



Key Largo Wastewater Treatment District

COMPREHENSIVE ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2012

Key Largo Wastewater Treatment District
Comprehensive Annual Financial Report
For the Fiscal Year ended September 30, 2012

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

May 1, 2013

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, 2012, 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 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, 2012, 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, 2012, 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 complies 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 1st through September 30th.

The District's mission is part of larger state and national initiatives to save the Everglades and Florida Bay eco structure for the benefit of future generations. In Key Largo, and typically all the Florida Keys except Key West, the disposal of domestic sewage has been historically handled by septic tanks and cesspits. Many commercial operations utilize small package sewage treatment plants. Florida statute 99-395 mandated the district establish goals which included the introduction of advanced wastewater treatment (AWT) and disposal infrastructure to serve all residents and commercial operations of Key Largo by July, 2010. This was later amended by the legislature in 2010 and the deadline for advanced wastewater treatment standards has been extended to 2015.


Over 13,000 individual parcels of land exist on Key Largo. The District designed, engineered and constructed a main transmission line and associated collection systems to provide vacuum based collection services to the District's entire service area excluding properties where it was cost prohibitive to do so. This project was completed and placed into service in during fiscal year 2011, which was 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, however, those unique properties that were unable to be provided with vacuum based collection services will have the option of joining the District's grinder pump project that started in fiscal year 2013, and is slated to be completed before the 2015 deadline. This project will provide approximately 163 parcels with grinder pump based collection services.

The District also designed, engineered and constructed a 2.3 million gallon per day advanced wastewater treatment plant to provide service to the District's entire service area. This project was completed in October of 2010. However, during fiscal year 2012 the District was able to successfully negotiate a contract to sell 1.104 million gallons annual average daily flow of plant capacity to the Village of Islamorada for \$10,176,000. \$1,017,600 was paid to the District upon the execution of the agreement and \$9,158,400 is payable monthly over 10 years at 4% interest. The District will be expanding the 2.3 million gallon per day treatment plant to a 3.45 million gallon per day plant in order to accept this additional daily flow.

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.

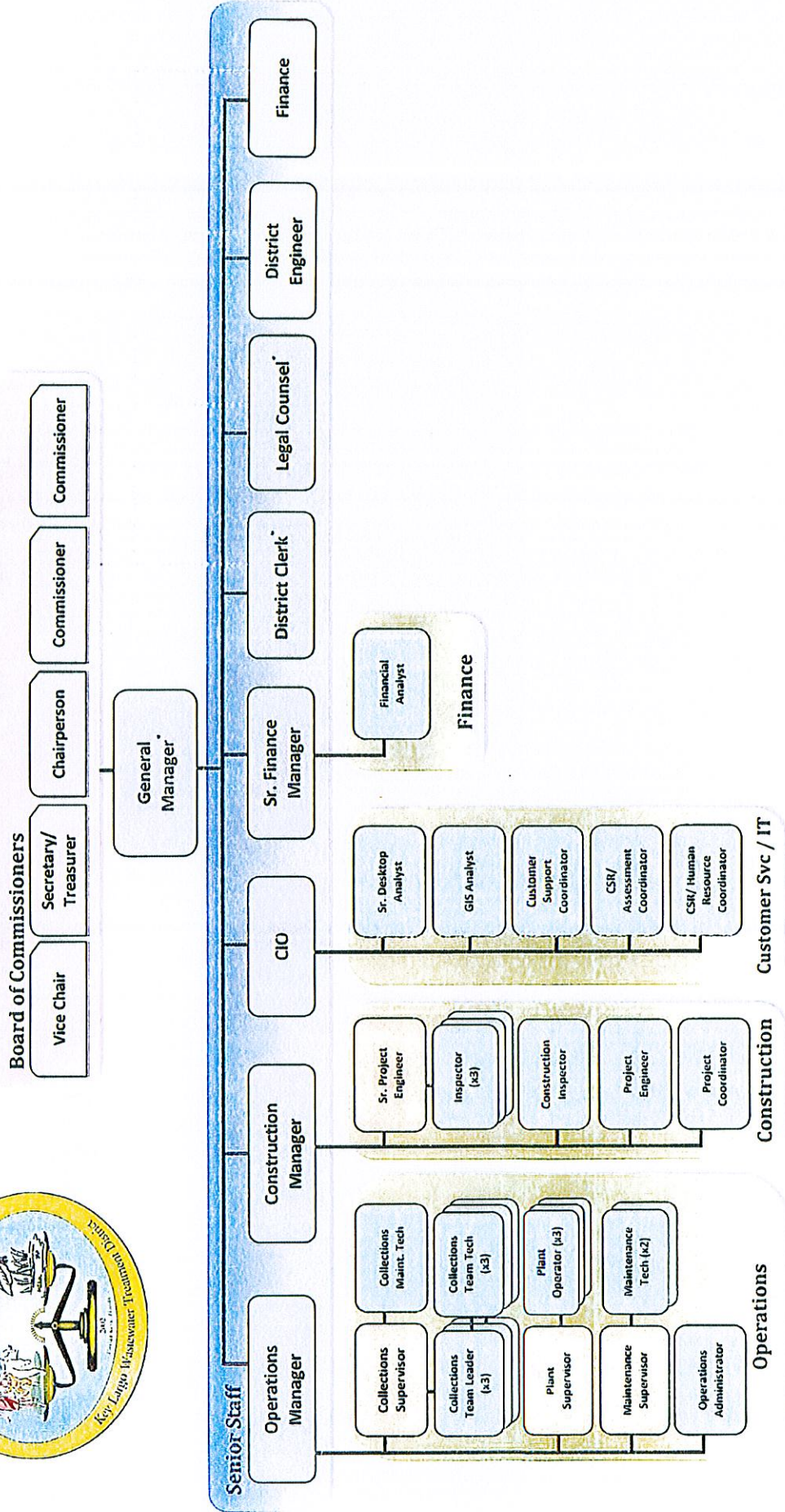
In closing, without the leadership and vision of the Board of Commissioners, preparation of this report would not have been possible.


