6,407,906
Total liabilities	<u>117,116,996</u>	<u>85,062,326</u>
Net Assets		
Invested in capital assets, net of related debt		
Invested in capital assets, net of related debt	27,621,330	19,230,593
Restricted for debt service	2,440,492	1,845,666
Restricted for capital assets	35,532,071	25,303,273
Restricted for other	160,533	108,839
Unrestricted	158,199	(63,417)
Total net assets	<u>\$ 65,912,625</u>	<u>\$ 46,424,954</u>

District Revenues, Expenses, and Changes in Net Assets

The District's Net Assets increased by \$19,487,671 in FY 2010 from \$46,424,954 on October 1, 2009 to \$65,912,625 on September 30, 2010. Total revenues for the period were \$23,823,658 and total expenses for the period were \$4,335,987. For the prior year, the District's Net Assets increased by \$13,957,857 in FY 2009 from \$32,467,097 on October 1, 2008 to \$46,424,954 on September 30, 2009. Total revenues for the period were \$16,312,419 and total expenses for the period were \$2,354,562.

For FY 2010, operating revenue consisted of \$814,061 in charges to customers for services and related fees. Non-operating revenues consisted of \$13,439,479 in grant funds, \$3,704,411 in intergovernmental revenues, \$5,757,448 in assessments, and \$108,259 in interest income. For FY 2009, operating revenue consisted of \$705,935 in charges to customers for services and related fees, and \$653,289 in Monroe County MSTU funding. Non-operating revenues consisted of \$4,825,358 in grant funds, \$4,107,049 in intergovernmental revenues, \$5,225,617 in assessments, and \$795,171 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:

<u>Change in Net Assets</u>		
Fiscal Year Ended September 30,		
	2010	2009
Operating activities:		
Charges for services	\$ 814,061	\$ 705,935
Ad valorem taxes	-	653,289
Cost of sales	(732,969)	(707,200)
Administration	(839,941)	(676,191)
Other	(147,290)	(175,484)
Depreciation	(387,419)	(376,540)
Net operating (loss)	<u>(1,293,558)</u>	<u>(576,191)</u>
Nonoperating activities:		
Grant revenue	13,439,479	4,825,358
Intergovernmental	3,704,411	4,107,049
Assessments	5,757,448	5,225,617
Interest income	108,259	795,171
Interest expense	(2,228,368)	(419,147)
Net nonoperating activities	<u>20,781,229</u>	<u>14,534,048</u>
Change in net assets	<u>19,487,671</u>	<u>13,957,857</u>
Net assets, beginning	<u>46,424,954</u>	<u>32,467,097</u>
Net assets, ending	<u>\$ 65,912,625</u>	<u>\$ 46,424,954</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 \$145 million when completed. Of that amount, approximately 35% 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 \$86,000,000 to fund the balance of construction costs. Assessment revenues will be used to collateralize State Revolving Fund (SRF) loans and other debt over 20 years.

At September 30, 2010, the District had \$113,921,795 invested in land, infrastructure and equipment. Depreciation of \$1,327,580 has been taken, which resulted in a net book value of \$112,594,215. More detailed information about the District's capital assets is presented in the notes to the financial statements.

Capital Debt

During the fiscal year 2010, the District amended Loan Agreement WW464010 twice with the Florida Department of Environmental Protection for additional \$20 million to fund continued construction. The loans are considered federal financial assistance under CFDA number 66.458 passed through the state. In addition, the District issued \$30 million Series 2010A Utility Revenue Bonds with BB&T. More detailed information about the District's capital debt is presented in the notes of the financial statements.

ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND OTHER EVENTS

There has been a decline in the assessed value of properties in the District during fiscal 2010, yet an increase in population as of the most recent data available from the 2010 census which is preliminary at this point in time.

Assessed property values in the District's service area declined by 13% in 2010. This decline brought values down to their lowest level since 2005. The District has no taxing authority, and no District revenue is derived from or dependent upon ad-valorem taxation. Therefore, this decline in property value should have no significant effect on the current or future financial performance.

