

COMPREHENSIVE **ANNUAL**

FINANCIAL REPORT

Fiscal Year ended September 30, 2015





Florida Keys Aqueduct Authority
1100 Kennedy Drive
Key West, FL 33040

Comprehensive Annual Financial Report

For the fiscal year ended September 30, 2015



Prepared by.....

Kerry G. Shelby-Deputy Executive Director and CFO

Denise M. Preuss-Manager of Finance

Finance Department

Vision

The Florida Keys Aqueduct Authority will be recognized nationally as a leader in the provision of safe, reliable water and wastewater services by seamlessly integrating advanced technology to enhance the customer experience and maximize efficiencies, while leading as well in environmental awareness and resource protection.

Mission Statement

The Florida Keys Aqueduct Authority is a nationally renowned and community oriented publicly owned utility that provides reliable safe and efficient water and wastewater services in a fiscally and environmentally responsible manner with a highly trained professional and dedicated team of employees.

Values

To achieve our mission, the Authority is committed to the following values:

- ✓ Customer satisfaction
- ✓ Excellent water quality
- ✓ Community involvement
- ✓ Strong working relationships with municipal, county, state and federal government agencies
- ✓ Employee development, communication and career growth
- ✓ Well maintained, reliable and secure systems
- ✓ Financial stability
- ✓ Cost effective services
- ✓ Protection of environmental resources

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INTRODUCTORY SECTION



Board of Directors
System Overview

Message from the Executive Director
Message from Management

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The Florida Keys Aqueduct Authority **Board of Directors**

J Robert Dean Board Chairman

District 3 - Current term expires December 31, 2016
Owner and Director, Dean-Lopez Funeral Home
jrdean@fkaa.com

Antoinette M. Appell Vice Chairman

District 4 - Current term expires December 31, 2016
Highly Qualified Paraprofessional with the Monroe County School District
tappell@fkaa.com

David C. Ritz Secretary/Treasurer

District 5 - Current term expires December 31, 2016
President, Ocean Reef Community Association
dritz@fkaa.com

Cara Higgins Board Member

District 1 - Current term expires December 31, 2018
Partner, Horan,Wallace & Higgins LLP
chiggins@fkaa.com

Richard J. Toppino Board Member

District 2 - Current term expires December 31, 2018
Treasurer, Charley Toppino and Sons, Inc. & Vice President, Monroe Concrete Product, Inc.
rtoppino@fkaa.com



System Overview

- ✓ 24 mgd lime softening water treatment plant
- ✓ 10 Biscayne aquifer supply wells
- ✓ 5 Floridan aquifer supply wells
- ✓ 6 mgd brackish water reverse osmosis plant
- ✓ 2 seawater reverse osmosis plants (3 mgd total capacity)
- ✓ 187 miles of steel and ductile iron transmission main (18"- 36") at up to 250 psi
- ✓ 6 transmission booster and back pump stations
- ✓ 43 bridge crossings
- ✓ 48 mg capacity in 33 storage tanks
- ✓ 690 miles of potable water distribution main at up to 55 psi
- ✓ 20 pumping stations
- ✓ 6 wastewater treatment plants
- ✓ 195 miles of wastewater collection and force main lines
- ✓ 14 approximate miles of reclaimed distribution water lines

**Florida Keys
Aqueduct
Authority**

1100 Kennedy Drive
Key West, FL 33040
305-296-2454

fkaa.com

Executive Staff

Kirk Zuelch

Executive Director

Kerry Shelby

Deputy Executive
Director, Administration
Division

Tom Walker

Deputy Executive
Director, Utility
Operations Division

Denise Preuss

Manager of Finance

Karen Rodriguez

Manager of Human
Resources

Kathy Ovide

Manager of Customer
Service

Rick Kellough

Manager of Technical
Services

Tom Morgan

Manager of Operations

Message from the Executive Director
Kirk Zuelch

On behalf of the Board of Directors and staff of the Florida Keys Aqueduct Authority, I am pleased to submit this Comprehensive Annual Financial Report for our fiscal year ended September 30, 2015.

The Authority remains in sound financial condition, both from a net revenue and a liquidity standpoint. Water volume sales have increased slightly for the past two years due to an increase in development and an improving tourist economy in the Keys. Operating expenses have increased slightly, mainly due to rising operating costs related to newly constructed wastewater systems.

The Authority continues its partnership with Monroe County in constructing and operating wastewater systems on the County's behalf. A regional system serving Cudjoe Key and adjoining islands that will ultimately serve approximately 8,800 connections is scheduled for completion in 2016. This large project, financed and paid for by Monroe County, will be the last significant component of the initiative to provide wastewater collection and treatment to all the islands of the Keys and will be the source of substantial additional revenue for the Authority upon completion.

I hope this Comprehensive Annual Financial Report is informative and useful to you. Budgets and other financial information are available at our website, fkaa.com.

Sincerely,



Kirk Zuelch

Executive Director

June 13, 2016



Florida Keys Aqueduct Authority

1100 Kennedy Drive
Key West, Florida 33041-1239
Telephone (305) 296-2454
www.fkaa.co



Message from Management

Florida Statutes require that government entities submit to the Auditor General a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards and government auditing standards by a firm of licensed certified public accountants within the earlier of 45 days after the completion of the audit report but no later than 9 months after the close of each fiscal year. Pursuant to that requirement, we are pleased to issue this Comprehensive Annual Financial Report of the Florida Keys Aqueduct Authority for the fiscal year ended September 30, 2015.

This report consists of management's representations concerning the finances of the Authority. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management of the Authority has established a comprehensive internal control framework that is designed both to protect its assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Authority's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Authority'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 Authority's financial statements have been audited by Marcum LLP, Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Authority for the fiscal year ended September 30, 2015 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 unmodified opinion that the Authority's financial statements for the fiscal year ended September 30, 2015 are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

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 Authority's MD&A can be found immediately following the report of the independent auditors.

Profile of the Authority

History and Purpose

In 1937, the legislature of the State of Florida created the Florida Keys Aqueduct Commission, the predecessor to the Authority. The Commission's purpose, working with the US Navy, the City of Key West and Monroe County was obtaining, supplying and distributing potable water to the Florida Keys. In 1970, the Authority was established by the state legislature to succeed the Commission as the sole provider of potable water. The Authority currently operates under Special Legislation 76-441, Laws of Florida, as amended.

The Authority provides potable water for over 48,000 customers in the Florida Keys, a series of islands at the southern tip of the Florida peninsula and a part of Monroe County. The Authority also provides wastewater collection and treatment in certain areas of the Florida Keys. The Florida Keys extend approximately 130 miles from the Florida mainland and are connected by 43 bridges. The reporting entity consists of the operations of the water and wastewater utility.

The Authority is governed by a five-member board of directors appointed by the Governor of the State of Florida from districts identical to the county commission districts in Monroe County. Members serve four-year terms. The board employs an executive director who is the chief executive officer of the Authority.

Budgetary Control

In accordance with the Authority's enabling legislation, the board holds public hearings and subsequently adopts an annual budget at least 30 days prior to the beginning of its fiscal year. The budget is adopted on a basis consistent with GAAP except no amounts are provided for non-cash expenses such as depreciation, amortization and post-retirement benefits. The budget is monitored at various levels of detail by management. Total expenditures may not legally exceed the total budget, as adopted, without amendment by the board.

The Authority's Facilities

The Authority has made significant improvements to its infrastructure over the years to provide expanded service and accommodate increased demand. The majority of the original transmission line constructed in the 1940s by the US Navy was replaced in the early 1980s. The Authority then established a long range capital improvement master plan to address anticipated future water demands. This master plan was expanded to include wastewater projects in 1998 and updated in 2006 in conjunction with the development of a strategic water supply plan that identifies future water supplies.

An overview of the Authority's facilities follows.

Well Fields

The Authority draws its primary raw water supply from the Biscayne Aquifer through ten wells with average depths of fifty to sixty feet and five Floridan Aquifer wells with depths of about 1,500 feet. The well field is adjacent to the outskirts of Everglades National Park and is within an environmentally protected pine rockland. The location of the well field, along with restrictions enforced by state and local regulatory agencies, contribute to the unusually high quality of the raw water, which meets all federal and state finished drinking water standards prior to any treatment.

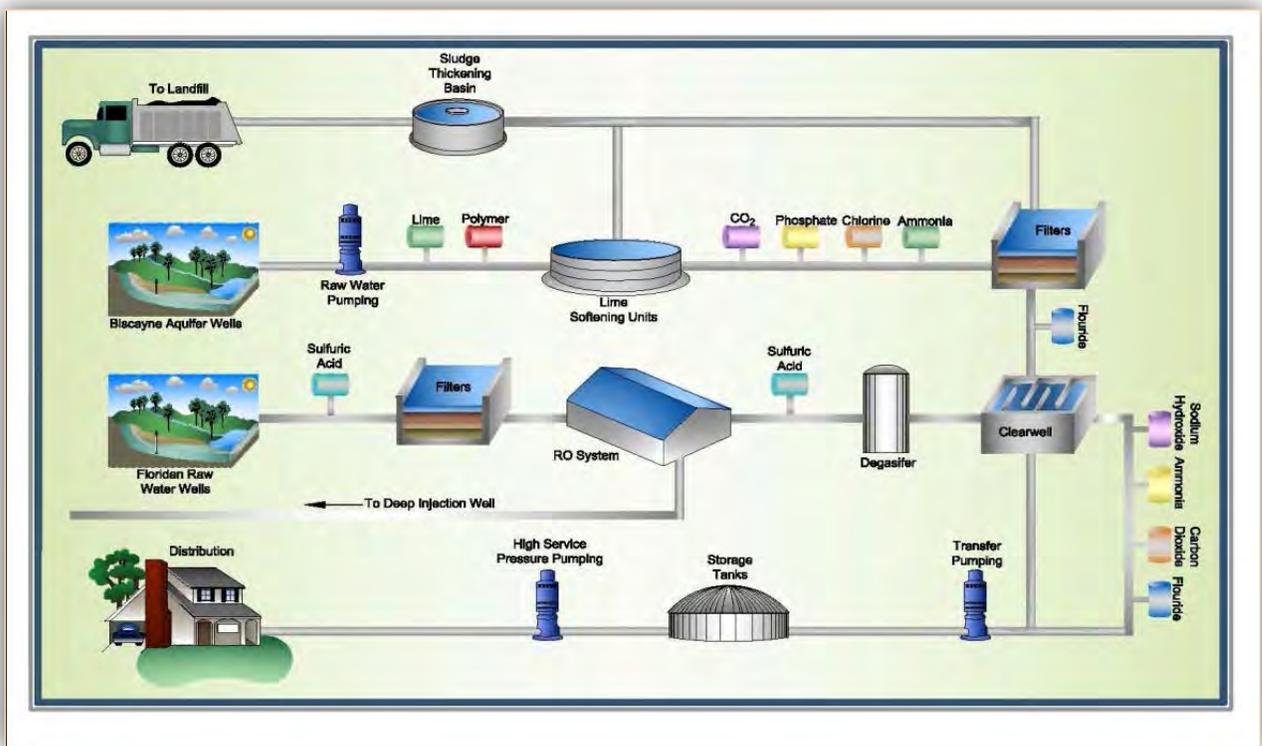
The Authority is permitted by the South Florida Water Management District (SFWMD) to withdraw its supply of water. The Authority's water use permit allows for an average daily withdrawal from the Biscayne Aquifer of 19.93 mgd and a maximum daily withdrawal of 23.79 mgd. However, the permit limits the average daily withdrawal to 17.7 mgd during the dry season (December 1 through April 30). The permit also allows the Authority to withdraw up to 8 mgd of brackish water from the deeper Floridan aquifer to treat through reverse osmosis. This alternative water supply is used primarily to meet the dry season limitation on the Biscayne withdrawal. The permit is effective until 2025, but the Authority may request additional allocations if the water supply is insufficient.

Water Production and Treatment Facilities

The Authority's primary water production facilities are a lime softening plant that treats water withdrawn from the Biscayne Aquifer and a reverse osmosis plant that treats brackish water withdrawn from the deeper Floridan Aquifer. Water treated at these two facilities is then blended and disinfected before entering the transmission line. The lime softening plant has an ultimate design production capacity of 23.79 million gallons per day (mgd). The water treatment process consists primarily of lime softening, filtration, disinfection and fluoridation. The reverse osmosis plant has a design capacity of 6 mgd. Brackish water is forced through membranes to remove chlorides and impurities. Adjacent to these treatment facilities are water storage tanks, high service pumping equipment, emergency diesel generators, a control center for transmission telemetry, and a state-certified water quality testing laboratory.

The Authority also maintains seawater reverse osmosis facilities in Stock Island and Marathon capable of producing 2 mgd and 1 mgd, respectively. These facilities were constructed primarily for emergency operations in the event of a major transmission main interruption.

The following diagram illustrates the water treatment process.



Water Transmission and Distribution Systems

The Authority maintains approximately 187 miles of transmission main and approximately 690 miles of distribution lines. The transmission main ranges in size from 36 inches leaving the water treatment plant in Florida City to 18 inches at the end of the line in Key West and in areas with redundant lines. The Authority operates transmission pump stations at the water treatment plant in Florida City, Key Largo, Long Key, Marathon, and Ramrod Key. These pump stations boost the water pressure to meet water demands throughout the service area. A pumping station on Stock Island just outside of Key West can also pump water in the other direction in the event of a line break. The stations have pumps with electric variable speed drives as well as diesel engine drives for emergencies. The Authority also operates 20 distribution pump stations located throughout the service area to maintain water pressure in the distribution system.

Wastewater Treatment Facilities

The Authority owns and operates a .054 mgd wastewater treatment facility in Bay Point, a .19 mgd facility in Duck Key, a .066 mgd facility in Layton and a .20 facility in Key Haven, Florida. Additionally, the Authority operates a .33 mgd facility in Big Coppitt that is owned by Monroe County. The Authority and Monroe County are parties to an interlocal agreement that provides for the Authority to operate and maintain county-owned wastewater systems for a period of 99 years, including setting rates sufficient to fund those operations. The Authority and the County have completed construction of a .94 mgd plant and continues work on a regional collection system in the lower keys that will ultimately serve about 8,800 customers.

Wastewater Transmission and Collection Systems

The Authority's wastewater collection systems are comprised of gravity, low pressure and vacuum systems. There are also transmission force mains that carry the effluent from the collection systems to the wastewater treatment facilities.

Reclaimed Water Distribution Systems

The Authority is currently operating a reclaimed water system in Duck Key that supplies irrigation water to residents and resort facilities. The Authority has also installed reclaimed water lines that are supplied by effluent produced by Monroe County's wastewater treatment facility in Big Coppitt Key that deliver non-potable water to limited areas of Big Coppitt Key and Shark Key.



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The Authority's Operations

Engineering and Operations

The Authority's engineering group is responsible for implementing the Authority's capital improvement plan, coordinating and inspecting construction projects, assessing system development fees, designing in-house distribution projects, and maintaining drawings and records of the Authority's systems. The Authority maintains system data on a geographic information system (GIS), which stores infrastructure attributes and other relevant data based on physical geographic location. This data includes, among other things, the size and type of pipe, valves, fire hydrants, vacuum pits, lift stations and other system components as well as the date the component was installed.

Due to the linear geography of the Florida Keys, operations crews and facilities must be located throughout the service area. In addition to operating the system, these crews respond to line breaks and other service interruptions, perform scheduled preventive maintenance and leak surveys, and maintain facilities and structures. For optimal response to any service request, the Authority maintains a materials inventory of over 4,600 items in three warehouses throughout the service area to draw upon in case of emergency.

Water Quality

The water quality team is responsible for assuring that the Authority's water supply meets the highest quality standards possible for safety, aesthetics and taste. The Authority employs staff that is certified in the treatment, testing, monitoring and distribution of the water supply. Water is tested regularly, both prior to and after treatment to ensure that it complies with or surpasses all federal and state water quality requirements. An annual consumer confidence report is provided to Authority customers each year. See the statistical section of this report for drinking water quality standards and analyses included in the current consumer confidence report.

Protection of the groundwater source from potential pollution is a very important water quality issue. The Authority has entered into an ongoing agreement with the Miami-Dade County Department of Environmental Resource Management (DERM) to regulate and manage issues relating to the protection of the Authority's well field. DERM monitors ground and surface water to establish water quality trends, enforces laws against illegal discharges, protects important aquifer recharge areas, and regulates underground storage tanks, liquid waste haulers and other hazardous waste.

The Authority monitors, on a monthly basis, a network of wells and structures for salt water intrusion. This network includes ten Authority-owned wells and nine United States Geological Survey wells. These nineteen sites provide valuable information on the location, movement and velocity of the saline/fresh water interface.

The Authority uses chloramines as its primary disinfecting agent. Chloramines, though not as strong as free chlorine, remain more stable and do not produce potentially harmful by-products. The Authority performs bacteriological testing on samples taken from approximately 90 sample sites throughout the system to ensure that appropriate disinfection is taking place.

In the state of Florida water utilities are required to establish an ongoing cross-connection control program to detect and prevent cross-connections that may create a potential health hazard. A cross-connection is any physical connection between the water supply and any private piping arrangement that contains a foreign liquid or substance. To prevent potential backflow from such an arrangement, the Authority must either discontinue water service until the cross-connection is eliminated or require the installation of an approved backflow prevention device.

Technical Services

The Authority's technical services group is responsible for all technology, communications and electrical systems throughout the Authority, including supervisory control and data acquisition (SCADA), business software, telephone and radio networks and the data information network that runs the length of the system. This group is also responsible for implementing the technology master plan adopted by the Authority's board of directors. This plan provides a strategy for future changes and improvements to the Authority's technology infrastructure over the next five to ten years.

