



*Key Largo Wastewater Treatment District*

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2011**

**Key Largo Wastewater Treatment District**  
**Comprehensive Annual Financial Report**  
**For the Fiscal Year ended September 30, 2011**

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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**

April 25, 2012

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, 2011, is submitted herewith pursuant to Florida Statute Chapter 218.39 and Chapter 189.436(3) governing audit requirements for special districts.

This report consists of management's representations concerning the finances of the Key Largo Wastewater Treatment District. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Key Largo Wastewater Treatment District has established a comprehensive internal control framework that is designed both to protect the District's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Key Largo Wastewater Treatment District's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the Key Largo Wastewater Treatment District's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Key Largo Wastewater Treatment District's financial statements have been audited by Grau & Associates, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Key Largo Wastewater Treatment District for the fiscal year ended September 30, 2011, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Key Largo Wastewater Treatment District's financial statements, for the fiscal year ended September 30, 2011, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

In addition to meeting the requirements set forth above, the independent audit was also designed to meet the special needs of federal grantor agencies as provided for in the Federal Single Audit Act, Office of Management and Budget (OMB) Circular A-133. These standards require the independent auditor to report not only on the fair presentation of the basic financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are presented in the compliance section of this report.

In accordance with Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, 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 designed to complement MD&A and should be read in conjunction with it. The Key Largo Wastewater Treatment District's MD&A can be found immediately following the independent auditor's report on the basic financial statements.

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 complied with the operating and reporting requirements of Chapter 189, Florida Statutes as applicable to Special Districts.

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 1<sup>st</sup> through September 30<sup>th</sup>.

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, Fiscal 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 provide service to the District's entire service area. Project construction was initiated in FY 2006, continued through FY 2009, 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 FY 2009, and finished in FY 2011, which is 4 years earlier than the extended deadline. The completion of this project concluded the construction of the District's 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.

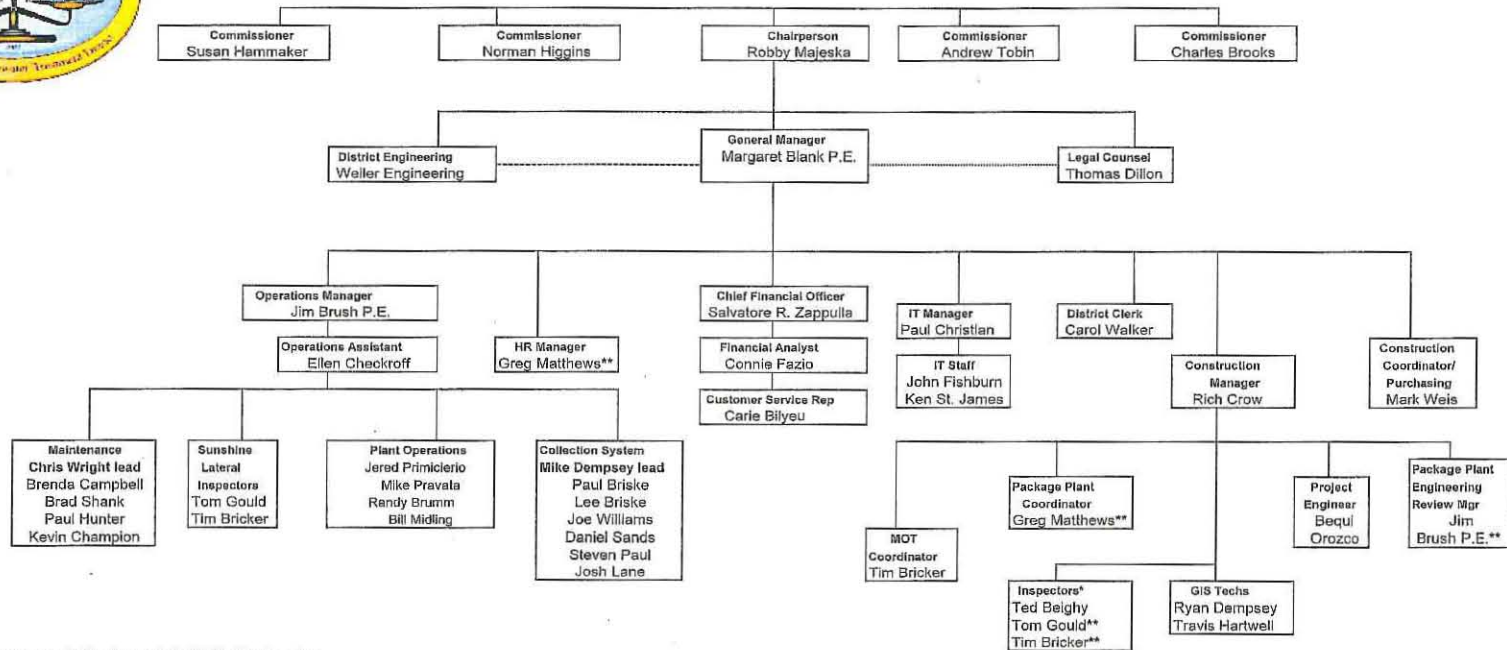
In closing, without the leadership and vision of the Board of Commissioners, preparation of this report would not have been possible.