After September 30, 2010, the District received over \$700,000 in additional funding from the American Recovery and Reinvestment act of 2009, and \$500,000 in additional congressional add ons through the Florida Keys Water Quality Improvement Program. The District is eligible for over \$12.3 million in additional grant funding under this program, should it become available.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, landowners, 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, 2010**

Current assets:	
Unrestricted:	
Accounts receivable	60,000
Inventories	24,196
Total unrestricted current assets	<u>84,196</u>
Restricted:	
Cash and cash equivalents	35,321,441
Investments	1,724,491
Due from other governments	643,701
Grants receivable	700,338
Total restricted current assets	<u>38,389,971</u>
Total current assets	<u>38,474,167</u>
Noncurrent assets:	
Prepaid and other assets	156,936
Assessments	31,804,303
Capital assets:	
Land	1,780,804
Construction in progress	99,732,651
Depreciable assets	12,408,340
Less accumulated depreciation	<u>(1,327,580)</u>
Total capital assets, net	<u>112,594,215</u>
Total noncurrent assets	<u>144,555,454</u>
Total assets	<u>183,029,621</u>
LIABILITIES	
Current liabilities:	
Accounts payable	82,933
Payable from restricted assets:	
Accrued bond interest payable	256,875
Construction contracts payable	4,923,717
Loans payable	3,828,720
Total current liabilities	<u>9,092,245</u>
Noncurrent liabilities:	
Deferred revenue	31,804,303
Loans payable	76,220,448
Total noncurrent liabilities	<u>108,024,751</u>
Total liabilities	<u>117,116,996</u>
NET ASSETS	
Invested in capital assets, net of related debt	27,621,330
Restricted for debt service	2,440,492
Restricted for capital assets	35,532,071
Restricted for other	160,533
Unrestricted	158,199
Total net assets	<u>\$ 65,912,625</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, 2010**

Operating revenues:	
Charges for services	\$ 670,429
Other service fees	143,632
Total operating revenues	<u>814,061</u>
Operating expenses:	
Costs of sales and services	732,969
Administration	839,941
Other	147,290
Depreciation	387,419
Total operating expenses	<u>2,107,619</u>
Operating income (loss)	<u>(1,293,558)</u>
Nonoperating revenues (expenses):	
Grant revenues	13,439,479
Intergovernmental	3,704,411
Assessments	5,757,448
Interest income	108,259
Interest expense	<u>(2,228,368)</u>
Total nonoperating revenues (expenses):	<u>20,781,229</u>
Change in net assets	19,487,671
Total net assets - beginning	<u>46,424,954</u>
Total net assets - ending	<u><u>\$ 65,912,625</u></u>

See accompanying notes to financial statements

**KEY LARGO WASTEWATER TREATMENT DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

Cash flows from operating activities:	
Receipts from customers and users	\$ 756,798
Payments to employees	(779,814)
Payments to suppliers	(1,104,739)
Net cash provided (used) by operating activities	<u>(1,127,755)</u>
Cash flows from capital and related financing activities:	
Grants and other intergovernmental	17,622,951
Assessments	5,757,448
Proceeds from bank loans	30,960,000
Loan from other governmental unit	9,568,826
Payments and fees on loan from other government	(1,691,856)
Interest payments	(1,971,493)
Acquisition and construction of capital assets	(47,615,126)
Net cash provided (used) by capital and related financing activities	<u>12,630,750</u>
Cash flows from investing activities:	
Investment earnings	389,259
Sale of investments	10,244,425
Net cash provided (used) by investing activities	<u>10,633,684</u>
Net increase (decrease) in cash and cash equivalents	<u>22,136,679</u>
Cash and cash equivalents (including restricted), October 1	<u>13,184,762</u>
Cash and cash equivalents (including restricted), September 30	<u>\$ 35,321,441</u>
Reconciliation of operating (loss) to net cash provided (used) by operating activities:	
Operating (loss)	<u>\$ (1,293,558)</u>
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:	
Depreciation expense	387,419
(Increase)/Decrease in accounts receivable	(57,263)
(Increase)/Decrease in inventory	(24,196)
(Increase)/Decrease in prepaid	(150,236)
Increase/(Decrease) in accounts payable	10,079
Total adjustments	<u>165,803</u>
Net cash provided (used) by operating activities	<u>\$ (1,127,755)</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.

Deposits and Investments - The District’s cash and cash equivalents are considered to be cash on hand and demand deposits (interest and non-interest bearing).