Customer Service and Administration

The Authority has customer service locations in Key West, Marathon and Tavernier, Florida. Customer service representatives are available at each location to initiate service, collect monthly payments and assist customers with service requests. However, about 80% of customers pay their bills through either automatic payments, online payments or through an automated phone system. Customer service representatives read water meters through radio transmissions either remotely or from a service vehicle in the field. The Authority's administrative offices, including the executive office, human resources, finance, billing and purchasing are located in Key West.

Factors Affecting Financial Condition

The information presented in the financial statements is best understood when it is considered from the broader perspective of the specific environment within which the Authority operates.

Local Economy and Demand Trends

The primary industries in the Authority's service area are related to tourism. Other industries include military operations, government and commercial fishing. Many residents are in the service area for only part of the year. The permanent year-round population of Monroe County is approximately 76,000 residents. The average functional population, defined as the sum of the permanent population and the peak seasonal population, is estimated by the Monroe County Growth Management Division to be approximately 150,000. Therefore, the demands on the water system are highly seasonal.

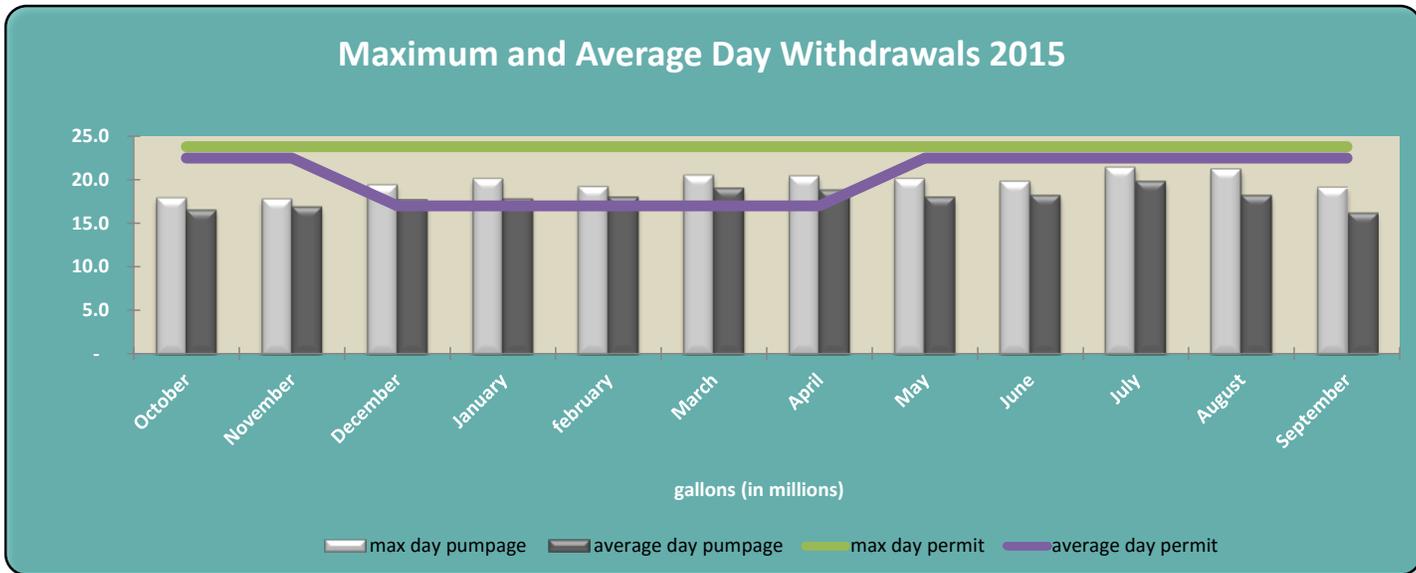
Water demand hit a ten year low in 2008 but has shown increases in recent years as the economy recovered. The tourist economy is strong and development is increasing after a period of dormancy. Unemployment is among the lowest in the state of Florida.

Monroe County has one of the lowest water consumption levels per capita in the state of Florida. The primary reasons are that customers are accustomed to conserving water due to the historically limited supply and in response to frequent severe drought conditions in South Florida. Customers are also using less to save on monthly utility bills now that many have a wastewater charge for the first time.

The graph on the next page shows the maximum and average day withdrawals from the Biscayne aquifer in fiscal year 2015. Due to severe drought conditions that occur in South Florida from time to time, permanent mandatory water use restrictions from the SFWMD are now in place.

Long-Range Financial Planning

The Authority's capital improvement plan is projected to require about \$34.6 million over the next five years. Most of these projects are either improvements to aging infrastructure or new technologies to improve efficiency and reliability of the system. The Authority anticipates funding these improvements with system development fees, bond proceeds, grants and rate revenue.

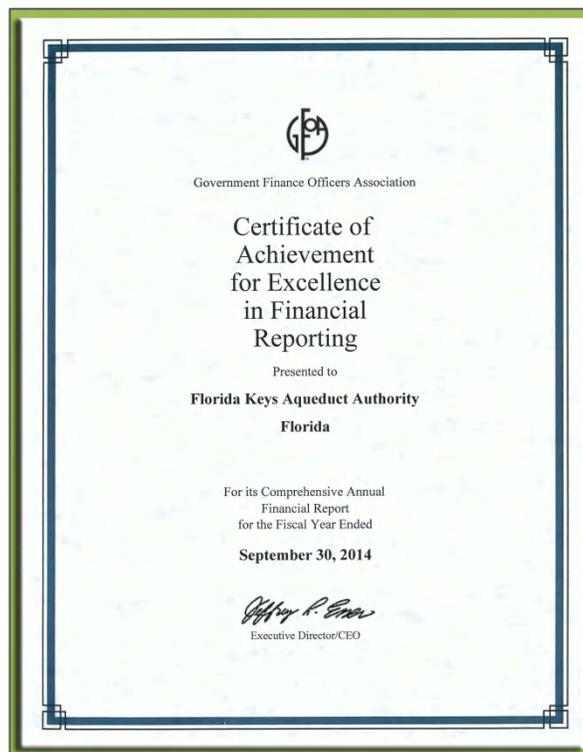


The Authority’s current rate structure has a base facility charge that provides revenue stability independent of water usage and offsets some of the fixed costs incurred to maintain service for all potential users of the system. Inverted rate blocks for water flows were designed to discourage excessive consumption and encourage further water conservation. Single family residential wastewater customers are only billed for flows up to 10,000 gallons per month. All rates are indexed each year to compensate for inflation.

FKAA Awards

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Authority for its comprehensive annual financial report for the fiscal year ended September 30, 2014. This was the 24th consecutive year that the Authority has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. The Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.



Distinguished Budget Presentation Award

The GFOA awarded the Florida Keys Aqueduct Authority the Distinguished Budget Presentation Award for fiscal year beginning October 1, 2015. This was the ninth year that the Authority has won this award. In order to receive the budget award, the entity had to

satisfy nationally recognized guideline for effective budget presentation. These guidelines are designed to assess how well an entity's budget serves as a policy document, a financial plan, an operations guide and a communications device. The budget must be rated proficient in all four categories to receive the award.

Acknowledgements

The preparation of this comprehensive annual financial report was made possible by the dedicated service of the entire staff of the Authority. Each participant has our sincere appreciation for the contributions made in support of this report.

Respectfully submitted,



Kerry G. Shelby, CPA
Deputy Executive Director and CFO



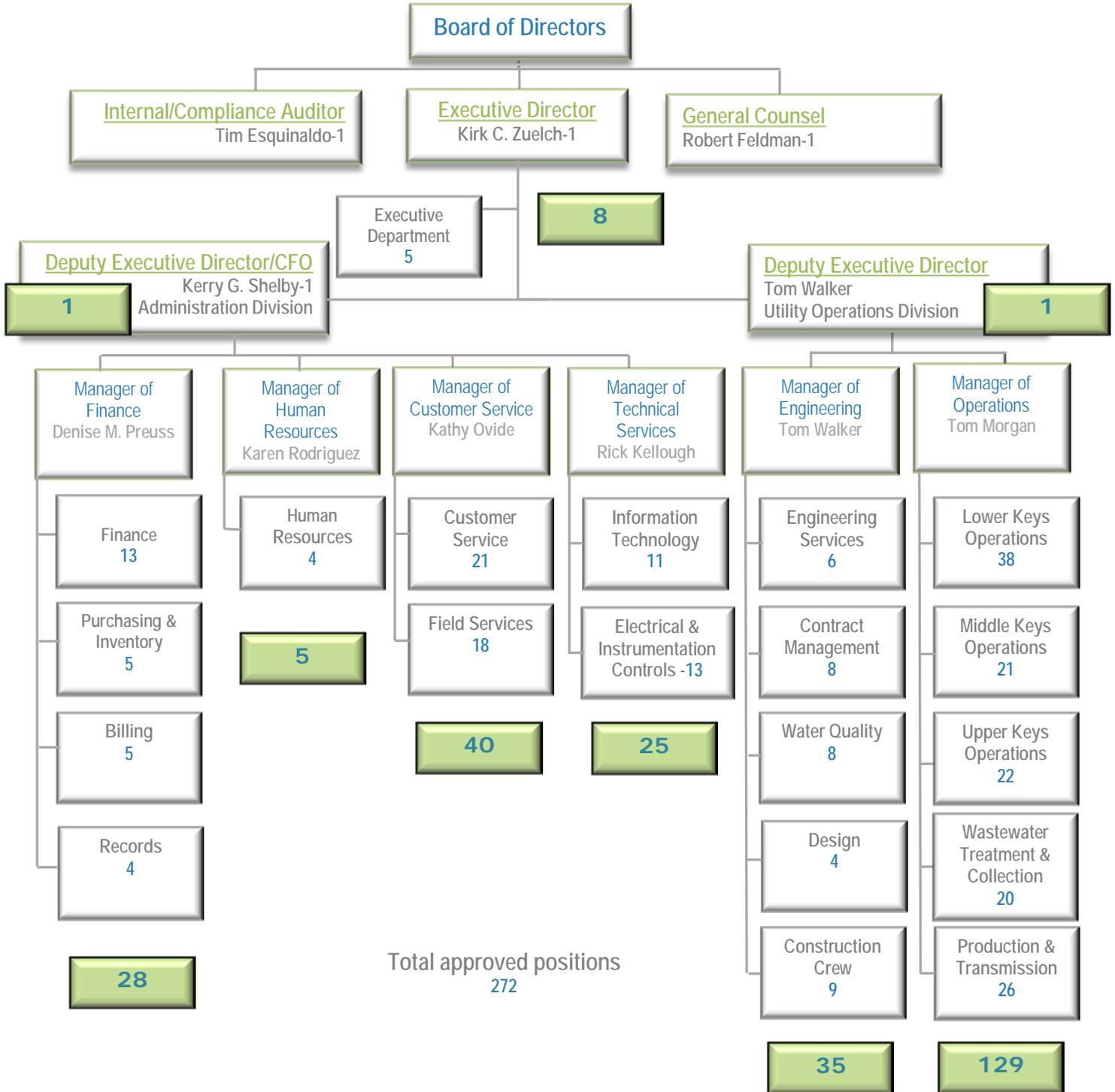
Kirk Zuelch
Executive Director

June 13, 2016

Florida Keys Aqueduct Authority

Chart of Organization for Fiscal Year Ended September 30, 2015

Our Customers



FINANCIAL SECTION



Independent Auditors' Report
Management's Discussion and Analysis
Financial Statements
Required Supplementary Information

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Executive Director
Florida Keys Aqueduct Authority
Key West, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the Florida Keys Aqueduct Authority (the Authority) which comprise the statement of net position as of September 30, 2015, and the statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of September 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Emphasis of a Matter

As described in Note 12 to the financial statements, the Authority changed its method of accounting and financial reporting for pensions as a result of the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68*, both effective October 1, 2014, which resulted in the Authority restating net position for recognition of the Authority’s pension related activity prior to October 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 18-23 and the schedule of funding progress – OPEB, the schedules of the Authority’s proportionate share of net pension liability and schedules of the Authority’s contributions on pages 56 and 57, respectively, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority’s financial statements. The information identified in the table of contents as the Introductory and Statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements.

The Introductory and Statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report of Comparative Information

We have previously audited the Authority’s 2014 financial statements, and our report dated February 19, 2015, expressed an unmodified opinion on those financial statements. In our opinion, the comparative information presented herein as of and for the year ended September 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2016 on our consideration of the Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority’s internal control over financial reporting and compliance.

Marcum LLP

Miami, FL
June 13, 2016

Management's Discussion and Analysis

Our discussion and analysis of the Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2015. Please read it in conjunction with the transmittal letter and the Authority's financial statements.

Highlights

Financial highlights

- ✓ The Authority's net position decreased by \$13.9 million, or about 9%, as a result of this year's operations and the implementation of GASB pronouncements. See the analysis of net position below.
- ✓ Operating revenue increased to \$55 million in 2015, 3% over 2014 while operating expenses, before depreciation, increased by 1% in 2015.

Authority highlights

- ✓ The Authority completed construction on a wastewater treatment plant on Cudjoe Key and is completing collection systems on the surrounding islands that will ultimately serve about 8,800 new wastewater customers.
- ✓ The Authority acquired the wastewater system serving the US Navy facilities in the Keys through a military privatization contract.
- ✓ The Authority's capital improvement plan focuses on projects that can improve system resiliency, such as expanded remote water-producing plants and redundant transmission lines for key bridge crossings.

Using This Annual Report

This annual report consists of four parts; introductory, financial, statistical, and reporting sections. The financial statement section also includes notes that explain in more detail some of the information underlying the financial statements.

Required financial statements

The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The statement of net position includes all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the current year's revenue and expenses are accounted for in the statement of revenue, expenses, and changes in net position. This statement measures the success of the Authority's operations over the past year and can be used to determine profitability, credit worthiness and whether the Authority has successfully recovered all its costs through its user fees and other charges. The third required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and noncapital financing activities and illustrates the sources of the Authority's cash, how it is spent and the change in total cash during the reporting period.

Financial Analysis of the Authority as a Whole

The statements of net position, revenue, expenses and changes of net position report information about the Authority’s activities in a way that help answer the question of whether the Authority, as a whole, is better or worse off as a result of those activities. These two statements report the net position of the Authority and changes within them. The Authority’s net position - the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources - is one way to measure its financial health. Over time, increases or decreases net position are indicators of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth, and new or changed legislation must be considered as well.

The Authority’s total net position in 2015 decreased from last year by \$15.1 million. Our condensed analysis below focuses on the Authority’s net position (Table 1) and changes in net position (Table 2) during the year.

Table 1

	2015	2014
Capital assets	\$ 264,723,574	\$ 267,557,348
Current and other assets	53,024,125	69,342,371
Total assets	317,747,699	336,899,719
Total deferred outflow of resources	19,415,576	10,735,311
Long-term liabilities	175,718,114	161,127,181
Other liabilities	17,523,263	30,435,176
Total liabilities	193,241,377	191,562,357
Total deferred inflow of resources	1,834,290	-
Net position		
Net investment in capital assets	135,293,302	136,145,330
Restricted	8,698,653	8,266,441
Unrestricted	(1,904,347)	11,660,902
Total net position	\$ 142,087,608	\$ 156,072,673

Net investment in capital assets decreased slightly in 2015 due to depreciation exceeding capital plant additions. Long-term liabilities increased 9% primarily due to an increase in value of the derivative instruments-swap liability and the increase in net pension liability. Other liabilities decreased 41% due to a significant decrease in advanced funds from other governments as construction nears completion on the joint Cudjoe regional wastewater project and a decrease in accrued accounts payable.

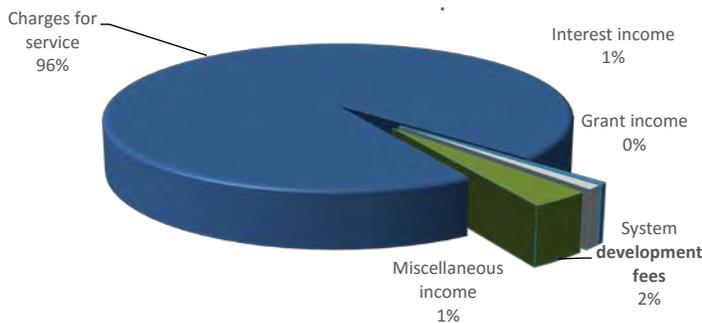
Table 2

	2015	2014
Net utility operating revenue	\$ 54,252,535	\$ 52,325,112
Total operating revenues	<u>54,252,535</u>	<u>52,325,112</u>
Operating expenses	53,022,849	52,992,182
Total expenses	<u>53,022,849</u>	<u>52,992,182</u>
Net operating income (loss)	<u>1,229,686</u>	<u>(667,070)</u>
Non-operating revenue (expenses)		
Interest income	243,793	319,722
Other income	559,568	556,101
Interest expenses	(5,332,401)	(5,682,448)
Other expenses	<u>(744,846)</u>	<u>(502,024)</u>
Total non-operating revenue (expenses)	<u>(5,273,886)</u>	<u>(5,308,649)</u>
Net loss before contributions	<u>(4,044,200)</u>	<u>(5,975,719)</u>
Capital contributions	2,093,415	1,539,719
Change in net position	<u>(1,950,785)</u>	<u>(4,436,000)</u>
Net position, beginning of year, as previously presented	156,072,673	160,508,673
Prior year adjustment (note 12)	<u>(12,034,280)</u>	-
Net position, as restated	<u>144,038,393</u>	<u>156,072,673</u>
Net position at end of year	\$ 142,087,608	\$ 156,072,673

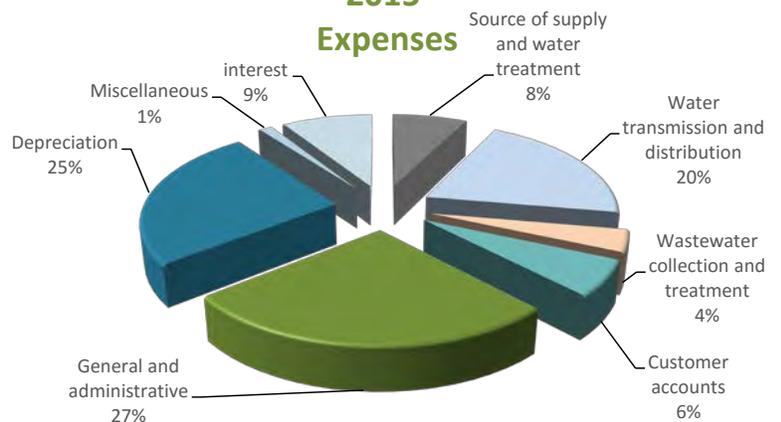
Utility revenue increased 4% in 2015 due to greater sales volume and indexing of rates. Reclaimed water increased 107% due to an increase in customer connections. Other operating revenue decreased 9% due to a decrease in penalty charges. Interest income decreased 24% due to lower cash balances.