Margaret Blank, General Manager


Peter Rosasco, CPA, Finance Director



Key Largo Wastewater Treatment District Organization Chart



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

Board of Commissioners

FY 2012

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

FY 2013

Robert Majeska, Chairman
Andrew Tobin, Vice Chairman
David Asodorian, Commissioner
Norman Higgins, Secretary
Steve Gibbs, Commissioner

District Management

Margaret Blank P.E., General Manager
Peter Rosasco, Finance Director
Carol J. Walker, Clerk to the Board
Jim Brush P.E., Operations Manager

District Counsel

Ray Giglio

District Engineer

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

Financial Section



Grau & Associates
CERTIFIED PUBLIC ACCOUNTANTS

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Boca Raton, Florida 33431
(561) 994-9299 • (800) 299-4728
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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, 2012, 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.

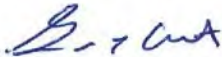
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2012, 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 May 1, 2013, 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, and other required supplementary information identified in the table of contents 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.



May 1, 2013

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, 2012. We are including this discussion and analysis in order to provide the reader with a better understanding of the District's overall financial position. This narrative should be considered in conjunction with the additional information contained in the introductory transmittal letter and the District's financial statements which follow in this section.

Overview of Operations

The District was formed as a special district with the election of inaugural commissioners on November 5, 2002, as provided in Chapter 2002-337, Florida Statutes. The District's mission includes the introduction and operation of advanced wastewater treatment and disposal infrastructure to serve all residents and commercial operations on the unincorporated island of Key Largo by the year 2010.

The District's activities in FY2003 and FY2004 were focused on administrative responsibilities associated with organization of a new public 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 ad valorem tax revenues. Project costs totaling \$1,253,232 were funded by federal, state and local grants.

In FY2005 and FY2006 the District commenced construction of the Key Largo Trailer Village and Key Largo Park demonstration project, initiating service to customers in May, 2006. The District also focused on the expansion of service to serve the northern half of the island by initiating the design and engineering of the North Components project. This project consists of expansion of the treatment plant from 0.183 to 2.30 mgd (million gallons per day) 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 FY2005 and FY2006 totaling \$1,250,445 were funded by MSTU ad valorem tax revenues and charges for service to customers. Project costs totaling \$12,863,688 were funded by federal, state and local grants and loans.

In FY2007 and FY2008 the District focused on construction of the North Components project. A north transmission force main was completed. Construction in all four northern service area collection systems was undertaken (Basins A, B, C, and D), and construction of the 2.3 mgd treatment plant expansion was initiated in October, 2008. The District also initiated design and engineering of a South Components project consisting of a transmission line to serve the southern half of the island and installation of vacuum collection systems in seven southern service areas (Basins E - K). Administration and system operating expenses totaling approximately \$2,638,000 were funded by MSTU ad valorem tax revenues and charges for service to customers. Project costs totaling approximately \$20,913,000 were funded by federal, state and local grants and loans, including approximately \$4,044,000 from an interlocal grant agreement with Monroe County.

In FY2009, construction of the North Components collection systems was essentially completed. Expansion of the regional treatment plant continued with completion of a 3,700 ft. deep 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 FY2012 totaled approximately \$5,295,000.

In FY2011 District completed its 2.3 mgd (million gallons per day) regional treatment plant and placed it into service. This facility is currently meeting Advanced Wastewater Treatment Standards (AWT). In FY2012 the vacuum collection system was completed and all areas, north and south are in full operations. The grinder pump project also commenced during FY2012. The grinder pump project will provide centralized sewer service to properties where it was cost prohibitive to provide a vacuum based collection system. Another major accomplishment of FY2012 was the District entering into a interlocal agreement with the Islamorada Village of Islands to treat its wastewater, and sell treatment plant capacity space of 1.104 million gallons of average daily flow.

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, 2012.

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, 2012, were \$207,648,645 and total liabilities amounted to \$123,386,211. Total net assets of the District were \$84,262,434. For the prior year, total assets of the District at September 30, 2011, were \$212,988,335 and total liabilities amounted to \$141,414,562 and total net assets of the District were \$71,573,773.

Total current assets of \$19,503,736 at September 30, 2012 consisted of approximately \$970,000 in billings due from customers. Restricted current assets included cash and investments of \$8,413,514 from loan proceeds and other sources restricted for use in construction. For the prior year, total current assets of \$29,009,083 at September 30, 2011 consisted of \$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.

Total noncurrent assets at September 30, 2012 of \$188,144,909 consisted essentially of \$74,150 in prepaid expense and other assets, \$44,003,693 in assessments levied but not received, \$134,908,666 in land, equipment, and infrastructure owned by the District, and \$9,158,400 due from other governments.

In the prior year, total noncurrent assets at September 30, 2011 of \$183,979,252 consisted essentially of \$67,708 in prepaid expenses and other assets, \$47,669,311 in assessments levied but not received, and \$136,242,863 in land, equipment, construction in progress, and infrastructure owned by the District.

Total liabilities at September 30, 2012 of \$123,386,211 included \$258,565 due to vendors for goods and services rendered \$40,205 due to construction contractors for retainage payable, \$491,302 in accrued interest expense, \$78,020,437 in loans payable, of which \$4,103,421 is due next year, and \$44,486,093 for assessments levied but not yet received. In the prior year, 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 interest expense, \$90,881,354 in loans payable, and \$47,669,311 for assessments levied but not yet received.