The District has elected to proceed under the Alternative Investment Guidelines as set forth in Section 218.415 (17) Florida Statutes. The District may invest any surplus public funds in the following:

- a) The Local Government Surplus Trust Funds, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act;
- b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
- c) Interest bearing time deposits or savings accounts in qualified public depositories;
- d) Direct obligations of the U.S. Treasury.

Securities listed in paragraph c and d shall be invested to provide sufficient liquidity to pay obligations as they come due.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deposits and Investments (Continued)

The District records all interest revenue related to investment activities in the respective funds and reports investments at fair value.

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

Restricted Assets – Restricted assets represent cash and other assets whose use is restricted by legal requirements, amounts set aside to meet sinking fund requirements and other restricted amounts principally from loan proceeds or from other sources.

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, 2010 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. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

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.

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 – DEPOSITS AND INVESTMENTS

Cash and investments amounts restricted for specific use by outside parties at September 30, 2010 are as follows:

Restricted for construction	\$	34,444,907
Restricted for debt service on loans		2,440,492
Restricted for repair, replacement, and windstorm damage		160,533
	\$	<u>37,045,932</u>

Deposits

The District's cash balances reflected in the table above were entirely covered by federal depository insurance or by a collateral pool pledged to the State Treasurer. Florida Statutes Chapter 280, "Florida Security for Public Deposits Act", requires all qualified depositories to deposit with the Treasurer or another banking institution eligible collateral equal to various percentages of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. Governmental and agency securities, state or local government debt, or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

Investments

The District's investments were held as follows at September 30, 2010:

	Fair Value	Credit Risk	Maturities
Pallas Capital Corp Investment Agreement ATLAS #264147	\$ 1,724,491	N/A	November 1, 2010
Total Investments	\$ <u>1,724,491</u>		

These investments in the table above are restricted for capital expenditures and interest in accordance with the terms of the loan.

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Custodial risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The District has no formal policy for custodial risk. The guaranteed investment contract is not collateralized, however in the event that the ratings of Pallas Capital Corp. (“Pallas”) long term debt obligations falls below certain minimum rating requirements then there are contingencies in place which mitigates risk of the investment. The contract expires November 1, 2010. All investments permitted by loan agreements to be drawn for construction expenses were used by mid-January 2010. Approximately \$1,200,000 remains invested for debt service purposes.

Credit risk – For investments, credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investment ratings by investment type are included in the preceding summary of investments.

Concentration risk – The District places no limit on the amount the District may invest in any one issuer.

Interest rate risk – The District does not have a formal policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

NOTE 4 – CAPITAL ASSETS

The table below summarizes the capital activity for the fiscal year ended September 30, 2010.

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,436,088	\$ 344,716	\$ -	\$ 1,780,804
Construction in progress	52,966,210	46,766,441		99,732,651
Total capital assets, not being depreciated	54,402,298	47,111,157	-	101,513,455
Capital assets, being depreciated:				
Buildings	433,430	-		433,430
Vacuum and treatment facilities	3,341,209	-		3,341,209
Collection system	8,337,535	4,000		8,341,535
Equipment	249,472	42,694		292,166
Total capital assets, being depreciated	12,361,646	46,694	-	12,408,340
Less accumulated depreciation for:				
Buildings	(36,296)	(14,837)		(51,133)
Vacuum and treatment facilities	(311,649)	(125,679)		(437,328)
Collection system	(520,514)	(208,488)		(729,002)
Equipment	(71,702)	(38,415)		(110,117)
Total accumulated depreciation	(940,161)	(387,419)	-	(1,327,580)
Total capital assets, being depreciated, net	11,421,485	(340,725)	-	11,080,760
Total capital assets, net	\$ 65,823,783	\$ 46,770,432	\$ -	\$ 112,594,215

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, 2010 contracts payable totaled approximately \$4,923,717, and the District had commitments of \$6,142,833 with respect of unfinished capital projects.

NOTE 5 – INTERLOCAL AGREEMENTS

The District entered into an Interlocal Agreement with Monroe County in a prior year 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. During the fiscal year ended September 30, 2010 total revenues under the agreement were \$3,704,411 which includes a receivable of \$643,701 included in due from other Governments. The remaining balance available to be collected under the agreement was \$3,247,957 as of September 30, 2010.

NOTE 5 – INTERLOCAL AGREEMENTS (Continued)

The District entered into an agreement with the Army Corps of Engineers in a prior year 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 a reimbursement basis.