Operating expenses remained flat in 2015. Other expenses increased 48% again due to refunding of water revenue bonds.

2015 Revenue Sources



2015 Expenses



The Authority's Fund

The Authority's fund is a proprietary fund, for which is accounted is similar to a private business. All activities of the Authority are included in this fund.

Capital Assets and Debt

Capital assets

At the end of 2015, the Authority had approximately \$264.7 million invested in a broad range of water and wastewater capital assets, including several projects under construction. This amount represents a net decrease (including additions, deductions and depreciation) of approximately \$2.8 million.

The following table summarizes the Authority’s capital assets, net of accumulated depreciation, for the years ended September 2015 and 2014.

Table 3-Capital Assets	2015	2014
Land	\$ 8,285,155	\$ 8,285,155
Buildings, structures & improvements	42,655,045	44,388,984
Equipment, vehicles, furniture & fixtures	5,395,259	5,026,085
Transmission system	35,911,085	37,808,594
Water distribution system	79,443,447	81,023,333
Water meters	6,435,625	7,506,724
Water storage facilities	5,315,601	4,187,214
Pump station equipment	12,671,852	13,528,806
Water treatment equipment	18,253,379	19,326,210
Reverse osmosis equipment	20,380,043	22,532,588
Computer equipment	923,721	1,114,423
Wastewater treatment equipment	4,145,471	4,255,405
Wastewater collection equipment	6,964,618	7,345,628
Reclaimed water	4,645,917	4,759,062
	251,426,218	261,088,211
Construction work in progress	13,297,356	6,469,137
	\$ 264,723,574	\$ 267,557,348

The following table summarizes the changes in capital assets. These changes are presented in detail in Note 4 to the financial statements.

Table 4-Changes in Capital Assets Summary	2015	2014
Balance at beginning of year	\$ 267,557,348	\$ 272,065,316
Additions	5,345,532	16,805,273
Retirements	(920,930)	(2,866,593)
Depreciation	(14,974,964)	(14,964,322)
Accumulated depreciation retired	888,369	2,739,121
Increase (decrease) in construction work in progress	6,828,219	(6,221,447)
Balance at end of year	\$ 264,723,574	\$ 267,557,348

This year's major additions to utility plant included:

• Water transmission system upgrades	\$0.3 million
• Water distribution system upgrades	0.9 million
• Water storage facilities	1.3 million
• Buildings and structures	.5 million
• Equipment, vehicles furniture and fixtures	1.7 million
• Computer equipment	.1 million
• Wastewater equipment and collection system	.2 million
• Advanced metering infrastructure	.3 million

Additionally, the Authority invested approximately \$6.8 million on the repair and replacement to the distribution system, \$0.5 million on the repair and replacement to the transmission system, \$1 million on the replacement of high service pumps and .03 on wastewater upgrades.

The Authority's 2016 capital budget plans for investing approximately \$15.65 million in capital projects, including the following:

• Water distribution system upgrades	\$4.6 million
• Wastewater collection system upgrades	7.7 million
• Water transmission system upgrades	1.5 million
• Water tank upgrades	0.4 million
• Service Buildings	1.3 million
• Wastewater metering station	.1 million

The Authority plans to finance capital projects primarily with cash reserves. However, the authority has received a \$5 million grant from EPA to upgrade the wastewater collection system on Key Haven and may issue bonds to fund certain other projects.

Long-term liabilities

At September 30, 2015, the Authority had a total of approximately \$136.1 million in water and wastewater bonds outstanding. Reductions in each year reflect principal payments. The Authority's water bonds have underlying ratings of Aa3 by Moody's, A+ by Standard & Poors and AA- by Fitch. Water and Wastewater bonds held by a bank are not rated. In conjunction with the issuance of the Series 2006 bonds (later refunded by Series 2008), the Authority entered into a derivative contract with a counterparty that is considered to be an effective hedging instrument. As such, that instrument is recorded as a long-term liability, along with a complementary deferred outflow of resources on the Authority's statement of net position.

The Authority has a contract with the U.S. Navy to own and manage water distribution infrastructure serving Naval Air Station Key West and associated residential properties. This acquisition resulted in a credit due to the Navy that is applied against charges under this contract. The credit is being amortized over twenty years at 4.9%.

Table 5

	2015	2014
Water and wastewater bonds, net	\$ 136,145,797	\$ 136,977,849
Derivative instrument - swap	13,269,197	10,668,172
Credit due to US government	12,700,051	13,431,713
Compensated absences	2,923,721	2,681,654
Net OPEB obligation	2,160,348	1,936,434
Net pension liability	13,508,837	-
Total long-term liabilities	\$ 180,707,951	\$ 165,695,822

Compensated absences include estimated accrued vacation and sick leave to be paid at retirement. The Authority implemented GASB No 68 "Accounting and Reporting for Pensions", an amendment of GASB No. 27 recording net pension liability. Net OPEB obligation represents the actuarial value of the unfunded contributions of the Authority's other post-employment benefits due to employees and retirees. More detailed information about the Authority's long-term liabilities is presented in Notes 5, 10 and 11 to the financial statements.

Economic Factors, Next Year's Budget and Rates

Economic and climate conditions have negatively impacted water sales in recent years. However, the economy within the service area improved in 2015 and water sales volume increased by about 4%. This increase was due mainly to increases in tourism. As new wastewater systems are constructed in areas that previously did not pay for wastewater treatment, customers generally tend to reduce their water use in an effort to minimize their wastewater bills.

The Authority's 20-year capital improvement plan calls for capital expenditures of about \$34.6 million over the next five years. These expenditures will be funded primarily through existing cash reserves, grants and rate revenue. No additional debt is expected to be issued except for projects with dedicated revenue sources that will support the debt service. Projects can be deferred or removed from the plan at any time at the discretion of the Authority's board of directors.

The Authority's permit to withdraw water from the Biscayne Aquifer is limited. In order to ensure its ability to meet demand despite these limitations, the Authority has constructed a 6 mgd reverse osmosis plant in Florida City. Treating brackish water through reverse osmosis requires substantially more energy than that required by the lime softening process. Therefore, an increase in operating costs is anticipated should this plant be used as a primary source of supply. The expected use of this plant will be considered each year as part of the budget process.

The Authority continues to move ahead with wastewater initiatives in the Florida Keys. The Authority and Monroe County entered into an interlocal agreement in 2005 that established a partnership for completing the construction of wastewater infrastructure in the Authority's service area. The Authority currently has about 3,040 wastewater customers and, upon completion of the Cudjoe regional system in 2016, will have over 10,000 customers.

The Florida Keys have been impacted by several hurricanes. While no funds have been specifically included for the current operating budget for the possibility of hurricane damage, the possibility does exist. If damages are incurred, the board of directors may be asked to consider a budget amendment to pay for those damages.

Contacting the Authority's financial management

This financial report is designed to provide our customers and our creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, visit our website at www.fkaa.com or contact the Authority at 305.296.2454.

Financial Statements

Statement of Net Position September 30, 2015 (with comparative totals September 30, 2014)

Assets	2015	2014
Current assets		
Unrestricted current assets		
Cash	\$ 18,267,702	\$ 33,212,746
Investments	10,638,595	-
Receivables:		
Accounts - customers	4,551,133	5,144,659
Accounts - other	461,226	527,593.00
Interest	15,470	-
Current portion of assessments	342,665	342,869
Materials and supplies	2,018,665	1,925,664
Prepaid expenses	540,516	625,841
Total unrestricted current assets	36,835,972	41,779,372
Restricted current assets - cash	10,440,820	21,175,711
Total current assets	47,276,792	62,955,083
Restricted noncurrent assets - cash	3,280,672	3,685,872
Capital assets		
Capital assets	474,615,492	470,190,890
Construction in progress	13,297,356	6,469,137
Less accumulated depreciation	(223,189,274)	(209,102,679)
Capital assets, net of accumulated depreciation	264,723,574	267,557,348
Assessments receivable, net of current portion	2,466,661	2,701,416
Total noncurrent assets	270,470,907	273,944,636
Total assets	317,747,699	336,899,719
Deferred outflow of resources		
Accumulated change in fair value of hedging derivatives	13,269,197	10,668,172
Deferred amount on debt refundings	2,553,903	67,139
Pensions	3,592,476	-
	\$ 19,415,576	\$ 10,735,311

The accompanying notes are an integral part of these financial statements.

Financial Statements

Statement of Net Position September 30, 2015 (with comparative totals September 30, 2014)

Liabilities	2015	2014
Current liabilities		
Current liabilities payable from unrestricted assets		
Accounts payable	\$ 4,751,023	\$ 6,324,533
Accrued wages and benefits	1,414,510	1,650,971
Unearned revenues	391,909	476,750
Other liabilities	953,145	819,139
Total current liabilities payable from unrestricted assets	7,510,587	9,271,393
Current liabilities payable from restricted assets		
Customer deposits	3,280,672	3,685,872
Interest payable	406,680	253,302
Advances from other governments	1,335,487	12,655,968
Current portion of long-term liabilities	5,282,209	4,568,641
Total current liabilities payable from restricted assets	10,305,048	21,163,783
Total current liabilities	17,815,635	30,435,176
Long-term liabilities		
Bonds payable, net	136,145,797	136,977,849
Derivative instrument - swap	13,269,197	10,668,172
Credit due to US government	12,700,051	13,431,713
Compensated absences	2,923,721	2,681,654
Net OPEB obligation	2,160,348	1,936,434
Net pension liability	13,508,837	-
	180,707,951	165,695,822
Less current portion	(5,282,209)	(4,568,641)
Total long-term liabilities	175,425,742	161,127,181
Total liabilities	193,241,377	191,562,357
Deferred inflow of resources		
Pension	1,834,290	-
Net position		
Net investment in capital assets	135,293,302	136,145,330
Restricted:		
Debt service	2,401,434	1,881,939
Capital projects	6,297,219	6,384,502
Unrestricted	(1,904,347)	11,660,902
Total net position	\$ 142,087,608	\$ 156,072,673

The accompanying notes are an integral part of these financial statements.

Financial Statements, Continued

Statement of Revenue, Expenses and Changes in Net Position

For the year ended September 30, 2015 (with comparative totals for year ended September 30, 2014)

Revenue	2015	2014
Utility revenue water	\$ 47,392,382	\$ 45,519,512
Utility revenue reclaimed water	115,525	55,919
Utility revenue wastewater	3,110,141	2,986,921
Other operating revenue Navy	2,443,632	2,461,416
Other operating revenue	1,485,414	1,634,593
Total operating revenue	54,547,094	52,658,361
Less abatements	(294,559)	(333,249)
Net operating revenue	54,252,535	52,325,112
Operating expenses		
Source of supply	700,603	622,364
Water treatment	3,669,566	3,616,956
Transmission	5,126,961	5,277,311
Distribution	6,897,166	6,369,712
Wastewater treatment	943,003	859,055
Wastewater collection	1,318,806	1,158,775
Customer accounts	3,656,129	4,261,867
General and administrative	15,735,651	15,861,819
Depreciation	14,974,964	14,964,323
Total operating expenses	53,022,849	52,992,182
Net operating income (loss)	1,229,686	(667,070)
Non-operating revenue (expenses)		
Interest income	243,793	319,722
Other income	547,696	556,101
Gain (loss) on disposal of assets and inventory	11,872	(147,353)
Interest expense	(5,332,401)	(5,682,448)
Bond issue costs	(443,556)	(301,290)
Remarketing and letter of credit fees	(301,290)	(53,381)
Total non-operating revenue (expenses)	(5,273,886)	(5,308,649)
Net loss before contributions	(4,044,200)	(5,975,719)
Capital contributions	2,093,415	1,539,719
Change in net position	(1,950,785)	(4,436,000)
Net position, beginning of year, as previously presented	156,072,673	160,508,673
Prior year adjustment (note 12)	(12,034,280)	-
Net position, as restated	144,038,393	-
Net position, end of year	\$ 142,087,608	\$ 156,072,673

The accompanying notes are an integral part of these financial statements.

Financial Statements, Continued

Statement of Cash Flows

For the year ended September 30, 2015 (with comparative totals for year ended September 30, 2014)

	2015	2014
Cash flows from operating activities		
Payments received from customers	\$ 53,386,380	\$ 50,765,002
Deposits received from customers	465,887	307,571
Other cash received	748,069	458,439
Payments for salaries and benefits	(27,127,845)	(24,540,687)
Payments to suppliers for goods and services	(12,555,335)	(7,616,422)
Interest paid on and refunds of customer deposits	(885,278)	(981,155)
Net cash provided by operating activities	<u>14,031,878</u>	<u>18,392,748</u>
Cash flows from non-capital financing activities		
Cash received from other governments	43,220,760	65,080,000
Payments for projects of other governments	(54,541,241)	(62,225,104)
Net cash provided (used) by non-capital financing activities	<u>(11,320,481)</u>	<u>2,854,896</u>
Cash flows from capital and related activities		
System development fees received	1,908,522	1,074,959
Payments for capital assets	(11,753,899)	(6,489,529)
Proceeds from sale of capital assets	44,433	47,553
Proceeds from issuance of bonds and debt	51,514,474	10,370,000
Debt issue costs and financing fees paid	(744,846)	(354,671)
Principal payments of bonds	(3,745,000)	(4,220,000)
Interest payments for bonds	(4,244,223)	(5,282,621)
Deposit to escrow for advance refunding of bonds	(51,365,721)	-
Net cash used by capital and related financing activities	<u>(18,386,260)</u>	<u>(4,854,309)</u>
Cash flows from investing activities		
Interest received	228,323	294,360
Purchases of temporary investments	(10,638,595)	-
Net cash provided (used) by investing activities	<u>(10,410,272)</u>	<u>294,360</u>
Net cash inflow (outflow) from all activities	<u>(26,085,135)</u>	<u>16,687,695</u>
Cash at beginning of year	58,074,329	41,386,634
Cash at end of year	<u>\$ 31,989,194</u>	<u>\$ 58,074,329</u>

The accompanying notes are an integral part of these financial statements.

Financial Statements, Continued

Statements of Cash Flows

For the year ended September 30, 2015 (with comparative totals for year ended September 30, 2014)

Reconciliation of operating income (loss) to net cash provided by operating activities

	2015	2014
Operating income	\$ 1,229,686	\$ (667,070)
Credits to US Navy	(1,374,840)	(1,374,840)
Depreciation	14,974,964	14,964,323
Other income	547,696	556,101
Interest on customer deposits	(14,191)	(22,721)
(Increase) decrease in		
Accounts receivable	659,893	(226,799)
Materials and supplies	(93,001)	39,336
Prepaid expenses	85,325	(18,859)
Deferred outflows of resources	(1,194,845)	-
Increase (decrease) in		
Accounts payable	(1,573,510)	5,029,493
Unearned revenues	(84,841)	(284,268)
Accrued wages and benefits (includes net pension liability)	4,745,605	820,780
Other liabilities	134,006	228,135
Customer deposits	(405,200)	(650,863)
Deferred inflows of resources	(3,604,869)	-
Net cash provided by operating activities	\$ 14,031,878	\$ 18,392,748
Schedule of cash		
Unrestricted cash	\$ 18,267,702	\$ 33,212,746
Restricted cash	13,721,492	24,861,583
	\$ 31,989,194	\$ 58,074,329
Schedule of noncash investing and financing activities:		
Change in value of derivative instruments	\$ 2,601,025	\$ 1,123,822
Amortization of deferred amount on debt refunding	2,486,764	67,139
Capital assets contributed	419,852	699,824
	\$ 5,507,641	\$ 1,890,785

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

For the fiscal year ended September 30, 2015

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Notes to Financial Statements

For the fiscal year ended September 30, 2015

Note 1. Summary of Significant Accounting Policies

The Authority's financial statements comply with generally accepted accounting principles and apply all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Financial Reporting Entity

The Authority complies with GASB Statements defining the financial reporting entity. This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the officials of the primary government are financially accountable and there is a benefit or burden relationship and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The Authority considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the Authority's financial statements.

Basis of Presentation

The Authority's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-type activities provided to the general public. These activities are financed primarily by user fees and the measurement of financial activity focuses on net income measurement similar to the private sector. Activities reported in this fund are those costs necessary to provide water and wastewater service and the related user fees levied to pay for these costs.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied. Proprietary funds utilize a measurement focus linked to economic resources. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with their activities are reported. Proprietary fund equity is classified as net position. Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. The principal operating revenue of the Authority's enterprise fund is monthly user fees charged to customers for service. The Authority also recognizes as operating revenue fees intended to recover the cost of connecting new customers to the system and other services that relate to the supply of water and the collection and treatment of wastewater. Operating expenses for enterprise funds 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 non-operating revenue and expenses.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 1. Summary of Significant Accounting Policies, (continued)

Assets, Liabilities and Net Position

Materials and Supplies

Materials and supplies are stated at the lower of average cost or market.

