

Florida Keys Aqueduct Authority



Comprehensive Annual Financial Report
Fiscal year ended September 30, 2016

**FLORIDA
KEYS
AQUEDUCT
AUTHORITY**

**COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**

Prepared by:

Kerry G. Shelby, Deputy Executive Director and CFO

Denise M. Preuss, Manager of Finance

Finance Department

For fiscal year ended **September 30, 2016**

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 Executive Director

Message from Management

For fiscal year ended **September 30, 2016**

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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 & 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 Floridian 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
- ✓ 49 mg capacity in 33 storage tanks
- ✓ 690 miles of potable water distribution main at up to 55 psi
- ✓ 26 pumping stations
- ✓ 7 wastewater treatment plants
- ✓ 195 miles of wastewater collection and force main lines
- ✓ 14 miles of reclaimed distribution water lines

Message from the Executive Director-----

Kirk Zuelch

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

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, 2016.

Executive Staff

Kirk Zuelch

Executive Director

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 three 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.

Kerry Shelby

Deputy Executive
Director, Administration
Division

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 2017. 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 as connections continue to be made.

Tom Walker

Deputy Executive
Director, Utility Operations
Division

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.

Denise Preuss

Manager of Finance

Sincerely,



Kirk Zuelch

Executive Director

April 7, 2017

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 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 (the Authority) for the fiscal year ended September 30, 2016.

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, 2016 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, 2016 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 the 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 50,000 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 Floridian 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.

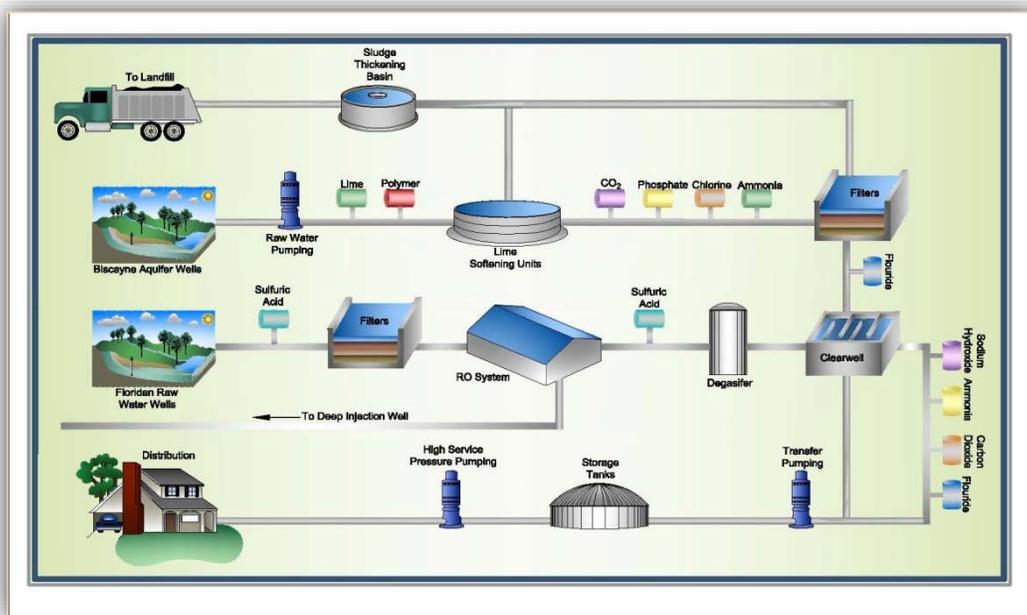
The Authority is permitted by the South Florida Water Management District (SFWMD) to withdraw its supply of water. The Authority's water use permit allows for an average daily withdrawal from the Biscayne Aquifer of 19.93 mgd and a maximum daily withdrawal of 23.79 mgd. However, the permit contains certain limitations in the event of severe drought. The permit also allows the Authority to withdraw up to 8 mgd of brackish water from the deeper Floridian aquifer to treat through reverse osmosis. The permit is effective until 2028, 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 Floridian 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 wastewater treatment facilities in Bay Point, Duck Key, Layton, Boca Chica and Key Haven, Florida. Additionally, the Authority operates facilities in Big Coppitt and Cudjoe Key that are 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 continues work on a regional collection system connecting to the Cudjoe Key plant 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.



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.

Information Technology

The Authority's Information Technology group is responsible for all 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.

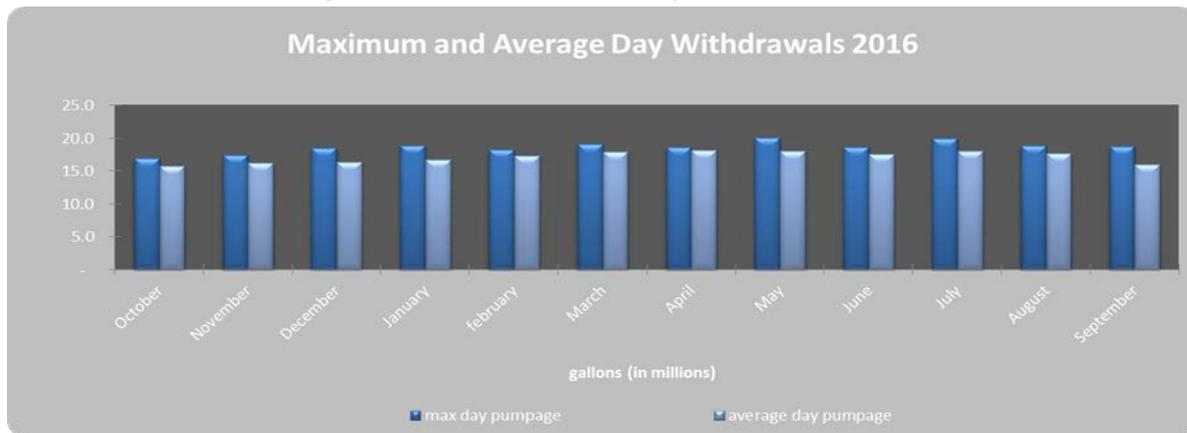
Local Economy and Demand Trends

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 below shows the maximum and average day withdrawals from the Biscayne aquifer in fiscal year 2016. Due to severe drought conditions that occur in South Florida from time to time, permanent mandatory water use restrictions from the South Florida Water Management (SFWMD) are now in place.



Long-Range Financial Planning

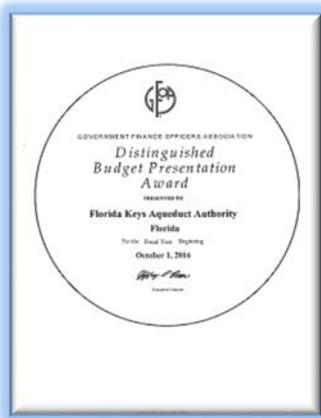
The Authority’s capital improvement plan is projected to require about \$78.6 million over the next five years. Most of these projects are either improvements to aging infrastructure or new technologies to improve efficiency and reliability of the system. The Authority anticipates funding these improvements 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, 2015. This was the 25th 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, 2016. This was the tenth year that the Authority has won this award. In order to receive the budget award, the entity had to satisfy nationally recognized guidelines 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

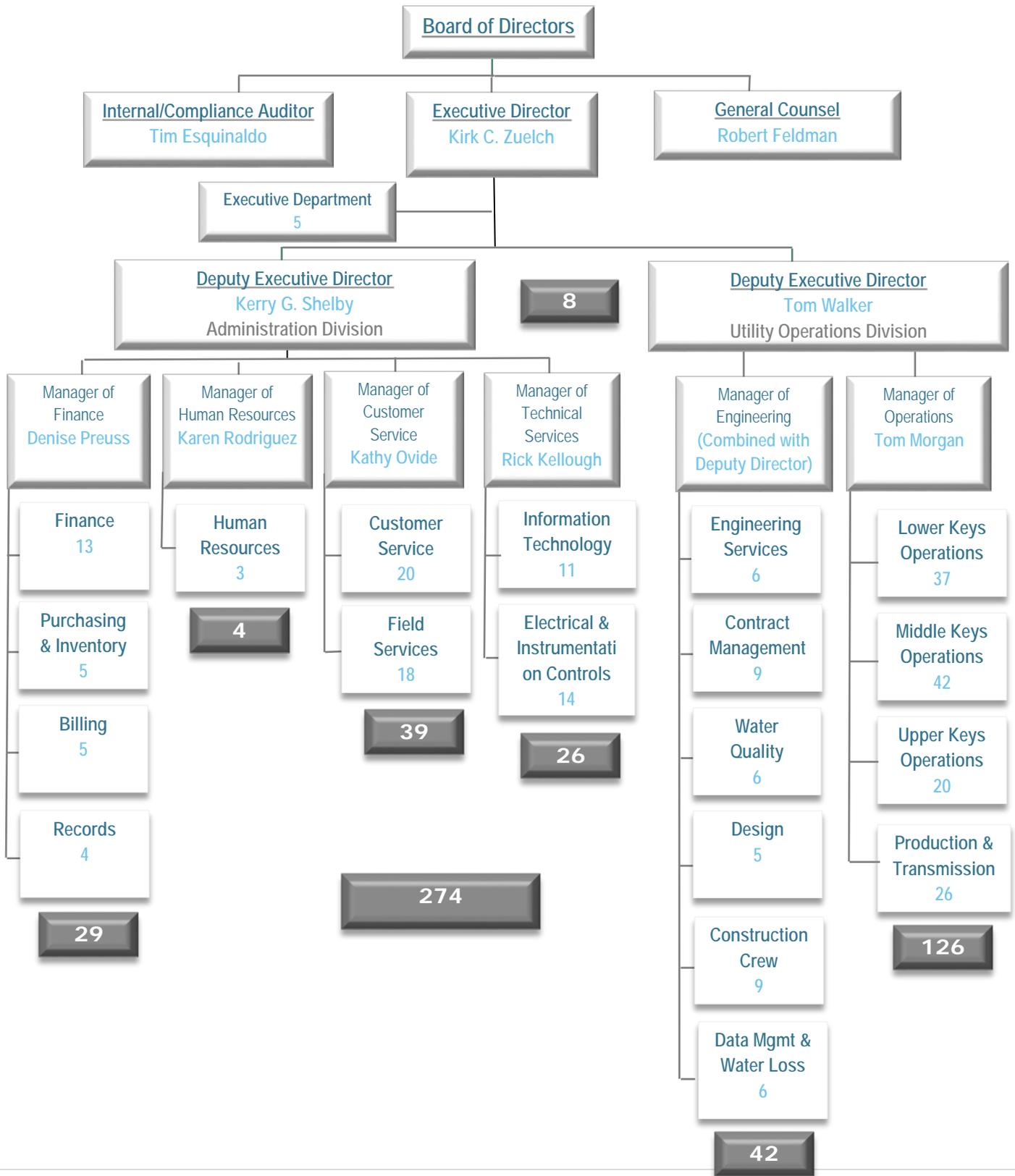


Kirk Zuelch
Executive Director

April 7, 2017

Florida Keys Aqueduct Authority

Chart of Organization for Fiscal Year Ended September 30, 2016



FINANCIAL SECTION

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

For fiscal year ended **September 30, 2016**

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INDEPENDENT AUDITORS' REPORT

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

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, 2016, and the statements of revenues, expenses and changes in net position and cash flows for the fiscal 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, 2016, 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.



