



Florida Keys Aqueduct Authority Comprehensive Annual Financial Report

for the fiscal year ended September 30, 2012

Florida Keys Water



Pure-Precious-Perfect

Vision Statement

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
- Well-maintained, reliable and secure systems
- Financial stability
- Cost effective services
- Protection of environmental resources



Florida Keys Aqueduct Authority



Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2012

Prepared by the Department of Administration

2012

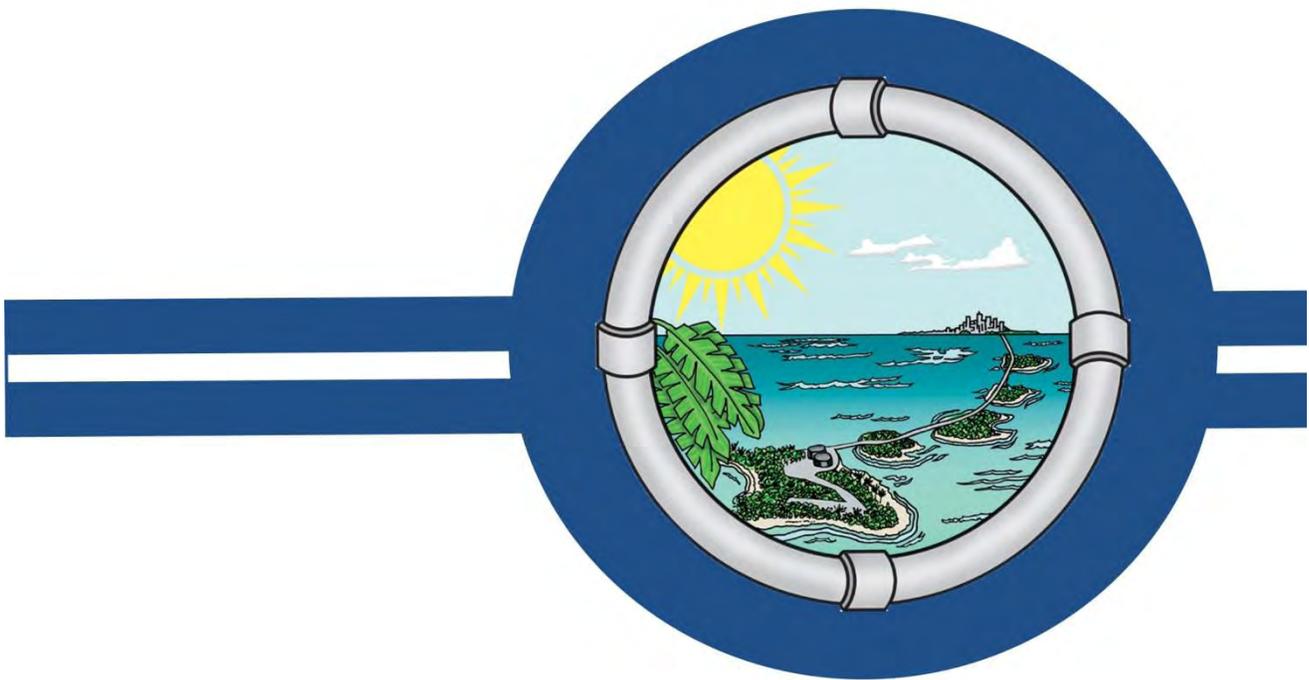
Comprehensive Annual Financial Report
For Fiscal Year Ended September 30, 2012

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Introductory Section



Board of Directors



J. Robert Dean
Chairman, District 3



Antoinette M. Appell
Vice Chairman, District 4



Brian L. Barroso
Secretary/Treasurer, District 1



David C. Ritz
Board Member, District 5



Melva G. Wagner
Board Member, District 2



System Overview

- 23.79 mgd lime softening water treatment plant
- 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
- 49.4 mg capacity in 34 storage tanks
- 690 miles of potable water distribution main at up to 55 psi
- 19 distribution pump stations
- 5 wastewater treatment plants
- 45 miles of wastewater collection and force main lines
- 18,300 feet of reclaimed distribution water lines





Message from the Executive Director
Kirk Zuelch

On behalf of the Board of Directors and staff of the Florida Keys Aqueduct Authority, I am pleased to submit this Comprehensive Annual Financial Report for our fiscal year ended September 30, 2012.

The Authority remains in sound financial condition, both from a net revenue and a liquidity standpoint. Operating expenses before depreciation are at pre-2008 levels, while water sales have remained consistent and new revenue sources have been added from new wastewater facilities and privatization of the US Navy water system.

In 2012, we completed the installation of advanced metering infrastructure throughout our system, which provides us with more complete and timely information about our customers' water usage. We have also constructed reclaimed water distribution systems in certain areas of Big Coppitt Key and Duck Key, providing us with another alternative water supply to help reduce the strain on the Biscayne Aquifer. Water capital projects are now focused on smaller renewal projects. In 2013, we will start a \$136 million wastewater project that the Authority will construct on behalf of Monroe County. We will operate this system for the County under a 99-year agreement. This project will employ many of the Authority's resources over the next 2-3 years.

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

Sincerely,

A handwritten signature in black ink that reads "Kirk C. Zuelch". The signature is written in a cursive, flowing style.

Kirk Zuelch

Executive Director

March 14, 2013



Florida Keys Aqueduct Authority

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1100 Kennedy Drive
Key West, Florida 33041-1239
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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 45 days after the completion of the audit report but no later than 9 months after the close of each fiscal year. Pursuant to that requirement, we are pleased to issue this Comprehensive Annual Financial Report of the Florida Keys Aqueduct Authority for the fiscal year ended September 30, 2012.

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, 2012 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Authority's financial statements for the fiscal year ended September 30, 2012 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Authority's MD&A can be found immediately following the report of the independent auditors.

Profile of the Authority

History and Purpose

In 1937, the legislature of the State of Florida created the Florida Keys Aqueduct Commission, the predecessor to the Authority. The Commission was charged with the responsibility of obtaining, supplying and distributing potable water to the Florida Keys. In 1970, the Authority was established by the state legislature to succeed the Commission. The Authority currently operates under Special Legislation 76-441, Laws of Florida, as amended.

The Authority is the sole provider of potable water for all the residents of the Florida Keys, a series of islands at the southern tip of the Florida peninsula. 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 Authority provides service to over 45,000 customers throughout the Florida Keys, which are a part of Monroe County. 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 the fiscal year. The budget is adopted on a basis consistent with GAAP except no amounts are provided for depreciation and amortization. The budget is monitored at various levels of detail by management. Total expenses and capital outlays 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 initial phase of the transmission line replacement was completed in the early 1980s. The Authority then established a long range capital improvement master plan to address anticipated future water demands. This master plan was expanded to include wastewater projects in 1998 and updated in 2006 in conjunction with the development of a strategic water supply plan that identifies future water supplies.

An overview of the Authority's facilities follows.

Well Fields

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

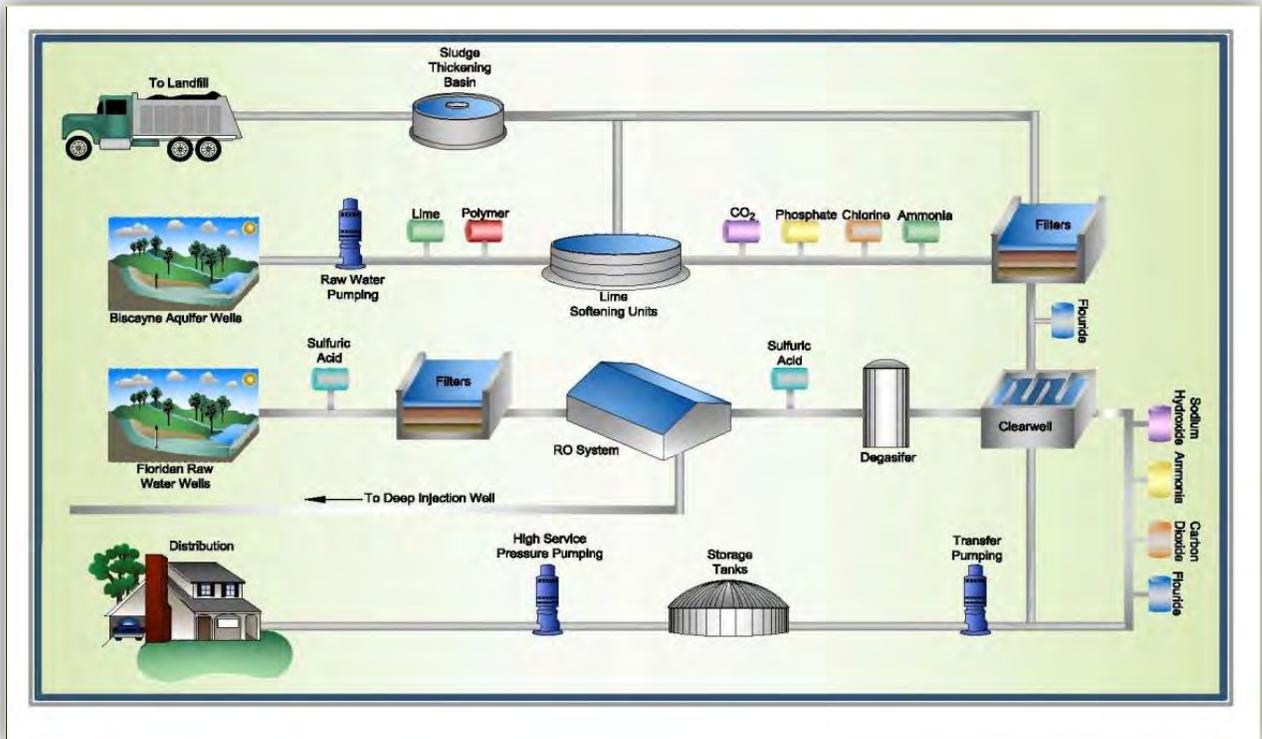
The Authority is permitted by SFWMD to withdraw its supply of water. The Authority's water use permit allows for an average daily withdrawal from the Biscayne Aquifer of 19.93 mgd and a maximum daily withdrawal of 23.79 mgd. However, the permit limits the average daily withdrawal to 17 mgd during the dry season (December 1 through April 30). The permit also allows the Authority to withdraw up to 8 mgd of brackish water from the deeper Floridan aquifer to treat through reverse osmosis. This alternative water supply is used primarily to meet the dry season limitation on the Biscayne withdrawal. The permit is effective until 2025, but the Authority may request additional allocations if the water supply is insufficient.