Capital Assets

Capital assets are recorded at cost for items purchased or constructed and at estimated fair value on the date donated for contributed items. The capitalization threshold for tangible and intangible capital assets is \$1,500. Depreciation is computed by the straight-line method based on the estimated useful lives of the asset. It is the Authority’s policy to depreciate mass assets half of the year in the year of acquisition and half of the year in the year of retirement. Mass assets are those assets with a large number of homogeneous retirement units such as water meters, distribution systems and collection systems. It is the Authority’s policy to depreciate all specifically identified assets based on the month of acquisition or retirement. The estimated useful lives of the principal classes of assets are as follows:

Classification	Years
Buildings, structures and improvements	5-40
Equipment, vehicles, furniture and fixtures	3-20
Transmission system	25-50
Distribution systems	25-50
Water meters	10
Water storage facilities	10-50
Pumping stations	5-25
Water treatment equipment	5-30
Reverse osmosis equipment	5-25
Computer equipment	3-5
Wastewater treatment equipment	5-50
Collection systems	25-50

Construction Work in Progress

Construction work in progress represents costs for the construction or replacement of the Authority’s infrastructure and other capital projects that were not completed at year end.

Compensated Absences

It is the Authority’s policy to permit employees to accumulate earned, unused vacation and sick leave. Employees may, depending on hire date, level and length of service, be paid for various amounts of their total accrued leave upon termination or retirement. The Authority accrues a liability for leave hours that meet the criteria for payment at the eligible employees’ current rates of pay plus retirement contributions and employment taxes.

Long-term Liabilities

Long-term debt and other long-term obligations are reported as liabilities in the Authority’s statement of net position. Bond premiums, discounts and amounts deferred on refunding, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs are expensed as incurred.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 1. Summary of Significant Accounting Policies (continued)

Interest on Indebtedness

Interest is charged to expense, as incurred, except for interest related to borrowings used for construction projects which is capitalized, net of interest earned on construction funds borrowed. There was no interest capitalized for the year ended September 30, 2015.

Equity Classifications

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings and net of deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted — Assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation, net of related liabilities.
- c. Unrestricted — Residual amounts that do not meet the definition of the two categories above.

Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts of net position to report as restricted and unrestricted in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Budget

In accordance with the Authority's enabling legislation, the Board holds public hearings and subsequently adopts an annual budget for revenue, operating expenses and capital expenditures. The budget is adopted on a basis consistent with generally accepted accounting principles except no amounts are provided for depreciation and amortization. It is monitored at various levels of detail within the enterprise fund. Expenses at the fund level may not legally exceed the total budget.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 1. Summary of Significant Accounting Policies (continued)

Revenue and Expenses

Operating revenue and expenses for proprietary funds are those that result from providing services and producing and delivering goods or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

Revenue Recognition

All water and wastewater revenues are recognized and a receivable recorded when the related services are provided. Unbilled revenue receivable is determined based on the estimated consumption prior to September 30th that has not been billed.

Grants from Government Agencies

The Authority records grants when all applicable eligibility requirements have been met. This normally occurs as amounts are expended and become reimbursable from the granting agency.

Special Assessments

The Authority provides the option for customers in new wastewater districts to pay system development charges levied for the initial construction of these systems over a twenty-year period through a non-ad valorem assessment. This assessment bears interest equal to the Authority's borrowing rate for that particular district and is added to the customers' annual tax bill.

Comparative Data

The Financial Statements include certain comparative financial information in total but not by specific level of detail. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's Financial Statements for the fiscal year ended September 30, 2014 from which the summarized was derived.

Note 2. Cash and Investments

The Authority had cash balances of \$31,989,194 and a Certificate of Deposit balance of \$10,638,595 at September 30, 2015.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial risk. At September 30, 2015 all the Authority's bank deposits, having a bank balance of \$33,755,796 were held by financial institutions designated as Qualified Public Depositories by the Treasurer of the State of Florida. As such, these deposits were covered first by federal depository insurance and the balance covered by the State of Florida's Security for Public Deposits Act. All Qualified Public Depositories, as established by the Act, must place with the State Treasurer eligible collateral equal to or in excess of the required collateral determined by the provisions of the Act. In the event of default by a qualified public depository, the State Treasurer will pay public deposits all losses. Losses in excess of insurance and collateral will be paid through assessments among all Qualified Public Depositories.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 3. Restricted Assets

Restricted assets as of September 30, 2015 consisted of the following:

	2015
Current restricted assets:	
Debt service	\$ 2,741,458
Advances from other governments	6,403,312
Grant funds	1,296,050
	10,440,820
Noncurrent restricted cash	3,280,672
	13,721,492
Total restricted assets	\$ 13,721,492

Construction Advances

The Authority had advanced construction funds to the Florida Department of Transportation (FDOT). These advances were used to fund the relocation and replacement of the Authority’s transmission lines due to the construction of road improvements by FDOT. This project was completed in 2014. Unexpended funds of \$383,069 are shown as receivable from FDOT which is included in accounts receivable other on the Authority’s statement of net position at September 30, 2015.

Bond and Interest Repayment Assets

According to its master bond resolutions, the Authority is required to transfer to a debt service account, on or before the last day of each month, the following amounts:

- Interest – an amount equal to the interest on all outstanding bonds accrued and unpaid and to accrue to the end of the then current calendar month.
- Principal – an amount equal to (a) the principal amount of all outstanding bonds other than term bonds due and unpaid, (b) that portion of the principal amount of the bonds next due which would have accrued on such bonds other than term bonds next due during the then current calendar month if such principal amount thereof were deemed to accrue monthly in equal installments from a date one year preceding the due date of such bonds next due and (c) the portion of the principal amount of the bonds next due which shall have accrued on such basis in prior months.
- Bond amortization – an amount equal to (a) the principal amount of all outstanding term bonds due and unpaid, (b) that portion of the amortization installment which would have accrued during the then current calendar month if such amortization installment were deemed to accrue monthly in equal amounts from a date one year preceding such due date and (c) the portion of such amortization installment which shall have accrued on such basis in prior months.

The Authority’s balances in the debt service account were \$2,741,458 at September 30, 2015.

Customer Deposits

The Authority retains customer deposits to assure payment from new customers and customers with a history of delinquent payments. These deposits totaled \$3,280,672 September 30, 2015.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 4. Capital Assets

Capital asset activity for the fiscal year ended September 30, 2015:

	Balance 9/30/2014	2015		Balance 9/30/2015
		Additions	Retirements	
Capital assets not being depreciated:				
Land	\$ 8,285,155	\$ -	\$ -	\$ 8,285,155
Construction work in progress	6,469,137	9,062,448	(2,234,229)	13,297,356
Total capital assets not being depreciated	14,754,292	9,062,448	(2,234,229)	21,582,511
Capital assets being depreciated:				
Buildings, structures & improvements	68,648,055	501,193	(100,787)	69,048,461
Equipment, vehicles, furniture & fixtures	14,522,015	1,294,860	(383,318)	15,433,557
Transmission system	105,635,668	347,324	-	105,982,992
Distribution system	119,853,306	883,386	(209,896)	120,526,796
Water meters	15,207,438	303,085	(62,312)	15,448,211
Water storage facilities	8,630,031	1,290,654	(2,948)	9,917,737
Pump station equipment	26,269,568	355,338	(156,289)	26,468,617
Water treatment equipment	39,132,239	16,479	-	39,148,718
Reverse osmosis equipment	38,294,033	-	-	38,294,033
Computer equipment	4,938,612	125,076	(5,380)	5,058,308
Wastewater treatment equipment	6,216,820	228,137	-	6,444,957
Collection system	9,436,036	-	-	9,436,036
Reclaimed water	5,121,914	-	-	5,121,914
Total assets being depreciated	461,905,735	5,345,532	(920,930)	466,330,337
Less accumulated depreciation:				
Buildings, structures & improvements	(24,259,071)	(2,235,132)	100,786	(26,393,417)
Equipment, vehicles, furniture & fixtures	(9,495,930)	(925,686)	60,303	(10,361,313)
Transmission system	(67,827,074)	(2,244,833)	323,015	(69,748,892)
Distribution system	(38,829,973)	(2,463,271)	209,896	(41,083,348)
Water meters	(7,700,714)	(1,374,184)	62,312	(9,012,586)
Water storage facilities	(4,442,817)	(162,267)	2,948	(4,602,136)
Pump station equipment	(12,740,762)	(1,179,731)	123,728	(13,796,765)
Water treatment equipment	(19,806,029)	(1,089,310)	-	(20,895,339)
Reverse osmosis equipment	(15,761,445)	(2,152,545)	-	(17,913,990)
Computer equipment	(3,824,189)	(315,778)	5,380	(4,134,587)
Wastewater treatment equipment	(1,961,415)	(338,071)	-	(2,299,486)
Collection system	(2,090,408)	(381,010)	-	(2,471,418)
Reclaimed water	(362,852)	(113,145)	-	(475,997)
Total accumulated depreciation	(209,102,679)	(14,974,963)	888,368	(223,189,274)
Total capital assets being depreciated, net	252,803,056	(9,629,431)	(32,561)	243,141,063
Total net capital assets	\$ 267,557,348	\$ (566,983)	\$ (2,266,791)	\$ 264,723,574

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 5. Long-term Liabilities

Long- term liabilities activity for the fiscal year ended September 30, 2015 as follows:

	Beginning balance	2015		Ending balance	Due within one year
		Additons	Deductions		
Water revenue bonds Series 2007	\$ 49,610,000	-	\$ (47,550,000)	\$ 2,060,000	\$ 995,000
Water revenue refunding bonds Series 2008	52,625,000	-	-	52,625,000	-
Wastewater revenue bonds Series 2012	4,965,000	-	(5,000)	4,960,000	350,000
Water revenue bonds Series 2013A	17,580,000	-	(2,370,000)	15,210,000	2,415,000
Water revenue bonds Series 2013B	7,480,000	-	(285,000)	7,195,000	295,000
Water revenue bonds Series 2014	2,610,000	-	(100,000)	2,510,000	100,000
Water revenue bonds Series 2015A	-	34,560,000	-	34,560,000	-
Water revenue bonds Series 2015B	-	16,435,000	-	16,435,000	-
Subtotal	134,870,000	50,995,000	(50,310,000)	135,555,000	4,155,000
Add unamortized Series 2007 bond premium	2,107,849	-	(2,024,939)	82,910	43,257
Add unamortized Series 2015A bond premium	-	519,474	(11,587)	507,887	23,174
Total bonds payable	136,977,849	51,514,474	(52,346,526)	136,145,797	4,221,431
Derivative instrument - swap	10,668,172	2,601,025	-	13,269,197	-
Credit due to US Government	13,431,713	-	(731,662)	12,700,051	768,406
Compensated absences	2,681,654	2,923,721	(2,681,654)	2,923,721	292,372
Net OPEB obligation	1,936,434	223,914	-	2,160,348	-
Net pension liability	-	13,508,837	-	13,508,837	-
Total long-term liabilities	\$ 165,695,822	\$ 70,771,971	\$ (55,759,842)	\$ 180,707,951	\$ 5,282,209

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 5. Long-term Liabilities (continued)

The future principal maturity amounts and related interest costs for all long-term debt are as follows:

Fiscal year ended September 30	Bonds			Credit due to US Government		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 4,155,000	\$ 4,605,898	\$ 8,760,898	\$ 768,406	\$ 606,433	\$ 1,374,839
2017	4,290,000	4,469,071	8,759,071	806,996	567,844	1,374,840
2018	4,125,000	4,350,989	8,475,989	847,523	527,316	1,374,839
2019	4,215,000	4,263,670	8,478,670	890,086	484,753	1,374,839
2020	4,310,000	4,168,972	8,478,972	934,786	440,053	1,374,839
2021-2025	27,495,000	18,656,435	46,151,435	5,427,074	1,447,125	6,874,199
2026-2030	33,760,000	13,264,557	47,024,557	3,025,180	182,779	3,207,959
2031-2035	37,725,000	7,127,471	44,852,471	-	-	-
2036-2037	15,480,000	876,375	16,356,375	-	-	-
Totals	\$ 135,555,000	\$ 61,783,438	\$ 197,338,438	\$ 12,700,051	\$ 4,256,303	\$ 16,956,354

Water Revenue and Water Revenue Refunding Bonds

In October 2007, the Authority issued \$53,975,000 Series 2007 water revenue bonds with an average interest rate of 5.04%. In April 2015, the Authority issued \$34,560,000 of Series 2015A bonds and \$16,435,000 in Series 2015B bonds with an average interest rate of 3.47% to advance refund \$46,560,000 of these bonds. The net proceeds of \$51,031,477 (after payment of \$482,996 in debt issuance costs) plus an additional \$334,243 of 2007 Series sinking fund monies were used to purchase US government securities. Those securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on these bonds. As a result, that portion of the Series 2007 bonds is considered to be defeased and the liability for those bonds has been removed from the Authority's Statement of Net Position.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,664,978. This difference is reported in the accompanying financial statements as a deferred outflow of resources. The Authority undertook this advance refunding to reduce its total debt service requirements by \$5,121,609 (cash flow savings) and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$4,520,065.

The Series 2007 that remain outstanding will mature in 2017. Interest is payable on March 1 and September 1 of each year and principal is payable annually on September 1. The average interest rate on the outstanding bonds is 3.8%.

In June 2008, the Authority issued \$52,625,000 of Series 2008 water revenue refunding bonds. The bonds bear interest at a variable rate that is set each week as the bonds are remarketed (0.01% at September 30, 2015). The proceeds from these bonds were used to refund Series 2006 bonds, which were insured by a failed bond insurer. The refunding was necessary in order to replace the bond insurer with a letter of credit. Principal payments will be due annually on September 1 beginning in 2022 through 2037. The interest rate swap that was entered into when the Series 2006 bonds were issued remains in place with the notional amount now tied to the Series 2008 bonds.

In July 2013, the Authority privately placed \$19,990,000 Series 2013A water revenue refunding bonds with a bank at an interest rate of 1.64%. The proceeds from this issue were used to refund Series 2003 water revenue refunding bonds. Interest is payable on March 1 and September 1 and principal is payable annually on September 1 through 2021. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$78,602. This difference is reported in the accompanying financial statements as a deferred outflow of resources.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 5. Long-term Liabilities (continued)

In November 2013 and in January 2014 the Authority privately placed with a bank \$7,700,000 Series 2013B water revenue bonds and \$2,670,000 Series 2014A water revenue bonds respectively, both series at an interest rate of 3.52%. The proceeds from these bonds were used to fund ongoing capital improvements to the water system. Interest on both series is due March 1 and September 1 and principal is paid annually on September 1 through 2033.

In April 2015 the Authority issued \$34,560,000 Series 2015A water revenue refunding bonds with an interest rate range of 3.37%-5.00% and privately placed \$16,435,000 Series 2015B water revenue bonds at an interest rate of 2.52% with a bank to advance refund a portion of the outstanding Series 2007 water revenue bonds (see above). Interest on both series is due March 1 and September 1. Principal on the Series 2015A bonds will be paid on September 1, 2020-2024 and September 1, 2031-2037 for the Series 2015A bonds and September 1, 2018-2022 and September 1, 2025-2030 for the Series 2015B bonds..

The water revenue and water revenue refunding bonds were issued under the Authority's Resolution No. 03-12 adopted May 6, 2003 and Amended and Restated Resolution 08-15 adopted June 9, 2008. The payment of the principal and interest on these bonds is collateralized by a pledge of and lien upon the net revenues derived from the operation of the Authority's water utility and other monies including investments held in certain accounts established by the bond resolution. Under the bond resolution, the Authority will fix, establish, maintain and collect the water rates and revise the same from time to time, whenever necessary, that will always provide in each fiscal year, (a) net revenues adequate at all times to pay in each fiscal year at least one hundred ten percent (110%) of the annual debt service requirement becoming due in such fiscal year on each series of outstanding bonds and at least one hundred percent (100%) of any amounts required by the terms of the bond resolution to be deposited in the reserve account or reserve account insurance policy in such fiscal year, and (b) net revenues, together with impact fees collected, adequate to pay at least one hundred twenty percent (120%) of the current annual debt service requirement becoming due in such fiscal year on the outstanding bonds. The rates will not be reduced to a level that would be insufficient to provide net revenues fully adequate for the purposes provided by the bond resolution.

For the current year, debt service requirements and total pledged revenue to meet the 110% test was \$8,341,776 and \$15,007,732 respectively.

Wastewater Revenue Bonds

In September 2012, the Authority privately placed \$5,635,000 Series 2012 wastewater revenue refunding bonds with a bank at an interest rate of 2.86%. The proceeds from this issue were used to refund Series 2001, Series 2004 and Series 2009 wastewater revenue bonds. Interest is payable on April 1 and October 1 and principal is payable annually on October 1 through 2030.

Wastewater revenue and wastewater revenue refunding bonds were issued under the Authority's Resolution No. 00-20 adopted October 18, 2000 and Resolution No. 01-25 adopted September 19, 2001. The payment of the principal and interest on these bonds is collateralized by a pledge of and lien upon the net revenues derived from the operation of the Authority's wastewater utility and other monies including investments held in certain accounts established by the bond resolution. Under the bond resolution, the Authority will fix, establish, maintain and collect the wastewater rates and revise the same from time to time, whenever necessary, that will always provide in each fiscal year, (a) net revenues adequate at all times to pay in each fiscal year at least one hundred ten percent (110%) of the annual debt service requirement becoming due in such fiscal year on each series of outstanding bonds or (b) net revenues, together with impact fees collected, adequate to pay at least one hundred twenty percent (120%) of the current annual debt service requirement becoming due in such fiscal year on the

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 5. Long-term Liabilities (continued)

outstanding bonds. The rates will not be reduced to a level that would be insufficient to provide net revenues fully adequate for the purposes provided by the bond resolution.