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

	September 30,	
	2012	2011
Current and other assets	\$ 72,739,979	\$ 76,745,472
Capital assets, net of depreciation	134,908,666	136,242,863
Total assets	<u>207,648,645</u>	<u>212,988,335</u>
Long-term liabilities	118,492,718	123,681,974
Other liabilities	4,893,493	17,732,588
Total liabilities	<u>123,386,211</u>	<u>141,414,562</u>
Net Assets		
Invested in capital assets, net of related debt		
Invested in capital assets, net of related debt	56,848,024	43,200,732
Restricted for debt service	1,110,952	10,408,806
Restricted for capital assets	5,044,726	5,038,420
Restricted for other	211,243	210,928
Unrestricted	<u>21,047,489</u>	<u>12,714,887</u>
Total net assets	<u>\$ 84,262,434</u>	<u>\$ 71,573,773</u>

District Revenues, Expenses, and Changes in Net Assets

The District's net assets increased by \$12,688,661 during FY2012; from \$71,573,773 on September 30, 2011 to \$84,262,434 on September 30, 2012. Total revenues for the period were \$24,981,626 and total expenses for the period were \$12,292,965. For the prior year, total revenues for the period were \$12,326,418 and total expenses for the period were \$8,853,444.

For FY2012, operating revenues consisted of \$7,982,364 in charges to customers for services and related fees. Non-operating revenues consisted of \$11,678,229 in intergovernmental revenues, \$5,295,038 in assessments, and \$21,810 in interest income. For FY2011, operating revenue 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.

The intergovernmental revenues increased by \$10,220,750 from FY2011 to FY2012. \$10,176,000 of this increase is related to an interlocal agreement that the District entered into during the year with the Islamorada Village of Islands (the "Village"). The Village purchased wastewater treatment plant capacity of 1.104 million gallons of average daily flow or 32% of plant capacity. The Village took the option of financing \$9,158,400 this purchase over 9 years at 4% interest payable in monthly installments of \$101,117.61 commencing on June 1, 2013. \$1,017,600 was paid on the agreements effective date, along with a \$482,400 deposit on construction work to the treatment plant that must be completed to accommodate the agreement. In order to accommodate this agreement the District will be expanding its plant capacity from 2.3 mgd to 3.45 mgd.

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

Change in Net Assets		
Fiscal Year Ended September 30,		
	2012	2011
Operating activities:		
Charges for services	\$ 7,982,364	\$ 4,750,891
Cost of sales	(2,443,119)	(1,435,715)
Administration	(1,579,319)	(1,262,205)
Other	(174,844)	(178,168)
Depreciation	(3,790,497)	(3,475,347)
Net operating (loss)	(5,415)	(1,600,544)
Nonoperating activities:		
Grant revenue	-	500,000
Intergovernmental	11,678,229	1,457,479
Assessments	5,295,038	5,570,211
Interest income	21,810	47,837
Other income	4,185	-
Loss on sale of assets	(1,850,125)	-
Interest expense	(2,455,061)	(2,502,009)
Net nonoperating activities	12,694,076	5,073,518
Change in net assets	12,688,661	3,472,974
Net assets, beginning	71,573,773	68,100,799
Net assets, ending	\$ 84,262,434	\$ 71,573,773

Capital Assets and Project Plan

The District adopted a master facilities plan in March, 2006 to construct wastewater collection transmission and treatment facilities to serve the entire island of Key Largo. The wastewater transmission and treatment facilities project was substantially completed and in service at the end of fiscal year 2011. The remaining project is the connection of approximately 163 properties where it was cost prohibitive to provide vacuum based collection services. These properties require a grinder pump based collection system. Work on the grinder pump project commenced during fiscal year 2012.

At September 30, 2012 the District had \$143,158,513 invested in land, infrastructure, equipment, and construction in progress. Depreciation of \$8,249,847 has been taken, which resulted in a net book value of \$134,908,666. More detailed information about the District's capital assets is presented in the notes to the financial statements.

The District has implemented a phased non ad valorem assessment program expected to generate approximately \$86,000,000 to fund the construction costs that are not covered by Federal, State and local grant funding.

Capital Debt

During the FY2012, the District used the State Revolving Fund loan proceeds that were received in the prior fiscal year to pay down the remaining \$10,000,000 owed on the Florida Rural Water loan. The District also paid off its line of credit with a local banking institution. The District did not seek a renewal on the line of credit as it was deemed unnecessary now that the utility services are fully operational.

Economic Factors and Next Year's Budget

The unemployment rate for Monroe County is currently 4.5%, which is a decrease from a rate of 6.2% a year ago. The rate still compares favorably to the state's average unemployment rate of 7.9%.

Assessed property values in the District's service area declined in 2012; however, the District has no taxing authority, and no District revenue is derived from or dependent upon ad-valorem taxation. Therefore, this decline in property value should have no significant effect on the current or future financial performance.

During Fiscal year 2013, the District will be working on the grinder pump properties project. This project will allow the District to provide centralized sewer service to properties where it was not fiscally feasible to provide vacuum collection services to. The District will also be working on the treatment plant expansion from a 2.3 million gallon per day capacity to a 3.45 million gallon per day capacity to accommodate for the wastewater flows that the District will be receiving from Islamorada.