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 18-24 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 61 and 62, 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.

Prior Year Comparative Information

We have previously audited the Authority's 2015 financial statements, and our report dated June 13, 2016, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended September 30, 2015, 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 April 7, 2017 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 the Authority's internal control over financial reporting and compliance.

Marcum LLP

Miami, FL
April 7, 2017

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, 2016. Please read it in conjunction with the transmittal letter and the Authority's financial statements.

Highlights

Financial highlights

- ✓ The Authority's net position remained substantially unchanged in 2016. See the analysis of net position below.
- ✓ Operating revenue increased by \$5.6 million in 2016, 10% over 2015 while operating expenses, before depreciation, increased by 7% in 2016.

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'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 in 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 in 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 remained substantially unchanged in 2016. 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

	2016	2015
Capital assets	\$ 265,297,646	\$ 264,723,574
Current and other assets	56,486,235	53,024,125
Total assets	321,783,881	317,747,699
Total deferred outflow of resources	41,547,379	19,415,576
Long-term liabilities	197,667,478	175,425,742
Other liabilities	22,876,502	17,815,635
Total liabilities	220,543,980	193,241,377
Total deferred inflow of resources	372,902	1,834,290
Net position		
Net investment in capital assets	137,153,029	135,293,302
Restricted	6,908,836	8,698,653
Unrestricted	(1,647,487)	(1,904,347)
Total net position	\$ 142,414,378	\$ 142,087,608

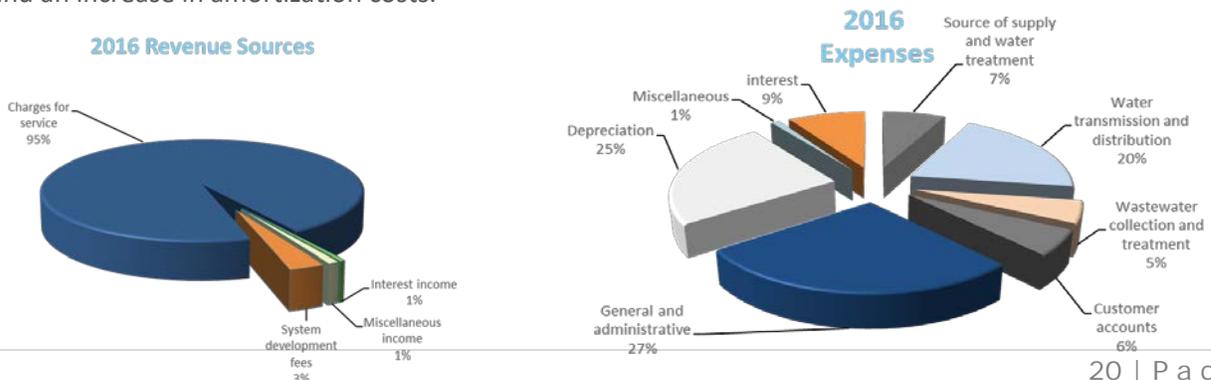
Net investment in capital assets increased slightly in 2016 due to the purchase of a Navy wastewater system. Long-term liabilities increased 12% primarily due to an increase in value of the derivative instruments-swap liability, purchase of a Navy wastewater system and the increase in net pension liability. Other liabilities increased 31% due to advances from other governments for construction cost for deep water well for the joint Cudjoe regional wastewater project and an increase in accrued accounts payable.

Table 2

	2016	2015
Utility revenue water	\$ 48,504,321	\$ 47,392,382
Utility revenue reclaimed water	121,853	115,525
Utility revenue wastewater	5,961,990	3,110,141
Other operating revenue Navy	3,747,914	2,443,632
Other operating revenue	1,844,614	1,485,414
Operating revenues	<u>60,180,692</u>	<u>54,547,094</u>
Less abatements	<u>(371,103)</u>	<u>(294,559)</u>
Total operating revenues	<u>59,809,589</u>	<u>54,252,535</u>
Total expenses	<u>56,059,049</u>	<u>53,022,849</u>
Net operating income (loss)	<u>3,750,540</u>	<u>1,229,686</u>
Non-operating revenue (expenses)		
Interest income	292,557	243,793
Other income	601,329	559,568
Interest expenses	(5,677,424)	(5,332,401)
Other expenses	<u>(590,691)</u>	<u>(744,846)</u>
Total non-operating revenue (expenses)	<u>(5,374,229)</u>	<u>(5,273,886)</u>
Net loss before contributions	(1,623,689)	(4,044,200)
Capital contributions	1,950,459	2,093,415
Change in net position	326,770	(1,950,785)
Net position, beginning of year, as previously presented	142,087,608	144,038,393
Net position at end of year	<u>\$ 142,414,378</u>	<u>\$ 142,087,608</u>

Utility water revenue increased 2% in 2016 due to rate indexing. Wastewater revenue increased 92% due to customer connections from Cudjoe Regional wastewater and the Navy wastewater purchase. Reclaimed water increased 5% due to an increase in customer connections. Other operating Navy revenue increased 53% due to the purchase of the Navy wastewater system. Other operating revenue increased 24% due to increases in penalties, service and installation charges and hydrant rental fees. Interest income increased 20% due to higher cash balances.

Operating expenses increased 6 % in 2016 due to the increase in pension expense. Interest expense increased due to the amortization of Navy wastewater purchase. Other expenses decreased 21% as a result of new bond issues and an increase in amortization costs.



The Authority’s Fund

The Authority’s fund is a proprietary fund, which is accounted for 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 2016, the Authority had approximately \$265.2 million invested in a broad range of water and wastewater capital assets, including several projects under construction. This amount represents a net increase (including additions, deductions and depreciation) of approximately \$.5 million.

The following table summarizes the Authority’s capital assets, net of accumulated depreciation, for the fiscal years ended September 2016 and 2015.

	2016	2015
Land	\$ 8,285,155	\$ 8,285,155
Buildings, structures & improvements	40,682,489	42,655,045
Equipment, vehicles, furniture & fixtures	5,915,860	5,395,259
Transmission system	33,981,990	35,911,085
Water distribution system	83,367,318	79,443,447
Water meters	5,241,039	6,435,625
Water storage facilities	5,141,934	5,315,601
Pump station equipment	13,344,181	12,671,852
Water treatment equipment	17,310,531	18,253,379
Reverse osmosis equipment	18,318,678	20,380,043
Computer equipment	981,321	923,721
Wastewater treatment equipment	4,665,585	4,145,471
Wastewater collection equipment	8,014,706	6,964,618
Reclaimed water	4,532,772	4,645,917
	249,783,559	251,426,218
Construction work in progress	15,514,087	13,297,356
	\$ 265,297,646	\$ 264,723,574

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

	2016	2015
Balance at beginning of year	\$ 264,723,574	\$ 267,557,348
Additions	13,707,513	5,345,532
Retirements	(2,000,762)	(920,930)
Depreciation	(15,350,045)	(14,974,964)
Accumulated depreciation retired	2,000,635	888,369
Increase (decrease) in construction work in progress	2,216,731	6,828,219
Balance at end of year	\$ 265,297,646	\$ 264,723,574

This year's major additions to utility plant included:

• Water distribution system upgrades	6.5 million
• Pump Station equipment	1.9 million
• Buildings and structures	.3 million
• Equipment, vehicles furniture and fixtures	1.9 million
• Computer equipment	.4 million
• Wastewater equipment and collection system	2.3 million
• Advanced metering infrastructure	.2 million
• Water treatment equipment	.2 million

Additionally, the Authority invested approximately \$7.9 million on the repair and replacement to the distribution system, \$0.4 million on the repair and replacement to the transmission system and \$.04 on wastewater upgrades.

The Authority's 2017 capital budget plans for investing approximately \$20.37 million in capital projects, including the following:

• Water distribution system upgrades	\$2.6 million
• Wastewater collection system upgrades	9.2 million
• Water transmission system upgrades	4.8 million
• Water system upgrades	1.0 million
• Water pump station	0.9 million
• Wastewater metering station	0.1 million
• Seawater reverse osmosis plant	1.5 million
• Wastewater pump station	0.2 million

The Authority plans to finance capital projects primarily with cash reserves and the issuance of revenue bonds.

Long-term liabilities

At September 30, 2016, the Authority had a total of approximately \$131.9 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 and wastewater treatment 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% for water and fifty years at 5.0% for wastewater.

Long-Term Liabilities are as follows:

Table 5

	2016	2015
Water and wastewater bonds, net	\$ 131,929,366	\$ 136,145,797
Derivative instrument - swap	15,386,110	13,269,197
Credit due to US government	29,657,489	12,700,051
Compensated absences	2,961,109	2,923,721
Net OPEB obligation	2,440,173	2,160,348
Net pension liability	20,834,900	13,508,837
Total long-term liabilities	\$ 203,209,147	\$ 180,707,951

Compensated absences include estimated accrued vacation and sick leave to be paid at retirement. 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 2016 and water sales volume stayed the same as 2015. 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.

Water, wastewater and reclaimed water rates were increased on October 1, 2016 by the annual inflation adjustment of 1.60%.

The Authority’s capital improvement plan calls for capital expenditures of about \$78.66 million over the next five years. These expenditures will be funded primarily through existing cash reserves, grants and rate revenue. 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 7,900 wastewater customers and, upon completion of the Cudjoe regional system in 2017, will have over 12,000 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, 2016 (with comparative totals September 30, 2015)

Assets	2016	2015
Current assets		
Unrestricted current assets		
Cash	\$ 15,277,801	\$ 18,267,702
Investments	10,638,595	10,638,595
Receivables:		
Accounts - customers	6,297,654	4,551,133
Accounts - other	167,293	461,226
Interest	126,489	15,470
Current portion of assessments	342,531	342,665
Materials and supplies	2,159,530	2,018,665
Prepaid expenses	570,442	540,516
Total unrestricted current assets	35,580,335	36,835,972
Restricted current assets - cash		
Cash	14,592,010	10,440,820
Interest rate swap collateral	1,000,000	-
Total restricted current assets	15,592,010	10,440,820
Total current assets	51,172,345	47,276,792
Restricted noncurrent assets - cash	3,086,232	3,280,672
Capital assets		
Capital assets	486,322,243	474,615,492
Construction in progress	15,514,087	13,297,356
Less accumulated depreciation	(236,538,684)	(223,189,274)
Capital assets, net of accumulated depreciation	265,297,646	264,723,574
Assessments receivable, net of current portion	2,227,658	2,466,661
Total noncurrent assets	270,611,536	270,470,907
Total assets	321,783,881	317,747,699
Deferred outflow of resources		
Accumulated change in fair value of hedging derivatives	15,386,110	13,269,197
Deferred amount on debt refundings	2,544,078	2,553,903
Pensions	8,105,141	3,592,476
Navy wastewater Agreement	15,512,050	-
	\$ 41,547,379	\$ 19,415,576

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

Financial Statements, Continued

Statement of Net Position September 30, 2016 (with comparative totals September 30, 2015)