Water Production and Treatment Facilities

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

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

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 nineteen distribution pump stations located throughout the service area to maintain water pressure in the distribution system.

Wastewater Treatment Facilities

The Authority owns and operates a .054 mgd wastewater treatment facility in Bay Point, a .19 mgd facility in Duck Key, a .066 mgd facility in Layton and a .20 facility in Key Haven, Florida. Additionally, the Authority operates a .33 mgd facility in Big Coppitt that is owned by Monroe County. The Authority and Monroe County are parties to an interlocal agreement that provides for the Authority to operate and maintain county-owned wastewater systems for a period of 99 years, including setting rates sufficient to fund those operations.

Wastewater Transmission and Collection Systems

The Authority's wastewater collection systems are comprised of both gravity 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. This reclaimed system provides reclaimed water to limited areas of Big Coppitt Key and Shark Key.



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The Authority's Operations

Engineering and Operations

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

Due to the 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 Florida Keys 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. From time to time, however, the Authority introduces free chlorine into the system as a stronger disinfectant to cleanse the system of any potential bacteriological growth. The Authority performs bacteriological testing on samples taken from approximately 90 sample sites throughout the system to ensure that appropriate disinfection is taking place.

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

Technical Services

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

Customer Service and Administration

The Authority has customer service locations in Key West, Marathon and Tavernier, Florida. Customer service representatives are available at each location to initiate service, collect monthly payments and assist customers with service requests. Field service representatives read water meters, initiate and terminate service and act as customer liaisons 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 73,000 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.

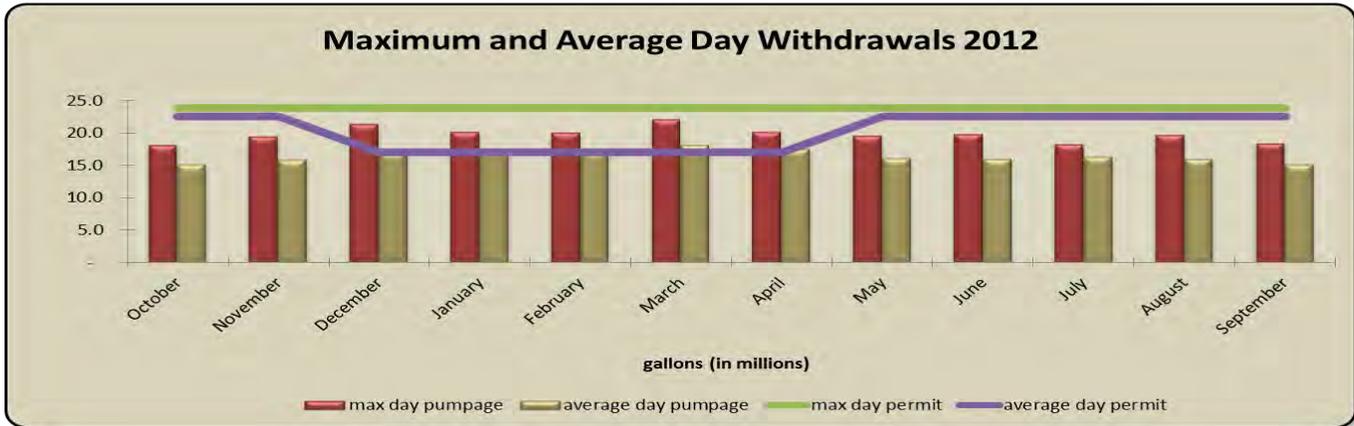
Water demand hit a ten year low in 2008 and has remained at about that level through 2012. The primary reasons are that customers are conserving water in response to the severe drought conditions in South Florida and a poor economic environment. Customers are using less to save on water and wastewater bills, and redevelopment has slowed or stopped. Many housing units are empty or in foreclosure. Although the unemployment rate in the service area is substantially lower than the rest of Florida or the nation, the Keys have not yet re-emerged from the recession or the downturn in the housing market. Tourism is slowly recovering after a noticeable drop.

The graph on the next page shows the maximum and average day withdrawals from the Biscayne aquifer in fiscal year 2012. Due to severe drought conditions that occur in South Florida from time to time, permanent mandatory water use restrictions from the SFWMD are now in place. Restrictions have been in place frequently since 2007 and have redefined the way people use water.

Long-Range Financial Planning

The Authority's capital improvement plan for water operations is projected to require about \$40 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.

That Authority entered into an agreement with Monroe County in 2005 that outlines the relationship between the County and the Authority for purposes of constructing wastewater systems in the areas of the County that do not have existing systems. Under this agreement, the County will own and pay for construction and the Authority will construct, maintain and operate these systems, as well as establish rates, for a period of 99 years from the date of the agreement. The first system built under this agreement was completed in the Big Coppitt Key area in the Lower Keys in 2009. In 2013, the Authority plans to begin construction on a wastewater system in the lower keys that will serve approximately 8,800 new customers.

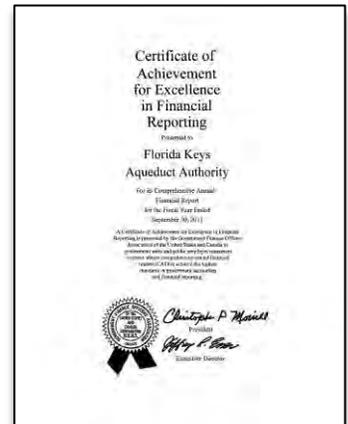


The Authority’s current rate structure has a base facility charge that provides revenue stability independent of water usage and offsets some of the fixed costs incurred to maintain service for all potential users of the system. Inverted rate blocks for water flows were designed to discourage excessive 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.

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, 2011. This was the 21st 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. 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, 2012. This was the sixth year that the Authority has won this award. In order to receive the budget award, the entity had to satisfy nationally recognized guideline for effective budget presentation. These guidelines are designed to assess how well an entity’s budget serves as a policy document, a financial plan, an operations guide and a communications device. The budget must be rated proficient in all four categories to receive the award.

Acknowledgements

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

Respectfully Submitted,



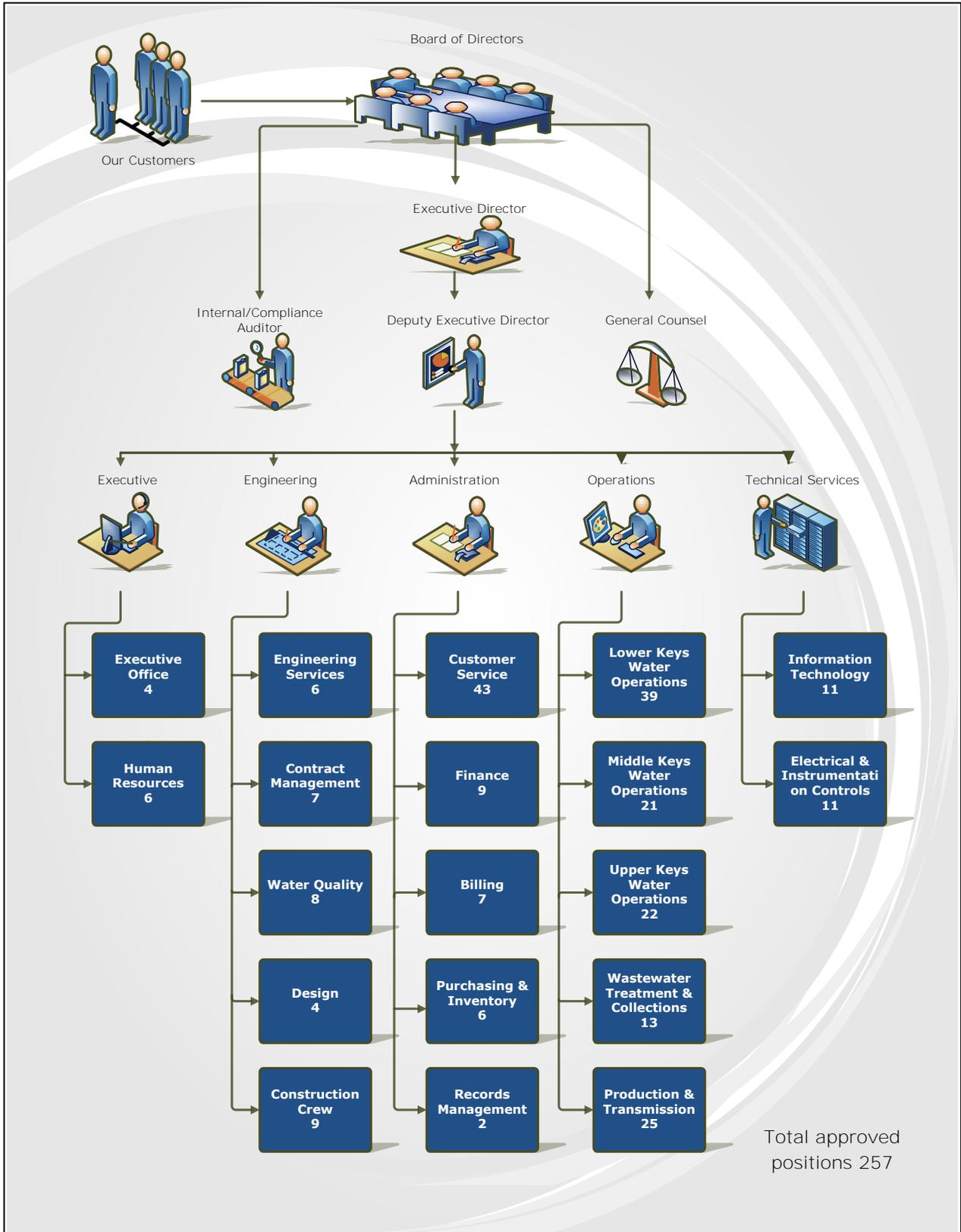
Kerry G. Shelby, CPA
Deputy Executive Director