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, 2012**

ASSETS	
Current assets:	
Unrestricted:	
Cash and cash equivalents	\$ 10,106,028
Accounts receivable	971,029
Inventories	13,165
Total unrestricted current assets	<u>11,090,222</u>
Restricted:	
Cash and cash equivalents	6,858,223
Due from other governments	1,555,291
Total restricted current assets	<u>8,413,514</u>
Total current assets	<u>19,503,736</u>
Noncurrent assets:	
Due from other governments	9,158,400
Prepaid and other assets	74,150
Assessments	44,003,693
Capital assets:	
Land	1,780,804
Construction in progress	265,878
Depreciable assets	141,111,831
Less accumulated depreciation	<u>(8,249,847)</u>
Total capital assets, net	<u>134,908,666</u>
Total noncurrent assets	<u>188,144,909</u>
Total assets	<u>207,648,645</u>
LIABILITIES	
Current liabilities:	
Accounts payable	258,565
Payable from restricted assets:	
Accrued bond interest payable	491,302
Retainage payable	40,205
Loans payable	4,103,421
Total current liabilities	<u>4,893,493</u>
Noncurrent liabilities:	
Deferred revenue	44,486,093
Loans payable	73,917,016
Deposits	25,000
Compensated absences	41,566
Other post employment benefits	23,043
Total noncurrent liabilities	<u>118,492,718</u>
Total liabilities	<u>123,386,211</u>
NET ASSETS	
Invested in capital assets, net of related debt	56,848,024
Restricted for debt service	1,110,952
Restricted for capital assets	5,044,726
Restricted for other	211,243
Unrestricted	21,047,489
Total net assets	<u>\$ 84,262,434</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, 2012**

Operating revenues:	
Charges for services	\$ 7,955,189
Other service fees	27,175
Total operating revenues	<u>7,982,364</u>
Operating expenses:	
Costs of sales and services	2,443,119
Administration	1,579,319
Other	174,844
Depreciation	3,790,497
Total operating expenses	<u>7,987,779</u>
Operating income (loss)	<u>(5,415)</u>
Nonoperating revenues (expenses):	
Intergovernmental (net)	11,678,229
Assessments	5,295,038
Interest income	21,810
Other income	4,185
Loss on sale of assets	(1,850,125)
Interest expense	(2,455,061)
Total nonoperating revenues (expenses):	<u>12,694,076</u>
Change in net assets	12,688,661
Total net assets - beginning	<u>71,573,773</u>
Total net assets - ending	<u>\$ 84,262,434</u>

See accompanying notes to financial statements

**KEY LARGO WASTEWATER TREATMENT DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

Cash flows from operating activities:	
Receipts from customers and users	\$ 7,468,049
Payments to employees	(1,739,950)
Payments to suppliers	(2,283,015)
Net cash provided (used) by operating activities	<u>3,445,084</u>
Cash flows from capital and related financing activities:	
Grants and other intergovernmental	1,471,938
Assessments	5,295,038
Loan from other governmental unit	2,140,749
Payments and fees on loan from other government	(14,955,915)
Interest payments	(2,566,530)
Acquisition and construction of capital assets	(6,441,996)
Net cash provided (used) by capital and related financing activities	<u>(15,056,716)</u>
Cash flows from investing activities:	
Investment earnings	21,810
Sale of capital assets	15,000
Sale of investments	10,212,425
Net cash provided (used) by investing activities	<u>10,249,235</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,362,397)</u>
Cash and cash equivalents (including restricted), October 1	<u>18,326,648</u>
Cash and cash equivalents (including restricted), September 30	<u>\$ 16,964,251</u>
Reconciliation of operating (loss) to net cash provided (used) by operating activities:	
Operating (loss)	<u>\$ (5,415)</u>
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:	
Depreciation expense	3,790,497
(Increase)/Decrease in accounts receivable	(514,315)
(Increase)/Decrease in inventory	131
(Increase)/Decrease in prepaid	(7,072)
Increase/(Decrease) in accounts payable	158,216
Increase/(Decrease) in other post employment benefits	23,042
Total adjustments	<u>3,450,499</u>
Net cash provided (used) by operating activities	<u>\$ 3,445,084</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.

The financial statements were prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement 14, and Statement 39, an amendment of GASB Statement 14. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District Board of Commissioners 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 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deposits and Investments - (Continued)

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

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 was 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.

Compensated Absences – It is the District's policy to permit employees to accumulate earned but unused sick leave and vacation leave benefits. Sick leave may be accumulated up to 40 hours and vacation leave up to 8 hours per month for employees with the District under 5 years, and 12 hours per month for employees with the District over 5 years. New employees earn vacation time but are not able to use it until after the six months probationary period. All sick and vacation leave is accrued when earned in the government-wide and proprietary fund financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Postemployment Benefits (OPEB) – Effective October 1, 2009, the District adopted GASB Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The effect of this adoption was to establish uniform reporting standards for benefit plans associated with postemployment benefits other than pensions, and to change the measurement, recognition, and display of OPEB expense and related liabilities (assets), note disclosures, and required supplementary information (RSI) in annual financial reports of governmental entities. Implementation of this statement had no effect on fiscal years prior to fiscal year 2010. See Note 7, Other Postemployment Benefits (OPEB), for more information on the District's OPEB Plan.

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 were levied in phases one to two years before the related infrastructure for the area was 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.

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, 2012 are as follows:

Restricted for construction	\$ 5,044,726
Restricted for debt service on loans	1,602,254
Restricted for repair, replacement, and windstorm damage	211,243
	<u>\$ 6,858,223</u>

NOTE 3 – DEPOSITS AND INVESTMENTS

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

Custodial credit 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.

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.

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.

The District did not have investments at September 30, 2012.

NOTE 4 – CAPITAL ASSETS

The table below summarizes the capital activity for the fiscal year ended September 30, 2012.