NOTE 6 – LONG-TERM DEBT

State Revolving Fund Loans

During the prior fiscal years the District entered into three 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, 2010 the unpaid balance on the loan is approximately \$12,453,286 including capitalized interest.

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. At September 30, 2010 the unpaid balance on the loan is approximately \$762,484 including capitalized interest.

Under agreement WW464010 the District was originally authorized to draw \$10,000,000 to be used for the wastewater project construction. During fiscal year 2010, the District amended the agreement twice with the Florida Department of Environmental Protection for additional \$20,000,000 to fund continued construction. The principal amount of the Loan is hereby revised to \$30,080,404. Of that amount, \$30,000,000 is authorized for disbursement to the District and \$80,404 is capitalized interest. The loan was set to bear interest at a rate of 2.49% per annum. The semiannual loan payment amount was revised to \$991,608 and shall begin on January 15, 2011 and semiannually thereafter on July 15 and January 15 of each year until all amounts due hereunder have been fully paid. At September 30, 2010 the unpaid balance on the loan is approximately \$18,633,398 including capitalized interest.

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.

RWA Loan

The District entered into an agreement with the Florida Rural Utility Financing Commission for financing a portion of its ongoing wastewater construction project. Under the terms of the agreement, the District may draw up to \$17,000,000. The loan bears interest at 4.200% per annum and matures on October 1, 2011. It is anticipated that the loan may be converted to a permanent financing arrangement through the State Revolving Fund Grant program. The District drew the full amount of \$17,000,000 in prior year for construction.

NOTE 6 – LONG-TERM DEBT (Continued)

Series 2010

On February 1, 2010, the District issued \$30,000,000 of Utility Revenue Bond Series 2010 with BB&T due January 15, 2017, with a fixed interest rate of 4.11%. The Bonds were issued to finance costs of the acquisition, construction and equipping of capital improvements to the Issuer’s wastewater system (the “System”). Interest is to be paid semiannually on each January 15 and July 15 of each year, commencing on July 15, 2010. Principal on the Bonds is to be paid serially commencing January 15, 2011 through January 15, 2017.

The financing documents allow for the prepayment of the principal balance in whole on a scheduled payment date with a 1% prepayment premium. Extraordinary prepayments are also allowed in part once a year, on a payment date, specifically from grant and loan proceeds with no prepayment premium.

The financing documents established other restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agrees to levy special assessments in annual amounts adequate to provide payment of debt service. The District is in compliance with those requirements of the Bonds at September 30, 2010.

Line of Credit

In a prior year, the District entered into an agreement with a local bank for a line of credit in the amount of \$1,500,000. The line of credit was established to cover construction administrative expenditures until the water treatment plant is completed. At September 30, 2010 the District has a liability of \$1,200,000 associated with the line a credit. The loan bears interest at 5.75% with interest due monthly, and matures on June 30, 2012, when any unpaid principal and interest is due and payable. Beginning on June 30, 2011, \$100,000 is planned to be paid by the District. No further draws are permitted once the principal payment begins.

Changes in long-term liability activity for the fiscal year ended September 30, 2010 were as follows:

	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
State Revolving Loan WW46401P	\$ 13,029,016	\$ -	\$ 575,730	\$ 12,453,286	\$ 535,087
State Revolving Loan WW464010	10,138,246	9,568,826	1,073,674	18,633,398	1,374,806
State Revolving Loan WW464020	804,936	-	42,452	762,484	39,109
Florida Rural Utility	17,000,000	-	-	17,000,000	-
Series 2010 Bonds	-	30,000,000	-	30,000,000	1,500,000
Line of Credit	240,000	960,000	-	1,200,000	379,718
Total loans payable	<u>\$ 41,212,198</u>	<u>\$ 40,528,826</u>	<u>\$ 1,691,856</u>	<u>\$ 80,049,168</u>	<u>\$ 3,828,720</u>

While the terms of certain loans have 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
2011	\$ 3,828,720	\$ 2,867,192	\$ 6,695,912
2012	21,330,065	2,386,414	23,716,479
2013	3,572,486	1,887,149	5,459,635
2014	3,637,169	1,761,344	5,398,514
2015	3,703,900	1,633,508	5,337,408
2016-2020	34,612,774	3,646,519	38,259,294
2021-2025	6,486,508	710,774	7,197,282
2026-2029	2,877,545	145,434	3,022,980
	<u>\$ 80,049,168</u>	<u>\$ 15,038,335</u>	<u>\$ 95,087,503</u>

NOTE 7 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts and errors and omissions. During fiscal year 2010, the District maintained liability and errors and omissions insurance through the Preferred Governmental Insurance Trust (PGIT), coverage may not extend to all situations. Settled claims from these risks have not exceeded commercial insurance coverage over the past three years.