Kirk Zuelch
Executive Director

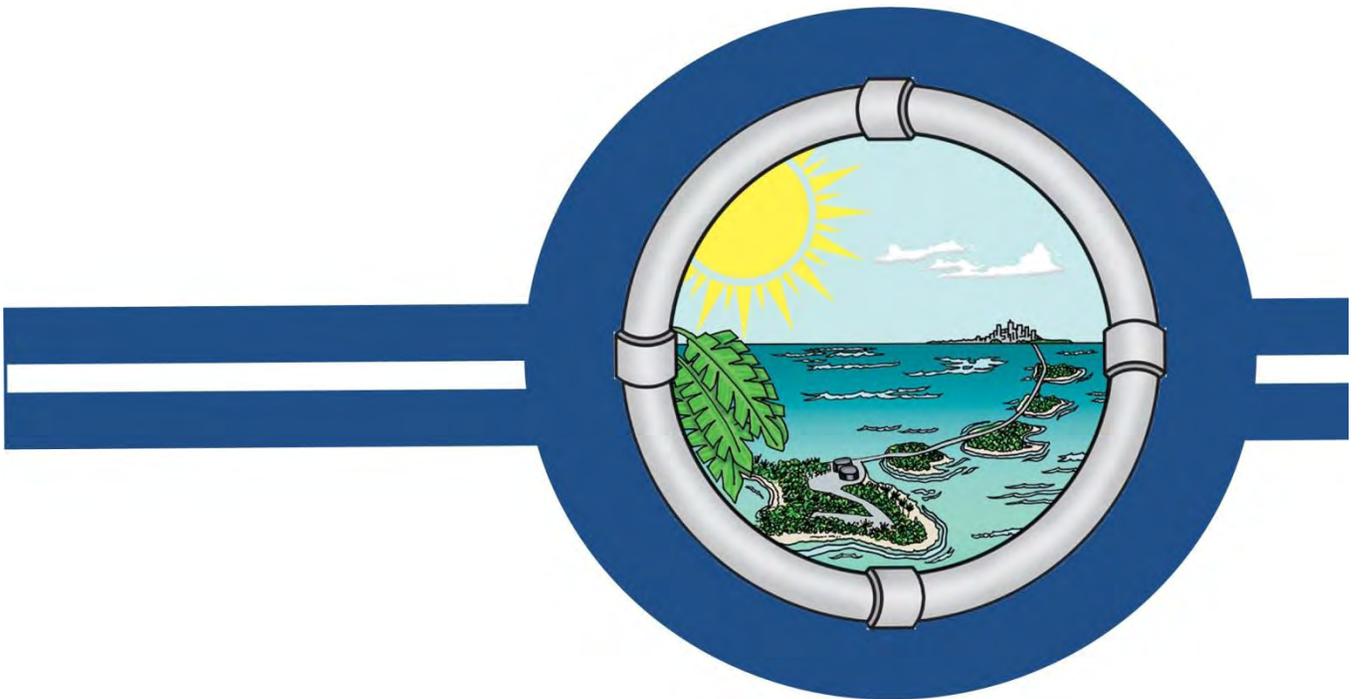
March 14, 2013

Florida Keys Aqueduct Authority Chart of Organization





Financial Section





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Taste it don't waste it

Independent Auditors' Report



INDEPENDENT AUDITORS' REPORT

Board of Directors
Florida Keys Aqueduct Authority
Key West, Florida

We have audited the accompanying financial statements of the Florida Keys Aqueduct Authority (the Authority) as of and for the years ended September 30, 2012 and 2011 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2012 and 2011 and the respective changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 1 to the financial statements, the Authority implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which significantly changed the presentation and classifications of certain items within the financial statements.



In accordance with *Government Auditing Standards*, we have also issued a report dated March 14, 2013 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress – OPEB on pages 18 through 24 and 51, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming 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 basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Marcum LLP

Miami, FL
March 14, 2013

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, 2012. Please read it in conjunction with the transmittal letter and the Authority's financial statements.

Highlights

Financial highlights

- The Authority's net position decreased by \$5 million, or about 3%, as a result of this year's operations. See the analysis of net position below.
- Operating revenue decreased to \$48.4 million in 2012, 2% under 2011 while operating expenses, before depreciation, increased by 1% in 2012.

Authority highlights

- The Authority continues to partner with Monroe County to build wastewater systems in the Keys. In 2012 the Florida State legislature approved \$30 million dollars in funding for these systems. A \$136 million dollar project in the Lower Keys that will serve 8,800 customers is scheduled to begin construction in 2013.
- The advanced metering infrastructure project was substantially complete in 2012.

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 primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. 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

One of the most important questions asked about the Authority's finances is "Is the agency, as a whole, better off or worse off as a result of the year's activities?" The statements of net position, revenue, expenses and changes of net position report information about the Authority's activities in a way that will help answer this question. These two statements report the net position of the Authority and changes in them. You can think of the Authority's net position - the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources - as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth, and new or changed legislation.

The Authority's total net position decreased from last year by \$5 million. Our analysis below focuses on the Authority's net position (Table 1) and changes in net position (Table 2) during the year. 2011 and 2010 was reclassified to conform to current presentation.

Table 1

	2012	2011	2010
Capital assets	\$ 276,678,980	\$ 277,960,474	\$ 280,109,534
Current and other assets	50,893,481	56,226,702	62,240,124
Total assets	<u>327,572,461</u>	<u>334,187,176</u>	<u>342,349,658</u>
Deferred outflow of resources			
Accumulated decrease in fair value of hedging derivatives	15,574,936	14,731,961	11,729,018
Long-term debt outstanding	161,862,194	164,494,714	164,144,614
Other liabilities	16,434,883	14,850,240	16,707,638
Total liabilities	<u>178,297,077</u>	<u>179,344,954</u>	<u>180,852,252</u>
Net position			
Net investment in capital assets	130,549,026	127,585,840	126,277,020
Restricted	11,952,757	11,036,817	10,797,094
Unrestricted	22,348,537	30,951,526	36,152,310
Total net position	<u>\$ 164,850,320</u>	<u>\$ 169,574,183</u>	<u>\$ 173,226,424</u>

Net investment in capital assets, which is net of related debt, increased in 2012 due to an increased investment in infrastructure and the refunding of wastewater bonds. Restricted net position decreased slightly in 2012 due to the use of restricted cash to refund wastewater bonds. The decrease in unrestricted net position is due to funds used for infrastructure.

Net investment in capital assets, increased in 2011 due mainly to principal repayments of debt. Restricted net position increased due to additional construction advances. The decrease in unrestricted net position is due to spending bond proceeds and a reclassification of contingency funds.

Changes in the Authority's net position can be determined by reviewing the following condensed statement of revenue, expenses and net position for the year. 2011 and 2010 was reclassified to conform to current presentation.