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,780,804	\$ -	\$ -	\$ 1,780,804
Construction in progress	7,410,529	265,878	(7,410,529)	265,878
Total capital assets, not being depreciated	9,191,333	265,878	(7,410,529)	2,046,682
Capital assets, being depreciated:				
Buildings	433,430	-	-	433,430
Vacuum and treatment facilities	34,513,371	22,385	(2,208,701)	32,327,055
Collection system	96,512,818	11,357,621	-	107,870,439
Equipment	394,838	86,069	-	480,907
Total capital assets, being depreciated	131,854,457	11,466,075	(2,208,701)	141,111,831
Less accumulated depreciation for:				
Buildings	(65,970)	(14,837)	-	(80,807)
Vacuum and treatment facilities	(1,602,512)	(1,105,530)	343,576	(2,364,466)
Collection system	(2,972,831)	(2,603,241)	-	(5,576,072)
Equipment	(161,614)	(86,888)	-	(228,502)
Total accumulated depreciation	(4,802,927)	(3,790,496)	343,576	(8,249,847)
Total capital assets, being depreciated, net	127,051,530	7,675,579	(1,865,125)	132,861,984
Total capital assets, net	\$ 136,242,863	\$ 7,941,457	\$ (9,275,654)	\$ 134,908,666

NOTE 4 – CAPITAL ASSETS (Continued)

In connection with the District's wastewater treatment project, the District has entered into various contracts with engineers and contractors to construct the collection system and treatment plant. At September 30, 2012 retainage payable totaled approximately \$40,205, and the District had commitments of \$314,150 with respect of unfinished capital projects.

During the fiscal year ended September 30, 2012, the District sold the previous treatment plant it had been using prior to the construction of the permanent plant that was constructed and placed into service during the beginning of fiscal year 2011. The treatment plant was sold for \$15,000 and had a net book value of \$1,865,125 on the date of sale. The sale price of \$15,000 reflected the approximate market value at the date of disposal. The resulting loss of \$1,850,125 has been reported in the statement of revenues, expenses, and changes in net assets.

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, 2012 total revenues under the agreement were \$1,555,291. At the end of the fiscal year ended September 30, 2012 the District had exhausted the entire \$20,000,000 of eligible reimbursements from Monroe County.

On May 22, 2012, the District entered into an interlocal agreement with Islamorada Village of Islands ("Islamorada") for wastewater services. Under the terms of the agreement, the District will provide wastewater treatment and disposal services to Islamorada for a period of 30 years. Once wastewater treatment and disposal commences, the fee charged to Islamorada will be \$4.65 per thousand gallons and adjusted in accordance with true-up provisions in the agreement. Wastewater treatment and disposal services are expected to commence in May, 2014. Furthermore, Islamorada has agreed to purchase capacity from the District and has also agreed to pay for its proportionate share of plant capacity upgrades that the District will construct. The District charged Islamorada \$10,176,000 for the purchase of capacity and received an initial payment of \$1,017,600 with the remaining \$9,158,400 due to be received in monthly installments over a period of ten years with interest charged at 4.0% beginning in June of 2013. In connection with the plant capacity upgrades, the District received an initial deposit of \$482,400 from Islamorada to fund Islamorada's proportionate share of the plant capacity upgrades. The deposit will be applied towards Islamorada's share of the plant capacity upgrades as costs are incurred and projects are completed.

NOTE 6 – LONG-TERM DEBT

State Revolving Fund Loans

As of September 30, 2012, 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, 2012 the District has borrowed a total of \$51,020,437 under these agreements, including capitalized interest. As of September 30, 2012 repayments have begun on all loan agreements. The breakdown as of September 30, 2012 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:

NOTE 6 – LONG-TERM DEBT (Continued)

State Revolving Fund Loans (Continued)

<u>SRF Loan Agreement</u>	<u>Total Loan Authorized Amount</u>	<u>Interest Rate</u>	<u>Semi-Annual Payment Amount</u>	<u>Total Obligation September 30, 2012</u>
WW46401P	\$ 22,670,199	2.41% - 2.68%	\$ 754,103	\$ 19,952,791
WW464010	32,819,976	2.49% - 2.92%	1,087,056	28,177,472
WW464020	891,422	2.56%	29,190	683,259
WW464030	2,180,024	2.68%	73,049	2,206,915
Total	<u>\$ 58,561,621</u>		<u>\$ 1,943,398</u>	<u>\$ 51,020,437</u>

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 matured on October 1, 2011.

During the fiscal year, the loan was paid off in full.

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. Interest is to be paid semiannually on each January 15 and July 15 of each year, commencing on July 15, 2010. A principal payment on the Bond of \$1,500,000 is due annually on January 15. A \$17,000,000 balloon payment is due 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, 2012.

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. During the fiscal year, the line of credit was paid off in full.

NOTE 6 – LONG-TERM DEBT (Continued)

Changes in long-term liability activity for the fiscal year ended September 30, 2012 were as follows:

	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
State Revolving Loan WW46401P	\$ 20,969,944	\$ -	\$ 1,017,153	\$ 19,952,791	\$ 1,027,935
State Revolving Loan WW464010	27,603,209	2,077,094	1,502,831	28,177,472	1,436,976
State Revolving Loan WW464020	723,375	-	40,116	683,259	44,433
State Revolving Loan WW464030	2,184,826	22,089	-	2,206,915	94,077
Florida Rural Utility	10,000,000	-	10,000,000	-	-
Series 2010 Bonds	28,500,000	-	1,500,000	27,000,000	1,500,000
Line of Credit	900,000	-	900,000	-	-
Compensated absences	-	41,566	-	41,566	-
Total loans payable	<u>\$ 90,881,354</u>	<u>\$ 2,140,749</u>	<u>\$ 14,960,100</u>	<u>\$ 78,062,003</u>	<u>\$ 4,103,421</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
2013	\$ 4,103,421	\$ 2,362,250	\$ 6,465,671
2014	3,848,009	2,556,011	6,404,020
2015	3,924,124	2,418,247	6,342,371
2016	4,002,713	2,278,007	6,280,720
2017	23,583,859	1,734,487	25,318,346
2018-2022	14,231,933	5,202,046	19,433,979
2023-2027	16,636,512	2,739,087	19,375,599
2028-2032	7,731,432	332,214	8,063,646
	<u>\$ 78,062,003</u>	<u>\$ 19,622,349</u>	<u>\$ 97,684,352</u>

NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The District provides an optional post-employment healthcare insurance coverage to eligible individuals pursuant to the requirements of State law.