  
Margaret Blank, General Manager

  
Peter Rosasco, CPA, Finance Director



## Key Largo Wastewater Treatment District Organization Chart



\* denotes indirect reports to Weller Engineering  
 \*\* denotes split reporting responsibility

- Contracted Services
- District Employees

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

**Board of Commissioners**

**FY 2011**

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

**FY 2012**

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

**District Management**

Margaret Blank P.E., General Manager  
Salvatore R Zappulla, Chief Financial Officer  
Carol J. Walker, Clerk to the Board  
Jim Brush P.E., Operations Manager  
Mike Dempsey, Collection System Lead  
Rich Crow, 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**



**Grau & Associates**  
CERTIFIED PUBLIC ACCOUNTANTS

2700 North Military Trail • Suite 350  
Boca Raton, Florida 33431  
(561) 994-9299 • (800) 299-4728  
Fax (561) 994-5823  
www.graucpa.com

**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, 2011, 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, 2011, 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 dated April 25, 2012, on our consideration of the District's internal control over financial reporting and on our test 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.

*Drau & Associates*

April 25, 2012

# **Management's 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, 2011. 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 design, construction, and operation of advanced wastewater treatment and disposal infrastructure to serve to the unincorporated island of Key Largo.

The District's activities in Fiscal Year (FY) 2003 and FY 2004 were focused on administrative responsibilities associated with organization of a new public utility and on implementing a demonstration project to serve 760 residential and commercial customers in the Key Largo Trailer Village and Key Largo Park communities. Contracts to design and build a demonstration project consisting of 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, (Municipal Service Taxing Unit) ad valorem tax revenues. Project costs totaling \$1,253,232 were funded by federal, state and local grants.

In FY 2005 and FY 2006 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 mgd treatment plant 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 FY 2005 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 FY 2007 and FY 2008 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 interlocal grant agreement with Monroe County.

## **Overview of Operations (Continued)**

In FY 2009, construction of the North Components collection systems was substantially completed. Expansion of the regional treatment plant continued with completion of a 3,700 ft. deep 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 \$4,170,000 from an interlocal grant agreement with Monroe County.

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 FY2011 totaled approximately \$5,570,000.

The District completed its 2.3 mgd regional treatment plant and placed it into service on October 19, 2010. This facility is currently meeting Advanced Wastewater Treatment Standards (AWT).

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 \$51 million of low interest loans were provided by the State Revolving Fund Program (SRF) through September 30, 2011.

### **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 for its first customers for a fee commenced in May, 2006.

### **District's Net Assets**

Total assets of the District at September 30, 2011, were \$212,988,335 and total liabilities amounted to \$141,414,562. Total net assets of the District were \$71,573,773. For the prior year, total assets of the District at September 30, 2010, were \$185,217,795 and total liabilities amounted to \$117,116,996 and total net assets of the District were \$68,100,799.

Total current assets of \$29,009,083 at September 30, 2011 consisted of approximately \$456,000 in billings due from customers. In addition, restricted current assets included cash and investments of \$16,260,925 from loan proceeds and other sources restricted for use in construction. For the prior year, total current assets of \$38,474,167 at September 30, 2010 consisted of \$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 used in construction, \$643,701 in receivables due from other governments, \$700,338 in grant reimbursements due from other governments.

### District's Net Assets (Continued)

Total noncurrent assets at September 30, 2011 of \$183,979,252 consisted of \$67,078 in prepaid expense and other assets, \$47,669,311 in assessments levied but not received, and \$136,242,863 in land, equipment, and infrastructure owned by the District. In the prior year, total noncurrent assets at September 30, 2010 of \$146,743,628 consisted of \$156,936 in prepaid expenses and other assets, \$31,804,303 in assessments levied but not received, and \$114,782,487 in land, equipment, construction in progress, and infrastructure owned by the District.