Table 2

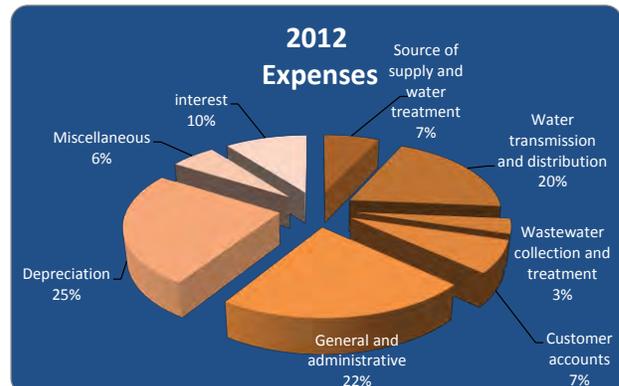
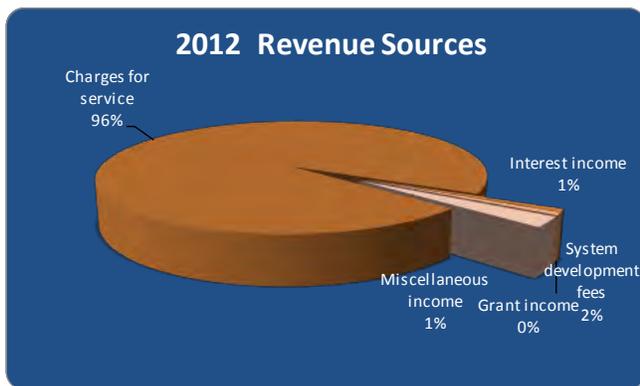
	2012	2011	2010
Net utility operating revenue	\$ 48,416,870	\$ 49,261,363	\$ 46,808,248
Interest income	357,372	368,804	448,644
Investment income (loss)	-	(757,497)	4,056,371
Other income	384,486	321,623	87,123
Total revenues	49,158,728	49,194,293	51,400,386
Operating expenses	48,384,278	48,001,670	46,381,050
Interest expenses	5,959,476	5,661,270	5,643,261
Other expenses	903,175	554,900	491,895
Total expenses	55,246,929	54,217,840	52,516,206
Deficiency of revenue over expenses	(6,088,201)	(5,023,547)	(1,115,820)
Contributions	1,364,338	1,371,306	4,829,290
Change in net position	(4,723,863)	(3,652,241)	3,713,470
Net position at beginning of year	169,574,183	173,226,424	169,512,954
Net position at end of year	\$ 164,850,320	\$ 169,574,183	\$ 173,226,424

Total operation revenues decreased by 2% in 2012 due to reduced water sales. Interest income declined 3% due to interest rate declines. Other income increased by 20% due to the sale of surplus assets.

Total operating revenue increased by about 5% in 2011 due to rate indexing and increased water sales. Interest income declined 18% due to a slightly lower cash balance and interest rate declines. Investment income reflected a loss in 2011 due to the unrealized loss from the termination of a non-hedging derivative instrument.

Operating expenses increased by 1% in 2012 due to increased health insurance costs and the cost of material necessary to maintain infrastructure. Interest expense increased by 5% due to increased interest cost on variable rate bonds. Other expenses increased by about \$300,000 due to an accounting change of bond issue costs.

Operating expenses increased by 3% in 2011 due to increased depreciation expenses on newly constructed assets. Interest expense remained consistent with the prior year.



The Authority's Fund

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

Capital Assets and Debt

Capital assets

At the end of 2012, the Authority had approximately \$276.6 million invested in a broad range of water and wastewater capital assets, including several projects under construction. This amount represents a net decrease (including additions, deductions and depreciation) of approximately \$1.2 million. These net assets decreased by \$2.1 million in 2011 over 2010.

The following table summarizes the Authority's capital assets, net of accumulated depreciation, for the years ended September 30, 2012, 2011 and 2010.

	2012	2011	2010
Land	\$ 8,285,154	\$ 8,285,154	\$ 8,285,154
Buildings, structures & improvements	46,175,331	48,040,398	49,188,513
Equipment, vehicles, furniture & fixtures	4,405,268	4,248,209	4,485,040
Transmission system	38,473,262	40,455,551	41,509,914
Water distribution system	71,900,676	69,766,710	68,501,625
Water meters	9,753,714	8,810,541	7,998,353
Water storage facilities	3,709,856	3,883,160	4,056,464
Pump station equipment	15,586,127	16,731,322	18,008,877
Water treatment equipment	21,479,657	22,834,556	23,811,849
Reverse osmosis equipment	26,132,779	28,221,422	30,327,450
Computer equipment	732,514	724,262	1,016,956
Wastewater treatment equipment	4,829,643	5,142,572	3,403,239
Wastewater collection equipment	7,942,300	8,183,406	8,424,512
Reclaimed water	2,502,159	2,566,132	2,218,553
	261,908,440	267,893,395	271,236,499
Construction work in progress	14,770,540	10,067,079	8,873,035
	\$ 276,678,980	\$ 277,960,474	\$ 280,109,534

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

	2012	2011	2010
Balance at beginning of year	\$ 277,960,474	\$ 280,109,534	\$ 279,801,824
Additions	8,489,326	11,252,090	53,627,598
Retirements	(1,872,732)	(2,144,667)	(1,153,611)
Depreciation	(14,385,652)	(14,443,230)	(12,401,410)
Accumulated depreciation retired	1,784,103	1,992,703	1,038,416
Increase (decrease) in construction work in progress	4,703,461	1,194,044	(40,803,283)
Balance at end of year	\$ 276,678,980	\$ 277,960,474	\$ 280,109,534

This year's major additions to utility plant included:

•Water transmission system upgrades	\$.1 million
•Water distribution system upgrades	4.2 million
•Wastewater plant and pump station upgrades	.2 million
•Buildings and structures	.3 million
•Advanced metering infrastructure	2.3 million
•Equipment, vehicles furniture and fixtures	1.0 million
•Computer equipment	.3 million

Additionally, the Authority invested approximately \$4.2 million on the repair and replacement to the distribution system and \$.5 million on the repair and replacement to the transmission system.

The Authority's 2013 capital budget plans for investing approximately \$5.7 million in capital projects, including the following:

•Water treatment upgrades	\$.1 million
•Water transmission system upgrades	1.5 million
•Water distribution system upgrades	3.0 million
•Buildings and structures	.9 million
•Wastewater collection system upgrades	.1 million
•Advance metering infrastructure	.1 million

The Authority plans to finance capital projects primarily with cash reserves. In addition to projects included in the 2013 capital budget, the Authority will continue to construct and operate wastewater projects, when funding is available, that will be owned and funded by Monroe County government under the terms of an interlocal agreement. See the notes to the financial statements for more details about this agreement.

Long-term liabilities

At September 30, 2012, the Authority had a total of approximately \$131.3 million in water and wastewater bonds outstanding. No new bonds were issued in fiscal 2012. Series 2001, series 2004 and series 2009 wastewater bonds were refunded by series 2012 refunding wastewater bonds in the amount of \$5,635,000 at an interest rate of 2.86%. The Series 2009 wastewater bonds were issued in two tranches, with the second tranche of \$2.3 million issued in fiscal year 2010. 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. Wastewater bonds 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 as well as a deferred outflow of funds on the Authority's statement of net position. The Authority terminated a second derivative agreement 2011 that was not considered an effective hedging instrument.

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

Table 5

		2012		2011		2010
Water and wastewater bonds, net	\$	131,338,205	\$	134,951,245	\$	137,807,689
Credit due to US government		14,791,749		15,423,389		16,024,825
Compensated absences		2,275,761		2,081,893		2,040,961
Net OPEB obligation		1,323,068		924,986		511,160
Total long-term liabilities	\$	149,728,783	\$	153,381,513	\$	156,384,635

Compensated absences include accrued vacation pay and sick leave to be paid at retirement. Net OPEB obligation represents the actuarial value of the Authority's other post-employment benefits due to employees and former employees. More detailed information about the Authority's long-term liabilities is presented in Notes 5 and 11 to the financial statements.

Economic Factors, Next Year's Budget and Rates

The current economic and climate conditions have negatively impacted water sales. After reaching an eleven year low in 2009, sales volume improved by about 3% in 2011 but declined again by 2% in 2012. Part of this reduction is related to slowed or stalled development, which has left many properties in the service area vacant or incomplete. As customers continue to feel the economic pinch, many are conserving in an effort to minimize their water and wastewater bills and in response to conservation outreach due to the drought. Tourism saw a small recovery in 2011 that continued in 2012. These conditions are expected to continue through the next fiscal year and will be considered when developing the 2014 budget. The Authority's 20-year capital improvement plan calls for capital expenditures of about \$40 million over the next five years. These expenditures will be funded primarily through existing cash reserves, grants and rate revenue. No additional debt is expected to be issued except for projects with dedicated revenue sources that will support the debt service. Projects can be deferred or removed from the plan at any time at the discretion of the Authority's board of directors.

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

The Authority continues to move ahead with wastewater initiatives in the Florida Keys. The Authority and Monroe County entered into an interlocal agreement in 2005 that established a partnership for completing the construction of wastewater infrastructure in the Authority's service area. The Authority currently has about 2,000 wastewater customers and, depending on availability of funding to continue construction, may have from 8,000-9,000 in the next few years. As the wastewater utility grows, rates will be reevaluated for economies of scale.