Plan Provisions

Eligibility - Eligible individuals include all regular, full-time employees of the District who retire from active service and are eligible for retirement or disability benefits under one of the pension plans sponsored by the District. Under certain conditions, eligible individuals for healthcare coverage also include spouses and dependent children.

Explicit Benefit Cost Sharing – Retiree and Dependents - Retirees must pay 100% of the monthly premium as determined by the insurance carrier. The premium varies depending on whether the retiree elects single or spouse / family coverage.

NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Plan Provisions (Continued)

Implicit Benefits - Employees are permitted to continue coverage under the plans offered by the District in retirement by paying 100% of the cost of the premium for the continued coverage. This arrangement creates an implicit cost and liability for the District because the premium charged for these retirees is the same as the premium charged for active employees, who are younger than retirees on average. Since the same premiums are charged to active employees and retirees, and the District is unable to obtain age-adjusted premium information for the retirees, GASB 45 requires the district to calculate age-adjusted premiums for the purpose of projecting future benefits for retirees.

Surviving Spouse Benefit - Surviving beneficiaries continue to receive access to the District's medical coverage after the death of the retired employee as long as they pay the required premiums

Disability Retirement Benefits - There are two types of disability retirement available to employees of the District: (1) in-line-of-duty disability retirement and (2) regular disability retirement. To qualify for either type of disability retirement, members must be totally and permanently disabled to the extent that they are unable to work in any job for any employer. In-line-of-duty disability benefits are available to members on their first day of employment. To be eligible for regular disability retirement, members must complete eight years of creditable service with the District.

Post Employment Benefits - Currently, 0 retired employees receive health benefits from the District. Future retirees will contribute 100% for coverage.

The District recognizes the cost of providing health insurance annually as expenses in the Statement of Activities as costs are incurred. For the year ended September 30, 2012, the District recognized \$0 for its share of insurance premiums for currently enrolled retirees.

The District's annual other post-employment benefit (OPEB) cost (expense) for its plan is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Normal Cost	\$ 15,935
Supplemental Cost	6,661
Interest	<u>447</u>
Annual Required Contribution (ARC)	23,043
Interest on Net OPEB Obligation	-
Adjustment to ARC	-
Annual OPEB Cost (Expense)	<u>23,043</u>
Actual Benefit Payments	-
Increase in Net OPEB Obligation	<u>23,043</u>
Net OPEB Obligation - October 1, 2011	-
Estimated Net OPEB Obligation - September 30, 2012	<u><u>\$ 23,043</u></u>

NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

The district's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations were as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
September 30, 2010	-	0%	-
September 30, 2011	-	0%	-
September 30, 2012	\$ 23,043	0%	\$ 23,043

As of October 1, 2011, the most recent valuation date, the plan was 0% funded. The accrued liability for benefits was \$56,186 and the value of assets was \$0, resulting in an unfunded accrued liability (UAL) of \$56,186. The covered payroll (annual payroll of active employees covered by the plan) was \$0, and the ratio of the UAL to the covered payroll was not applicable. Valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the accrued liabilities for benefits.

Methods and assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the District and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2011 valuation, the Projected Unit Credit cost method was used. The assumptions included a 4.00% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of (4.44%) initially, reduced by decrements to an ultimate rate of 5.00% after 10 years. The UAL is being amortized on an open basis. The remaining amortization period at September 30, 2012 was 10 years.

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts and errors and omissions. During fiscal year 2012, 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.

Required Supplementary Information

**KEY LARGO WASTEWATER TREATMENT DISTRICT
 SCHEDULE OF FUNDING PROGRESS
 OTHER POST EMPLOYMENT BENEFIT PLAN
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL), Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percent of Covered Payroll
October 1, 2011	\$ -	\$ 56,186	\$ 56,186	- %	\$ -	N/A %

Supplementary Information

**KEY LARGO WASTEWATER TREATMENT DISTRICT
SCHEDULE OF REVENUES AND EXPENSES (BUDGETARY BASIS) – BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