NOTE 8 – SUBSEQUENT EVENTS

Subsequent to September 30, 2010, the District used \$7,000,000 of the State Revolving Fund to pay down the RWA loan.

Supplementary Information

**KEY LARGO WASTEWATER TREATMENT DISTRICT
SCHEDULE OF REVENUES AND EXPENSES (BUDGETARY BASIS) – BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES:				
Wastewater Service Revenue	\$ 2,016,988	\$ 870,000	\$ 670,429	\$ (199,571)
Other revenues	100,000	120,000	149,901	29,901
Total operating revenues	2,116,988	990,000	820,330	(169,670)
OPERATING EXPENSES:				
Board meeting compensation	54,000	54,000	51,900	2,100
Salaries	720,020	566,600	492,725	73,875
Inspector and Engineer salaries	-	-	77,214	(77,214)
Payroll taxes	59,212	47,000	62,424	(15,424)
Group health insurance	118,000	84,500	53,833	30,667
Group health administration	-	25,000	36,980	(11,980)
Retirement program	43,913	3,000	3,000	-
Workers compensation insurance	32,989	27,300	26,869	431
Unemployment compensation	-	41,000	26,769	14,231
Paycheck fees	-	6,000	-	6,000
Copier maintenance and supplies	4,800	4,800	3,187	1,613
Postage and delivery	100,000	100,000	43,758	56,242
Property and liability insurance	88,650	77,650	92,340	(14,690)
Legal advertisements	8,000	18,000	15,797	2,203
Office supplies and bank fees	40,000	52,000	106,332	(54,332)
Dues and subscriptions	4,000	4,000	13,470	(9,470)
Travel	23,000	29,000	21,718	7,282
Rents and leases	31,340	31,340	33,946	(2,606)
Telephone	16,500	15,000	15,940	(940)
Utilities (water and electric)	5,160	40,800	44,362	(3,562)
GSG tax roll services	80,320	4,500	2,500	2,000
Repairs and maintenance	101,500	36,500	21,620	14,880
Chemicals, sludge and lab services	195,000	123,500	105,885	17,615
Supplemental operating support	65,000	35,000	16,488	18,512
Computer support	4,500	10,000	8,538	1,462
FKAA billing services	65,000	17,000	12,752	4,248
Vehicle Expense	27,000	31,000	28,975	2,025
Audit and accounting services	24,000	24,000	24,800	(800)
Utility Rate consultant	2,000	12,000	7,878	4,122
Legal - General Counsel	55,000	85,000	94,636	(9,636)
Legal - Outside Counsel	20,000	70,000	27,458	42,542
Lobbyists	85,000	85,000	76,358	8,642
Engineering services	50,000	45,000	43,474	1,526
Miscellaneous expenses	134,000	73,000	26,274	46,726
Contingencies	219,197	38,350	-	38,350
Total operating expenses	2,477,101	1,916,840	1,720,200	196,640
Budgetary basis operating income (loss)	(360,113)	(926,840)	(899,870)	26,970
NON OPERATING REVENUES (EXPENSES):				
Assessments	5,500,000	5,400,000	5,447,349	47,349
SDC Prepayments	100,000	250,000	303,830	53,830
Investment income	175,000	72,000	108,259	36,259
Interest expense	38,000	38,000	(2,228,368)	(2,266,368)
Renewal, replacement and capital	(209,274)	(114,000)	-	114,000
Line of credit	588,284	1,007,840	-	(1,007,840)
Total non operating revenues (expenses)	6,192,010	6,653,840	3,631,070	(3,022,770)
Budgetary basis income (loss)	5,831,897	5,727,000	2,731,200	(2,995,800)
Intergovernmental	-	-	17,143,890	17,143,890
Depreciation	-	-	(387,419)	(387,419)
GAAP basis change in net assets	\$ 5,831,897	\$ 5,727,000	\$ 19,487,671	\$ 13,760,671