Liabilities	2016	2015
Current liabilities		
Current liabilities payable from unrestricted assets		
Accounts payable	\$ 5,612,564	\$ 4,751,023
Accrued wages and benefits	1,581,286	1,414,510
Unearned revenues	358,156	391,909
Other liabilities	365,072	953,145
Total current liabilities payable from unrestricted assets	7,917,078	7,510,587
Current liabilities payable from restricted assets		
Customer deposits	3,086,232	3,280,672
Interest payable	384,569	406,680
Advances from other governments	5,946,954	1,335,487
Current portion of long-term liabilities	5,541,669	5,282,209
Total current liabilities payable from restricted assets	14,959,424	10,305,048
Total current liabilities	22,876,502	17,815,635
Long-term liabilities		
Bonds payable, net	131,929,366	136,145,797
Derivative instrument - swap	15,386,110	13,269,197
Credit due to US government	29,657,489	12,700,051
Compensated absences	2,961,109	2,923,721
Net OPEB obligation	2,440,173	2,160,348
Net pension liability	20,834,900	13,508,837
	203,209,147	180,707,951
Less current portion	(5,541,669)	(5,282,209)
Total long-term liabilities	197,667,478	175,425,742
Total liabilities	220,543,980	193,241,377
Deferred inflow of resources		
Pension	372,902	1,834,290
Net position		
Net investment in capital assets	137,153,029	135,293,302
Restricted:		
Debt service	1,526,554	2,401,434
Capital projects	1,296,050	6,297,219
Other purposes	4,086,232	
Unrestricted	(1,647,487)	(1,904,347)
Total net position	\$ 142,414,378	\$ 142,087,608

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 fiscal year ended September 30, 2016 (with comparative totals for fiscal year ended September 30, 2015)

Revenue	2016	2015
Utility revenue water	\$ 48,504,321	\$ 47,392,382
Utility revenue reclaimed water	121,853	115,525
Utility revenue wastewater	5,961,990	3,110,141
Other operating revenue Navy	3,747,914	2,443,632
Other operating revenue	1,844,614	1,485,414
Total operating revenue	60,180,692	54,547,094
Less abatements	(371,103)	(294,559)
Net operating revenue	59,809,589	54,252,535
Operating expenses		
Source of supply	811,533	700,603
Water treatment	3,782,645	3,669,566
Transmission	5,247,184	5,126,961
Distribution	7,207,616	6,897,166
Wastewater treatment	1,247,174	943,003
Wastewater collection	1,870,553	1,318,806
Customer accounts	3,467,258	3,656,129
General and administrative	17,075,041	15,735,651
Depreciation	15,350,045	14,974,964
Total operating expenses	56,059,049	53,022,849
Net operating income	3,750,540	1,229,686
Non-operating revenue (expenses)		
Interest income	292,557	243,793
Other income	535,483	547,696
Gain on disposal of assets and inventory	65,846	11,872
Interest expense	(5,677,424)	(5,332,401)
Bond issue costs	(300,500)	(443,556)
Remarketing and letter of credit fees	(290,191)	(301,290)
Total non-operating revenue (expenses)	(5,374,229)	(5,273,886)
Net loss before contributions	(1,623,689)	(4,044,200)
Capital contributions	1,950,459	2,093,415
Change in net position	326,770	(1,950,785)
Net position, beginning of year	142,087,608	144,038,393
Net position, end of year	\$ 142,414,378	\$ 142,087,608

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

Financial Statements, Continued

Statement of Cash Flows For the fiscal year ended September 30, 2016 (with comparative totals for fiscal year ended September 30, 2015)

	2016	2015
Cash flows from operating activities		
Payments received from customers	\$ 55,765,233	\$ 53,386,380
Deposits received from customers	294,229	465,887
Other cash received	241,343	748,069
Payments for salaries and benefits	(23,472,462)	(27,127,845)
Payments to suppliers for goods and services	(14,709,793)	(12,555,335)
Interest paid on and refunds of customer deposits	(503,079)	(885,278)
Net cash provided by operating activities	17,615,471	14,031,878
Cash flows from non-capital financing activities		
Cash received from other governments	46,300,000	43,220,760
Payments for projects of other governments	(41,688,533)	(54,541,241)
Net cash provided (used) by non-capital financing activities	4,611,467	(11,320,481)
Cash flows from capital and related activities		
System development fees received	1,866,097	1,908,522
Payments for capital assets	(13,602,220)	(11,753,899)
Proceeds from sale of capital assets	65,973	44,433
Proceeds from issuance of bonds and debt	-	51,514,474
Debt issue costs and financing fees paid	(300,500)	(744,846)
Principal payments of bonds	(4,150,000)	(3,745,000)
Interest payments for bonds	(4,320,977)	(4,244,223)
Deposit to escrow for advance refunding of bonds	-	(51,365,721)
Net cash used by capital and related financing activities	(20,441,627)	(18,386,260)
Cash flows from investing activities		
Interest received	181,538	228,323
Purchases of temporary investments	-	(10,638,595)
Net cash provided (used) by investing activities	181,538	(10,410,272)
Net cash inflow (outflow) from all activities	1,966,849	(26,085,135)
Cash at beginning of year	31,989,194	58,074,329
Cash at end of year	\$ 33,956,043	\$ 31,989,194

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

Financial Statements, Continued

Statements of Cash Flows For the fiscal year ended September 30, 2016 (with comparative totals for fiscal year ended September 30, 2015)

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

	2016	2015
Operating income	\$ 3,750,540	\$ 1,229,686
Credits to US Navy	(2,264,082)	(1,374,840)
Depreciation	15,350,045	14,974,964
Other income	535,483	547,696
Interest on customer deposits	(14,410)	(14,191)
(Increase) decrease in		
Accounts receivable	(1,452,588)	659,893
Materials and supplies	(140,865)	(93,001)
Prepaid expenses	(29,926)	85,325
Deferred outflows of resources	(4,512,665)	(1,194,845)
Increase (decrease) in		
Accounts payable	861,541	(1,573,510)
Unearned revenues	(33,753)	(84,841)
Accrued wages and benefits (includes net pension liability)	7,810,052	4,745,605
Other liabilities	(588,073)	134,006
Customer deposits	(194,440)	(405,200)
Deferred inflows of resources	(1,461,388)	(3,604,869)
Net cash provided by operating activities	\$ 17,615,471	\$ 14,031,878
Schedule of cash		
Unrestricted cash	\$ 15,277,801	\$ 18,267,702
Restricted cash	18,678,242	13,721,492
	\$ 33,956,043	\$ 31,989,194
Schedule of noncash investing and financing activities:		
Change in value of derivative instruments	\$ 2,116,913	\$ 2,601,025
Amortization of deferred amount on debt refunding	(9,825)	2,486,764
Capital assets contributed	323,499	419,852
	\$ 2,430,587	\$ 5,507,641

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

Notes to Financial Statements

For the fiscal year ended September 30, 2016

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Notes to Financial Statements

For the fiscal year ended September 30, 2016

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

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

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

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.

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 acquisition 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

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 1. Summary of Significant Accounting Policies (continued)

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.

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 fiscal year ended September 30, 2016.

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, 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.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 1. Summary of Significant Accounting Policies (continued)

Deferred Outflows of Resources

The difference between the re-acquisition activities (new debt) and the net carrying value of the old debt on refunded debt transactions is recorded as a deferred outflow of resources and recognized as a component of interest expense using the bonds outstanding method over the shorter of the remaining life of the old debt or the life of the new debt. The derivative is derived from the change in fair value of the derivative instrument from last year to the current year. The acquisition of the Navy Wastewater system will be amortized over the remaining life of the current debt.

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions

Deferred inflows of resources and deferred outflows of resources related to pensions that are derived from the difference between projected and actual earnings on the respective pension plan investments are amortized to pension expense over a closed five-year period. Deferred inflows of resources and deferred outflows of resources related to pensions that are derived from differences between expected and actual experience with regard to economic or demographic factors (difference between expected and actual experience) in the measurement of the respective pensions plan's total pension liability are amortized to pension expense over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the respective pension plan (active and inactive employees) determined as of the beginning of the measurement period. Contribution to the pension plan from the employer subsequent to the measurement date of the net pensions liability and before the end of the reporting period are reported as deferred outflow of resources related to pensions. This contribution is included as an increase in the respective pension plan fiduciary net position in the subsequent fiscal year.

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, 2016

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 and receivables are 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, 2016 from which the summarized was derived.

Note 2. Cash and Investments

The Authority had cash balances of \$32,956,043 and a Certificate of Deposit (presented as investments) balance of \$10,638,595 at September 30, 2016.

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, 2016 all the Authority's bank deposits, having a bank balance of \$33,883,885 were held by financial institutions

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 2. Cash and Investments (continued)

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.

Note 3. Restricted Assets

Restricted assets as of September 30, 2016 consisted of the following:

	2016
Current restricted assets:	
Debt service	\$ 1,911,123
Advances from other governments	11,384,837
Grant funds	1,296,050
	14,592,010
Interest rate swap collateral	1,000,000
Noncurrent restricted cash - Deposits	3,086,232
	18,678,242
Total restricted assets	\$ 18,678,242

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.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 3. Restricted Assets (continued)

- 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 included in Restricted Assets were \$1,911,123 at September 30, 2016.

Customer Deposits

The Authority retains customer deposits to ensure payment from new customers and customers with a history of delinquent payments. These deposits totaled \$3,086,232 September 30, 2016.

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Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 4. Capital Assets

Capital asset activity for the fiscal year ended September 30, 2016 is as follows:

	Balance 9/30/2015	2016		Balance 9/30/2016
		Additions	Retirements	
Capital assets not being depreciated:				
Land	\$ 8,285,155	\$ -	\$ -	\$ 8,285,155
Construction work in progress	13,297,356	9,272,396	(7,055,665)	15,514,087
Total capital assets not being depreciated	21,582,511	9,272,396	(7,055,665)	23,799,242
Capital assets being depreciated:				
Buildings, structures & improvements	69,048,461	262,383	(17,514)	69,293,330
Equipment, vehicles, furniture & fixtures	15,433,557	1,946,656	(562,640)	16,817,573
Transmission system	105,982,992	-	-	105,982,992
Distribution system	120,526,796	6,455,411	(1,193,814)	125,788,393
Water meters	15,448,211	190,415	(8,168)	15,630,458
Water storage facilities	9,917,737	-	-	9,917,737
Pump station equipment	26,468,617	1,875,567	-	28,344,184
Water treatment equipment	39,148,718	145,410	-	39,294,128
Reverse osmosis equipment	38,294,033	95,964	-	38,389,997
Computer equipment	5,058,308	387,785	(210,488)	5,235,605
Wastewater treatment equipment	6,444,957	889,386	(8,138)	7,326,205
Collection system	9,436,036	1,458,536	-	10,894,572
Reclaimed water	5,121,914	-	-	5,121,914
Total assets being depreciated	466,330,337	13,707,513	(2,000,762)	478,037,088
Less accumulated depreciation:				
Buildings, structures & improvements	(26,393,417)	(2,234,938)	17,514	(28,610,841)
Equipment, vehicles, furniture & fixtures	(10,361,313)	(1,102,913)	562,513	(10,901,713)
Transmission system	(69,748,892)	(2,252,110)	-	(72,001,002)
Distribution system	(41,083,348)	(2,531,541)	1,193,814	(42,421,075)
Water meters	(9,012,586)	(1,385,001)	8,168	(10,389,419)
Water storage facilities	(4,602,136)	(173,667)	-	(4,775,803)
Pump station equipment	(13,796,765)	(1,203,238)	-	(15,000,003)
Water treatment equipment	(20,895,339)	(1,088,258)	-	(21,983,597)
Reverse osmosis equipment	(17,913,990)	(2,157,329)	-	(20,071,319)
Computer equipment	(4,134,587)	(330,185)	210,488	(4,254,284)
Wastewater treatment equipment	(2,299,486)	(369,272)	8,138	(2,660,620)
Collection system	(2,471,418)	(408,448)	-	(2,879,866)
Reclaimed water	(475,997)	(113,145)	-	(589,142)
Total accumulated depreciation	(223,189,274)	(15,350,045)	2,000,635	(236,538,684)
Total capital assets being depreciated, net	243,141,063	(1,642,532)	(127)	241,498,404
Total net capital assets	\$ 264,723,574	\$ 7,629,864	\$ (7,055,792)	\$ 265,297,646