Total liabilities at September 30, 2011 of \$141,414,562 included \$100,349 due to vendors for goods and services rendered \$2,160,777 due to construction contractors, \$602,771 in accrued bond interest expense, \$90,881,354 in loans payable, of which \$14,868,691 is due next year, and \$47,669,311 for assessments levied but not yet received. In the prior year, liabilities at September 30, 2010 of \$117,116,996 included \$82,933 due to vendors for goods and services rendered \$4,923,717 due to construction contractors, \$256,875 in accrued bond interest expense, \$80,049,168 in loans payable, and \$31,804,303 for assessments levied but 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,	
	2011	2010 (Restated)
Current and other assets	\$ 76,745,472	\$ 70,435,406
Capital assets, net of depreciation	<u>136,242,863</u>	<u>114,782,389</u>
Total assets	<u>212,988,335</u>	<u>185,217,795</u>
Long-term liabilities	123,681,974	108,024,751
Other liabilities	<u>17,732,588</u>	<u>9,092,245</u>
Total liabilities	<u>141,414,562</u>	<u>117,116,996</u>
Net Assets		
Invested in capital assets, net of related debt		
Invested in capital assets, net of related debt	43,200,732	29,809,504
Restricted for debt service	10,408,806	2,440,492
Restricted for capital assets	5,038,420	35,532,071
Restricted for other	210,928	160,533
Unrestricted	<u>12,714,887</u>	<u>158,199</u>
Total net assets	<u>\$ 71,573,773</u>	<u>\$ 68,100,799</u>

### District Revenues, Expenses, and Changes in Net Assets

The District's net assets increased by \$3,472,974 during FY 2011 from \$68,100,799 on September 30, 2010 to \$71,573,773 on September 30, 2011. Beginning net assets were restated for capitalized interest of \$2,188,174 that was previously expensed. This restatement increased construction in progress, and net assets invested in capital assets, net of related debt at September 30, 2010. Total revenues for the period were \$12,326,418 and total expenses for the period were \$8,853,444. For the prior year, total revenues for the period were \$23,715,399 and total expenses for the period were \$2,147,813.

For FY 2011, operating revenues consisted of \$4,750,891 in charges to customers for services and related fees. Non-operating revenues consisted of \$500,000 in grant funds, \$1,457,479 in intergovernmental revenues, \$5,570,211 in assessments, and \$47,837 in interest income. 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, \$5,757,488 in assessments, and \$108,259 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,		
	<u>2011</u>	<u>2010 (Restated)</u>
Operating activities:		
Charges for services	\$ 4,750,891	\$ 814,061
Cost of sales	(1,435,715)	(732,969)
Administration	(1,262,205)	(839,941)
Other	(178,168)	(147,290)
Depreciation	(3,475,347)	(387,419)
Net operating (loss)	<u>(1,600,544)</u>	<u>(1,293,558)</u>
Nonoperating activities:		
Grant revenue	500,000	13,439,479
Intergovernmental	1,457,479	3,704,411
Assessments	5,570,211	5,757,448
Interest income	47,837	108,259
Interest expense	(2,502,009)	(40,194)
Net nonoperating activities	<u>5,073,518</u>	<u>22,969,403</u>
Change in net assets	<u>3,472,974</u>	<u>21,675,845</u>
Net assets, beginning	<u>68,100,799</u>	<u>46,424,954</u>
Net assets, ending	<u>\$ 71,573,773</u>	<u>\$ 68,100,799</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 collateralized State Revolving Fund (SRF) loans and other debt over 20 years.

At September 30, 2011 the District had \$141,045,790 invested in land, infrastructure, equipment, and construction in progress. Depreciation of \$4,802,927 has been taken, which resulted in a net book value of \$136,242,863. More detailed information about the District's capital assets is presented in the notes to the financial statements.

### Capital Debt

During the FY 2011, the District amended two loan agreements WW464010, WW46401P, and received a new loan, WW464030, with the Florida Department of Environmental Protection for total additional funding of \$15 million to fund continued construction and to reduce other interim construction debt obligations. During the year, and subsequent to year end the District used the State Revolving Fund loan proceeds to pay down the \$17 million Florida Rural Water loan.



### **Economic Factors and Next Year's Budget**

The unemployment rate for Monroe County is currently 6.2%, which is a decrease from a rate of 8.6% a year ago. The rate still compares favorably to the state's average unemployment rate of 9.7%.

Assessed property values in the District's service area declined in 2011; however, the District has no ad valorem 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.

During Fiscal year 2012, the District will be working on completing the construction of the wastewater project, and will shift its primary focus to an operating utility.