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							
	2010	2009	2008	2007	2006	2005	2004	2003
Invested in capital assets, net of related debt	\$ 27,621,330	\$ 19,230,593	\$ 19,774,464	\$ 15,622,110	\$ 12,709,020	\$ 6,977,866	\$ 1,897,185	\$ -
Restricted	38,133,096	27,257,778	12,839,163	6,962,626	1,024,411	2,185,055	1,296,136	-
Unrestricted	158,199	(63,417)	(146,530)	111,033	(8,635)	32,114	45,454	(76,163)
Total net assets	\$ 65,912,625	\$ 46,424,954	\$ 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							
	2010	2009	2008	2007	2006	2005	2004	2003
Operating revenues:								
Charges for service	\$ 814,061	\$ 705,935	\$ 603,047	\$ 516,765	\$ 84,022	\$ -	\$ -	\$ -
Ad valorem taxes	-	653,289	843,001	787,643	681,289	489,328	477,151	-
Total operating revenues	814,061	1,359,224	1,446,048	1,304,408	765,311	489,328	477,151	-
Operating expenses:								
Cost of sales and services	732,969	707,200	428,281	381,279	68,691	-	-	-
Administration	839,941	676,191	636,691	558,753	540,336	234,805	229,441	147,356
Professional and other	147,290	175,484	392,859	240,709	208,382	194,237	119,135	178,738
Depreciation	387,419	376,540	371,420	188,327	3,994	-	-	-
Total operating expenses	2,107,619	1,935,415	1,829,251	1,369,068	821,403	429,042	348,576	326,094
Total operating income (loss)	(1,293,558)	(576,191)	(383,203)	(64,660)	(56,092)	60,286	128,575	(326,094)
Nonoperating revenues (expenses):								
Grant revenue	13,439,479	4,825,358	2,224,498	907,829	2,095,394	5,896,498	2,364,057	250,425
Intergovernmental	3,704,411	4,107,049	2,448,767	5,518,395	791,699	-	826,234	-
Assessments	5,757,448	5,225,617	5,298,845	2,474,159	661,671	-	-	-
Forgiveness of debt	-	-	-	-	1,023,821	-	-	-
Other	-	-	-	-	-	-	-	1,632
Interest income	108,259	795,171	204,565	174,233	13,268	3,326	298	86
Interest expense	(2,228,368)	(419,147)	(22,144)	(38,983)	-	(3,850)	(4,227)	(2,212)
Total nonoperating revenues	20,781,229	14,534,048	10,154,531	9,035,633	4,585,853	5,895,974	3,186,362	249,931
Change in net assets	<u>\$ 19,487,671</u>	<u>\$ 13,957,857</u>	<u>\$ 9,771,328</u>	<u>\$ 8,970,973</u>	<u>\$ 4,529,761</u>	<u>\$ 5,956,260</u>	<u>\$ 3,314,937</u>	<u>\$ (76,163)</u>

**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		Grants	Intergovernmental	Assessments	Interest	Other		
2010	\$ 814,061	\$ -	\$ 814,061	\$ 13,439,479	\$ 3,704,411	\$ 5,757,448	\$ 108,259	\$ -	\$ 23,009,597	\$ 23,823,658
2009	705,935	653,289	1,359,224	4,825,358	4,107,049	5,225,617	795,171	-	14,953,195	16,312,419
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

**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	Adminstration	Contractual and Other	Depreciation			
2010	\$ 732,969	\$ 839,941	\$ 147,290	\$ 387,419	\$ 2,107,619	\$ 2,228,368	\$ 4,335,987
2009	707,200	676,191	175,484	376,540	1,935,415	419,147	2,354,562
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
2010	\$ 33.60	\$ 5.27	\$ 56,915	\$ 6,894	1256	1470
2009	33.60	5.27	45,842	6,743	655	1023
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			
					Residential	Non-Residential	Total	
2010*	\$	2,950	\$	2,250	\$	-	\$	-
2009		2,950		2,250		12,579,702		2,860,780
2008		2,950		2,250		14,941,820		8,412,311
2007		2,850		2,200		16,439,222		4,354,407
2006		2,820		2,150		11,790,338		7,906,212
2005		2,700		2,070		4,527,049		266,641
2004		-		-		-		-
2003		-		-		-		-