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 5. Long-term Liabilities

Long- term liabilities activity for the fiscal year ended September 30, 2016 as follows:

	Beginning balance	2016		Ending balance	Due within one year
		Additons	Deductions		
Water revenue bonds Series 2007	\$ 2,060,000	-	\$ (995,000)	\$ 1,065,000	\$ 1,065,000
Water revenue refunding bonds Series 2008	52,625,000	-	-	52,625,000	-
Wastewater revenue bonds Series 2012	4,960,000	-	(345,000)	4,615,000	350,000
Water revenue bonds Series 2013A	15,210,000	-	(2,415,000)	12,795,000	2,465,000
Water revenue bonds Series 2013B	7,195,000	-	(295,000)	6,900,000	305,000
Water revenue bonds Series 2014	2,510,000	-	(100,000)	2,410,000	105,000
Water revenue bonds Series 2015A	34,560,000	-	-	34,560,000	-
Water revenue bonds Series 2015B	16,435,000	-	-	16,435,000	-
Subtotal	135,555,000	-	(4,150,000)	131,405,000	4,290,000
Add unamortized Series 2007 bond premium	82,910	-	(43,257)	39,653	39,653
Add unamortized Series 2015A bond premium	507,887	-	(23,174)	484,713	23,173
Total bonds payable	136,145,797	-	(4,216,431)	131,929,366	4,352,826
Derivative instrument - swap	13,269,197	2,116,913	-	15,386,110	-
Credit due to US Government-water	12,700,051	-	(768,406)	11,931,645	806,996
Credit due to US Government-wastewater	-	17,800,766	(74,922)	17,725,844	85,737
Compensated absences	2,923,721	2,961,109	(2,923,721)	2,961,109	296,110
Net OPEB obligation	2,160,348	279,825	-	2,440,173	-
Net pension liability	13,508,837	7,326,063	-	20,834,900	-
Total long-term liabilities	\$ 180,707,951	\$ 30,484,676	\$ (7,983,480)	\$ 203,209,147	\$ 5,541,669

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

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
2017	\$ 4,290,000	\$ 4,469,070	\$ 8,759,070	\$ 892,733	\$ 1,452,189	\$ 2,344,922
2018	4,125,000	4,350,989	8,475,989	937,646	1,407,275	2,344,921
2019	4,215,000	4,263,670	8,478,670	984,820	1,360,101	2,344,921
2020	4,310,000	4,168,972	8,478,972	1,034,367	1,310,554	2,344,921
2021	4,340,000	4,076,799	8,416,799	1,086,408	1,258,514	2,344,922
2022-2026	29,535,000	17,658,723	47,193,723	6,309,027	5,415,582	11,724,609
2027-2031	34,610,000	12,152,699	46,762,699	2,552,986	4,130,544	6,683,530
2032-2036	38,095,000	5,740,930	43,835,930	1,003,697	3,846,714	4,850,411
2037-2041	7,885,000	295,687	8,180,687	1,288,103	3,562,308	4,850,411
2042-2046				1,653,098	3,197,313	4,850,411
2047-2051				2,121,518	2,728,893	4,850,411
2052-2056				2,722,668	2,127,743	4,850,411
2057-2061				3,494,160	1,356,251	4,850,411
2062-2065				3,576,258	384,910	3,961,168
Totals	\$ 131,405,000	\$ 57,177,539	\$ 188,582,539	\$ 29,657,489	\$ 33,538,891	\$ 63,196,380

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 balance held in escrow at September 30, 2016 was \$48,584,205.

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%.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 5. Long-term Liabilities (continued)

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, 2016). 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.

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

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 5. Long-term Liabilities (continued)

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 were \$8,406,031 and \$17,020,766, 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 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 were \$481,923 and \$2,357,966, respectively.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 5. Long-term Liabilities (continued)

Interest Rate Swaps

At September 30, 2016, 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.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 5. Long-term Liabilities (continued)

As of September 30, 2016, the rates for the variable rate bonds and swap were as follows:

	Terms	Rates 2016
Interest Rate Swap:		
Fixed payment to counterparty	Fixed	3.8320%
Variable payment from counterparty	LIBOR	0.7503%
Net interest rate swap payments		3.0817%
Series 2008 Variable Rate Bond Payments	Weekly Variable Rate	0.8500%
Remarketing liquidity and letter of credit fees		0.7200%
Synthetic interest rate on bonds		4.6517%

Fair Value

As of September 30, 2016, the swap had a negative fair value of \$15,386,110 indicating the amount that the Authority would have had to pay the counterparty to terminate the swap agreement. However, as of that date 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.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 5. Long-term Liabilities (continued)

Swap payments and associated debt

As of September 30, 2016, 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
2017-2021	\$ -	\$ 4,131,063	\$ 7,658,074	\$ 11,789,137
2022-2026	15,185,000	3,676,469	6,789,337	25,650,806
2027-2031	18,940,000	2,371,093	4,331,820	25,642,913
2032-2035	18,500,000	742,061	1,341,935	20,583,996
	<u>\$ 52,625,000</u>	<u>\$ 10,920,686</u>	<u>\$ 20,121,166</u>	<u>\$ 83,666,852</u>

Credit risk

As of September 30, 2016, the Authority is not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair market 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, 2016, 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 market 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, 2016 (4.6517%). 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, 2016

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 at September 30, 2016 was \$13.90. The consumption blocks and related rates in effect at September 30, 2016 were as follows:

	Rate per 1,000 gallons	
	Gallons	2016
Block 1	0-6,000	\$ 5.84
Block 2	6,001-12,000	8.52
Block 3	12,001-30,000	9.56
Block 4	30,001-50,000	10.66
Block 5	>50,000	\$ 11.70

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 \$3.65 per thousand gallons for all water used.

Wastewater

The Authority provides wastewater service to certain areas of the Florida Keys. 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 standard 5/8” meter customers at September 30, 2016 was \$28.00. The flow charged on the first 10,000 gallons was \$10.60 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, 2016

Note 7. Other Operating Revenue

Other operating revenue consisted of the following at September 30, 2016:

		2016
Penalty charges	\$	550,438
Service and installation charges		1,070,479
Hydrant rental fees		112,050
Front footage fees		111,647
Total other operating revenue		<u>1,844,614</u>
Navy water system operations charge		2,443,602
Navy wastewater system operations charge		1,304,312
total other operating revenue Navy		<u>3,747,914</u>
Total	\$	<u>5,592,528</u>

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 \$903,488 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 thirteen open claims at September 30, 2016 covered by insurance. In addition, a contingency reserve has been established to cover uninsured losses.

As of September 30, 2016 and 2015 the total liabilities on pending claims that are included in current liabilities in accounts payable on the statement of net position were as follows:

	2016	2015
Claims payable, beginning of year	\$ 188,537	\$ 587,472
Incurred claims	2,768,153	3,155,462
Payments on claims	(2,810,501)	(3,554,397)
Claims payable, end of year	<u>\$ 146,189</u>	<u>\$ 188,537</u>

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 9. Commitments and Contingencies

Construction commitments

The Authority had contractual commitments of \$34,632,589 at September 30, 2016 for design and construction of capital projects and general contractual commitments. Of that amount \$22,345,884 will be reimbursed by Monroe County for the design and construction of county-owned wastewater systems.

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, 2016, 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, 2019. The following is a summary of the minimum rental costs for the remaining terms of the leases:

Fiscal Year Ended September

2017	\$ 12,179
2018	5,275
2019	4,396

Rent expense for the fiscal year ended September 30, 2016 was \$77,482.

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 for, 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.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 9. Commitments and Contingencies (continued)

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.

Note 10. Retirement Plan

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 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	1.00%	3.00%	3.00%	1.70%
Fixed income	18.00%	4.70%	4.60%	4.60%
Global equity	53.00%	8.10%	6.80%	17.20%
Real Estate	10.00%	6.40%	5.80%	12.00%
Private Equity	6.00%	11.50%	7.80%	30.00%
Strategic investments	12.00%	6.10%	5.60%	11.10%
Total	100.00%			
Assumed Inflation- Mean		2.60%		1.90%

(1) As outlined in the Pension Plan's investment policy

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 10. Retirement Plan (continued)

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 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.

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

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 10. Retirement Plan (continued)

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, 2015 through June 30, 2016 and from July 1, 2016 through September 30, 2016, respectively, were as follows: Regular 7.26% and 7.52%, Senior Management Service 21.43% and 21.77% and DROP participants 18.75% and 12.99%. These employer contribution rates include 1.26% and 1.66% HIS Plan subsidy for the periods October 1, 2015 through June 30, 2016 and from July 1, 2016 through September 30, 2016, respectively. The Authority's contributions, including employee contributions, to the Pension Plan totaled \$2,225,283 for the fiscal year ended September 30, 2016.

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

At September 30, 2016, the Authority reported a liability of \$13,186,861 for its proportionate share of the Pension Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The Authority's proportionate share of the net pension liability was based on the Authority's 2015-16 fiscal year contributions relative to the 2014-15 fiscal year contributions of all participating members. At September 30, 2016, the Authority's proportionate share was 0.052%, which was a decrease of 0.002% from its proportionate share measured as of September 30, 2015.

For the fiscal year ended September 30, 2016, the Authority recognized pension expense of \$2,219,529. In addition, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 10. Retirement Plan (continued)

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,009,687	\$ 122,779
Change of assumptions	797,766	-
Net difference between projected and actual earnings on Pension Plan investments	3,408,643	-
Changes in proportion and differences between Authority's Pension Plan contributions and proportionate share of contributions	896,388	232,704
Authority's Pension Plan contributions subsequent to the measurement date	318,842	-
Total	\$ 6,431,326	\$ 355,483

The deferred outflows of resources related to the Pension Plan, totaling \$318,842 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, 2017. 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:

Fiscal Year Ending September 30 2016	Amount
2017	\$ 910,392
2018	910,392
2019	2,239,292
2020	1,467,693
2021	180,836
Thereafter	48,396

Actuarial Assumptions

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumption, applied to all periods included in the measurement:

Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Investment rate of return	7.60%, net of pension plan investment expense, including inflation

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 10. Retirement Plan (continued)

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

The actuarial assumptions used in the July 1, 2016 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 7.60%. 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 calculation of the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the Authority’s Proportionate Share of the Net Pension 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 7.60%, 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 (6.60%) or one percentage point higher (8.60%) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
Authority's Proportionate share of the net pension liability	\$ 24,277,904	\$ 13,186,861	\$ 3,955,032

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 \$330,160 for outstanding contributions to the Pension Plan required for the fiscal year ended September 30, 2016.