In recent years, the Florida Keys have been impacted by several hurricanes, the most serious being Hurricane Wilma in 2006. 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
 Statements of Net Position
 September 30, 2012 and 2011

ASSETS	2012	2011
Current assets		
Unrestricted current assets		
Cash and cash equivalents	\$ 18,217,405	\$ 11,742,975
Investments	-	11,000,000
Receivables:		
Accounts - customers	4,627,055	4,862,195
Accounts - other	262,956	1,006,698
Interest	-	95,230
Current portion of assessments	345,408	346,179
Materials and supplies	1,938,148	1,764,137
Prepaid expenses	552,057	562,330
Total unrestricted current asset	25,943,029	31,379,744
Restricted current assets		
Cash and cash equivalents	8,481,473	7,332,972
Interest rate swap collateral	320,000	-
Construction advances	5,120,454	5,470,173
Total restricted current assets	13,921,927	12,803,145
Total current assets	39,864,956	44,182,889
Noncurrent assets		
Restricted noncurrent assets		
Cash and cash equivalents	5,445,202	5,724,675
Total restricted noncurrent assets	5,445,202	5,724,675
Capital assets		
Capital assets	445,334,406	438,717,812
Construction in progress	14,770,540	10,067,079
Less accumulated depreciation	(183,425,966)	(170,824,417)
Capital assets, net of accumulated depreciation	276,678,980	277,960,474
Bond issue costs, net	2,410,176	2,790,545
Assessments receivable, net of current portion	3,173,147	3,528,593
Total noncurrent assets	287,707,505	290,004,287
Total assets	327,572,461	334,187,176
Deferred outflow of resources		
Accumulated decrease in fair value of hedging derivatives	15,574,936	14,731,961

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

Statements of Net Position (continued)
September 30, 2012 and 2011

LIABILITIES	2012	2011
Current liabilities		
Current liabilities payable from unrestricted assets		
Accounts payable	\$ 4,064,072	\$ 2,106,124
Accrued wages and benefits	988,189	1,002,587
Unearned receipts	333,032	468,325
Other liabilities	193,593	163,441
Total current liabilities payable from unrestricted assets	5,578,886	3,740,477
Current liabilities payable from restricted assets		
Customer deposits	5,445,202	5,724,675
Interest payable	424,165	587,699
Advances from other governments	1,545,105	1,178,629
Current portion of credit due to US government	663,361	631,640
Current portion of bonds payable	2,778,164	2,987,120
Total current liabilities payable from restricted assets	10,855,997	11,109,763
Total current liabilities	16,434,883	14,850,240
Long-term liabilities		
Bonds payable, net	131,338,205	134,951,245
Derivative instrument - swap	15,574,936	14,731,961
Credit due to US government	14,791,749	15,423,389
Compensated absences	2,275,761	2,081,893
Net OPEB obligation	1,323,068	924,986
	165,303,719	168,113,474
Less current portion	(3,441,525)	(3,618,760)
Total long-term liabilities	161,862,194	164,494,714
Total liabilities	178,297,077	179,344,954
Net position		
Net investment in capital assets	130,549,026	127,585,840
Restricted:		
Debt service	4,155,849	4,270,594
Capital projects	7,476,908	6,766,223
Other purposes	320,000	-
Unrestricted	22,348,537	30,951,526
Total net position	\$ 164,850,320	\$ 169,574,183

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

Statements of Revenue, Expenses and Changes in Net Position

For the fiscal years ended September 30, 2012 and 2011

Revenue	2012	2011
Utility revenue water	\$ 42,281,052	\$ 43,200,380
Utility revenue reclaimed water	49,886	42,830
Utility revenue wastewater	2,408,490	2,717,597
Other operating revenue Navy	2,456,208	2,456,208
Other operating revenue	1,635,515	1,248,910
Total operating revenue	48,831,151	49,665,925
Less abatements	(414,281)	(404,562)
Net operating revenue	48,416,870	49,261,363
Operating expenses		
Source of supply	695,122	677,953
Water treatment	3,328,531	2,959,139
Transmission	4,714,800	5,341,511
Distribution	6,474,924	6,193,262
Wastewater treatment	833,799	713,081
Wastewater collection	1,070,908	991,332
Customer accounts	4,083,348	4,102,599
General and administrative	12,797,194	12,579,563
Depreciation	14,385,652	14,443,230
Total operating expenses	48,384,278	48,001,670
Utility operating income	32,592	1,259,693
Non-operating revenue (expenses)		
Interest income	357,372	368,804
Investment income (loss)	-	(757,497)
Other income	326,253	376,287
Grants from federal and state agencies	8,023	7,925
Gain (loss) on disposal of assets and inventory	50,210	(62,589)
Interest expense	(5,959,476)	(5,661,270)
Remarketing and letter of credit fees	(496,864)	(441,759)
Amortization of bond issue costs	(406,311)	(113,141)
Total non-operating revenue (expenses)	(6,120,793)	(6,283,240)
Net loss before contributions	(6,088,201)	(5,023,547)
Capital contributions	1,364,338	1,371,306
Change in net position	(4,723,863)	(3,652,241)
Net position, beginning of year,	169,574,183	173,226,424
Net position, end of year	\$ 164,850,320	\$ 169,574,183

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

Statements of Cash Flows

For the fiscal years ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Payments received from customers	\$ 47,452,155	\$ 46,958,472
Deposits received from customers	246,280	396,914
Other cash received	304,117	414,880
Payments for salaries and benefits	(21,552,537)	(22,258,892)
Payments to suppliers for goods and services	(9,540,065)	(12,666,863)
Interest paid on and refunds of customer deposits	(560,916)	(754,250)
Net cash provided by operating activities	<u>16,349,034</u>	<u>12,090,261</u>
Cash flows from non capital financing activities		
Proceeds from non-capital grants	8,023	7,925
Cash received from other governments	4,201,127	5,984,347
Payments for projects of other governments	(3,834,651)	(4,448,101)
Net cash provided by non-capital financing activities	<u>374,499</u>	<u>1,544,171</u>
Cash flows from capital and related activities		
System development fees received	1,302,131	866,401
Proceeds from capital grants	-	18,990
Payments for capital assets	(12,347,458)	(11,753,214)
Cash paid for construction advances	-	(5,299,002)
Proceeds from sale of capital assets	138,839	22,769
Proceeds from issuance of bonds and debt	5,635,000	-
Proceeds from termination of derivative instrument	-	4,565,000
Debt issuance costs and financing fees paid	(518,864)	(441,759)
Principal payments of bonds	(8,895,089)	(2,822,792)
Interest payments for bonds	(5,706,934)	(4,866,297)
Net cash used for capital and related financing activities	<u>(20,392,375)</u>	<u>(19,709,904)</u>
Cash flows from investing activities		
Interest received from investments	332,300	260,572
Purchase of temporary investments	-	(11,000,000)
Proceeds from sale or maturity of temporary investments	11,000,000	3,916,982
Net cash provided (used) by investing activities	<u>11,332,300</u>	<u>(6,822,446)</u>
Net cash inflow (outflow) from all activities	7,663,458	(12,897,918)
Cash and cash equivalents at beginning of period	24,800,622	37,698,540
Cash and cash equivalents at end of period	<u>\$ 32,464,080</u>	<u>\$ 24,800,622</u>

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

Statements of Cash Flows (continued)
For the fiscal years ended September 30, 2012 and 2011

Reconciliation of utility operating income to net cash provided by operating activities	2012	2011
Utility operating income	\$ 32,592	\$ 1,259,693
Credits to US Navy	(1,374,840)	(1,374,840)
Depreciation	14,385,652	14,443,230
Other income	326,254	376,287
Interest on customer deposits	(35,163)	(40,018)
(Increase) decrease in		
Accounts receivable	1,027,391	(823,035)
Materials and supplies	(174,011)	(117,205)
Prepaid expenses	10,273	(62,996)
Increase (decrease) in		
Accounts payable	1,957,948	(1,206,477)
Advances from other governments	519,864	53,783
Accrued wages and benefits	(47,453)	(100,843)
Customer deposits	(279,473)	(317,318)
Net cash provided by operating activities	\$ 16,349,034	\$ 12,090,261
Schedule of cash and cash equivalents		
Beginning of period		
Unrestricted cash and cash equivalents	\$ 11,742,975	\$ 23,268,246
Restricted cash and cash equivalents	13,057,647	14,430,294
	\$ 24,800,622	\$ 37,698,540
End of period		
Unrestricted cash and cash equivalents	\$ 18,217,405	\$ 11,742,975
Restricted cash and cash equivalents	14,246,675	13,057,647
	\$ 32,464,080	\$ 24,800,622
Schedule of noncash investing and financing activities:		
Change in value of derivative instruments	842,975	3,002,943
Capital assets contributed	375,309	625,575
	\$ 1,218,284	\$ 3,628,518

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

Notes to Financial Statements

For the fiscal years ended September 30, 2012 and 2011

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Notes to Financial Statements

For the fiscal years ended September 30, 2012 and 2011

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. In addition, the Authority applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Authority has elected not to follow subsequent private sector guidance.

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 other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

Basis of Presentation

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

Measurement Focus and Basis of Accounting

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

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

Notes to Financial Statements (continued)

September 30, 2012 and 2011

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

capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Assets, Liabilities and Net Assets

Cash and Investments

For purposes of the statement of cash flows, the Authority considers all highly liquid investments, including restricted investments, which mature in three months or less from their original purchase date to be cash equivalents. Investments are carried at cost, which is approximately fair value. Additional cash and investment disclosures are presented in Note 2.

Materials and Supplies

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

Capital Assets

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

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

Construction Work in Progress

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

Compensated Absences

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

Notes to Financial Statements (continued)
September 30, 2012 and 2011

Note 1. Summary of Significant Accounting Policies (Continued)

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 refundings, 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, discount or amount deferred on refunding.

Interest on Indebtness

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 years ended September 30, 2012 and 2011.