### **Contacting the District's Financial Management**

This financial report is designed to provide our citizens, landowners, taxpayers, customers, 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, 2011**

ASSETS	
Current assets:	
Unrestricted:	
Cash and cash equivalents	\$ 12,278,148
Accounts receivable	456,714
Inventories	13,296
Total unrestricted current assets	<u>12,748,158</u>
Restricted:	
Cash and cash equivalents	6,048,500
Investments	10,212,425
Total restricted current assets	<u>16,260,925</u>
Total current assets	<u>29,009,083</u>
Noncurrent assets:	
Prepaid and other assets	67,078
Assessments	47,669,311
Capital assets:	
Land	1,780,804
Construction in progress	7,410,529
Depreciable assets	131,854,457
Less accumulated depreciation	<u>(4,802,927)</u>
Total capital assets, net	<u>136,242,863</u>
Total noncurrent assets	<u>183,979,252</u>
Total assets	<u>212,988,335</u>
LIABILITIES	
Current liabilities:	
Accounts payable	100,349
Payable from restricted assets:	
Accrued bond interest payable	602,771
Construction contracts payable	2,160,777
Loans payable	14,868,691
Total current liabilities	<u>17,732,588</u>
Noncurrent liabilities:	
Deferred revenue	47,669,311
Loans payable	76,012,663
Total noncurrent liabilities	<u>123,681,974</u>
Total liabilities	<u>141,414,562</u>
NET ASSETS	
Invested in capital assets, net of related debt	43,200,732
Restricted for debt service	10,408,806
Restricted for capital assets	5,038,420
Restricted for other	210,928
Unrestricted	12,714,887
Total net assets	<u>\$ 71,573,773</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, 2011**

Operating revenues:	
Charges for services	\$ 4,614,612
Other service fees	136,279
Total operating revenues	<u>4,750,891</u>
Operating expenses:	
Costs of sales and services	1,435,715
Administration	1,262,205
Other	178,168
Depreciation	3,475,347
Total operating expenses	<u>6,351,435</u>
Operating income (loss)	<u>(1,600,544)</u>
Nonoperating revenues (expenses):	
Grant revenues	500,000
Intergovernmental	1,457,479
Assessments	5,570,211
Interest income	47,837
Interest expense	<u>(2,502,009)</u>
Total nonoperating revenues (expenses):	<u>5,073,518</u>
Change in net assets	3,472,974
Total net assets - beginning (restated)	<u>68,100,799</u>
Total net assets - ending	<u>\$ 71,573,773</u>

See accompanying notes to financial statements

**KEY LARGO WASTEWATER TREATMENT DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011**

Cash flows from operating activities:	
Receipts from customers and users	\$ 4,354,177
Payments to employees	(1,114,511)
Payments to suppliers	(1,643,403)
Net cash provided (used) by operating activities	<u>1,596,263</u>
Cash flows from capital and related financing activities:	
Grants and other intergovernmental	3,301,518
Assessments	5,570,211
Loan from other governmental unit	21,670,854
Payments and fees on loan from other government	(10,838,668)
Interest payments	(2,156,113)
Acquisition and construction of capital assets	(27,698,761)
Net cash provided (used) by capital and related financing activities	<u>(10,150,959)</u>
Cash flows from investing activities:	
Investment earnings	47,837
Sale of investments	(8,487,934)
Net cash provided (used) by investing activities	<u>(8,440,097)</u>
Net increase (decrease) in cash and cash equivalents	<u>(16,994,793)</u>
Cash and cash equivalents (including restricted), October 1	<u>35,321,441</u>
Cash and cash equivalents (including restricted), September 30	<u>\$ 18,326,648</u>
Reconciliation of operating (loss) to net cash provided (used) by operating activities:	
Operating (loss)	<u>\$ (1,600,544)</u>
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:	
Depreciation expense	3,475,347
(Increase)/Decrease in accounts receivable	(396,714)
(Increase)/Decrease in inventory	10,900
(Increase)/Decrease in prepaid	89,858
Increase/(Decrease) in accounts payable	17,416
Total adjustments	<u>3,196,807</u>
Net cash provided (used) by operating activities	<u>\$ 1,596,263</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. 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.

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, 2011 are as follows:

Restricted for construction	\$ 5,038,420
Restricted for debt service on loans	11,011,577
Restricted for repair, replacement, and windstorm damage	210,928
	<u>\$ 16,260,925</u>

**Deposits**

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.

**Investments**

The District’s investments were held as follows at September 30, 2011:

	Fair Value	Credit Risk	Maturities
Federated Government Obligation Money Market Fund	\$ 10,212,425	AAAm	Weighted average of the fund portfolio: 45 days
Total Investments	<u>\$ 10,212,425</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)

#### 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 money market mutual funds are not evidenced by securities that exist in physical or book entry form.