For the current year, debt service requirements and total pledged revenue to meet the 110% test was \$70,928 and \$848,332, respectively.

Interest Rate Swaps

At September 30, 2015 the Authority was a party to a synthetic fixed rate swap agreement. The following are disclosures of pertinent aspects of this agreement. The synthetic fixed rate swap was determined to be an effective hedge and therefore follows hedge accounting where the transaction is strictly a statement of net position transaction. Since the fair value was in a negative position, the swap is recorded as a derivative liability with a corresponding deferred outflow of resources which represent the accumulated change in fair value of the swap.

Objective

In connection with the Florida Keys Aqueduct Authority Series 2006 water revenue and revenue refunding bonds, issued in April 2006 as variable rate securities bearing interest at a weekly interest rate, the Authority simultaneously executed a floating-to-fixed interest rate swap (swap) to lock in a synthetic fixed cost of borrowing. The swap structure was used as a means to lower the Authority’s borrowing cost when compared to a traditional fixed-rate bond issue and as a hedge against variable interest rate exposure. The Series 2006 bonds were initially issued at a weekly interest rate. These bonds were refunded by Series 2008 bonds in June 2008. The swap is now tied to these bonds, which were also issued and are currently at a weekly interest rate. However, at the direction of the Authority and in compliance with bond documentation, they could be converted to other modes of payment (daily, long term or auction rate).

Terms

The Authority executed the swap with Citigroup Financial Products, Inc. (Citi) in April 2006 with an expiration date of September 1, 2035. In April 2012, Citi was replaced as counterparty by the Bank of New York Mellon (counterparty). This transaction did not terminate the hedge accounting for this swap as a result in the change of the counterparty. The swap has a notional amount of \$49,700,000 corresponding to the related Series 2008 bonds. Under the swap, the Authority pays a fixed rate of 3.832% and receives a variable rate computed as 64.46% of the 3-month LIBOR plus 20 basis points (see rates below). Additionally the Authority pays annual transactional fees of .72% for remarketing services and letter of credit fees, bringing the total fixed rate paid by the Authority to 4.55%. The total synthetic interest rate can vary, however, due to a potential for mismatch between the floating rate paid by the Authority on the Series 2008 bonds (based on a weekly tax-exempt market rate equivalent to the Securities Industry and Financial Markets (SIFMA), and the floating rate received by the Authority from the Counterparty on the swap, (based on a percentage of a taxable 3-month LIBOR rate). This potential for mismatch between the rate on the Series 2008 bonds and the swap is referred to as basis risk.

As of September 30, 2015 the rates for the variable rate bonds and swap were as follows:

	Terms	Rates
		2015
Interest Rate Swap:		
Fixed payment to counterparty	Fixed	3.8320%
Variable payment from counterparty	LIBOR	0.4095%
Net interest rate swap payments		3.4225%
Series 2008 Variable Rate Bond Payments	Weekly Variable Rate	0.0100%
Remarketing liquidity and letter of credit fees		0.7200%
Synthetic interest rate on bonds		4.1525%

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 5. Long-term Liabilities (continued)

Fair Value

As of September 30, 2015, the swap had a negative fair value of \$13,269,197 indicating the amount that the Authority would have had to pay the counterparty to terminate the swap agreement. However, as of those dates no event of termination had occurred. Since the coupons on the Authority’s variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

General

The derivative contract between the Authority and the counterparty is based on the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. A termination of the swap may result in the Authority making or receiving a termination payment.

Swap payments and associated debt

As of September 30, 2015 net swap payments, assuming current interest rates remain the same, for their term were as follows. As short-term rates fluctuate, the 2008 bonds’ interest payments and net swap payment will vary.

Fiscal Year Ended September 30	Principal	Interest	Interest Rate Swap, Net	Total
2016-2020	\$ -	\$ 1,920,813	\$ 8,504,913	\$ 10,425,726
2021-2025	11,865,000	1,796,056	7,934,553	21,595,609
2026-2030	18,125,000	1,234,795	5,400,192	24,759,987
2031-2035	22,635,000	510,270	2,207,513	25,352,783
	\$ 52,625,000	\$ 5,461,934	\$ 24,047,171	\$ 82,134,105

Credit risk

As of September 30, 2015 the Authority is not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Authority would be subject to credit risk in the amount of the swap’s fair value. As of September 30, 2015 the counterparty was rated Aa2 and AA- by Moody’s Investors Service and Standard & Poor’s respectively.

Termination risk

If the counterparty to the swap defaults, or if the swap is terminated, the Authority will be exposed to the variable remarketing rate on the 2008 bonds. If the swap is terminated, the 2008 bonds would no longer carry a synthetic fixed rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap’s fair value.

Basis risk

The swap exposes the Authority to basis risk should the relationship between LIBOR and the remarketing rate on the 2008 bonds converge, changing the overall synthetic fixed rate on the Series 2008 bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic fixed rate (4.552%) and the overall synthetic fixed rate as of September 30, 2015 (4.1525%). If a change occurs in the relationship between taxable and tax-exempt interest rates, the Authority’s overall cost of borrowing will be impacted.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 6. Rates for Service

Water

The Authority's water rate structure is an inverted block structure, with rates for consumption increasing with usage. In addition to consumption charges, customers are charged a monthly base facility charge, based on meter size, to recover a portion of fixed costs of providing service. If senior citizens and totally and permanently disabled veterans fall within certain income limitations, their base facility charge is waived.

The base facility charge for standard 5/8" meter customers for the fiscal year ended September 30, 2015 was \$13.75. The consumption blocks and related rates in effect at September 30, 2015 were as follows:

Rate per 1,000 gallons			
	Gallons		2015
Block 1	0-6,000	\$	5.78
Block 2	6,001-12,000		8.43
Block 3	12,001-30,000		9.46
Block 4	30,001-50,000		10.55
Block 5	>50,000	\$	11.58

The rates are adjusted each year for inflation using a standard indexing formula.

The Authority has contractual agreements with the United States Navy that define water rates charged for water used on Navy properties. The Navy pays the same base facility charges as other customers, but pays a flow charge of \$3.61 per thousand gallons for all water used.

Wastewater

The Authority provides wastewater service to a number of different districts. The rate structure is similar to the water rate structure, with each district having a base facility charge and a flow charge. The flow charge is based on water flows. Flows are capped at 10,000 gallons for wastewater billing purposes for single-family dwelling customers. The base facility charge for years 2015 was \$27.70. The flow charged on the first 10,000 gallons was \$10.49 per thousand gallons.

Reclaimed water

Rates for reclaimed water are 50% of potable water rates. There is no base facility charge for reclaimed water.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 7. Other Operating Revenue

Other operating revenue consisted of the following at September 30, 2015:

		2015
Penalty charges	\$	383,403
Service and installation charges		925,219
Hydrant rental fees		52,200
Front footage fees		124,592
Total other operating revenue		1,485,414
Navy water system operations charge		2,443,632
Total	\$	3,929,046

Note 8. Risk Retention

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority carries commercial insurance for risks of loss. The Authority retains a certain level of risk relating to employee health insurance. A cash reserve account of \$919,185 is set aside to pay employee health claims. The Authority has an insurance policy that covers individual claims in excess of \$100,000. Based on the duration period of claims, management determined that any claims incurred but not reported (IBNR) are insignificant.

There were no significant reductions in insurance coverage in the current year from coverage to the prior year. Flood insurance coverage is limited to \$500,000 per covered location due to statutory limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There were sixteen open claims at September 30, 2015 covered by insurance. In addition, a contingency reserve has been established to cover uninsured losses.

As of September 30, 2015 and 2014 the total liabilities on pending claims that are included in other current liabilities on the statement of net position were as follows:

	2015	2014
Claims payable, beginning of year	\$ 587,472	\$ 377,189
Incurred claims	3,155,462	3,396,730
Payments on claims	(3,554,397)	(3,186,447)
Claims payable, end of year	\$ 188,537	\$ 587,472

Note 9. Commitments and Contingencies

Construction commitments

The Authority had contractual commitments of \$58,420,070 at September 30, 2015 for design and construction of capital projects and general contractual commitments. Of that amount \$51,303,561 will be reimbursed by Monroe County for the design and construction of county-owned wastewater systems.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 9. Commitments and Contingencies (continued)

Leases

The Authority is a party to a 99-year lease with Monroe County which provides for the Authority to operate and maintain county-owned wastewater systems, including setting rates sufficient to pay for all operating costs. At September 30, 2015 the Authority was operating two systems under this agreement. Initial consideration of \$10 was paid in November 2005, the effective date of the lease. No further lease payments are due under this agreement.

The Authority is currently obligated under non-cancelable operating lease agreements for office space and office equipment. The leases expire through the year ending September 30, 2017. The following is a summary of the minimum rental costs for the remaining terms of the leases:

<u>Year Ended September 30th</u>		
2016	\$	12,880
2017		1,215

Rent expense for the fiscal year ended September 30, 2015 was \$73,441.

Legal Matters

The Authority is involved in various legal disputes which have arisen in the normal course of business and with the construction of the new facilities. It is the opinion of management that the eventual outcome of these matters will not have a material adverse effect on the financial condition of the Authority.

Potential Legal and Legislative Changes

The Authority has an inter-local agreement providing funding with the Monroe County Board of County Commissioners (BOCC), the implementation of wastewater initiatives in Monroe County. The Authority has entered into contracts and incurred costs toward implementing various wastewater projects that, should those projects not be funded by Monroe County, may become liabilities of the Authority. In this event the Authority will pursue recovery of those costs from the County. It is the opinion of management that any expense not recovered will not have a material adverse effect on the financial condition of the Authority.

Water Main Extension Rebates

Customers are entitled to a water main extension rebate for future connections when they are required to extend a pipeline larger than certain specifications. Rebates are payable at the time connections are made.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 10. Retirement Plan

Florida Retirement System:

General Information

All of the Authority's employees participate in the Florida Retirement System (FRS). As provided by Chapters 121 and 112, Florida Statutes, the FRS provides two cost-sharing, multiple-employer defined benefit plans administered by the Florida Department of Management Services, Division of Retirement, including the FRS Pension Plan (Pension Plan) and the Retiree Health Insurance Subsidy (HIS Plan). Under Section 121.4501, Florida Statutes, the FRS also provides a defined contribution plan (Investment Plan) alternative to the Pension Plan, which is administered by the State Board of Administration (SBA). As a general rule, membership in the FRS is compulsory for all employees working in a regularly established position for a state agency, county government, district school board, state university, community college, or a participating city or special district within the State of Florida. The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 121, Florida Statutes, and Chapter 60S, Florida Administrative Code. Amendments to the law can be made only by an act of the Florida State Legislature.

The State of Florida annually issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. The latest available report may be obtained by writing to the State of Florida Division of Retirement, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or from the Web site,

www.dms.myflorida.com/workforce_operations/retirement/publications.

Pension Plan

Plan Description

The Pension Plan is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (DROP) for eligible employees.

Benefits Provided

Benefits under the Pension Plan are computed on the basis of age, average final compensation, and service credit. For Pension Plan members enrolled before July 1, 2011, Regular class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. Vested members with less than 30 years of service may retire before age 62 and receive reduced retirement benefits.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 10. Retirement Plan (continued)

Senior Management Service class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 2.0% of their final average compensation based on the five highest years of salary for each year of credited service.

For Pension Plan members enrolled on or after July 1, 2011, the vesting requirement is extended to eight years of credited service for all these members and increasing normal retirement to age 65 or 33 years of service regardless of age for Regular and Senior Management Service members. Also, the final average compensation for all these members will be based on the eight highest years of salary.

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the Pension Plan before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost of living adjustment is three percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of three percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by three percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

In addition to the above benefits, the DROP program allows eligible members to defer receipt of monthly retirement benefit payments while continuing employment with a FRS employer for a period not to exceed 60 months after electing to participate. Deferred monthly benefits are held in the FRS Trust Fund and accrue interest. There are no required contributions by DROP participants.

Contributions

Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute 3% of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year. The employer contribution rates by job class for the periods from October 1, 2014 through June 30, 2015 and from July 1, 2015 through September 30, 2015, respectively, were as follows: Regular 7.37% and 7.26%, Senior Management Service 21.14% and 21.43% and DROP participants 12.28% and 18.75%. These employer contribution rates include 1.20% and 1.26% HIS Plan subsidy for the periods October 1, 2014 through June 30, 2015 and from July 1, 2015 through September 30, 2015, respectively. The Authority's contributions, including employee contributions, to the Pension Plan totaled \$2,243,958 for the fiscal year ended September 30, 2015.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 10. Retirement Plan (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015, the Authority reported a liability of \$6,998,459 for its proportionate share of the Pension Plan's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The Authority's proportionate share of the net pension liability was based on the Authority's 2014-15 fiscal year contributions relative to the 2013-14 fiscal year contributions of all participating members. At September 30, 2015, the Authority's proportionate share was 0.054%, which was an increase of 0.003% from its proportionate share measured as of September 30, 2014.

For the fiscal year ended September 30, 2015, the Authority recognized pension expense of \$752,256. In addition the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (165,982)
Change of assumptions	464,511	-
Net difference between projected and actual earnings on Pension Plan investment	738,830	(1,671,115)
Changes in proportion and differences between Authority's Pension Plan contributions and proportionate share of contributions	520,848	-
Authority's Pension Plan contributions subsequent to the measurement date	(13,575)	-
Total	\$ 1,710,614	\$ (1,837,097)

The deferred outflows of resources related to the Pension Plan, totaling \$333,215 resulting from Authority's contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Plan will be recognized in pension expense as follows:

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 10. Retirement Plan (continued)

Fiscal Year Ending September 30 2015	Amount
2016	\$ (301,726)
2017	(301,726)
2018	(301,726)
2019	1,076,995
2020	281,371
Thereafter	61,350

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Investment rate of return	7.65%, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

The long-term expected rate of return on Pension Plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	100.00%	3.11%	3.10%	1.65%
Intermediate- Term Bonds	18.00%	4.18%	4.05%	5.15%
High Yield Bonds	3.00%	6.79%	6.25%	10.95%
Boards US Equities	26.50%	8.51%	6.95%	18.90%
Developed Foreign Entities	21.20%	8.66%	6.85%	20.40%
Emerging Market Equities	5.30%	11.58%	7.60%	31.15%
Private Equity	6.00%	11.80%	8.11%	30.00%
Hedge Funds/Absolute Return	7.00%	5.81%	5.35%	10.00%
Real Estate (Property)	12.00%	7.11%	6.35%	13.00%
Total	100.00%			

Assumed Inflation- Mean	2.60%	2.00%
(1) As outlined in the Penion Plan's investment policy		

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 10. Retirement Plan (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the Authority's Proportionate Share of the Net Position Liability to Changes in the Discount Rate

The following represents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.65%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65%) or one percentage point higher (8.65%) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Authority's Proportionate share of the net liability	\$ 6,928,474	\$ 6,998,459	\$ 7,068,444

Pension Plan Fiduciary Net Position

Detailed information regarding the Pension Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan

At September 30, 2015, the Authority reported a payable in the amount of \$219,556 for outstanding contributions to the Pension Plan required for the fiscal year ended September 30, 2015.

HIS Plan

Plan Description

The HIS Plan is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided

For the fiscal year ended September 30, 2015, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive these benefits, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 10. Retirement Plan (continued)

Contributions

The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2015, the HIS contribution for the period October 1, 2014 through June 30, 2015 and from July 1, 2015 through September 30, 2015 was 1.20% and 1.26%, respectively. The Authority contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The Authority’s contributions to the HIS Plan totaled \$20,647 for the fiscal year ended September 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015, the Authority reported a liability of \$6,510,378 for its proportionate share of the HIS Plan’s net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The Authority’s proportionate share of the net pension liability was based on the Authority’s 2014-15 fiscal year contributions relative to the 2013-14 fiscal year contributions of all participating members. At September 30, 2015, the Authority’s proportionate share was 0.063 percent, which was an increase of 0.001% from its proportionate share measured as of September 30, 2014.

For the fiscal year ended September 30, 2015, the Authority recognized pension expense of \$540,633. In addition the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Change of assumptions	512,197	-
Net difference between projected and actual earnings on HIS Plan investment	3,524	-
Change in proportion and differences between Authority's HIS Plan contributions and proportionate share of contributions	305,474	-
Authority's HIS Plan contributions subsequent to the measurement date	86,431	-
Total	\$ 907,626	\$ -

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 10. Retirement Plan (continued)

The deferred outflows of resources related to the HIS Plan, totaling \$86,431 resulting from Authority's contributions to the HIS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2016. Other amounts reported as deferred outflows of resources related to the HIS Plan will be recognized in pension expense as follows:

Fiscal Year Ending September 30:	Amount
2016	\$ 144,809
2017	144,809
2018	144,809
2019	144,093
2020	143,749
Thereafter	98,926

Actuarial Assumptions

The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Municipal bond rate	3.80 %

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

Discount Rate

The discount rate used to measure the total pension liability was 3.80%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date.

Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the Authority's Proportionate Share of the Net Position Liability to Changes in the Discount Rate

The following represents the Authority's proportionate share of the net pension liability calculated using the discount rate of 3.80%, as well as what the Authority's proportionate share of the net pension liability

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 10. Retirement Plan (continued)

would be if it were calculated using a discount rate that is one percentage point lower (2.80%) or one percentage point higher (4.80%) than the current rate:

	1% Decrease (2.80%)	Current Discount Rate (3.80%)	1% Increase (4.80%)
Authority's proportionate share of the net pension liability	\$ 6,445,274	\$ 6,510,378	\$ 6,575,482.00

Pension Plan Fiduciary Net Position

Detailed information regarding the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the HIS Plan

At September 30, 2015, the Authority reported a payable in the amount of \$1,923 for outstanding contributions to the HIS Plan required for the fiscal year ended September 30, 2015.