Equity Classifications

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

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

Budget

In accordance with the Authority's enabling legislation, the Board holds public hearings and subsequently adopts an annual budget for operating expenses and capital outlays. 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 expenditures/expenses during the reporting periods. Actual results could differ from those estimates.

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.

Notes to Financial Statements (continued)
September 30, 2012 and 2011

Note 1. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

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

Grants from Government Agencies

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

Special Assessments

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

Reclassifications

As a result of the implementation of GASB statement No. 63, financial reporting of deferred outflow of resources, deferred inflows of resources and net position, certain prior year financial presentations have been reclassified to conform with the current year presentations.

Note 2. Cash and Investments

The Authority had the following cash, cash equivalents and investments at September 30, 2012 and 2011.

	2012	2011
Cash and cash equivalents	\$ 32,464,080	\$ 17,480,019
Repurchase agreements	-	7,320,603
Total cash and cash equivalents	32,464,080	24,800,622
Investments - Certificates of deposit	-	11,000,000
Total cash, cash equivalents and investments	\$ 32,464,080	\$ 35,800,622

All cash and cash equivalents are fully liquid. Certificates of deposit have original maturities of twelve months and are therefore treated as investments for presentation but not for disclosure.

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, 2012 and 2011, all the Authority's bank deposits, having a bank balance of \$33,116,533 and \$26,192,861, respectively, and certificates of deposits having a bank balance of \$11,000,000 in 2011, were held by financial institutions designated as Qualified Public Depositories by the Treasurer of the State of Florida. As such, these deposits were covered first by federal depository insurance and the balance covered by the

Notes to Financial Statements (continued)

September 30, 2012 and 2011

Note 2. Cash and Investments (Continued)

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

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority’s investment policy limits its portfolio to maturities of no more than five years unless matched to a specific cash flow. The policy further states that the portfolio will be structured to meet cash flow requirements for ongoing operations so that securities will not need to be sold prior to maturity. For the years ended September 30, 2012 and 2011, the Authority did not have any fixed income securities that subject it to interest rate risk.

Credit Risk

The Authority’s general investment policy is to apply the prudent person rule: investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The Authority’s investment policy limits investment in certificates of deposits to institutions designated as Qualified Public Depositories by the Treasurer of the State of Florida. Consistent with state statute, commercial paper investments are limited to those rated in the highest tier (e.g., A-1, P-1 or F-1) by a nationally recognized rating agency.

Concentration of Credit Risk

The Authority’s investment policy calls for investment diversification to avoid concentration of credit risk. The policy does not specify percentage limits that can be invested in any one issuer. The Authority has adopted the recommended practices of the GFOA in this area by incorporation of those recommendations into its policy. In 2012 and 2011 there were no investments that exceeded 5% of investments in any one issuer.

Note 3. Restricted Assets

Restricted assets as of September 2012 and 2011 consisted of the following.

	2012	2011
Current restricted assets:		
Debt service	\$ 4,580,014	\$ 4,858,293
Advances from other governments	2,605,409	1,178,629
Grant funds	1,296,050	1,296,050
Construction advances	5,120,454	5,470,173
Interest rate swap collateral	320,000	-
	<u>13,921,927</u>	<u>12,803,145</u>
Noncurrent restricted cash and cash equivalents	5,445,202	5,724,675
Total restricted assets	<u>\$ 19,367,129</u>	<u>\$ 18,527,820</u>

Notes to Financial Statements (continued)

September 30, 2012 and 2011

Note 3. Restricted Assets, continued

Construction Advances

The Authority had advanced construction funds to the Florida Department of Transportation (FDOT) of \$5,120,454 and \$5,470,173 as of September 30, 2012 and 2011, respectively. These advances are to fund the relocation and replacement of the Authority's transmission lines due to the construction of road improvements by FDOT.

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

The Authority's balances in the debt service account were \$4,580,114 and \$4,858,293 at September 30, 2012 and 2011, respectively.

Customer Deposits

The Authority retains customer deposits to assure payment from new customers and customers with a history of delinquent payments. These deposits totaled \$5,445,202 and \$5,724,675 at September 30, 2012 and 2011, respectively.

Notes to Financial Statements (continued)
September 30, 2012 and 2011

Note 4. Capital Assets

Capital asset activity for the fiscal years ended September 30, 2012 and 2011 was as follows:

	2011			2012			
	Balance 9/30/2010	Additions	Retirements	Balance 9/30/2011	Additions	Retirements	Balance 9/30/2012
Capital assets not being depreciated:							
Land	\$ 8,285,154	\$ -	\$ -	\$ 8,285,154	\$ -	\$ -	\$ 8,285,154
Construction work in progress	8,873,035	10,443,789	(9,249,745)	10,067,079	10,044,456	(5,340,995)	14,770,540
Total capital assets not being depreciated	17,158,189	10,443,789	(9,249,745)	18,352,233	10,044,456	(5,340,995)	23,055,694
Capital assets being depreciated:							
Buildings, structures & improvements	65,154,497	1,007,914	(84,848)	\$ 66,077,563	295,843	(11,872)	66,361,534
Equipment, vehicles, furniture & fixtures	12,008,421	663,835	(80,017)	12,592,239	1,024,969	(504,743)	13,112,465
Transmission system	100,699,738	1,145,520	(51,000)	101,794,258	178,344	-	101,972,602
Distribution system	101,096,541	3,350,946	(344,885)	104,102,602	4,239,544	(440,447)	107,901,699
Water meters	11,637,182	1,998,001	(450,286)	13,184,897	2,334,569	(732,589)	14,786,877
Water storage facilities	7,826,944	-	-	7,826,944	-	-	7,826,944
Pump station equipment	26,685,468	6,720	(541,079)	26,151,109	89,179	(41,536)	26,198,752
Water treatment equipment	38,515,220	393,514	(24,355)	38,884,379	22,912	-	38,907,291
Reverse osmosis equipment	37,966,226	-	(299,522)	37,666,704	-	(8,603)	37,658,101
Computer equipment	3,944,013	309,104	(268,675)	3,984,442	280,154	(132,942)	4,131,654
Wastewater treatment equipment	4,125,698	1,964,984	-	6,090,682	23,812	-	6,114,494
Collection system	9,406,143	-	-	9,406,143	-	-	9,406,143
Reclaimed water	2,259,144	411,552	-	2,670,696	-	-	2,670,696
Total assets being depreciated	421,325,235	11,252,090	(2,144,667)	430,432,658	8,489,326	(1,872,732)	437,049,252
Less accumulated depreciation:							
Buildings, structures & improvements	(15,965,984)	(2,136,089)	64,908	(18,037,165)	(2,160,910)	11,872	(20,186,203)
Equipment, vehicles, furniture & fixtures	(7,523,381)	(898,302)	77,653	(8,344,030)	(792,863)	429,696	(8,707,197)
Transmission system	(59,189,824)	(2,148,883)	-	(61,338,707)	(2,160,633)	-	(63,499,340)
Distribution system	(32,594,916)	(2,085,862)	344,885	(34,335,893)	(2,105,576)	440,446	(36,001,023)
Water meters	(3,638,829)	(1,185,813)	450,286	(4,374,356)	(1,384,645)	725,838	(5,033,163)
Water storage facilities	(3,770,480)	(173,304)	-	(3,943,784)	(173,304)	-	(4,117,088)
Pump station equipment	(8,676,591)	(1,245,006)	501,810	(9,419,787)	(1,234,374)	41,536	(10,612,625)
Water treatment equipment	(14,703,371)	(1,370,292)	23,840	(16,049,823)	(1,377,811)	-	(17,427,634)
Reverse osmosis equipment	(7,638,776)	(2,083,742)	277,237	(9,445,281)	(2,082,873)	2,832	(11,525,322)
Computer equipment	(2,927,057)	(585,207)	252,084	(3,260,180)	(270,843)	131,883	(3,399,140)
Wastewater treatment equipment	(722,459)	(225,651)	-	(948,110)	(336,741)	-	(1,284,851)
Collection system	(981,631)	(241,106)	-	(1,222,737)	(241,106)	-	(1,463,843)
Reclaimed water	(40,591)	(63,973)	-	(104,564)	(63,973)	-	(168,537)
Total accumulated depreciation	(158,373,890)	(14,443,230)	1,992,703	(170,824,417)	(14,385,652)	1,784,103	(183,425,966)
Total capital assets being depreciated, net	262,951,345	(3,191,140)	(151,964)	259,608,241	(5,896,326)	(88,629)	253,623,286
Total net capital assets	\$ 280,109,534	\$ 7,252,649	\$ (9,401,709)	\$ 277,960,474	\$ 4,148,130	\$ (5,429,624)	\$ 276,678,980

Notes to Financial Statements (continued)
September 30, 2012 and 2011

Note 5. Long-term Liabilities

Long- term liabilities activity for the fiscal years ended September 30, 2012 and 2011 were as follows:

	Beginning balance	2011		Ending balance	2012		Ending balance	Due within one year
		Additons	Deductions		Additons	Deductions		
Water revenue refunding bonds Series 2003	\$ 22,805,000	\$ -	\$ (1,680,000)	\$ 21,125,000	\$ -	\$ (1,730,000)	\$ 19,395,000	\$ 1,785,000
Wastewater revenue bonds Series 2001	638,098	-	(29,372)	608,726	-	(608,726)	-	-
Wastewater revenue bonds Series 2004	974,783	-	(53,420)	921,363	-	(921,363)	-	-
Water revenue bonds Series 2007	53,165,000	-	(810,000)	52,355,000	-	(885,000)	51,470,000	910,000
Water revenue refunding bonds Series 2008	52,625,000	-	-	52,625,000	-	-	52,625,000	-
Wastewater revenue bonds Series 2009	5,000,000	-	(250,000)	4,750,000	-	(4,750,000)	-	-
Wastewater revenue bonds Series 2012	-	-	-	-	5,635,000	-	5,635,000	-
Subtotal	135,207,881	-	(2,822,792)	132,385,089	5,635,000	(8,895,089)	129,125,000	2,695,000
Less deferred amounts:								
From bond premium	1,296,530	-	(96,342)	1,200,188	-	(249,166)	951,022	198,636
On refunding	(1,403,687)	-	104,303	(1,299,384)	-	269,760	(1,029,624)	(115,472)
Add unamortized Series 2007 bond premium	2,706,965	-	(41,613)	2,665,352	-	(373,545)	2,291,807	-
Bonds payable, net of discount	137,807,689	-	(2,856,444)	134,951,245	5,635,000	(9,248,040)	131,338,205	2,778,164
Credit due to US Government	16,024,825		(601,436)	15,423,389		(631,640)	14,791,749	663,361
Compensated absences	2,040,961	2,081,892	(2,040,960)	2,081,893	2,275,761	(2,081,893)	2,275,761	-
Net OPEB obligation	511,160	413,826	-	924,986	398,082	-	1,323,068	-
Total long-term liabilities	\$ 156,384,635	\$ 2,495,718	\$ (5,498,840)	\$ 153,381,513	\$ 8,308,843	\$ (11,961,573)	\$ 149,728,783	\$ 3,441,525

Notes to Financial Statements (continued)

September 30, 2012 and 2011

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
2013	\$ 2,695,000	5,592,701	\$ 8,287,701	\$ 663,361	\$ 711,479	\$ 1,374,840
2014	3,125,000	5,564,341	8,689,341	696,675	678,164	1,374,839
2015	3,260,000	5,424,688	8,684,688	731,662	643,177	1,374,839
2016	3,365,000	5,312,264	8,677,264	768,406	606,433	1,374,839
2017	3,545,000	5,127,696	8,672,696	806,996	567,844	1,374,840
2018-2022	20,280,000	23,033,039	43,313,039	4,685,162	2,189,036	6,874,198
2023-2027	25,430,000	18,096,466	43,526,466	5,985,857	888,341	6,874,198
2028-2032	30,640,000	12,351,316	42,991,316	453,630	4,650	458,280
2033-2037	36,785,000	5,282,377	42,067,377	-	-	-
Totals	\$ <u>129,125,000</u>	\$ <u>85,784,888</u>	\$ <u>214,909,888</u>	\$ <u>14,791,749</u>	\$ <u>6,289,124</u>	\$ <u>21,080,873</u>

Water Revenue and Revenue Refunding Bonds

In June 2003, the Authority issued \$33,615,000 Series 2003 water revenue refunding bonds with an average interest rate of 4.41% to advance refund \$35,115,000 of outstanding Series 1991 and Series 1993 water revenue refunding bonds with an average interest rate of 5.35%. The net proceeds of \$34,940,420 (after payment of \$600,601 in issue costs and a deposit of \$11,574 into the bond sinking fund) plus an additional \$1,668,932 of Series 1991 and Series 1993 sinking fund monies were used to purchase U.S. government securities. Those securities were liquidated on September 1, 2003 and the proceeds were used to fully redeem all outstanding Series 1991 and Series 1993 bonds. Interest is payable on March 1 and September 1 of each year and principal is payable annually on September 1. The interest rates on the outstanding bonds range from 2.0% to 5.0%.

This advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,097,736. This difference, which is the deferred amount on refunding, is reported in the accompanying financial statements as a deduction from bonds payable, is being amortized to interest expense through the year 2021 using the effective-interest method. The same method is used to amortize the bond premium.

In April 2006, the Authority issued \$49,700,000 Series 2006 water revenue and revenue refunding bonds. The bonds bore interest at a variable rate that was set each week. In conjunction with the issuance of these bonds, the Authority simultaneously entered into an interest rate swap agreement that is described later in this note. The proceeds from the sale of these bonds were used to retire outstanding Series 2005 bonds in the amount of \$10,000,000 and Series 2001 bonds in the amount of \$7,350,000. The remaining proceeds were invested in a guaranteed investment contract and were designated to be used to fund capital projects. These bonds were refunded in 2008 by Series 2008 water revenue refunding bonds (see below).

In October 2007, the Authority issued \$53,975,000 Series 2007 water revenue bonds with an average interest rate of 5.04%. Interest is payable on March 1 and September 1 of each year and principal is payable annually on September 1. The interest rates on the outstanding bonds range from 4.0% to

Notes to Financial Statements (continued)

September 30, 2012 and 2011

Note 5. Long-term Liabilities (continued)

5.25%. The proceeds from these bonds are being used to fund the Authority's continuing capital improvement plan.

In June 2008, the Authority issued \$52,625,000 Series 2008 water revenue refunding bonds. The bonds bear interest at a variable rate that is set each week (.12% at September 30, 2011). 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. 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.

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

For the current year, debt service requirements for principal and interest and total pledged revenue to meet the 110% test were \$8,263,227 and \$14,267,892 respectively.

Wastewater Revenue Bonds

In December 2001, the Authority issued Series 2001 wastewater revenue bonds to a bank in an amount not to exceed \$1,500,000. In June 2004, an additional \$500,000 of Series 2001 bonds was issued to the same bank and certain modifications were made to the terms of the bond. The proceeds, which were used to fund the design and construction of wastewater systems in Bay Point and Conch Key, were drawn as needed at variable interest rates equal to the LIBOR at the time of the draw. In May 2005 the outstanding draws and accrued interest were converted to permanent term bonds of \$1,349,006 and \$500,000, with principal payments due annually on October 1 until 2024 at which time all outstanding principal is payable in full. A fixed interest rate was set at 4.7% at the conversion date based on the prevailing LIBOR at that time. Interest is payable on April 1 and October 1 of each year through 2024.

In December 2004, the Authority issued Series 2004 wastewater revenue bonds to a bank in an amount not to exceed \$9,500,000. The proceeds, which were earmarked to fund the design and construction of wastewater systems in the City of Layton and as bridge financing for the construction of a wastewater system on Big Coppitt Key, were drawn as needed at variable interest rates equal to the LIBOR at the time of the draw plus 17 basis points. On October 1, 2008 the outstanding draws and accrued interest were converted to a permanent term bond with principal payments due annually on October 1 until 2025 at which time all outstanding principal is payable in full. A fixed interest rate was set at 3.46% at the conversion date based on the prevailing LIBOR Swap Rate at that time less sixty-seven (67) basis points. Interest is payable on April 1 and October 1 of each year through 2025.

Notes to Financial Statements (continued)

September 30, 2012 and 2011

Note 5. Long-term Liabilities (continued)

In September 2009, the Authority issued Series 2009 wastewater revenue bonds to a bank in an amount not to exceed \$5,000,000. The proceeds, part of which were used to fund the purchase of an existing wastewater system in Key Haven and part of which are being used for the design and construction of wastewater treatment plant upgrades in Hawks Cay, were drawn down in two draws and bear interest at a fixed rate of 4.9%. Principal payments will be due annually on October 1 until October 1, 2030 at which time all outstanding principal is payable in full. Interest is payable on April 1 and October 1 of each year through 2030.

In September 2012, Series 2001, series 2004 and series 2009 wastewater bonds were refunded by series 2012 refunding wastewater bonds in the amount of \$5,635,000 at which time all outstanding principal was payable in full. Interest is payable on April 1 and October 1 of each year through 2030. In 2012 refunding resulted in cash flow savings over the remaining years of \$821,322. Economic gain net present value basis was \$508,554.

Wastewater revenue and 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 for principal and interest and total pledged revenue to meet the 120% test were \$620,548 and \$628,244 respectively.

Bond Issue Costs

Total costs of issuing bonds, including underwriters discount and compensation, municipal bond and debt service reserve insurance, legal, accounting and other costs were capitalized and were being amortized using the effective-interest method over the remaining life of the outstanding bonds.

Interest Rate Swaps

At September 30, 2012, the Authority was a party to a synthetic fixed rate swap agreement. The following are disclosures of pertinent aspects of this agreement. Under the definitions included in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, 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 was recorded as a derivative liability with a corresponding deferred outflow of resources which represent the accumulated change in fair value of the swap.

Notes to Financial Statements (continued)

September 30, 2012 and 2011

Note 5. Long-term Liabilities (continued)

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 borrowing cost. The swap structure was used as a means to lower the Authority's borrowing cost when compared to a traditional fixed-rate bond financing 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). The Authority implemented GASB statement No. 64, Derivative Instruments Application of Hedge Accounting Termination Provisions; an Amendment of GASB Statement No. 53, which 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 \$49.7 million 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 4.552%. The total synthetic interest rate can vary, however, due to a potential for mismatch between the floating rate paid by the Authority on the Series 2008 bonds (based on a weekly tax-exempt market rate equivalent to the Securities Industry and Financial Markets (SIFMA), and the floating rate received by the Authority from the Counterparty on the swap, (based on a percentage of a taxable 3-month LIBOR rate). This potential for mismatch between the rate on the Series 2008 bonds and the swap is referred to as basis risk.