*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, 2011.

	Beginning Balance (Restated)	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,780,804	\$ -	\$ -	\$ 1,780,804
Construction in progress (restated)	101,920,923	24,833,051	(119,343,445)	7,410,529
Total capital assets, not being depreciated	103,701,727	24,833,051	(119,343,445)	9,191,333
Capital assets, being depreciated:				
Buildings	433,430	-	-	433,430
Vacuum and treatment facilities	3,341,209	31,172,162	-	34,513,371
Collection system	8,341,535	88,171,283	-	96,512,818
Equipment	292,166	102,672	-	394,838
Total capital assets, being depreciated	12,408,340	119,446,117	-	131,854,457
Less accumulated depreciation for:				
Buildings	(51,133)	(14,837)	-	(65,970)
Vacuum and treatment facilities	(437,328)	(1,165,184)	-	(1,602,512)
Collection system	(729,002)	(2,243,829)	-	(2,972,831)
Equipment	(110,117)	(51,497)	-	(161,614)
Total accumulated depreciation	(1,327,580)	(3,475,347)	-	(4,802,927)
Total capital assets, being depreciated, net	11,080,760	115,970,770	-	127,051,530
Total capital assets, net	\$ 114,782,487	\$ 140,803,821	\$ (119,343,445)	\$ 136,242,863

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, 2011 contracts payable totaled approximately \$2,160,777, and the District had commitments of \$5,300,929 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. In 2008, this interlocal agreement was amended to clarify the meaning of the defined term “North Components” to expressly include all facilities described in the District’s Facilities plan as submitted to the Florida Department of Environmental Protection, including any amendments to the facilities plan. Under the agreement, the County will reimburse to the District up to \$20,000,000. During the fiscal year ended September 30, 2011 total revenues under the agreement were \$1,457,479. The remaining balance available to be collected under the agreement was \$1,555,291 as of September 30, 2011.

**NOTE 6 – LONG-TERM DEBT**

**State Revolving Fund Loans**

As of September 30, 2011, the District has entered into four revolving loan agreements with the State of Florida Department of Environmental Protection Clean Water State Revolving Fund Loan program to finance its wastewater utility capital projects. 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. Each loan shall be repaid in 40 semiannual payments. Through September 30, 2011 the District has borrowed a total of \$51,481,354 under these agreements, including capitalized interest. As of September 30, 2011 repayments have begun on all loan agreements except for WW464030, which is currently schedule for prepayment beginning in August 2012. The breakdown as of September 30, 2011 of the total amounts authorized, the fixed weighted average interest rate, the estimated semi-annual payment amount and the amounts drawn to date on each loan is as follows:

SRF Loan Agreement	Total Loan Authorized Amount	Interest Rate	Semi-Annual Payment Amount	Total Obligation September 30, 2011
WW46401P	\$ 22,670,199	2.41% - 2.68%	\$ 754,103	\$ 20,969,944
WW464010	32,819,976	2.49% - 2.92%	1,087,056	27,603,209
WW464020	891,422	2.56%	29,190	723,375
WW464030	2,180,024	2.68%	73,049	2,184,826
Total	<u>\$ 58,561,621</u>		<u>\$ 1,943,398</u>	<u>\$ 51,481,354</u>

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 a prior year for construction.

During the fiscal year, the District used \$7,000,000 of the State Revolving Fund to pay down the RWA loan. The loan was paid off in full subsequent to year end.

**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, 2011.

**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, 2011 the District has a liability of \$900,000 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. Commencing on June 30, 2011, \$100,000 per month 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, 2011 were as follows:

	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
State Revolving Loan WW46401P	\$ 12,453,286	\$ 9,054,854	\$ 538,196	\$ 20,969,944	\$ 982,181
State Revolving Loan WW464010	18,633,398	10,431,174	1,461,363	27,603,209	1,432,983
State Revolving Loan WW464020	762,484	-	39,109	723,375	40,116
State Revolving Loan WW464030	-	2,184,826	-	2,184,826	13,411
Florida Rural Utility	17,000,000	-	7,000,000	10,000,000	10,000,000
Series 2010 Bonds	30,000,000	-	1,500,000	28,500,000	1,500,000
Line of Credit	1,200,000	-	300,000	900,000	900,000
Total loans payable	<u>\$ 80,049,168</u>	<u>\$ 21,670,854</u>	<u>\$ 10,838,668</u>	<u>\$ 90,881,354</u>	<u>\$ 14,868,691</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
2012	\$ 14,868,691	\$ 2,498,010	\$ 17,366,701
2013	4,109,265	2,367,544	6,476,809
2014	4,178,760	2,257,493	6,436,253
2015	4,250,108	2,146,437	6,396,545
2016	4,323,358	2,034,356	6,357,714
2017-2021	36,334,403	2,987,020	39,321,423
2022-2026	17,610,387	1,656,335	19,266,722
2027-2031	5,202,298	767,666	5,969,964
2032	4,084	55	4,139
	<u>\$ 90,881,354</u>	<u>\$ 16,714,916</u>	<u>\$ 107,596,270</u>