Investment Plan

The SBA administers the defined contribution plan officially titled the FRS Investment Plan. The investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report. As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. Authority employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class as the Pension Plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members. Allocations to the investment member's accounts during the 2014-15 fiscal year, as established by Section 121.72, Florida Statutes, are based on a percentage of gross compensation, by class, as follows: Regular class 6.30%, Special Risk Administrative Support class 7.95%, Special Risk class 14.00%, Senior Management Service class 7.67%.

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the Pension Plan is transferred to the Investment Plan, the member must have the years of service required for Pension Plan vesting (including the service

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 10. Retirement Plan (continued)

credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS-covered employment within the five-year period, the employee will regain control over their account. If the employee does not return within the five-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended September 30, 2015, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the Authority.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The Authority's Investment Plan pension expense totaled \$273,484 for the fiscal year ended September 30, 2015.

Note 11. Other Post-Employment Benefits (OPEB)

Plan Description

The Authority provides an optional single employer defined benefit post-employment healthcare plan to eligible individuals. The plan allows its employees and their beneficiaries, at their own cost, to continue to obtain health, dental and other insurance benefits upon retirement. Certain employees are provided, by the Authority, continuation of coverage or a supplement based on their management level. The benefits of the plan conform to Florida Statutes, which are the legal authority for the plan. The plan has no assets and does not issue a separate financial report.

Funding Policy and Annual OPEB Cost

Retirees and their beneficiaries pay the same group rates as are charged to the Authority for active employees by its healthcare provider. However, the Authority's actuaries, in their actuarial valuation, calculate an offset to the cost of these benefits as an employer contribution, based upon an implicit rate subsidy. This offset equals the total age-adjusted costs paid by the Authority or its active employees for coverage of the retirees and their dependents for the year net of the retiree's own payments for the year.

The annual OPEB cost is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The annual required contribution 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 actuarial liabilities over a period not to exceed thirty years. The required contribution rate for the employer is based on actual costs (pay as you go). The plan members are not required to contribute.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 11. Other Post-Employment Benefits (OPEB) (continued)

The annual OPEB cost for the Authority for 2015 and the related information is as follows:

Annual OPEB Cost (Expense) and Net OPEB Obligation (NOO)

	2015
Annual Required Contribution (ARC)	\$ 491,763
Interest on net OPEB obligation (NOO)	77,457
Adjustment to ARC	(74,412)
Annual OPEB Cost	494,808
Employer Contribution	(270,894)
Increase in NOO	223,914
NOO (beginning of year)	1,936,434
NOO (end of year)	\$ 2,160,348

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2015 was:

Fiscal Year Ending	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
September 30, 2015	\$ 494,808	\$ 270,894	54.75%	\$ 2,160,348
September 30, 2014	509,036	148,173	29.11%	1,936,434
September 30, 2013	\$ 497,812	\$ 245,309	49.28%	\$ 1,575,571

Funded status and funding progress

The funded status of the plan as of October 1, 2014, and 2012 actuarial valuations was as follows:

Fiscal Year Ending	Actuarial Value of Assets (a)	Actuarial Accrued (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a % of Covered ((b - a) / c)
October 1, 2014	\$ -	\$ 8,554,815	\$ 8,554,815	0.00%	\$ 18,281,846	46.8%
October 1, 2012	\$ -	\$ 8,282,627	\$ 8,282,627	0.00%	\$ 16,793,230	49.3%

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 11. Other Post-employment Benefits (OPEB) (continued)

The actuarial valuation for the calculation of OPEB involves estimates of the value of reported amounts and assumptions about the probability of events in the future. 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 to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information is designed to provide multi-year trend information to show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, the Authority has not contributed assets to the plan at this time.

Actuarial methods and assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Authority and the plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Accounting Discloser Exhibit

Contribution rate	4.00%
Actuarial valuation date	10/01/14
Actuarial cost method	Entry Age
Amortization method	Level percent, open
Remaining amortization period	30 years
Asset valuation method	Unfunded
Actuarial assumptions:	
Investment rate of return *	4.00%
Projected salary increases *	3.70% -7.80%
Payroll growth assumptions	3.25%
Initial trend rate	8.00%
Ultimate trend rate	4.50%
* Includes inflation at	2.60%

Note 12. Prior Year Adjustment

The implementation of GASB Statement No. 68 “Accounting and Reporting for Pensions”, an amendment of GASB Statement No. 27 requires that financial statement be stated to reflect the cumulative impacts of recording pension and HIS on the statement of net position and statement of revenue, expenses and changes in net position for FY 2015, the year of implementation. Although not reflected in the Financial Statements, the impact of FY 2014 is presented here.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2015

Note 12. Prior Year Adjustment (continued)

	Restatement 2015
Net position, beginning of year, as previously presented	\$ 156,072,673
Change in net position	(1,950,785)
Prior year adjustment	(12,034,280)
Net position, as restated	144,038,393
Net position, end of year	\$ 142,087,608

	Impact on 2014
Net position, beginning as previously reported	\$ 156,072,673
Deferred outflows of resources	2,397,631
Net pension liability	(8,992,752)
Deferred inflows of resources	(5,439,159)
Net position, as restated	\$ 144,038,393

Note 13. Subsequent Event

On October 26, 2015, the Authority acquired the infrastructure assets of the US Navy’s wastewater utility and entered into a 50-year service contract to provide wastewater services to the Navy. The area served includes the Naval Air Station Key West on Boca Chica Key and various military housing and operations sites in Key West. The value of the capital assets was estimated at \$17,800,766. The Authority entered into a promissory note agreement with the Navy for this amount, which will be paid through credits to the Navy over the 50-year term of the service contract.

Required Supplementary Information

For the fiscal year ended September 30, 2015

Schedule of Funding Progress-OPEB

Fiscal Year Ending	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
October 1, 2014	\$ -	\$ 8,554,815	\$ 8,554,815	0.00%	\$ 18,281,846	46.8%
October 1, 2012	-	8,282,627	8,282,627	0.00%	16,793,230	49.3%
October 1, 2010	-	10,097,825	10,097,825	0.00%	15,648,927	64.5%
October 1, 2008	-	8,459,931	8,459,931	0.00%	16,321,158	51.8%

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Required Supplementary Information (continued)

For the fiscal year ended September 30, 2015

**Schedule of the Authority's Proportionate Share of Net Pension Liability
Florida Retirement System Pension Plan**

	2015	2014
Authority's proportion of the net pension liability	0.054182984%	0.051554064%
Authority's proportionate share of the net pension liability	\$ 6,998,459	\$ 3,145,556
Authority's covered-employee payroll	\$ 19,443,078	\$ 18,870,171
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	35.99%	16.67%
Plan fiduciary net position as a percentage of the total pension liability	92.00%	92.00%

**Schedule of the Authority's Contributions
Florida Retirement System Pension Plan**

	2015	2014
Contractually required contribution	\$ 1,321,027	\$ 1,129,253
Contributions in relation to the contractually required contribution	(1,321,027)	(1,129,253)
Contribution deficiency (excess)	-	-
Authority's covered-employee payroll	\$ 19,443,078	\$ 18,870,171
Contributions as a percentage of covered-employee payroll	6.79%	5.98%

**Schedule of the Authority's Proportionate Share of Net Pension Liability
Florida Retirement System Health Insurance Subsidy**

	2015	2014
Authority's proportion of the net pension liability	0.063837077%	0.062535225%
Authority's proportionate share of the net pension liability	\$ 6,965,000	\$ 5,847,196
Authority's covered-employee payroll	\$ 19,443,078	\$ 18,870,171
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	35.82%	30.99%
Plan fiduciary net position as a percentage of the total pension liability	0.50%	0.50%

**Schedule of the Authority's Contributions
Florida Retirement System Health Insurance Subsidy**

	2015	2014
Contractually required contribution	\$ 244,025	\$ 214,225
Contributions in relation to the contractually required contribution	(244,025)	(214,225)
Contribution deficiency (excess)	-	-
Authority's covered-employee payroll	\$ 19,443,078	\$ 18,870,171
Contributions as a percentage of covered-employee payroll	1.26%	1.14%

Statistical SECTION



Financial Trends
Rates and revenues
Debt

Demographic and Economic Information
Operating Information

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Statistical Section Summary

This section of the Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and supplementary information says about the Authority's overall financial health. The information is grouped into the categories described below.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the Aqueduct's financial performance and well-being have changed over time. 61

Rates and Revenues

These schedules contain trend information to help the reader assess the Authority's ability to generate revenue through user fees. 63

Debt

These schedules present information which helps the reader assess the affordability of the Authority's current levels of outstanding debt. 66

Demographic and Economic Information

These schedules offer demographic and economic indicators that help the reader understand the environment with which the Authority's financial activities take place. 68

Operating Information

These schedules contain data to help the reader understand how the information in the Authority's financial report relates to the services provided. 74

Financial Trends

Schedule of Changes in Net Position and Schedule of Revenue and Expenses
Last Ten Fiscal Years (in thousands)

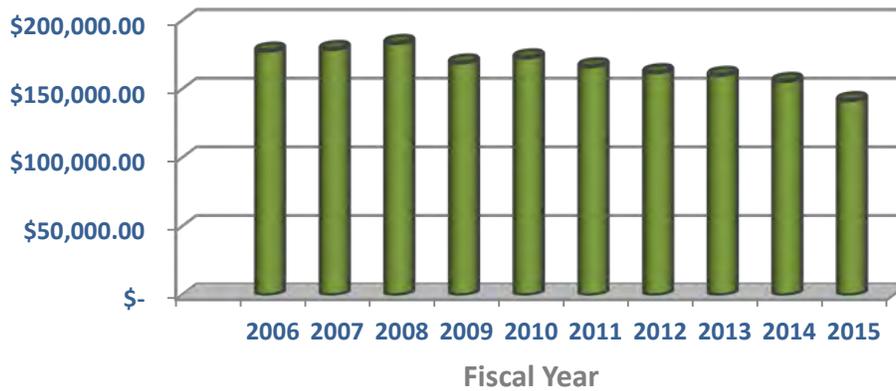
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Revenue:										
Operating revenue	\$ 50,618	\$ 48,562	\$ 46,668	\$ 44,739	\$ 45,961	\$ 42,837	\$ 41,829	\$ 41,432	\$ 38,123	\$ 37,837
Water surcharge	-	-	-	-	-	-	-	-	955	-
Other operating revenue	3,929	4,096	4,432	4,092	3,705	4,408	3,597	2,568	1,085	1,212
Less abatements and billing corrections	(294)	(333)	(431)	(414)	(404)	(437)	(510)	(274)	(187)	(351)
Net operating revenue	54,253	52,325	50,669	48,417	49,262	46,808	44,916	43,726	39,976	38,698
Operating expenses:										
Source of supply	701	622	507	695	678	644	669	688	846	1,142
Water treatment	3,670	3,617	3,450	3,329	2,959	2,828	3,015	2,822	2,415	2,131
Transmission & distribution	12,024	11,647	11,316	11,189	11,535	12,028	12,760	14,127	12,839	11,755
Wastewater treatment	943	859	878	834	713	565	499	952	955	832
Wastewater collection	1,319	1,159	1,090	1,071	991	969	906	767	572	336
Customer accounts	3,656	4,262	3,924	4,083	4,103	4,223	4,692	5,332	5,420	5,432
General & Administrative	15,736	15,862	12,981	12,801	12,581	12,723	12,433	11,523	10,177	10,452
Depreciation	14,975	14,964	14,576	14,386	14,443	12,401	12,178	10,602	8,645	7,426
Total operating expenses	53,024	52,992	48,722	48,388	48,003	46,381	47,152	46,813	41,869	39,506
Utility operating income	1,229	(667)	1,947	29	1,259	427	(2,236)	(3,087)	(1,893)	(808)
Non-Operating revenue (expenses)										
Interest income	244	319	346	357	369	449	1,075	2,959	2,944	2,160
Investment income	-	-	-	-	(757)	4,056	1,092	174	-	-
Other income (reimbursements)	548	556	722	326	376	57	192	274	107	687
Grants & reimbursements from federal & state agencies	-	-	-	8	8	30	20	32	(110)	1,062
Gain(Loss) on disposal of plant assets & inventory	11	(148)	57	50	(63)	(56)	(58)	261	(316)	(531)
Interest expense	(5,332)	(5,682)	(6,053)	(5,959)	(5,661)	(5,643)	(5,755)	(7,178)	(3,513)	(2,789)
Amortization	-	-	-	-	-	(388)	(30)	(28)	(80)	(36)
Other expenses	(745)	(354)	(616)	(519)	(442)	(48)	(299)	(116)	(31)	-
Total non-operating revenue	(5,274)	(5,309)	(5,544)	(5,737)	(6,170)	(1,543)	(3,763)	(3,622)	(999)	553
Net income (Loss)	(4,044)	(5,976)	(3,597)	(5,708)	(4,911)	(1,116)	(5,999)	(6,709)	(2,892)	(255)
Capital grants and contributions	2,093	1,540	1,666	1,364	1,371	4,829	(8,228)	11,085	4,079	5,245
Change in net position	(1,951)	(4,436)	(1,931)	(4,344)	(3,540)	3,713	(14,227)	4,376	1,187	4,990
Net position, beginning of year	156,072	160,509	162,440	166,784	173,226	169,513	183,740	179,364	178,177	173,187
Adjustment for restatement	(12,034)				(2,902)					
Net position, end of year	\$ 142,087	\$ 156,073	\$ 160,509	\$ 162,440	\$ 166,784	\$ 173,226	\$ 169,513	\$ 183,740	\$ 179,364	\$ 178,177

Financial Trends, Continued

Schedule of Net Position by Component
Last Ten Fiscal Years
(in thousands)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Net investment in capital assets	\$ 135,293	\$ 136,145	\$ 136,638	\$ 130,549	\$ 127,586	\$ 126,277	\$ 123,401	\$ 141,894	\$ 145,556	\$ 138,724
Restricted										
Debt service	2,401	1,882	1,982	4,156	4,271	4,295	4,171	3,877	194	489
Capital projects	6,297	6,385	4,779	7,477	6,766	6,502	7,950	7,740	14,837	14,001
Other purposes	-	-	-	320	-	-	-	-	-	-
Unrestricted	(1,904)	11,661	17,110	19,938	28,161	36,152	33,991	30,229	18,777	24,963
Total net position	\$ 142,087	\$ 156,073	\$ 160,509	\$ 162,440	\$ 166,784	\$ 173,226	\$ 169,513	\$ 183,740	\$ 179,364	\$ 178,177

Net Investment in Capital Assets
(in thousands)



Rates and Revenues

Water Rates for Standard 5/8" Meter Last Ten Fiscal Years

Fiscal Year	Base Charge	0-6,000 gallons	6,001-12,000 gallons	12,001-30,000 gallons	30,001-50,000 gallons	>50,000 gallons
2015	\$ 13.75	\$ 5.78	\$ 8.43	\$ 9.46	\$ 10.55	\$ 11.58
2014	13.57	5.70	8.32	9.33	10.41	11.42
2013	13.43	5.64	8.24	9.23	10.30	11.30
2012	13.27	5.57	8.14	9.12	10.17	11.16
2011	13.04	5.47	8.00	8.96	9.99	10.97
2010	12.92	5.42	7.93	8.88	9.90	10.87
2009	12.86	5.39	7.89	8.84	9.85	10.82
2008	11.97	5.02	7.34	8.23	9.17	10.08
2007	11.17	4.69	6.85	7.68	8.55	9.40
2006	10.37	4.35	6.36	7.13	7.93	8.72

Wastewater Rates Last Ten Fiscal Years*

Fiscal Year	Base Charge	0-10,000 gallons
2015	\$ 27.70	\$ 10.49
2014	27.33	10.35
2013	27.05	10.24
2012	26.72	10.11
2011	26.26 - 49.42	7.71 - 9.94
2010	26.02 - 48.96	7.64 - 9.85
2009	25.90 - 48.73	7.60 - 9.80
2008	34.99 - 47.65	7.21 - 8.95
2007	26.37 - 35.91	5.43 - 7.31
2006	25.70 - 35.00	5.29 - 7.13

*Rates prior to 2011 were by individual district. All rates were consolidated in 2012

Reclaimed Rates

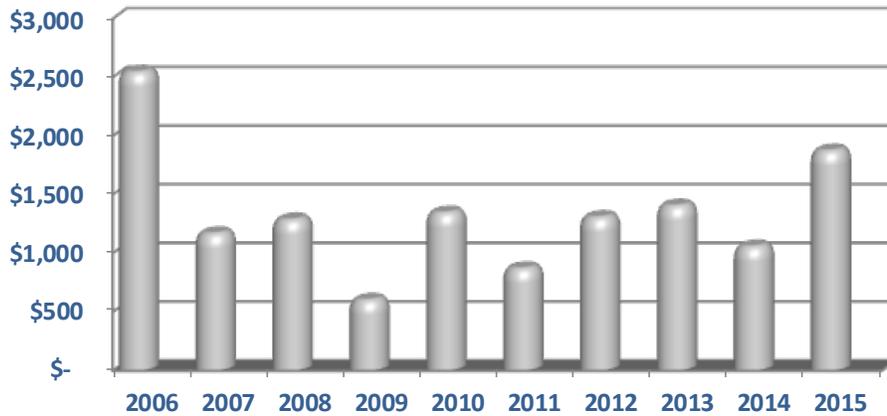
Reclaimed water consumption charge-Per thousand gallons, billed in 100 gallon increments at 50% of each potable rate block. Adopted May 27, 2010