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

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 10. Retirement Plan (continued)

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, 2016 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.

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, 2015 through June 30, 2016 and from July 1, 2016 through September 30, 2016 was 1.26% and 1.66%, 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 \$28,002 for the fiscal year ended September 30, 2016.

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

At September 30, 2016, the Authority reported a liability of \$7,648,039 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The Authority's proportionate share of the net pension liability was based on the Authority's 2015-16 fiscal year contributions relative to the 2014-15 fiscal year contributions of all participating members. At September 30, 2016, the Authority's proportionate share was 0.065 percent, which was an increase of 0.002% from its proportionate share measured as of September 30, 2015. For the fiscal year ended September 30, 2016, the Authority recognized pension expense of \$714,351. In addition the Authority reported deferred outflows of resources and deferred in flows of resources related to pensions from the following sources:

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 10. Retirement Plan (continued)

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 17,419
Change of assumptions	1,200,172	-
Net difference between projected and actual earnings on HIS Plan investments	3,867	-
Change in proportion and differences between Authority's HIS Plan contributions and proportionate share of contributions	394,243	-
Authority's HIS Plan contributions subsequent to the measurement date	75,533	-
Total	\$ 1,673,815	\$ 17,419

The deferred outflows of resources related to the HIS Plan, totaling \$75,533 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 and deferred inflows of resources related to the HIS Plan will be recognized in pension expense as follows:

Fiscal Year Ending September 30:	Amount
2017	\$ 291,382
2018	291,382
2019	290,645
2020	290,292
2021	230,335
Thereafter	186,827

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	2.85 %

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables. The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 10. Retirement Plan (continued)

Discount Rate

The discount rate used to measure the total pension liability was 2.85%. 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 year Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the Authority’s Proportionate Share of the Net Pension 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 2.85%, 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 (1.85%) or one percentage point higher (3.85%) than the current rate:

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
Authority's proportionate share of the net pension liability	\$ 8,774,038	\$ 7,648,039	\$ 6,713,521

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 \$5,481 for outstanding contributions to the HIS Plan required for the fiscal year ended September 30, 2016.

Summary of Pension Components

Fiscal Year Ending September 30, 2016

	Pension	HIS	Total
Deferred Outflows	\$ 6,431,326	\$ 1,673,815	\$ 8,105,141
Deferred Inflows	(355,483)	(17,419)	(372,902)
Net pension liability	13,186,861	7,648,039	20,834,900
Pension Expense	\$ 2,219,529	\$ 714,351	\$ 2,933,880

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 10. Retirement Plan (continued)

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 2015-16 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 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, 2016, 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

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

Note 10. Retirement Plan (continued)

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 \$258,493 for the fiscal year ended September 30, 2016.

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.

The annual OPEB cost for the Authority for 2016 and the related information is as follows:

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

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

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

	2016
Annual Required Contribution (ARC)	\$ 503,098
Interest on net OPEB obligation (NOO)	85,744
Adjustment to ARC	(82,372)
Annual OPEB Cost	506,470
Employer Contribution	(226,645)
Increase in NOO	279,825
NOO (beginning of year)	2,160,348
NOO (end of year)	\$ 2,440,173

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

Fiscal Year Ended	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
September 30, 2016	\$ 506,470	\$ 226,645	44.75%	\$ 2,440,173
September 30, 2015	\$ 494,808	\$ 270,894	54.75%	\$ 2,160,348
September 30, 2014	\$ 509,036	\$ 148,173	29.11%	\$ 1,936,434

Funded status and funding progress

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

Fiscal Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (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%

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.

Notes to Financial Statements (continued)

For the fiscal year ended September 30, 2016

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

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 to 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:

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. Related Party Transactions

For the fiscal year ended September 30, 2016, the Authority entered into arm’s length transactions with companies owned by one of the Board members and was paid \$441,806 for construction related costs and a contract in the amount of \$2,766,744 was entered into for capital construction projects.

Note 13. Subsequent Event

On November 9, 2016, the Authority privately placed \$10,000,000 Series 2016 Wastewater Revenue Bonds with a bank at an interest rate of 1.72%. Interest is payable on March 1 and September 1 and principal is paid annually on September 1 through September 2036.

Required Supplementary Information

For the fiscal year ended September 30, 2016

Schedule of Funding Progress-OPEB

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)-	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
	(a)	(b)	(b) - (a)	(a) / (b)	(c)	((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

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

	2016	2015	2014
Authority's proportion of the net pension liability	0.052225029%	0.054182984%	0.051133999%
Authority's proportionate share of the net pension liability	\$ 13,186,861	\$ 6,998,459	\$ 3,119,926
Authority's covered-employee payroll	\$ 19,521,084	\$ 19,443,078	\$ 18,870,171
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	67.55%	35.99%	16.53%
Plan fiduciary net position as a percentage of the total pension liability	84.88%	92.00%	96.09%

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

	2016	2015	2014
Contractually required contribution	\$ 1,273,591	\$ 1,321,027	\$ 1,129,253
Contributions in relation to the contractually required contribution	(1,273,591)	(1,321,027)	(1,129,253)
Contribution deficiency (excess)	-	-	-
Authority's covered-employee payroll	\$ 19,521,084	\$ 19,443,078	\$ 18,870,171
Contributions as a percentage of covered-employee payroll	6.52%	6.79%	5.98%

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

	2016	2015	2014
Authority's proportion of the net pension liability	0.065622570%	0.063837077%	3.823229200%
Authority's proportionate share of the net pension liability	\$ 7,648,039	\$ 6,965,000	\$ 3,574,813
Authority's covered-employee payroll	\$ 19,521,084	\$ 19,443,078	\$ 18,870,171
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	39.18%	35.82%	18.94%
Plan fiduciary net position as a percentage of the total pension liability	0.97%	0.50%	0.99%

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

	2016	2015	2014
Contractually required contribution	\$ 336,357	\$ 244,025	\$ 214,225
Contributions in relation to the contractually required contribution	(336,357)	(244,025)	(214,225)
Contribution deficiency (excess)	-	-	-
Authority's covered-employee payroll	\$ 19,521,084	\$ 19,443,078	\$ 18,870,171
Contributions as a percentage of covered-employee payroll	1.72%	1.26%	1.14%

These schedules are intended to show information for ten years and will be displayed as it becomes available

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STATISTICAL SECTION

Financial Trends

Rates and Revenues

Debt

Demographic and Economic Information

Operating Information

For fiscal year ended **September 30, 2016**

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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 Authority’s financial performance and well-being have changed over time. 67

Rates and Revenues

These schedules contain trend information to help the reader assess the Authority’s ability to generate revenue through user fees. 69

Debt

These schedules present information which helps the reader assess the affordability of the Authority’s current levels of outstanding debt. 72

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. 74

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. 80

Financial Trends

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

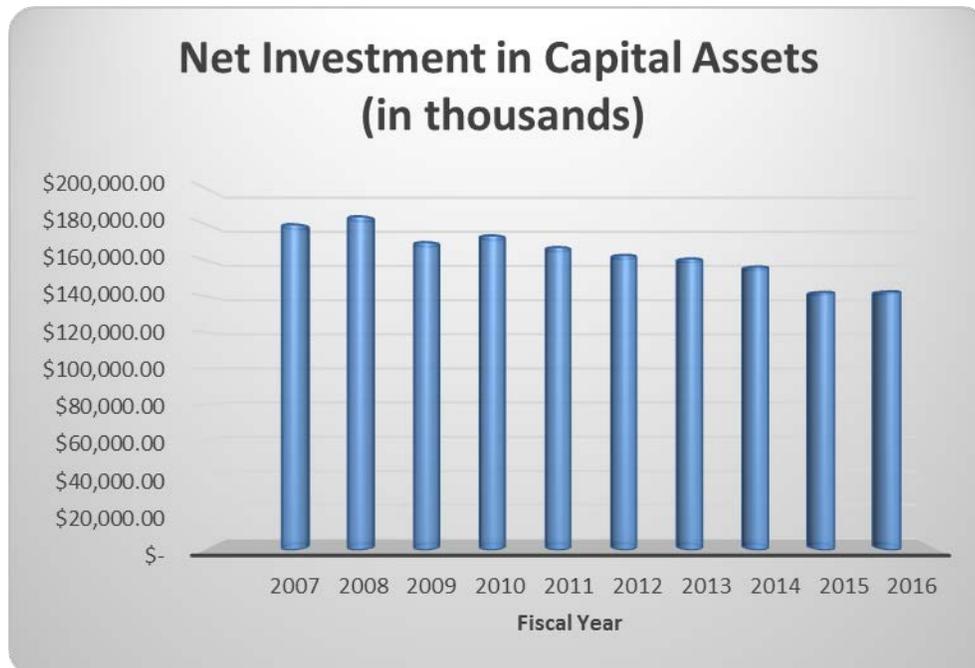
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenue:										
Operating revenue	\$ 54,588	\$ 50,618	\$ 48,562	\$ 46,668	\$ 44,739	\$ 45,961	\$ 42,837	\$ 41,829	\$ 41,432	\$ 38,123
Water surcharge	-	-	-	-	-	-	-	-	-	955
Other operating revenue	5,593	3,929	4,096	4,432	4,092	3,705	4,408	3,597	2,568	1,085
Less abatements	(371)	(294)	(333)	(431)	(414)	(404)	(437)	(510)	(274)	(187)
Net operating revenue	59,810	54,253	52,325	50,669	48,417	49,262	46,808	44,916	43,726	39,976
Operating expenses:										
Source of supply	812	701	622	507	695	678	644	669	688	846
Water treatment	3,783	3,670	3,617	3,450	3,329	2,959	2,828	3,015	2,822	2,415
Transmission & distribution	12,455	12,024	11,647	11,316	11,189	11,535	12,028	12,760	14,127	12,839
Wastewater treatment	3,467	943	859	878	834	713	565	499	952	955
Wastewater collection	17,075	1,319	1,159	1,090	1,071	991	969	906	767	572
Customer accounts	1,247	3,656	4,262	3,924	4,083	4,103	4,223	4,692	5,332	5,420
General & Administrative	1,871	15,736	15,862	12,981	12,801	12,581	12,723	12,433	11,523	10,177
Depreciation	15,350	14,975	14,964	14,576	14,386	14,443	12,401	12,178	10,602	8,645
Total operating expenses	56,060	53,024	52,992	48,722	48,388	48,003	46,381	47,152	46,813	41,869
Utility operating income	3,750	1,229	(667)	1,947	29	1,259	427	(2,236)	(3,087)	(1,893)
Non-Operating revenue (expenses)										
Interest income	293	244	319	346	357	369	449	1,075	2,959	2,944
Investment income	-	-	-	-	-	(757)	4,056	1,092	174	-
Other income (reimbursements)	535	548	556	722	326	376	57	192	274	107
Grants & reimbursements from federal & state agencies	-	-	-	-	8	8	30	20	32	(110)
Gain(Loss) on disposal of plant assets & inventory	66	11	(148)	57	50	(63)	(56)	(58)	261	(316)
Interest expense	(5,677)	(5,332)	(5,682)	(6,053)	(5,959)	(5,661)	(5,643)	(5,755)	(7,178)	(3,513)
Amortization	-	-	-	-	-	-	(388)	(30)	(28)	(80)
Other expenses	(591)	(745)	(354)	(616)	(519)	(442)	(48)	(299)	(116)	(31)
Total non-operating revenue (expenses)	(5,374)	(5,274)	(5,309)	(5,544)	(5,737)	(6,170)	(1,543)	(3,763)	(3,622)	(999)
Net income (Loss)	(1,623)	(4,044)	(5,976)	(3,597)	(5,708)	(4,911)	(1,116)	(5,999)	(6,709)	(2,892)
Capital grants and contributions	1,950	2,093	1,540	1,666	1,364	1,371	4,829	(8,228)	11,085	4,079
Change in net position	327	(1,951)	(4,436)	(1,931)	(4,344)	(3,540)	3,713	(14,227)	4,376	1,187
Net position, beginning of year	142,087	156,072	160,509	162,440	166,784	173,226	169,513	183,740	179,364	178,177
Adjustment for restatement	-	(12,034)				(2,902)				
Net position, end of year	\$ 142,414	\$ 142,087	\$ 156,073	\$ 160,509	\$ 162,440	\$ 166,784	\$ 173,226	\$ 169,513	\$ 183,740	\$ 179,364