**NOTE 7 – PRIOR PERIOD ADJUSTMENT**

The beginning net assets have been restated due to capitalized interest for the fiscal year ended September 30, 2010 that was previously expensed. As a result of the restatement beginning net assets and construction in progress have been increased by \$2,188,174.

**NOTE 8 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts and errors and omissions. During fiscal year 2011, 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 9 – SUBSEQUENT EVENTS**

On October 1, 2011, the District paid-off the RWA balance of \$10,000,000.

# **Supplementary Information**

**KEY LARGO WASTEWATER TREATMENT DISTRICT  
SCHEDULE OF REVENUES AND EXPENSES (BUDGETARY BASIS) – BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>OPERATING REVENUES:</b>				
Wastewater Service Revenue	\$ 5,640,000	\$ 4,500,000	\$ 4,614,612	\$ 114,612
Other revenues	125,000	125,000	136,279	11,279
Total operating revenues	5,765,000	4,625,000	4,750,891	125,891
<b>OPERATING EXPENSES:</b>				
Board meeting compensation	54,000	54,000	49,200	4,800
Salaries	958,013	958,013	912,273	45,740
Inspector and Engineer salaries	-	-	18,157	(18,157)
Payroll taxes	73,258	73,258	59,614	13,644
Group health insurance	83,800	83,800	79,848	3,952
Group health administration	38,250	38,250	20,173	18,077
Retirement program	31,640	31,640	3,500	28,140
Workers compensation insurance	23,383	23,383	15,822	7,561
Unemployment compensation	59,900	30,000	5,124	24,876
Copier maintenance and supplies	5,040	5,040	12,365	(7,325)
Postage and delivery	76,500	76,500	49,486	27,014
Property and liability insurance	350,000	320,000	301,860	18,140
Legal advertisements	18,000	18,000	9,762	8,238
Supplies	97,000	97,000	221,738	(124,738)
Dues and subscriptions	9,000	9,000	9,236	(236)
Travel	38,800	38,800	9,461	29,339
Rents and leases	31,430	31,430	28,724	2,706
Telephone	24,000	24,000	15,539	8,461
Utilities	370,780	370,780	366,546	4,234
GSG tax roll services	5,400	5,400	37,500	(32,100)
Repairs and maintenance	177,500	127,500	56,680	70,820
Chemicals, sludge and lab services	667,500	487,500	162,446	325,054
Supplemental operating support	36,000	36,000	-	36,000
Computer support	11,000	6,000	-	6,000
FKA billing services	115,200	80,000	60,322	19,678
Vehicle Expense	94,000	94,000	25,365	68,635
Audit and accounting services	25,600	25,600	26,870	(1,270)
Utility Rate consultant	15,000	15,000	3,884	11,116
Legal - General Counsel	90,000	90,000	69,781	20,219
Legal - Outside Counsel	10,000	10,000	10,515	(515)
Legal - Litigation Reserve	20,000	20,000	-	20,000
Lobbyists	85,000	85,000	79,605	5,395
Start Up Expenses	125,000	75,000	16,888	58,112
Engineering services	30,000	30,000	88,048	(58,048)
Miscellaneous expenses	87,500	87,500	49,606	37,894
Contingencies	133,000	83,000	150	82,850
Total operating expenses	4,070,494	3,640,394	2,876,088	764,306
Budgetary basis operating income (loss)	1,694,506	984,606	1,874,803	890,197

(Continued)