Rates and Revenues, Continued

System Development Fees Collected
 Last Ten Fiscal Years
 (in thousands)

Fiscal Year	System Development Fees Collected
2015	\$ 1,869
2014	1,052
2013	1,400
2012	1,302
2011	866
2010	1,341
2009	597
2008	1,281
2007	1,164
2006	2,540

System Development Fees
 (in thousands)



Rates and Revenues, Continued

Ten Largest Customers
Fiscal Years Ended September 30, 2015 and 2006

2015		Total Gallons Consumed (000)	Total Water Revenues	% of Water Revenues
1	United States Navy	436,520	\$ 1,072,376	3.0%
2	Monroe County Detention Center	50,357	505,378	1.4%
3	Monroe County School	41,611	372,486	1.1%
4	Cheeca Lodge and Spa	83,541	354,884	1.0%
5	Keys Hotel Operator Inc	29,138	297,800	0.8%
6	Ocean Reef Club Inc	35,878	290,806	0.8%
7	City Of Key West	37,344	270,810	0.8%
8	Resort Hotels Of Key	21,285	236,772	0.7%
9	Sunshine Key RV Resort and Marina	20,044	222,497	0.6%
10	Venture Out of Cudjoe	21,854	217,906	0.6%

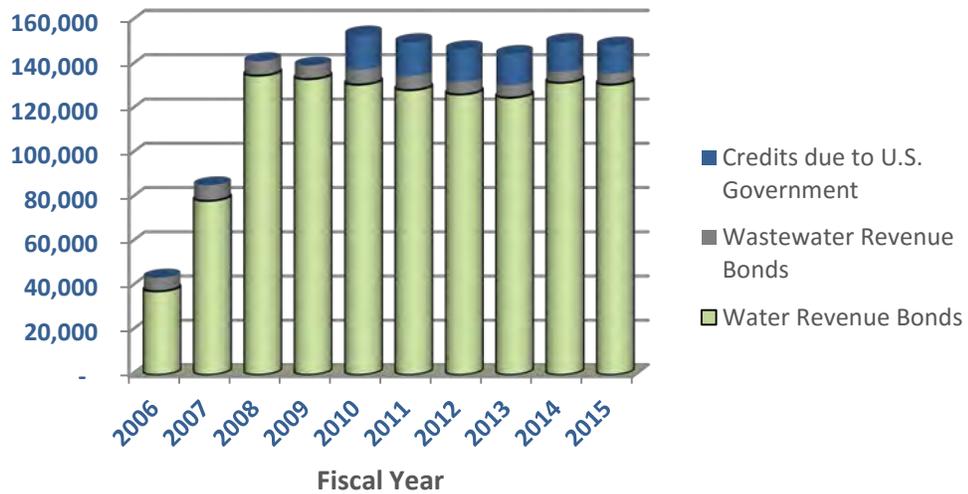
2006		Total Gallons Consumed (000)	Total Water Revenues	% of Water Revenues
1	United States Navy	326,371	\$ 803,305	2.2%
2	Monroe County Board of County Commissioners	56,604	436,735	1.2%
3	Ocean Reef Club	38,375	286,967	0.8%
4	Monroe County Board of Public Instruction	36,163	248,941	0.7%
5	Cheeca Holding LLC	33,267	269,135	0.7%
6	Heartland Hotel Corporation	29,413	227,508	0.6%
7	Hawks Cay Investors	28,678	223,682	0.6%
8	City of Key West	25,485	91,771	0.3%
9	CHL Partnership	25,462	189,942	0.5%
10	Sheraton Suites KW	22,806	183,497	0.5%

Debt

Principal Portion of Outstanding Debt
Last Ten Fiscal Years
(in thousands)

Fiscal Year	Water Revenue Bonds	Water Revenue Premium	Wastewater Revenue Bonds	Total Bonds	Credits due to U.S. Government	Totals	Total per Customer
2015	\$ 130,595	\$ 591	\$ 4,960	\$ 136,146	\$ 12,700	\$ 148,846	3.01
2014	129,905	2,107	4,965	136,977	13,432	150,409	3.06
2013	123,085	2,199	5,635	130,919	14,128	145,047	2.98
2012	123,490	3,243	5,635	132,368	14,792	147,160	3.02
2011	126,105	2,566	6,280	134,951	15,423	150,374	3.23
2010	131,195	2,600	6,613	140,408	16,024	156,432	3.39
2009	133,679	2,633	6,124	142,436	-	142,436	3.16
2008	135,259	2,629	6,479	144,367	-	144,367	3.18
2007	77,160	1,657	7,011	85,828	-	85,828	1.87
2006	78,673	1,743	6,083	86,499	103	86,602	1.88

Principal Portion of Outstanding Debt



Debt, Continued

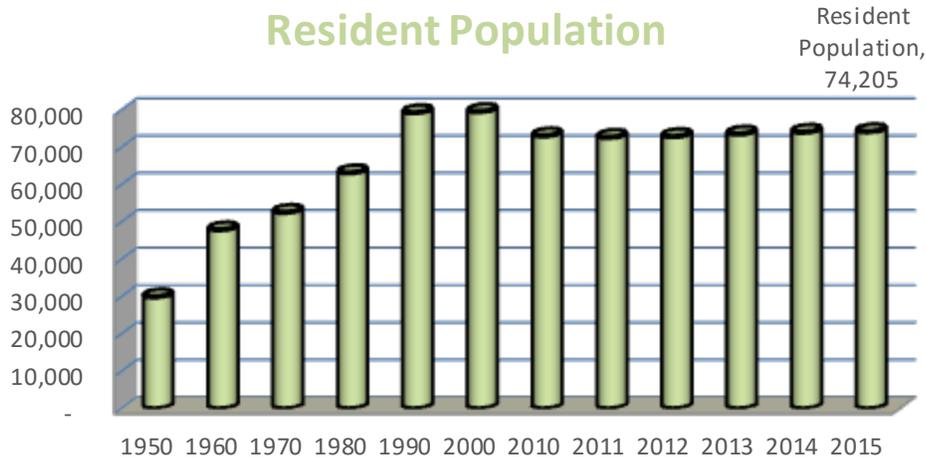
Revenue Bond Coverage
Last Ten Fiscal Years
(in thousands)

Fiscal Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements	Coverage
Water					
2015	\$ 51,372	\$ 35,786	\$ 15,291	\$ 8,342	1.83
2014	49,635	36,343	13,292	8,750	1.52
2013	48,759	32,610	16,149	8,082	2.00
2012	46,780	32,512	14,268	8,263	1.73
2011	48,164	32,259	15,905	8,293	1.92
2010	46,335	32,573	13,762	8,307	1.66
2009	46,162	34,080	12,082	7,798	1.55
2008	45,740	35,060	10,680	7,736	1.38
2007	41,447	31,875	9,572	4,534	2.11
2006	38,427	30,891	7,536	3,706	2.03
Wastewater					
2015	\$ 3,110	\$ 2,262	\$ 1,174	\$ 71	16.56
2014	2,987	2,018	1,302	492	2.65
2013	3,021	1,967	1,054	607	1.74
2012	2,737	1,905	832	621	1.34
2011	3,047	1,704	1,343	628	2.14
2010	2,455	1,497	958	478	2.00
2009	1,642	1,368	274	221	1.24
2008	1,999	1,425	574	477	1.20
2007	2,141	1,537	604	475	1.27
2006	1,764	1,539	225	268	0.84

Demographic and Economic Information

Population of Monroe County, Florida
Selected Years 1950-2015

Year	Resident Population	Increase Decrease	Annual Percentage Change	Personal Income (in thousands)	Per Capita Income
2015	74,205	(2,931)	-3.8%	not available	
2014	74,044	484	0.7%	5,368,160	69,593
2013	73,560	663	0.9%	4,415,284	57,829
2012	72,897	227	0.3%	4,245,050	56,745
2011	72,670	(420)	-0.6%	4,354,126	58,941
2010	73,090	(6,499)	-8.2%	4,129,832	56,415
2000	79,589	289	0.4%	2,946,305	37,019
1990	79,300	16,112	25.5%	1,771,001	22,636
1980	63,188	10,602	20.2%	577,294	9,060
1970	52,586	4,665	9.7%	196,901	3,747
1960	47,921	17,964	60.0%	not available	
1950	29,957	29,957	112.8%	not available	



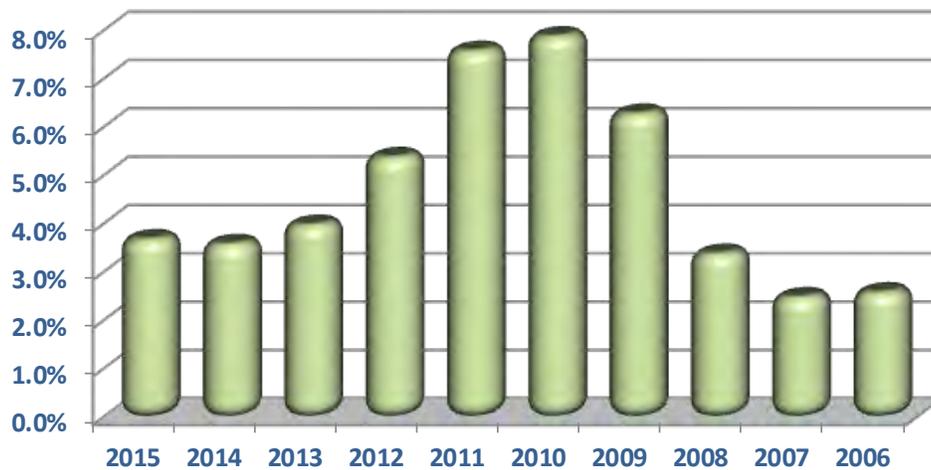
Source: U.S. Department of Labor, Bureau of Labor Statistics, Local Area of Unemployment Statistics Program, in cooperation with the Florida Department of Economic Opportunity, Bureau of Labor Market Statistics.

Demographic and Economic Information, Continued

Employment Statistics 2006-2015

	Labor Force	Employment	Unemployment	Unemployment Rate
2015	44,165	42,548	1,617	3.7%
2014	50,044	48,231	1,813	3.6%
2013	49,103	47,137	1,966	4.0%
2012	47,658	45,091	2,567	5.4%
2011	49,662	46,178	3,484	7.6%
2010	44,491	40,990	3,502	7.9%
2009	45,833	42,954	2,880	6.3%
2008	46,511	44,916	1,595	3.4%
2007	44,045	42,933	1,112	2.5%
2006	44,271	43,143	1,128	2.6%

Local Unemployment



Demographic and Economic Information, Continued

Principal Employers

Fiscal Years Ended September 30, 2015 and 2007

Employer	2015 Employees
US Armed Forces (includes civilians support and Contractors)	2,664
Monroe County Schools	1,054
Ocean Reef Club	997
Publix Stores (Key West 300, Marathon 155, and Key Largo 160)	615
Monroe County Sheriff's Office	550
Monroe County Government	530
City of Key West	482
Lower Keys Medical Center	408
Westin Resort and Marina	404
Spottswood Properties	400

Employer	2007 Employees
Monroe County Schools	1,362
US Armed Forces (includes civilians support and Contractors)	1,269
Ocean Reef Club	1,000
Monroe County Government	810
Health Management Associates	700
Monroe County Sheriff's Office	539
City of Key West	516
Publix	392
Historic Tours of America	350
Casa Marina/Reach Resort	300

Information prior to 2007 unavailable

Demographic and Economic Information, Continued

Schedule of Customer Accounts
Last Ten Fiscal Years

	Residential	Non Residential	U.S. Navy	City of Key West Government	Cruise Ships Through the Outer Mole	Senior Citizens	Total
2015	43,073	5,040	18	51	-	1,245	49,427
2014	42,753	4,912	18	53	4	1,346	49,086
2013	42,258	4,835	19	55	4	1,545	48,716
2012	42,401	4,753	21	76	4	1,408	48,663
2011	40,884	4,291	18	75	-	1,255	46,523
2010	40,911	4,183	20	36	-	948	46,098
2009	40,150	4,059	20	41	-	808	45,078
2008	40,644	4,017	20	43	-	693	45,417
2007	40,955	4,142	20	77	-	670	45,864
2006	41,138	4,108	19	76	-	606	45,947

Location of Customers
Last Ten Fiscal Years

	Key West to Little Torch Key	Big Pine Key to Conch Key	Long Key to Ocean Reef	Total
2015	21,976	10,293	17,158	49,427
2014	21,893	10,237	16,956	49,086
2013	21,789	10,124	16,803	48,716
2012	21,830	10,117	16,716	48,663
2011	20,823	9,638	16,062	46,523
2010	20,698	9,514	15,886	46,098
2009	20,007	9,373	15,698	45,078
2008	20,250	9,417	15,750	45,417
2007	20,499	9,561	15,804	45,864
2006	20,647	9,541	15,759	45,947

Demographic and Economic Information, Continued

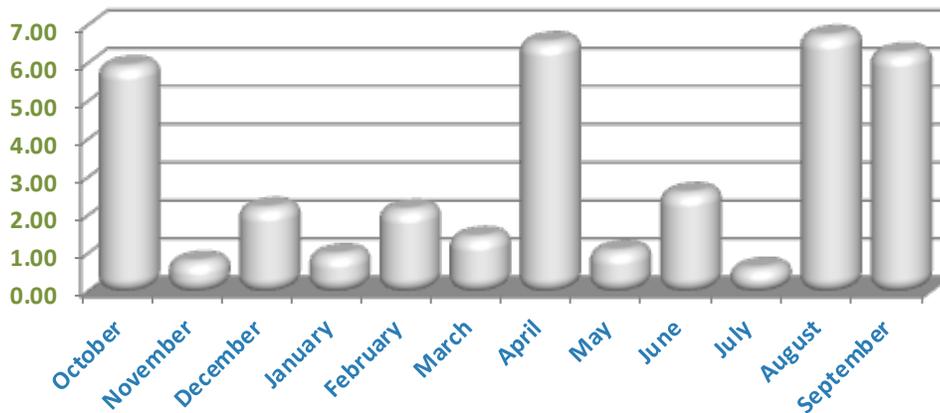
Monthly Rainfall
Fiscal Year Ended September 30, 2015
(in inches)

	Average-Key West International Airport *	Actual-Key West International Airport	Average-Miami International Airport **	Actual-Miami International Airport
October	5.51	5.97	7.20	3.24
November	2.28	0.84	3.05	2.66
December	1.82	2.25	1.82	1.32
January	1.83	1.03	1.93	0.95
February	1.64	2.20	2.02	2.81
March	1.54	1.48	2.45	1.32
April	1.78	6.60	3.45	4.03
May	3.20	1.12	6.37	2.39
June	4.38	2.64	8.69	3.60
July	3.64	0.67	6.44	5.91
August	4.79	6.77	7.75	9.02
September	6.52	6.31	8.94	9.97
Totals	38.93	37.88	60.11	47.22

* period of record 1871-2015
** period of record 1911-2015

Source: Southeast Regional Climate Center

Actual Monthly Rainfall Key West
(in inches)



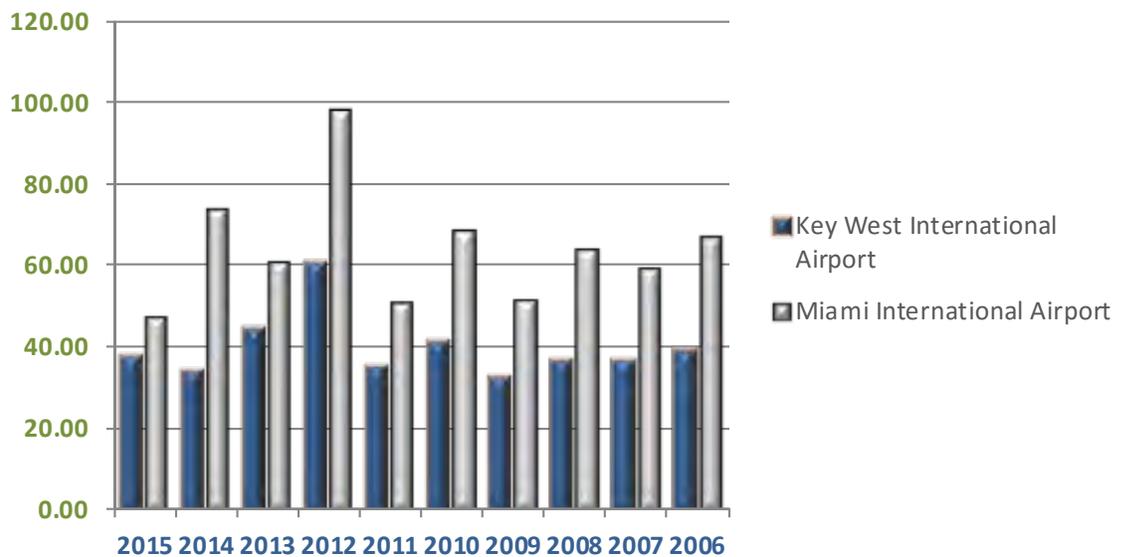
Demographic and Economic Information, Continued

Annual Rainfall
Last 10 Fiscal Years
(in inches)



Year	Key West International Airport	Miami International Airport
2015	37.88	47.22
2014	33.94	73.65
2013	44.43	60.58
2012	60.58	97.87
2011	35.07	50.56
2010	41.47	68.56
2009	32.40	51.14
2008	36.52	63.59
2007	36.54	59.27
2006	39.19	66.97

Key West and Miami Annual Rainfall
(in inches)