Financial Trends, Continued

Schedule of Net Position by Component

Last Ten Fiscal Years
(in thousands)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Net investment in capital assets \$	137,153	135,293	136,145	136,638	130,549	127,586	126,277	123,401	141,894	145,556
Restricted										
Debt service	1,527	2,401	1,882	1,982	4,156	4,271	4,295	4,171	3,877	194
Capital projects	1,296	6,297	6,385	4,779	7,477	6,766	6,502	7,950	7,740	14,837
Other purposes	4,086	-	-	-	320	-	-	-	-	-
Unrestricted	(1,648)	(1,904)	11,661	17,110	19,938	28,161	36,152	33,991	30,229	18,777
Total net position	\$ 142,414	\$ 142,087	\$ 156,073	\$ 160,509	\$ 162,440	\$ 166,784	\$ 173,226	\$ 169,513	\$ 183,740	\$ 179,364



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
2016	\$ 13.90	\$ 5.84	\$ 8.52	\$ 9.56	\$ 10.66	\$ 11.70
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

Wastewater Rates for Standard 5/8" Meter

Last Ten Fiscal Years*

Fiscal Year	Base Charge	0-10,000 gallons
2016	\$ 28.00	\$ 10.60
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

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

Reclaimed Rates

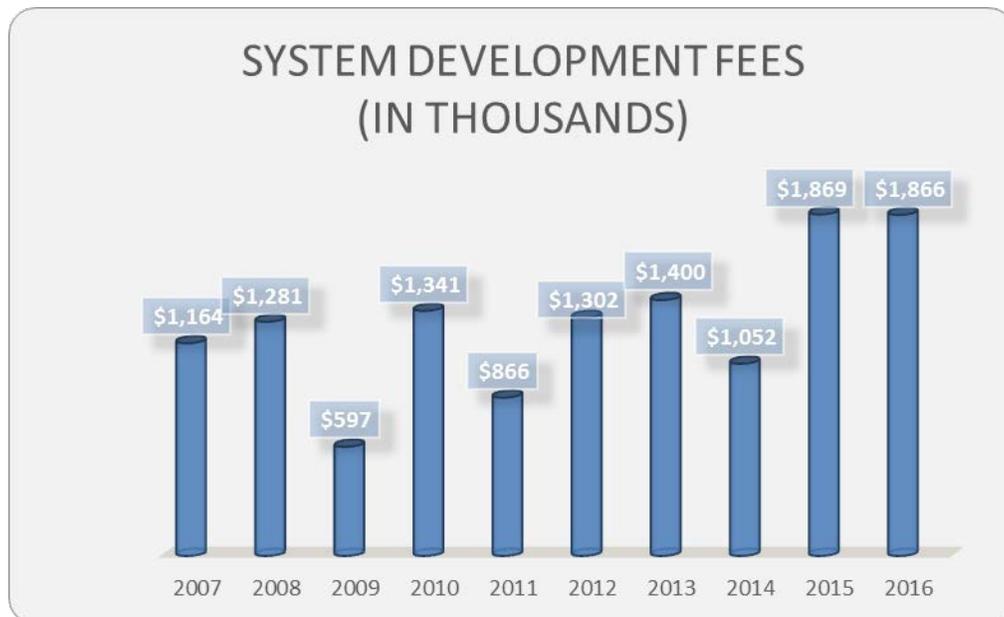
Reclaimed water consumption charge-Per thousand gallons - 50% of each potable rate block.

Rates and Revenues, Continued

System Development Fees Collected

Last Ten Fiscal Years
(in thousands)

Fiscal Year	System Development Fees Collected
2016	\$ 1,866
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



Rates and Revenues, Continued

Ten Largest Customers
Fiscal Years Ended September 30, 2016 and 2007

2016		Total Gallons Consumed (000)	Total Water Revenues	% of Water Revenues
1	United States Navy	338,808	\$ 1,012,432	2.9%
2	Monroe County Detention Center	54,095	555,397	1.6%
3	Monroe County Schools	39,990	343,876	1.0%
4	Ocean Reef Club	38,524	336,552	1.0%
5	Cheeca Lodge and Spa	75,325	334,767	1.0%
6	Keys Hotel Operator Inc	29,232	295,130	0.9%
7	City of Key West	39,091	289,079	0.8%
8	Resort Hotels of Key	21,455	241,453	0.7%
9	RLJ DBT Key West Lessee, LLC	21,229	229,030	0.7%
10	Stock Island Apartments	21,115	217,268	0.6%

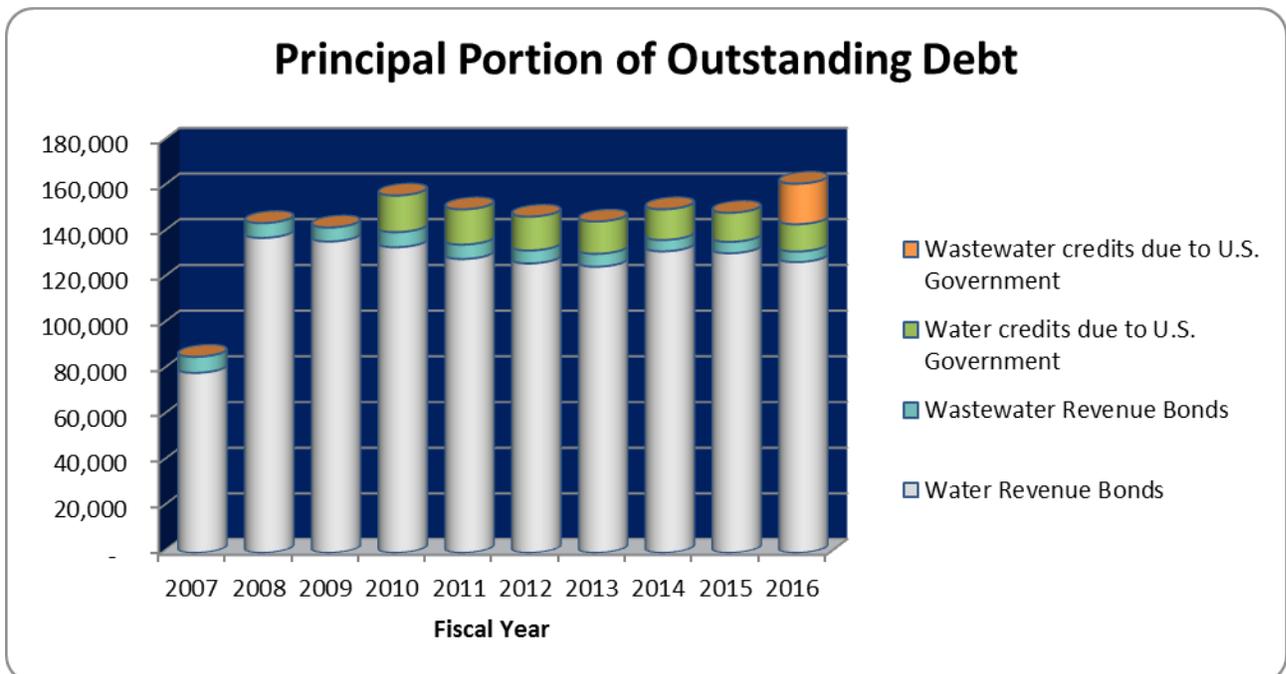
2007		Total Gallons Consumed (000)	Total Water Revenues	% of Water Revenues
1	United States Navy	296,175	\$ 885,029	2.3%
2	Monroe County Board of County Commissioners	51,049	423,909	1.1%
3	Chica Holdings LLC	45,395	400,807	1.1%
4	Ocean Reef Club	43,982	351,105	0.9%
5	Monroe County Schools	36,157	267,209	0.7%
6	City of Key West	24,367	91,108	0.2%
7	Anglers Club Inc	23,643	204,747	0.5%
8	Sheraton Suites KW	21,672	187,926	0.5%
9	Heartland Hotel Corp.	19,969	159,502	0.4%
10	Hawks Cay Investors	19,471	162,715	0.4%

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	Water credits due to U.S. Government	Wastewater credits due to U.S. Government	Totals	Total per Customer
2016	\$ 126,790	\$ 524	\$ 4,615	131,929	\$ 11,932	\$ 17,726	\$ 161,587	3.22
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



Debt, Continued

Revenue Bond Coverage

Last Ten Fiscal Years
(in thousands)

Fiscal Year	Gross Revenues (1)	Operating Expenses (2)	Revenue Available for Debt Service	Debt Service Requirements	Coverage
Water					
2016	\$ 53,193	\$ 35,798	\$ 17,024	\$ 8,406	2.03
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
Wastewater					
2016	\$ 7,592	\$ 498	\$ 2,684	\$ 482	5.57
2015	3,436	2,262	1,174	71	16.54
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

Includes revenue from sale of water, surcharges, fuel adjustment, meter tapping, service charges, miscellaneous operating revenues, interest income from investment of unrestricted accounts, less customer meter deposit interest expense and arbitrage.

Excludes depreciation and includes abatements due to leakage.