**KEY LARGO WASTEWATER TREATMENT DISTRICT  
SCHEDULE OF REVENUES AND EXPENSES (BUDGETARY BASIS) – BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011  
(Continued)**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget (Negative)
	Original	Final		
<b>NON OPERATING REVENUES (EXPENSES):</b>				
Assessments	5,541,838	5,541,838	5,302,440	(239,398)
SDC Prepayments	100,000	165,000	267,771	102,771
Investment income	40,000	40,000	47,837	7,837
Interest expense	(61,600)	(61,600)	(2,502,009)	(2,440,409)
Renewal, replacement and capital	(581,000)	(573,000)	-	573,000
Low Income Assistance	(100,000)	(100,000)	-	100,000
Debt service transfer	(5,400,000)	(5,400,000)	-	5,400,000
Debt service LOC loan	(300,000)	(300,000)	-	300,000
Transfer to capital reserve	(281,838)	(181,844)	-	181,844
Surplus to operating reserve	(651,906)	(115,000)	-	115,000
Total non operating revenues (expenses)	<u>(1,694,506)</u>	<u>(984,606)</u>	<u>3,116,039</u>	<u>4,100,645</u>
Budgetary basis income (loss)	-	-	4,990,842	4,990,842
Intergovernmental	-	-	1,957,479	1,957,479
Depreciation	-	-	(3,475,347)	(3,475,347)
GAAP basis change in net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,472,974</u>	<u>\$ 3,472,974</u>

# Statistical Section

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

**Financial Trends:**

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

**Revenue Capacity:**

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

**Debt Capacity:**

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

**Demographic and Economic Information:**

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

**Operating Information:**

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

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



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

	Fiscal Year							
	2011	2010	2009	2008	2007	2006	2005	2004
Invested in capital assets, net of related debt	\$ 43,200,732	\$ 27,621,330	\$ 19,230,593	\$ 19,774,464	\$ 15,622,110	\$ 12,709,020	\$ 6,977,866	\$ 1,897,185
Restricted	15,658,154	38,133,096	27,257,778	12,839,163	6,962,626	1,024,411	2,185,055	1,296,136
Unrestricted	12,714,887	158,199	(63,417)	(146,530)	111,033	(8,635)	32,114	45,454
<b>Total net assets</b>	<b>\$ 71,573,773</b>	<b>\$ 65,912,625</b>	<b>\$ 46,424,954</b>	<b>\$ 32,467,097</b>	<b>\$ 22,695,769</b>	<b>\$ 13,724,796</b>	<b>\$ 9,195,035</b>	<b>\$ 3,238,775</b>

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

	Fiscal Year							
	2011	2010	2009	2008	2007	2006	2005	2004
<b>Operating revenues:</b>								
Charges for service	\$ 4,750,891	\$ 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	4,750,891	814,061	1,359,224	1,446,048	1,304,408	765,311	489,328	477,151
<b>Operating expenses:</b>								
Cost of sales and services	1,435,715	732,969	707,200	428,281	381,279	68,691	-	-
Administration	1,262,205	839,941	676,191	636,691	558,753	540,336	234,805	229,441
Professional and other	178,168	147,290	175,484	392,859	240,709	208,382	194,237	119,135
Depreciation	3,475,347	387,419	376,540	371,420	188,327	3,994	-	-
Total operating expenses	6,351,435	2,107,619	1,935,415	1,829,251	1,369,068	821,403	429,042	348,576
Total operating income (loss)	(1,600,544)	(1,293,558)	(576,191)	(383,203)	(64,660)	(56,092)	60,286	128,575
<b>Nonoperating revenues (expenses):</b>								
Grant revenue	500,000	13,439,479	4,825,358	2,224,498	907,829	2,095,394	5,896,498	2,364,057
Intergovernmental	1,457,479	3,704,411	4,107,049	2,448,767	5,518,395	791,699	-	826,234
Assessments	5,570,211	5,757,448	5,225,617	5,298,845	2,474,159	661,671	-	-
Forgiveness of debt	-	-	-	-	-	1,023,821	-	-
Other	-	-	-	-	-	-	-	-
Interest income	47,837	108,259	795,171	204,565	174,233	13,268	3,326	298
Interest expense	(2,502,009)	(2,228,368)	(419,147)	(22,144)	(38,983)	-	(3,850)	(4,227)
Total nonoperating revenues	5,073,518	20,781,229	14,534,048	10,154,531	9,035,633	4,585,853	5,895,974	3,186,362
Change in net assets	\$ 3,472,974	\$ 19,487,671	\$ 13,957,857	\$ 9,771,328	\$ 8,970,973	\$ 4,529,761	\$ 5,956,260	\$ 3,314,937

**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		
2011	\$ 4,750,891	\$ -	\$ 4,750,891	\$ 500,000	\$ 1,457,479	\$ 5,570,211	\$ 47,837	\$ -	\$ 7,575,527	\$ 12,326,418
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			
2011	\$ 1,435,715	\$ 1,262,205	\$ 178,168	\$ 3,475,347	\$ 6,351,435	\$ 2,502,009	\$ 8,853,444
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