Operating Information

Operating and Capital Indicators
Last Ten Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Water										
Water treatment plant permitted capacity	23.79 mgd									
Reverse osmosis permitted capacity	9mgd	9 mgd	3 mgd	3 mgd	3 mgd					
Miles of transmission main	187	187	187	187	187	187	187	187	187	187
Miles of distribution main	690	690	690	690	690	690	690	690	650	650
Number of pumping stations	26	26	25	25	25	25	25	25	19	19
Water storage capacity	49.4	49.4	49.4	49.4 mg	45 mg	45 mg				
Wastewater										
Number of wastewater treatment plants	6	5	5	5	5	5	5	4	4	4
Combined permitted plant capacities	.92 mgd	.92 mgd	.92 mgd	.83 mgd	.83 mgd	.83 mgd	.5 mgd	.5 mgd	.5 mgd	.5 mgd
Approximate miles of wastewater collection lines	195	49	49	49	49	49	44	19	19	19
Approximate feet of reclaimed water lines	14	14.32	14.32	3.47	1.90	1.90	1.90	-	-	-

Note: mgd=million gallons per day, mg=million gallons



Operating Information, Continued

Water Production and Usage
Last Ten Fiscal Years
(in thousands of gallons)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Water Available for Sale										
Biscayne Aquifer	6,284,108	6,079,842	5,889,923	5,874,860	5,764,178	5,591,692	5,862,527	5,906,816	5,818,327	6,242,867
Floridan Aquifer	223,710	147,863	213,680	123,896	560,597	253,278	13,156	51,067	75,077	106,050
Desalinated sea water	-	-	-	-	-	-	72,614	-	506	33,560
Less water lost in production**	50,295	70,146	6,123	-	-	-	-	(1,000)	(89,949)	(80,762)
Total Water Available for Sale	6,558,113	6,297,851	6,109,726	5,998,756	6,324,775	5,844,970	5,948,297	5,956,883	5,803,961	6,301,715
Water Sales:										
Residential	2,787,341	2,686,055	2,689,390	2,735,438	2,802,000	2,722,904	2,744,956	2,846,368	2,901,719	3,172,931
non-residential	1,907,458	1,826,920	1,770,246	1,686,189	1,709,284	1,675,373	1,665,133	1,663,846	1,728,763	1,840,531
U.S. Navy	274,413	273,266	273,584	290,151	274,047	239,671	242,906	291,323	304,343	326,372
City of Key West	29,748	16,844	20,481	25,055	23,328	20,602	19,849	24,604	28,225	28,391
Cruise ship through Outer Mole	657	2,109	1,292	1,332	1,363	-	-	-	-	-
Senior Citizens	49,066	54,982	58,477	54,312	48,772	41,259	36,166	37,452	27,141	27,448
Total Water Sold	5,048,683	4,860,176	4,813,470	4,792,477	4,858,794	4,699,809	4,709,010	4,863,593	4,990,191	5,395,673
Other accounted for water*	545,417	228,813	336,096	268,283	889,391	568,266	674,231	746,552	398,484	314,366
Total Accounted for Water	5,594,100	5,088,989	5,149,566	5,060,760	5,748,185	5,268,075	5,383,241	5,610,145	5,388,675	5,710,039
Unaccounted for water	964,013	1,208,862	960,160	937,996	576,590	576,895	565,056	346,738	595,184	591,676
Unaccounted for water as a percentage of total water production	14.7%	19.2%	15.7%	15.6%	9.1%	9.9%	9.5%	5.8%	10.3%	9.4%
Average daily water production (million gallons/day)	17.97	17.25	16.74	16.43	17.33	16.01	16.30	16.30	15.90	17.30
Average daily water sales (million gallons/day)	13.83	13.32	13.19	13.13	13.31	12.88	12.90	13.30	13.70	14.80

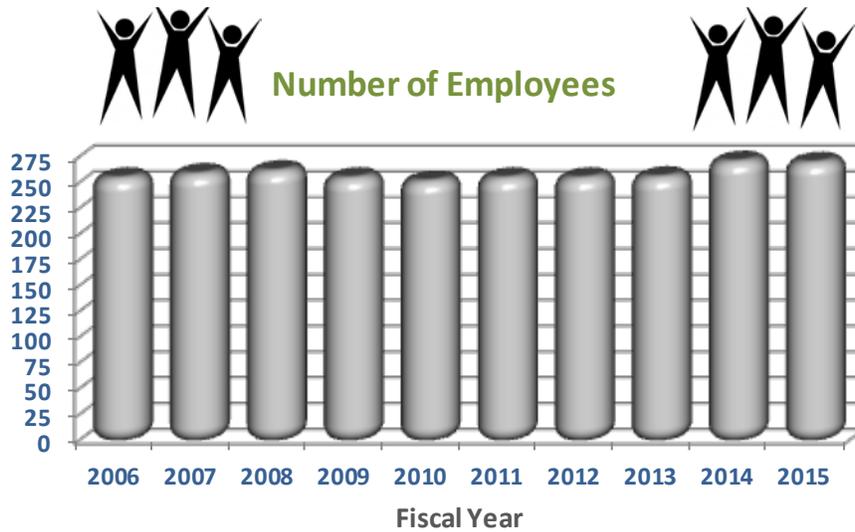
*Includes transmission line loss, distribution losses from line flushing and breaks and public uses for fire and cleaning. The method of identifying other accounted for water was modified in 2006.

**This is the difference between sum of the individual supply wells and the total water measured leaving the WTP

Operating Information, Continued

Number of Employees by Activity
Last Ten Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Water:										
Production	26	25	25	25	25	25	25	27	26	27
Transmission and distribution	83	83	82	82	81	81	80	85	86	80
Wastewater:										
Treatment	13	13	9	8	6	6	7	3	2	3
Collection	7	8	4	5	6	6	6	7	7	2
Engineering and Construction:										
Engineering	27	27	25	25	26	26	26	27	26	25
Construction	9	9	9	9	10	9	9	9	8	10
Administration:										
Customer service	40	43	42	43	43	44	46	55	56	59
Finance, accounting and purchasing	29	24	24	25	25	25	25	22	24	24
Information Technology	25	26	22	22	21	20	19	14	12	11
Other administrative personnel	13	15	16	13	12	12	14	15	14	16
Totals	272	273	258	257	255	254	257	264	261	257



Operating Information, Continued

Additions to the Utility Plant by Class
Last Ten Fiscal Years
(in thousands)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Land	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 250	\$ -	\$ -	\$ 570
Building, structures and improvements	501	411	2,270	296	1,008	9,960	7,646	7,065	7,902	2,190
Equipment, vehicles, furniture and fixtures	1,296	1,159	1,026	1,025	664	585	717	1,407	2,065	1,583
Transmission system	347	3,663	-	178	1,146	8,640	-	4,069	-	34
Distribution systems	883	9,485	4,224	4,240	3,351	5,579	2,494	2,051	356	5,050
Water meters	303	97	569	2,335	1,998	1,999	2,636	1,295	3,989	34
Water storage facilities	1,291	-	803	-	-	-	-	-	-	-
Pumping stations	355	66	376	89	7	1,805	51	7,113	1,321	2,095
Water treatment facilities	16	444	132	23	393	204	6,254	14,713	44	331
Reverse osmosis equipment	-	636	-	-	-	22,878	-	2,205	2,547	-
Computer equipment	125	671	258	280	309	139	265	556	870	683
Wastewater treatment equipment	228	64	38	23	1,965	12	838	3	79	3,201
Collection system	-	30	-	-	-	6	320	-	182	8,898
Reclaimed system	-	78	2,373	-	411	1,820	-	439	-	-
	\$ 5,345	\$ 16,804	\$ 12,069	\$ 8,489	\$ 11,252	\$ 53,627	\$ 21,471	\$ 40,916	\$ 19,355	\$ 24,669

Operating Information, Continued

Schedule of Insurance in Effect
September 30, 2015

Type of Coverage	Carrier/Policy Number	Coverage Amount	Deductible Self-retention	Effective Date	Expiration Date
Liability package General liability	FMIT #0178	\$5,000,000 OCC	\$75,000 Stop Loss \$25,000	10/1/2014	9/30/2015
Automobile liability		\$3,000,000 OCC	\$25,000 Comp., \$1,000 PD, \$1,000 PIP		
Public officials liability		\$5,000,000 OCC	\$25,000		
Crime	Travelers / #105590021	\$500,000	\$25,000	3/31/2014	3/31/2016
Property w/boiler and machinery	Westport- 30% NAP045658702 Ace American Insurance EUT N09168552 / 70%	\$129,594,272	Wind (named storms) 5% of location values \$250,000 min flood- Florida City only 5% of ins. Values with min. of \$1,000 ded. Boiler and machinery \$25,000	3/31/2015	3/31/2016
Flood building/contents	Bankers NFIP Various		Varies \$1,000 for building & \$1,000 for contents	12/7/2014 4/27/2015 5/6/2015 6/28/2015	12/7/2015 4/27/2016 5/7/2016 6/28/2016
Worker's compensation	Florida Municipal Self Insurers FMIT 0178	Statutory	\$2,500/each injury	10/1/2014	10/1/2015
Pollution and environmental coverage	Ironshore Specialty / 1873800	\$10,000,000 aggregate pollution \$1,000,000 aggregate storage tank	\$10,000 25,000 Navy	12/23/2013	12/23/2016
Board members bonding	Fidelity & Deposit Various		\$10,000 per member	12/6/2012 12/17/2015	12/31/2016 12/31/2018
Fiduciary Insurance	Travellers / 106065534	\$1,000,000	No deductible	3/1/2015	3/1/2016

Operating Information, Continued

Drinking Water Quality Standards & Analyses 2015

Primary Drinking Water Standards

Inorganic Contaminants	MCL* mg/l*	2015 Finished Water mg/l*
Antimony	0 . 006	ND*
Arsenic	0 . 050	ND*
Asbestos	7 MFL	ND*
Barium	2 . 000	0.008
Beryllium	0 . 004	ND*
Cadmium	0 . 005	ND*
Chromium	0 . 100	ND*
Cyanide	0 . 200	ND*
Fluoride***	4 . 000	0.69
Lead	0 . 015	ND*
Mercury	0 . 002	ND*
Nickel	0 . 100	ND*
Nitrate (as N)	10 . 000	2.62
Nitrite (as N)	1 . 000	ND*
Total Nitrate (as N) & Nitrite	10 . 000	2.62
Selenium	0 . 050	0.009
Sodium	160 . 000	21
Thallium	0 . 002	ND*

Turbidity Level	MCL* NTU*	2015 Finished Water NTU*
	1 . 0	0.06

Disinfectant By-Products	MCL* mg/l*	2015 Distribution Water mg/l*
Trihalomethanes	0 . 080	0.28

Disinfectant By-Products	MCL* mg/l*	2015 Distribution Water mg/l*
Haloacetic Acids	0 . 060	0.014

Volatile Organic Contaminants	MCL* mg/l*	2015 Finished Water mg/l*
Vinyl chloride	0 . 001	ND*
Benzene	0 . 001	ND*
Carbon Tetrachloride	0 . 003	ND*
1,2-Dichloroethane	0 . 003	ND*
Trichloroethylene	0 . 003	ND*
Para-Dichlorobenzene	0 . 075	ND*
1,1-Dichloroethylene	0 . 007	ND*
1,1,1,-Trichloroethane	0 . 200	ND*
cis-1,2-Dichloroethylene	0 . 070	ND*
1,2-Dichloropropane	0 . 005	ND*
Ethylbenzene	0 . 700	ND*
Monochlorobenzene	0 . 100	ND*
o-Dichlorobenzene	0 . 600	ND*
Styrene	0 . 100	ND*
Tetrachloroethylene	0 . 003	ND*
Toluene	1 . 000	ND*
trans-1,2-Dichloroethylene	0 . 100	ND*
Xylenes	10 . 000	ND*
Dichloromethane	0 . 005	ND*
1,2,4-Trichlorobenzene	0 . 070	ND*
1,1,2-Trichloroethane	0 . 005	ND*

Pesticides & PCB Contaminants	MCL* mg/l*	2015 Finished Water mg/l*
Endrin	0 . 00200	ND*
Lindane	0 . 00020	ND*
Methoxychlor	0 . 04000	ND*
Toxaphene	0 . 00300	ND*
Dalapon	0 . 20000	ND*
Diquat	0 . 02000	ND*
Endothall	0 . 10000	ND*
Glyphosate	0 . 70000	ND*
Di(2-ethylhexyl)Adipate	0 . 40000	ND*
Oxamyl (Vydate)	0 . 20000	ND*
Simazine	0 . 00400	ND*
Picloram	0 . 50000	ND*
Dinoseb	0 . 00700	ND*
Hexachlorocyclopentadiene	0 . 05000	ND*
Carbofuran	0 . 04000	ND*
Atrazine	0 . 00300	ND*
Alachlor	0 . 00200	ND*
Heptachlor	0 . 00040	ND*
Heptachlor orepoxide	0 . 00020	ND*
2,4-D	0 . 07000	ND*
2,4,5-TP (silvex)	0 . 05000	ND*
Hexachlorobenzene	0 . 00100	ND*
Di(2-Ethylhexyl) phthalate	0 . 00600	ND*
Benzo (A) pyrene	0 . 00020	ND*
Pentachlorophenol	0 . 00100	ND*
PCB	0 . 00050	ND*
DBCP	0 . 00020	ND*
EDB-ethylene biocide	0 . 00002	ND*
Chlorodane	0 . 00200	ND*
Dioxin	3X10 ⁻⁸	ND*

Radionuclides Contaminant	MCL* pCi/l*	2015 Finished Water pCi/l*
Gross Alpha	15	1.8
Radium 226		ND
Radium 228		ND

Operating Information, Continued

Drinking Water Quality Standards & Analyses 2015

Secondary Drinking Water Standards

Secondary Contaminant	MCL mg/l*	2015 Finished Water mg/l*
Aluminum	0.20	ND
Chloride	250	47
Color	15 Color Units	ND*
Copper	1.00	ND*
Fluoride	2.00	0.69
Foaming Agents	0.50	ND*
Iron	0.30	0.01
Manganese	0.05	ND*
Odor	3.0 ton	ND*
PH**	6.50-8.50	9.3
Silver	0.10	ND*
Sulfate	250	43
Total Dissolved Solids (TDS)	500	202
Zinc	5	ND*

General	mg/l*
Total Hardness (or in grains per gallon)	96 5.6
Calcium Hardness	81
Alkalinity	40
Total Chlorine	3.3

*NR=Not required
 *ND=Not detected=Below reportable limits
 *MCL=Maximum contaminant level
 *mg/l=Milligrams per liter
 *MFL=Million fibers per liter greater than 10 micron
 ***Fluoride has a secondary standard
 *pCi/l=Picocuries per liter
 *NTU=Nephelometric turbidity units
 *mg/l=milligrams per liter except color, odor, and PH
 **The pH has no health effects. The pH is high to improve the stability of the disinfection.

Note: The primary drinking water standards are established for health reasons and the secondary drinking water standards are established for aesthetic reasons. The MCL is the maximum allowable level a regulated contaminant should be present in drinking water. The finished water results indicate the measured level that is found in FKAA drinking water.

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Reporting SECTION



Independent Auditors' Report on Internal
Control Over Financial Reporting on Com-
pliance and other Matters Based on an
Audit of Financial Statements Performed in
Accordance with Government Auditing
Standards

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**INDEPENDENT AUDITORS' 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**

To The Board of Directors and the Executive Director
Florida Keys Aqueduct Authority
Key West, Florida

We have audited, in accordance with the 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, the financial statements of the Florida Keys Aqueduct Authority (the Authority), which comprise the statement of net position as of September 30, 2015 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 13, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Miami, FL
June 13, 2016

Auditor General SECTION



Management Letter in Accordance with the
Rules of the Auditor General of the State of
Florida

Independent Accountants' Report on Com-
pliance Pursuant to Section 218.415 Florida
Statutes

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**MANAGEMENT LETTER IN ACCORDANCE WITH THE RULES OF THE
AUDITOR GENERAL OF THE STATE OF FLORIDA**

To the Board of Directors and the Executive Director
Florida Keys Aqueduct Authority
Key West, Florida

Report on the Financial Statements

We have audited the financial statements of the Florida Keys Aqueduct Authority, as of and for the year ended September 30, 2015, and have issued our report thereon dated June 13, 2016.

Auditors' Responsibility

We conducted our audit 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 Chapter 10.550, Rules of the Auditor General.

Other Reports

We have issued our Independent Auditors' 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*; and Independent Accountants' Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated June 13, 2016, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations made in the prior year audit report.

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be



disclosed in this management letter, unless disclosed in the notes to the financial statements. The Authority was established by Special Legislation 76-441 of the Laws of Florida. There are no component units.

Financial Condition

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, requires that we apply appropriate procedures and we report the results of our determination as to whether or not the Authority has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Authority did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Authority's 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.

Annual Financial Report

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, requires that we apply appropriate procedures and we report the results of our determination as to whether the annual financial report for the Authority for the fiscal year ended September 30, 2014, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the year ended September 30, 2015. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with 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 which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Board of Directors, the Audit Committee, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

Marum LLP

Miami, FL
June 13, 2016



**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE PURSUANT TO
SECTION 218.415 FLORIDA STATUTES**

To the Board of Directors and the Executive Director
Florida Keys Aqueduct Authority

We have examined the Authority's compliance with Section 218.415 Florida Statutes during the year ended September 30, 2015. Management is responsible for the Authority's compliance with those requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

In our opinion, the Florida Keys Aqueduct Authority complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2015.

This report is intended solely for the information and use of the Board of Directors, the Audit Committee, management of the Florida Keys Aqueduct Authority, 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.

Marcum LLP

Miami, FL
June 13, 2016