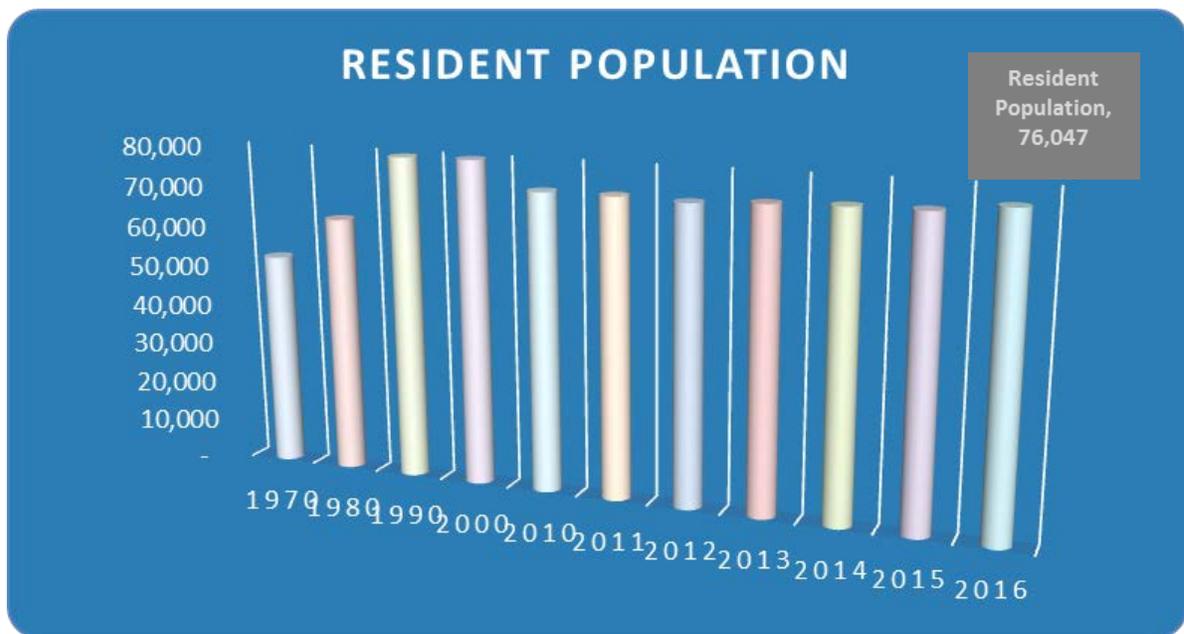
Gross revenue for wastewater includes those sources in (1) above plus system development fees.

Demographic and Economic Information

Population of Monroe County, Florida

Selected Years 1970-2016

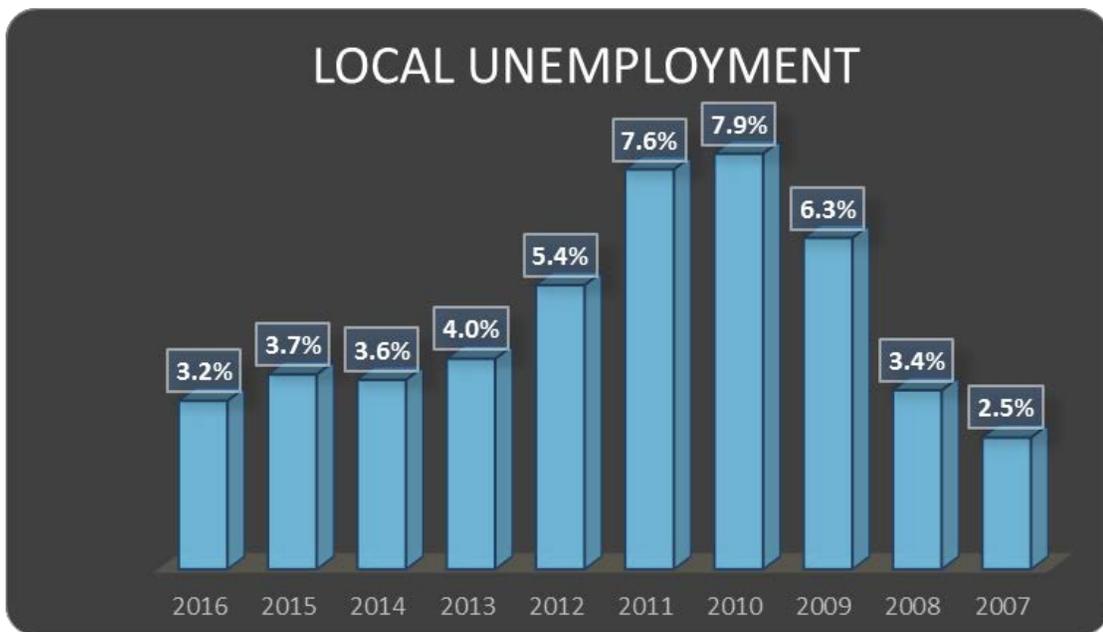
Year	Resident Population	Increase Decrease	Annual Percentage Change	Personal Income (in thousands)	Per Capita Income
2016	76,047	1,842	2.5%	not available	
2015	74,205	(2,931)	-3.8%	5,765,374	74,409
2014	74,044	484	0.7%	5,368,160	69,593
2013	73,560	663	0.9%	4,415,284	57,829
2012	72,897	227	0.3%	4,245,050	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



Demographic and Economic Information, Continued

Employment Statistics 2007-2016

	Labor Force	Employment	Unemployment	Unemployment Rate
2016	46,789	45,290	1,499	3.2%
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%



Demographic and Economic Information, Continued

Principal Employers

Fiscal Years Ended September 30, 2016 and 2007

Employer	2016 Employees
US Armed Forces (includes civilians support and contractors)	2,190
Monroe County Schools	1,096
Ocean Reef Club	962
Monroe County Sheriff's Office	595
Publix Stores	540
Monroe County Government	516
City of Key West	497
Lower Keys Medical Center	430
Westin Resort and Marina	400
Hawk's Cay Resort	385

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

Source - Key West Chamber of Commerce

Demographic and Economic Information, Continued

Schedule of Customer Accounts
Last Ten Fiscal Years

	Residential	Non Residential	U.S. Navy	Cruise Ships	Senior Citizens	Total
2016	43,343	5,446	18	4	1,393	50,204
2015	43,073	5,091	18	-	1,245	49,427
2014	42,753	4,965	18	4	1,346	49,086
2013	42,258	4,890	19	4	1,545	48,716
2012	42,401	4,829	21	4	1,408	48,663
2011	40,884	4,366	18	-	1,255	46,523
2010	40,911	4,219	20	-	948	46,098
2009	40,150	4,100	20	-	808	45,078
2008	40,644	4,060	20	-	693	45,417
2007	40,955	4,219	20	-	670	45,864

Note: Government is included in non-residential beginning October 1, 2008

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
2016	22,416	10,435	17,353	50,204
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

Demographic and Economic Information, Continued

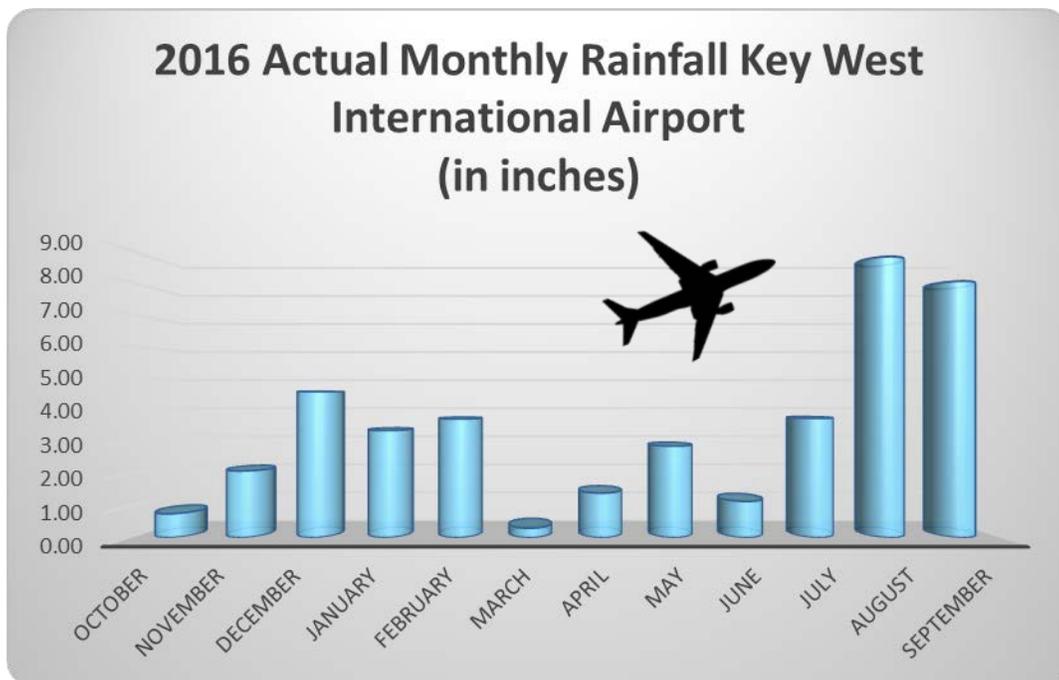
Monthly Rainfall

Fiscal Year Ended September 30, 2016

(in inches)

	Average-Key West International Airport	Actual-Key West International Airport	Average-Miami International Airport	Actual-Miami International Airport
October	5.52	0.75	7.24	4.7
November	2.28	2.09	3.09	7.55
December	1.84	4.58	1.9	9.82
January	1.84	3.36	1.99	7.57
February	1.65	3.72	2.03	2.85
March	1.53	0.3	2.43	0.61
April	1.78	1.4	3.43	1.09
May	3.2	2.87	6.39	8.27
June	4.35	1.14	8.69	8.72
July	3.64	3.74	6.42	4.11
August	4.81	8.81	7.51	13.77
September	6.53	8.04	8.91	6.05
Totals	38.97	40.80	60.03	75.11

Source: Southeast Regional Climate Center

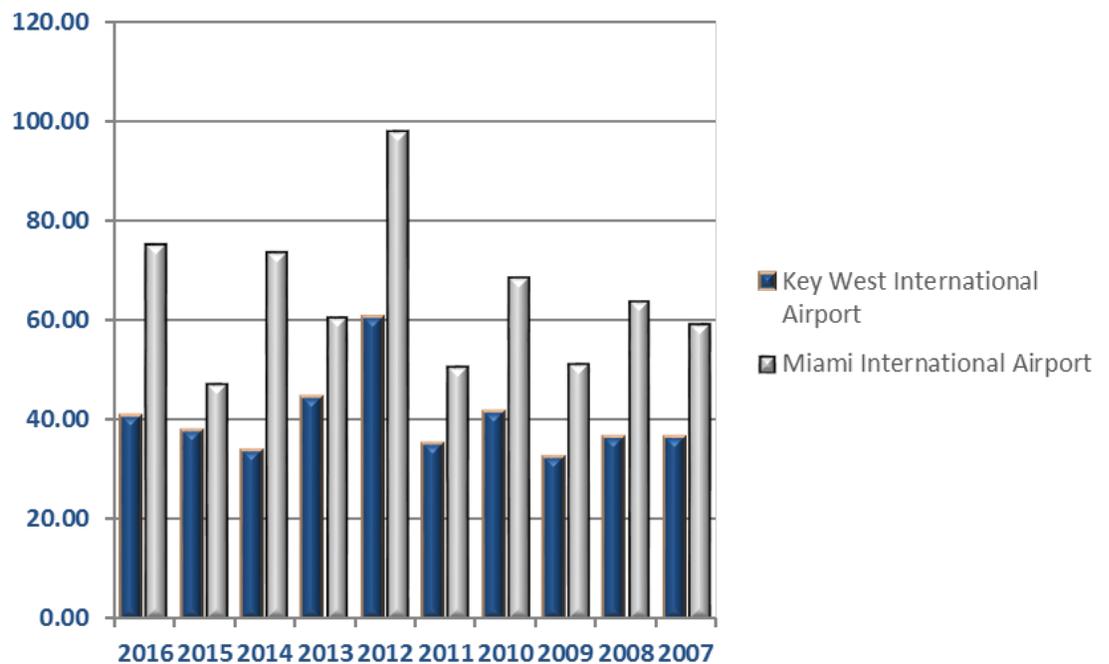


Demographic and Economic Information, Continued

Annual Rainfall
Last 10 Fiscal Years
(in inches)