	Budgeted Amounts <u>Original & Final</u>	Actual Amounts	Variance with Final Budget - Positive (Negative)
OPERATING REVENUES:			
Wastewater Service Revenue	\$ 6,500,000	\$ 7,955,189	\$ 1,455,189
Other revenues	150,000	27,175	(122,825)
Total operating revenues	6,650,000	7,982,364	1,332,364
OPERATING EXPENSES:			
Board meeting compensation	54,000	51,368	2,632
Salaries	1,279,077	1,383,055	(103,978)
Inspector and Engineer salaries	-	50,873	(50,873)
Payroll taxes	90,100	121,220	(31,120)
Group health insurance	208,896	188,198	20,698
Group health administration	47,440	10,124	37,316
Payroll administration fees	6,000	-	6,000
Retirement program	38,369	3,750	34,619
Workers compensation insurance	32,300	45,528	(13,228)
Unemployment compensation	20,000	2,608	17,392
Copier maintenance and supplies	10,000	9,572	428
Postage and delivery	36,500	17,601	18,899
Property and liability insurance	397,500	314,278	83,222
Legal advertisements	18,000	7,819	10,181
Supplies	95,000	289,579	(194,579)
Dues and subscriptions	9,000	3,790	5,210
Travel	37,000	29,053	7,947
Regulatory and permit fees	6,000	-	6,000
Rents and leases	35,000	33,370	1,630
Telephone	57,000	28,866	28,134
Utilities	428,800	458,266	(29,466)
GSG tax roll services	5,400	5,000	400
Repairs and maintenance	151,500	134,871	16,629
Chemicals, sludge and lab services	595,000	501,433	93,567
Supplemental operating support	10,000	-	10,000
Computer support	35,000	14,692	20,308
FKAA billing services	75,000	127,200	(52,200)
Vehicle Expense	35,000	33,935	1,065
Audit and accounting services	26,000	83,238	(57,238)
Utility Rate consultant	15,000	23,902	(8,902)
Legal - General Counsel	60,000	41,060	18,940
Legal - Outside Counsel	10,000	16,280	(6,280)
Legal - Litigation Reserve	20,000	-	20,000
Lobbyists	85,000	76,695	8,305
Islamorada ILA related	-	53,062	(53,062)
Start Up Expenses	75,000	91	74,909
Engineering services	60,000	81,869	(21,869)
Miscellaneous expenses	34,500	8,098	26,402
Reserve for contingencies	50,000	-	50,000
Total operating expenses	4,248,382	4,250,344	(1,962)
Budgetary basis operating income (loss)	2,401,618	3,732,020	1,330,402

(Continued)

**KEY LARGO WASTEWATER TREATMENT DISTRICT
SCHEDULE OF REVENUES AND EXPENSES (BUDGETARY BASIS) – BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012
(Continued)**

	Budgeted Amounts	Actual	Variance with Final Budget - Positive
	Original & Final	Amounts	(Negative)
NON OPERATING REVENUES (EXPENSES):			
Assessments	5,700,000	4,980,237	(719,763)
SDC Prepayments	200,000	314,801	114,801
Investment income	50,000	21,810	(28,190)
Other income	-	4,185	4,185
Collection system department	(75,000)	-	75,000
Treatment plant department	(60,000)	-	60,000
Interest expense	(32,000)	(2,455,061)	(2,423,061)
Renewal, replacement and capital	(487,500)	-	487,500
Low income Assistance	(10,000)	-	10,000
Debt service transfer	(6,000,000)	-	6,000,000
Debt service LOC loan	(800,000)	-	800,000
Transfer to capital reserve	(281,838)	-	281,838
Surplus to operating reserve	(605,280)	-	605,280
Total non operating revenues (expenses)	<u>(2,401,618)</u>	<u>2,865,972</u>	<u>5,267,590</u>
Budgetary basis income (loss)	-	6,597,992	6,597,992
Intergovernmental	-	11,731,291	11,731,291
Loss on sale of assets	-	(1,850,125)	(1,850,125)
Depreciation	-	(3,790,497)	(3,790,497)
GAAP basis change in net assets	<u>\$ -</u>	<u>\$ 12,688,661</u>	<u>\$ 12,688,661</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									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Invested in capital assets, net of related debt	\$ 56,848,024	\$ 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	6,366,921	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	21,047,489	12,714,887	158,199	(63,417)	(146,530)	111,033	(8,635)	32,114	45,454	(76,163)
Total net assets	\$ 84,262,434	\$ 71,573,773	\$ 65,912,625	\$ 46,424,954	\$ 32,467,097	\$ 22,695,769	\$ 13,724,796	\$ 9,195,035	\$ 3,238,775	\$ (76,163)

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

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Operating revenues:										
Charges for service	\$ 7,982,364	\$ 4,750,891	\$ 814,061	\$ 706,935	\$ 603,047	\$ 516,765	\$ 84,022	\$ -	\$ -	\$ -
Ad valorem taxes	-	-	-	653,289	843,001	787,643	681,289	489,328	477,151	-
Total operating revenues	7,982,364	4,750,891	814,061	1,359,224	1,446,048	1,304,408	765,311	489,328	477,151	-
Operating expenses:										
Cost of sales and services	2,443,119	1,435,715	732,969	707,200	428,281	381,279	68,691	-	-	-
Administration	1,579,319	1,262,205	839,941	676,191	636,691	558,753	540,336	234,805	229,441	147,356
Professional and other	174,844	178,168	147,290	175,484	392,859	240,709	208,382	194,237	119,135	178,738
Depreciation	3,790,497	3,475,347	387,419	376,540	371,420	188,327	3,994	-	-	-
Total operating expenses	7,987,779	6,351,435	2,107,619	1,935,415	1,829,251	1,369,068	821,403	429,042	348,576	326,094
Total operating income (loss)	(5,415)	(1,600,544)	(1,293,558)	(576,191)	(383,203)	(64,660)	(56,092)	60,286	128,575	(326,094)
Nonoperating revenues (expenses):										
Grant revenue	-	500,000	13,439,479	4,825,358	2,224,498	907,829	2,095,394	5,896,498	2,364,057	250,425
Intergovernmental	11,678,229	1,457,479	3,704,411	4,107,049	2,448,767	5,518,395	791,699	-	826,234	-
Assessments	5,295,038	5,570,211	5,757,448	5,225,617	5,298,845	2,474,159	661,671	-	-	-
Forgiveness of debt	-	-	-	-	-	-	1,023,821	-	-	-
Other	4,185	-	-	-	-	-	-	-	-	1,632
Interest income	21,810	47,837	108,259	795,171	204,565	174,233	13,268	3,326	298	86
Loss on sale of assets	(1,850,125)	-	-	-	-	-	-	-	-	-
Interest expense	(2,455,061)	(2,502,009)	(2,228,368)	(419,147)	(22,144)	(38,983)	-	(3,850)	(4,227)	(2,212)
Total nonoperating revenues	12,694,076	5,073,518	20,781,229	14,534,048	10,154,531	9,035,633	4,585,853	5,895,974	3,186,362	249,931
Change in net assets	\$ 12,688,661	\$ 3,472,974	\$ 19,487,671	\$ 13,957,857	\$ 9,771,328	\$ 8,970,973	\$ 4,529,761	\$ 5,956,260	\$ 3,314,937	\$ (76,163)