*The district did not assess any additional properties in FY 2010

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

	Loans	Assessed Property Value	Percentage of Assessed Value	Pledged Revenue			
2010	\$	80,049,168	\$	3,802,498,273	2.1052%	\$	6,571,509
2009		41,212,198		3,479,137,002	1.1846%		5,931,552
2008		7,953,334		4,464,565,476	0.1781%		5,901,892
2007		3,193,855		4,818,870,865	0.0663%		2,990,924
2006		1,206,982		4,306,056,741	0.0280%		745,693
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
2010	\$ 3,802,498,273	11,019	73,460
2009	3,479,137,002	10,909	72,243
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**

	2010	2009	2008	2007	2006	2005	2004	2003
Executive (Commissioners)	5	5	5	5	5	5	5	5
Administration	6	6	4	4	5	5	4	0
Operations	6	5	4	4	2	0	0	0
Construction	18	13	9	5	2	0	0	0
	35	29	22	18	14	10	9	5

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

	2010	2009	2008	2007	2006	2005	2004	2003
Number of Employees	35	29	22	18	14	10	9	5
Number of Customers	2,683	655	657	656	426	0	0	0
Collection Main (feet)	386,000	190,000	72,000	45,000	41,000	19,000	0	0
Transmission Main (feet)	100,000	27,000	27,000	27,000	7,000	0	0	0
Number of Vacuum Pits	2000	1240	470	320	219	85	0	0
Number of Vacuum Stations	5	2	1	1	1	0	0	0
Average Daily Flow (gallons)	450,000	47,320	49,800	46,000	21,000	0	0	0
Peak Daily Flow (gallons)	525,000	66,000	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 ON 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, 2010, and have issued our report thereon dated March 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's basic financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the determination of basic 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.



March 31, 2011

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

Board of 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* that are applicable to each of its major federal programs for the year ended September 30, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on 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 of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2010.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.



March 31, 2011

**KEY LARGO WASTEWATER TREATMENT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

Federal Grantor Pass through Program Title	Federal CFDA/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	\$ 9,568,826
Department of Defense			
Florida Keys Water Quality Improvement Program	12.128	N/A	<u>13,439,479</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 23,008,305</u></u>

See accompanying notes to schedule of expenditures of federal awards

**KEY LARGO WASTEWATER TREATMENT DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

NOTE A – BASIS OF PRESENTATION

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

**KEY LARGO WASTEWATER TREATMENT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards Programs

Internal Control over major federal awards programs:		
Material weakness(es) identified?	___ yes	___ <u>X</u> no
Significant deficiency(ies) identified not considered to be material weakness?	___ yes	___ <u>X</u> no

Type of auditor's report issued on compliance for major federal awards	<i>Unqualified Opinion</i>
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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	___ <u>X</u> no
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Identification of major federal awards programs and state financial assistance

<u>Federal</u>	<u>CFDA No.</u>
Public Assistance Grants	66.458
Water Improvement Grant	12.128

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 690,249</u>
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Auditee qualified as low risk auditee for audit of federal awards program?	___ <u>X</u> yes	___ no
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SECTION II - FINDINGS – FINANCIAL STATEMENT

None

SECTION III - FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAM

None

SECTION V - FINDINGS – PRIOR YEAR

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, Key Largo, Florida ("District") as of and for the fiscal year ended September 30, 2010, and have issued our report thereon dated March 31, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 31, 2011. 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 basic 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.



March 31, 2011

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

None

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

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

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

There were no significant findings and recommendations made in the preceding annual financial audit report for the fiscal year ended September 30, 2009.

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

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

3. Any recommendations to improve the local governmental entity's financial management.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported for the fiscal year ended September 30, 2010.

4. Violations of provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, 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, for the fiscal year ended September 30, 2010.

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

- a. Violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse.
- b. Deficiencies in internal control that are not significant deficiencies.

There were no such matters discovered by, or that came to the attention of, the auditor, that, in our judgment, are required to be reported, for the fiscal year ended September 30, 2010.

6. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.

REPORT TO MANAGEMENT (Continued)

7. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2010 financial audit report.
8. The District has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
9. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and no deteriorating financial conditions were noted. It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.