**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
2011	\$ 33.60	\$ 5.27	\$ 271,035	\$ 138,334	6,107	10,085
2010	33.60	5.27	56,915	6,894	1,256	1,470
2009	33.60	5.27	45,842	6,743	655	1,023
2008	33.60	5.27	42,710	5,605	657	1,023
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		Assessment		
	Capacity Charge (EDU)	Connection Charge (Each)	Residential	Non-Residential	Total
	2011*	\$ 2,950	\$ 2,250	\$ -	\$ -
2010*	2,950	2,250	-	-	-
2009	2,950	2,250	12,579,702	2,860,780	15,440,482
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	-	-	-	-	-

\*The district did not assess any additional properties

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

	<b>Loans</b>	<b>Assessed Property Value</b>	<b>Percentage of Assessed Value</b>	<b>Pledged Revenue</b>
2011	\$ 90,881,354	\$ 3,208,230,358	2.8328%	\$ 10,184,823
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**

	<b>Assessed Property Value</b>	<b>Estimated Resident Population</b>	
		<b>Key Largo District</b>	<b>Monroe County</b>
2011	\$ 3,208,230,358	10,433	73,090
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**

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Executive (Commissioners)	5	5	5	5	5	5	5	5	5
Administration	7	6	6	4	4	5	5	4	0
Operations	24	6	5	4	4	2	0	0	0
Construction	7	18	13	9	5	2	0	0	0
	43	35	29	22	18	14	10	9	5

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Number of Employees	43	35	29	22	18	14	10	9	5
Number of Customers	6,107	2,683	655	657	656	426	0	0	0
Collection Main (feet)	426,161	386,000	190,000	72,000	45,000	41,000	19,000	0	0
Transmission Main (feet)	119,801	100,000	27,000	27,000	27,000	7,000	0	0	0
Number of Vacuum Pits	2548	2000	1240	470	320	219	85	0	0
Number of Vacuum Stations	6	5	2	1	1	1	0	0	0
Average Daily Flow (gallons)	1,010,000	450,000	47,320	49,800	46,000	21,000	0	0	0
Peak Daily Flow (gallons)	679,000	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, 2011, and have issued our report thereon dated April 25, 2012. 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.

*Grau & Associates*  
April 25, 2012



**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 fiscal year ended September 30, 2011. 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, 2011.

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.

*Ghan & Associates*

April 25, 2012

**KEY LARGO WASTEWATER TREATMENT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011**

<b>Federal Grantor Pass through Program Title</b>	<b>Federal CFDA Number</b>	<b>Agency or Pass-through Number</b>	<b>Disbursements/ Expenditures</b>
<b><u>MAJOR PROGRAMS</u></b>			
<b>U.S. Department of Environmental Protection</b>			
<b>Pass-Through Florida Department of Environmental Protection</b>			
Capitalization Grants for State Revolving Funds	66.458	CS120001-050	\$ 21,670,854
<b>Department of Defense</b>			
Florida Keys Water Quality Improvement Program	12.113	N/A	<u>500,000</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 22,170,854</u></b>

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, 2011**

**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, 2011**

**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>
--	----------------------------

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a).	___ 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

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 665,125</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, 2011, and have issued our report thereon dated April 25, 2012.

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 April 25, 2012. 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.**

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. This letter is intended for the information and use 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*

April 25, 2012

## 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, 2010.

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, 2011.

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, 2011.

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, 2011.

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, 2011 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.



**Grau & Associates**  
CERTIFIED PUBLIC ACCOUNTANTS

2700 North Military Trail • Suite 350  
Boca Raton, Florida 33431  
(561) 994-9299 • (800) 299-4728  
Fax (561) 994-5823  
www.graucpa.com

April 25, 2012

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

We have audited the financial statements of the business-type activities of Key Largo Wastewater Treatment District for the fiscal year ended September 30, 2011, and have issued our report thereon dated April 25, 2012. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated July 16, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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 and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole. The introductory and statistical sections 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.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Key Largo Wastewater Treatment District are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

Management's estimate of the useful lives of capital assets is based on information obtained from the experience of other governments as adapted for differences in application and environment. We evaluated the key factors and assumptions used to develop the estimate of the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the assessments receivable accounts is based on assumptions that assessments receivable will be collected over 20 years with interest rates which essentially mirror the District's borrowing costs. It also based on historical assessments revenues, numbers of available properties that are assessed, and an analysis of the collectibility of individual accounts. We evaluated the key factors and assumptions used to develop the assessments receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated April 25, 2012.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Key Largo Wastewater Treatment District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in blue ink that reads "Grau & Associates". The signature is written in a cursive, flowing style.

Grau & Associates