	Key West International Airport	Miami International Airport
2016	40.80	75.11
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

Key West and Miami Annual Rainfall
(in inches)



Operating Information

Operating and Capital Indicators

Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Water										
Water treatment plant permitted capacity	23.79 mgd									
Reverse osmosis permitted capacity	9 mgd	9mgd	9 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	690	650
Number of pumping stations	26	26	26	25	25	25	25	25	25	19
Water storage capacity	49.4 mg	45 mg								
Wastewater										
Number of wastewater treatment plants	7	6	5	5	5	5	5	5	4	4
Combined permitted plant capacities	2.245 mgd	.92 mgd	.92 mgd	.92 mgd	.83 mgd	.83 mgd	.83 mgd	.5 mgd	.5 mgd	.5 mgd
Approximate miles of wastewater collection lines	195	195	49	49	49	49	49	44	19	19
Approximate feet of reclaimed water lines	25	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)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Water Available for Sale										
Biscayne Aquifer	6,238,986	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
Floridan Aquifer	59,390	223,710	147,863	213,680	123,896	560,597	253,278	13,156	51,067	75,077
Desalinated sea water	-	-	-	-	-	-	-	72,614	-	506
Less water lost in production**	-	50,295	70,146	6,123	-	-	-	-	(1,000)	(89,949)
Total Water Available for Sale	6,298,376	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
Water Sales:										
Residential	2,730,995	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
non-residential	2,007,041	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
U.S. Navy	254,324	274,413	273,266	273,584	290,151	274,047	239,671	242,906	291,323	304,343
City of Key West	19,055	29,748	16,844	20,481	25,055	23,328	20,602	19,849	24,604	28,225
Cruise ship through Outer Mole	2,167	657	2,109	1,292	1,332	1,363	-	-	-	-
Senior Citizens	49,961	49,066	54,982	58,477	54,312	48,772	41,259	36,166	37,452	27,141
Total Water Sold	5,063,543	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
Other accounted for water*	745,439	545,417	228,813	336,096	268,283	889,391	568,266	674,231	746,552	398,484
Total Accounted for Water	5,808,982	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
Unaccounted for water	489,394	1,208,862	960,160	937,996	576,590	576,590	565,056	346,738	595,184	591,676
Unaccounted for water as a percentage of total water production	7.8%	18.4%	15.2%	15.4%	9.6%	9.1%	9.7%	5.8%	10.0%	10.2%
Average daily water production (million gallons/day)	17.26	17.25	16.74	16.43	17.33	17.33	16.00	16.30	16.30	15.90
Average daily water sales (million gallons/day)	13.87	13.32	13.19	13.13	13.31	13.31	12.90	12.90	13.30	13.70

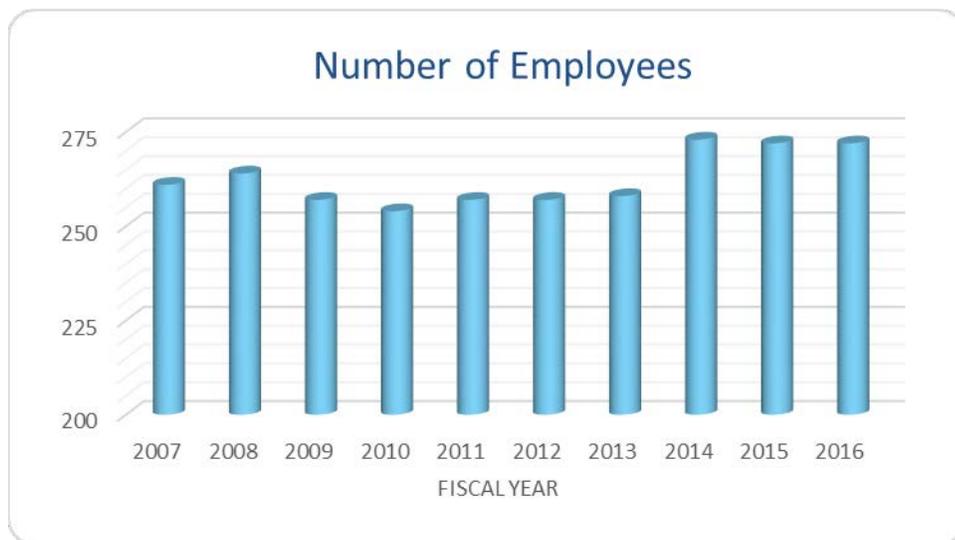
*Includes transmission line loss, distribution losses from line flushing and breaks and public uses for fire and cleaning. The method of identifying other accounted for water was modified in 2006.

**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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Water:										
Production	26	26	25	25	25	25	25	25	27	26
Transmission and distribution	80	83	83	82	82	81	81	80	85	86
Wastewater:										
Treatment	13	13	13	9	8	6	6	7	3	2
Collection	7	7	8	4	5	6	6	6	7	7
Engineering and Construction:										
Engineering	33	27	27	25	25	26	26	26	27	26
Construction	9	9	9	9	9	10	9	9	9	8
Administration:										
Customer service	39	40	43	42	43	43	44	46	55	56
Finance, accounting and purchasing	29	29	24	24	25	25	25	25	22	24
Information Technology	26	25	26	22	22	21	20	19	14	12
Other administrative personnel	12	13	15	16	13	12	12	14	15	14
Totals	274	272	273	258	257	255	254	257	264	261



Operating Information, Continued

Additions to the Utility Plant by Class

Last Ten Fiscal Years

(in thousands)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Land	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 250	\$ -	\$ -
Building, structures and improvements	262	501	411	2,270	296	1,008	9,960	7,646	7,065	7,902
Equipment, vehicles, furniture and fixtures	1,948	1,296	1,159	1,026	1,025	664	585	717	1,407	2,065
Transmission system	-	347	3,663	-	178	1,146	8,640	-	4,069	-
Distribution systems	6,455	883	9,485	4,224	4,240	3,351	5,579	2,494	2,051	356
Water meters	190	303	97	569	2,335	1,998	1,999	2,636	1,295	3,989
Water storage facilities	-	1,291	-	803	-	-	-	-	-	-
Pumping stations	1,876	355	66	376	89	7	1,805	51	7,113	1,321
Water treatment facilities	145	16	444	132	23	393	204	6,254	14,713	44
Reverse osmosis equipment	96	-	636	-	-	-	22,878	-	2,205	2,547
Computer equipment	388	125	671	258	280	309	139	265	556	870
Wastewater treatment equipment	889	228	64	38	23	1,965	12	838	3	79
Collection system	1,459	-	30	-	-	-	6	320	-	182
Reclaimed system	-	-	78	2,373	-	411	1,820	-	439	-
	\$ 13,708	\$ 5,345	\$ 16,804	\$ 12,069	\$ 8,489	\$ 11,252	\$ 53,627	\$ 21,471	\$ 40,916	\$ 19,355

Operating Information, Continued

Schedule of Insurance in Effect

September 30, 2016

Type of Coverage	Carrier/Policy Number	Coverage Amount	Deductible Self-retention	Effective Date	Expiration Date
Liability package	FMIT #0178		\$75,000 Stop Loss	10/1/2015	9/30/2016
General liability		\$10,000,000 OCC	\$25,000		
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	3/31/2016	3/31/2019
Property w/boiler and machinery	Westport- 50% NAP0456587-03 Ace American Insurance 20% STA085884 Lexington 25% 58428999	170,972,116.00	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	3/31/2016	3/31/2017
Flood building/contents	Bankers NFIP Various		Varies \$1,000 for building & \$1,000 for contents	12/7/2015 4/27/2016 5/6/2016 6/28/2016	12/7/2016 4/27/2017 5/7/2017 6/28/2017
Worker's compensation	Florida Municipal Self Insurers FMIT 0178	Statutory	\$2,500/each injury	10/1/2016	10/1/2017
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	3/1/2016	3/1/2017

Operating Information, Continued

Drinking Water Quality Standards & Analyses 2015/2016

Primary Drinking Water Standards

Inorganic Contaminants	MCL* mg/l*	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	0.59
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*	Finished Water NTU*
	1 . 0	0.06

Disinfectant By-Products	MCL* mg/l*	Distribution Water mg/l*
Trihalomethanes	0 . 080	0.028

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

Volatile Organic Contaminants	MCL* mg/l*	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*	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 biomide	0 . 00002	ND*
Chlorodane	0 . 00200	ND*
Dioxin	3X10 ⁻⁸	ND*

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

Operating Information, Continued

Drinking Water Quality Standards & Analyses 2015/2016

Secondary Drinking Water Standards

Secondary Contaminant	MCL mg/l*	Finished Water mg/l*
Aluminum	0.20	ND
Chloride	250	47
Color	15 Color Units	ND*
Copper	1.00	ND*
Fluoride	2.00	0.59
Foaming Agents	0.50	ND*
Iron	0.30	0.01
Manganese	0.05	ND*
Odor	3.0 ton	ND*
PH**	6.50-8.50	9.4
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)	97
Calcium Hardness	5.7
Alkalinity	82
Total Chlorine	38
	3.4

*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 micrometers
 ***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: All sample results were analyzed in 2015 except Fluoride, Turbidity, Trihalomethanes, Haloacetic Acids, Total Hardness, Calcium Hardness, Alkalinity, and Total Chlorine; these sample results are from 2016.

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 compliance 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

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, 2016 and the related statements of revenues, expenses and changes in net position and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 7, 2017.

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.

Marum LLP

Miami, FL
April 7, 2017

AUDITOR GENERAL SECTION

Management letter in accordance with
the rules of the Auditor General of the
State of Florida.

Independent accountants' report on
compliance pursuant to section
218.415 Florida Statutes

For fiscal year ended **September 30, 2016**

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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

Report on the Financial Statements

We have audited the financial statements of the Florida Keys Aqueduct Authority, as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated April 7, 2017.

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 April 7, 2017, 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, require 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, require 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, 2016, 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 fiscal year ended September 30, 2016. 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
April 7, 2017



**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 Florida Keys Aqueduct Authority's (the Authority) compliance with Section 218.415 Florida Statutes during the fiscal year ended September 30, 2016. 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 fiscal year ended September 30, 2016.

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
April 7, 2017