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

Fiscal Year	Operating		Total Operating Revenue	Nonoperating					Total Non-Operating Revenue	Total Combined Revenue
	Sewer Service	Ad valorem Taxes		Grants	Intergovernmental	Assessments	Interest	Other		
2012	\$ 7,982,364	\$ -	\$ 7,982,364	\$ -	\$ 11,678,229	\$ 5,295,038	\$ 21,810	\$ 4,185	\$ 16,999,262	\$ 24,981,626
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	5,225,817	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	791,899	661,671	13,268	1,023,821	4,585,853	5,351,164
2005	-	489,328	489,328	5,896,496	-	-	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			
2012	\$ 2,443,119	\$ 1,579,319	\$ 174,844	\$ 3,790,497	\$ 7,987,779	\$ 4,305,188	\$ 12,292,965
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
2003	-	147,356	178,738	-	326,094	2,212	328,306

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

	Base Charge (EDU)	Flow Charge (1,000 Gal.)	Average Monthly Service Fees			
			Residential	Non-Residential	Accounts	EDU's
2012	\$ 33.60	\$ 5.27	\$ 449,623	\$ 251,267	9,124	14,097
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**

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

	Fee Structure					
	Capacity Charge (EDU)	Connection Charge (Each)	Low Pressure Equipment & Lateral Connection	Assessment		
				Residential	Non-Residential	
2012	\$ 2,950	\$ 2,250	\$ 3,300	\$ 1,325,510	\$ 273,400	
2011*	-	-	-	-	-	
2010*	-	-	-	-	-	
2009	2,950	2,250	-	12,579,702	2,860,780	
2008	2,950	2,250	-	14,941,820	8,412,311	
2007	2,850	2,200	-	16,439,222	4,354,407	
2006	2,820	2,150	-	11,790,338	7,906,212	
2005	2,700	2,070	-	4,527,049	266,641	
2004	-	-	-	-	-	
2003	-	-	-	-	-	

*The district did not assess any additional properties

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

		Assessed Property Value	Percentage of Assessed Value	Pledged Revenue
	Loans			
2012	\$ 75,835,590	\$ 3,223,256,011	2.3528%	\$ 12,935,426
2011	90,881,354	3,208,230,358	2.8328%	10,184,823
2010	80,049,188	3,802,498,273	2.1052%	6,571,509
2009	41,212,198	3,479,137,002	1.1846%	5,931,552
2008	7,953,334	4,464,565,476	0.1781%	5,901,892
2007	3,193,855	4,818,870,865	0.0663%	2,990,924
2006	1,206,982	4,306,056,741	0.0280%	745,693
2005	1,014,285	3,375,533,340	0.0300%	-
2004	100,000	2,737,790,340	0.0037%	-
2003	100,000	2,262,644,965	0.0044%	-

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

	Assessed Property Value	Estimated Resident Population	
		Key Largo District	Monroe County
2012	\$ 3,223,256,011	10,405	72,897
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**

	2012	2011	2010	2009	2008	2007	2006	2005	2004
Executive (Commissioners)	4	5	5	5	5	5	5	5	5
Administration	7	7	6	6	4	4	5	5	4
Operations	20	24	6	5	4	4	2	0	0
Construction	6	7	18	13	9	5	2	0	0
	37	43	35	29	22	18	14	10	9

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

	2012	2011	2010	2009	2008	2007	2006	2005	2004
Number of Employees	37	43	35	29	22	18	14	10	9
Number of Customers	9,124	6,107	2,683	655	657	656	426	0	0
Collection Main (feet)	426,161	426,161	386,000	190,000	72,000	45,000	41,000	19,000	0
Transmission Main (feet)	119,801	119,801	100,000	27,000	27,000	27,000	7,000	0	0
Number of Vacuum Pits	2550	2548	2000	1240	470	320	219	85	0
Number of Vacuum Stations	7	6	5	2	1	1	1	0	0
Average Daily Flow (gallons)	912,000	679,000	450,000	47,320	49,800	46,000	21,000	0	0
Peak Daily Flow (gallons)	1,749,000	1,010,000	525,000	66,000	58,550	58,000	32,000	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 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, 2012, and have issued our report thereon dated May 1, 2013. 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

Management of the District is responsible for establishing and maintaining effective 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.

May 1, 2013



**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, 2012. 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, 2012.


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.



May 1, 2013

**KEY LARGO WASTEWATER TREATMENT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

Federal Grantor Pass through Program Title	Federal CFDA Number	Agency or Pass-through Number	Disbursements/ Expenditures
<u>MAJOR PROGRAMS</u>			
U.S. Department of Environmental Protection			
Pass-Through Florida Department of Environmental Protection			
Capitalization Grants for State Revolving Funds	66.458	CS120001-050	\$ 2,099,183
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,099,183

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, 2012**

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, 2012**

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>\$ 300,000</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



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

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

We have audited the accompanying basic financial statements of Key Largo Wastewater Treatment District, Key Largo, Florida ("District") as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated May 1, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Florida Auditor General. 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.

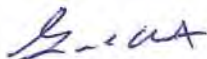
In addition, we have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards* dated May 1, 2013. Disclosures in that report should be considered in conjunction 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.


May 1, 2013

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, 2011.

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, 2012.

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, 2012.

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, 2012.

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, 2012 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.