As of September 30, 2012 and 2011, the rates for the variable rate bonds and swap were as follows:

		Terms	Rates	
			2012	2011
Interest Rate Swap:				
Fixed payment to counterparty	Fixed		3.8320%	3.8320%
Variable payment from counterparty	LIBOR		0.4311%	0.4413%
Net interest rate swap payments			3.4009%	3.3907%
Series 2008 Variable Rate Bond Payments	Weekly Variable Rate		0.1600%	0.1200%
Remarketing liquidity and letter of credit fees			0.7200%	0.7200%
Synthetic interest rate on bonds			4.2809%	4.2307%

Notes to Financial Statements (continued)
September 30, 2012 and 2011

Note 5. Long-term Liabilities (continued)

Fair Value

As of September 30, 2012 and 2011, the swap had a negative fair value of \$15,574,936 and \$14,731,961 respectively, indicating the amount that the Authority would have had to pay the counterparty to terminate the swap agreement. However, as of those dates no event of termination had occurred. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

General

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

Swap Payments and Associated Debt

As of September 30, 2012 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
2013-2017	-	\$ 2,315,500	\$ 8,451,237	\$ 10,766,737
2018-2022	2,745,000	2,315,500	8,451,237	13,511,737
2023-2027	15,905,000	1,927,068	6,992,250	24,824,318
2028-2032	19,805,000	1,162,348	4,171,544	25,138,892
2033-2035	14,170,000	253,132	899,878	15,323,010
	52,625,000	\$ 7,973,548	\$ 28,966,146	\$ 89,564,694

Credit Risk

As of September 30, 2012 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, 2012, the counterparty was rated Aa1 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.

Notes to Financial Statements (continued)
September 30, 2012 and 2011

Note 5. Long-term Liabilities (continued)

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, 2012 (4.2809%). If a change occurs in the relationship between taxable and tax-exempt interest rates, the Authority's overall cost of borrowing will be impacted.

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 fixed costs of providing service. If senior citizens and totally and permanently disabled veterans fall within certain income limitations, their base facility charge is waived.

The base facility charge for standard 5/8" meter customers for the years ended September 30, 2012 and 2011 was \$13.27 and \$13.04, respectively. The consumption blocks and related rates in effect at September 30, 2012 and 2011 were as follows:

		Rate per 1,000 gallons	
Gallons		2012	2011
Block 1	0-6,000	\$ 5.57	\$ 5.47
Block 2	6,001-12,000	8.14	8.00
Block 3	12,001-30,000	9.12	8.96
Block 4	30,001-50,000	10.17	9.99
Block 5	>50,000	11.16	10.97

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

Notes to Financial Statements (continued)
September 30, 2012 and 2011

Note 6. Rates for Service (continued)

The Authority has contractual agreements with the government of the City of Key West and with the United States Navy that define water rates for those entities. Municipal facilities in the City of Key West pay \$2.15 per thousand gallons for all water used. There is no base facility charge for municipal facilities in Key West. The United States Navy pays the same base charges as other customers, but pays a flow charge of \$3.48 per thousand gallons for all water used.

Wastewater

The Authority provides wastewater service to a number of different districts. The rate structure is similar to the water rate structure, with each district having a base facility charge and a flow charge. The flow charge is based on water flows. Flows are capped at 10,000 gallons for wastewater billing purposes for single-family dwelling customers. The ranges of rates for single-family, 5/8" water metered customer are as follows:

	Base charge		Rate per 1,000 gallons	
2012	\$	26.72	\$	\$ 10.11
2011	\$	26.26-49.42	\$	7.71-9.94

Note 7. Other Operating Revenue

Other operating revenue consisted of the following at September 30, 2012 and 2011

		2012	2011
Penalty charges	\$	703,896	\$ 584,988
Service and installation charges		827,173	584,173
Hydrant rental fees		44,950	38,375
Front footage fees		59,866	41,374
Navy water system operations charge		2,455,838	2,456,208
Total	\$	4,091,723	\$ 3,705,118

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. 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 five open claims at September 30, 2012 covered by insurance. In addition, a contingency reserve has been established to cover uninsured losses.

Notes to Financial Statements (continued)
September 30, 2012 and 2011

Note 9. Commitments and Contingencies

Construction commitments

The Authority had contractual commitments of \$7,288,518 at September 30, 2012 for design and construction of capital projects and general contractual commitments. Of that amount, \$5,351,547 will be reimbursed by Monroe County for the design and construction of 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, 2012, the Authority was operating only one system under this agreement, serving the Big Coppitt area. 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 years ending September 30, 2015. The following is a summary of the minimum rental costs for the next five years:

Year Ended September 30

2013	\$	14,894
2014		6,943
2015		1,157
	\$	22,994

Rent expense for the year ended September 30, 2012 and 2011 was \$880 and \$10,131 respectively.

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 is currently working with the Monroe County Board of County Commissioners (BOCC), state and federal agencies and the state legislative delegation in 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 the event that such a change in jurisdiction occurs, the Authority will pursue recovery of those costs from the other state and federal funding sources. It is the opinion of management that any expenditures not recovered due to legal or legislative changes will not have a material adverse effect on the financial condition of the Authority.

Water Main Extension Rebates

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

Notes to Financial Statements (continued)
September 30, 2012 and 2011

Note 9. Commitments and Contingencies (continued)

Contamination Assessments

FDEP requires a closure assessment for any locations from which petroleum storage tanks and underground pipes are removed. If contamination is found during the closure assessment, a contamination report is submitted to FDEP. At September 30, 2012, the Authority has one location under assessment and one location awaiting final approval from FDEP. It is the opinion of management that the cost of completing these assessments will not be material to the Authority.

Note 10. Retirement Plan

The Authority contributes to the Florida Retirement System (FRS), a cost-sharing multiple-employer public retirement system administered by the State of Florida Department of Administration, Division of Retirement to provide retirement, disability or death benefits for covered employees. Florida Statute 121 establishes eligibility and vesting requirements and benefit provisions. FRS issues a publicly available financial report that includes financial statements and required supplementary information. Ten-year historical trend information is presented in the FRS June 30, 2011 annual report (the latest available financial report). This information is useful in assisting the accumulation of sufficient assets to pay benefits as they become due. That report may be obtained at the FRS website, www.frs.state.fl.us or by writing to Florida Retirement System, Post Office Box 9000, Tallahassee, Florida 32315-9000.

The Florida Legislature enacted a change to the contribution rates and benefits effective July 2011, to include employee contributions of 3%. The rates effective July 2012 for employers in 2012, 2011 and 2010 expressed as a percentage of covered payroll for regular employees were 5.18%, 4.91%, and 10.77%, respectively. The contribution rates for senior management employees for the same periods were 6.30%, 6.27%, and 14.57% respectively. The contribution rates for employees enrolled in the DROP Program for the same periods were 4.42%, 4.42%, and 12.25% respectively. The contribution rates for retirees reemployed after July 1, 2010 who are not eligible for retirement coverage were 1.60%, 1.60% and 1.11% in 2012, 2011 and 2010 respectively. These percentages include 1.11% for a monthly health insurance subsidy for retirees. Contributions made by the Authority to FRS were \$866,598, \$1,468,439, and \$1,734,016 in 2012, 2011 and 2010, respectively.

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.

Notes to Financial Statements (continued)
September 30, 2012 and 2011

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

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 2012 and 2011 and the related information is as follows:

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

	2012	2011
Annual Required Contribution (ARC)	\$ 648,796	\$ 626,929
Interest on net OPEB obligation (NOO)	39,242	\$ 23,002
Adjustment to ARC	(32,536)	\$ (19,071)
Annual OPEB Cost	655,502	\$ 630,860
Employer Contribution	(257,420)	(217,034)
Increase (Decrease) in NOO	398,082	\$ 413,826
NOO (beginning of year)	924,986	511,160
NOO (end of year)	\$ 1,323,068	\$ 924,986

Notes to Financial Statements (continued)
September 30, 2012 and 2011

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

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2012 was:

Fiscal Year Ending	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
September 30, 2012	\$ 655,502	\$ 257,420	39.27%	\$ 1,323,068
September 30, 2011	\$ 630,860	\$ 217,034	34.40%	\$ 924,986
September 30, 2010	\$ 575,620	\$ 411,404	71.50%	\$ 511,160

Funded status and funding progress

The funded status of the plan as of October 1, 2010 and 2008 actuarial valuation was as follows:

Fiscal Year Ending	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
October 1, 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%

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

Actuarial methods and assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Authority and the plan members 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:

Notes to Financial Statements (continued)
 September 30, 2012 and 2011

Note 11. Other Post-employment Benefits (continued)

Contribution rate	4.0%
Actuarial valuation date	10/01/10
Annual OPEB cost	\$630,860
Contributions made	\$217,034
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 *	4.5%
Projected salary increases *	4.0% - 8.4%
Payroll growth assumptions	4.0%
Initial trend rate	9.0%
Ultimate trend rate	4.5%
* Includes inflation at	3.5%

Required Supplementary Information

Schedule of Funding Progress-OPEB

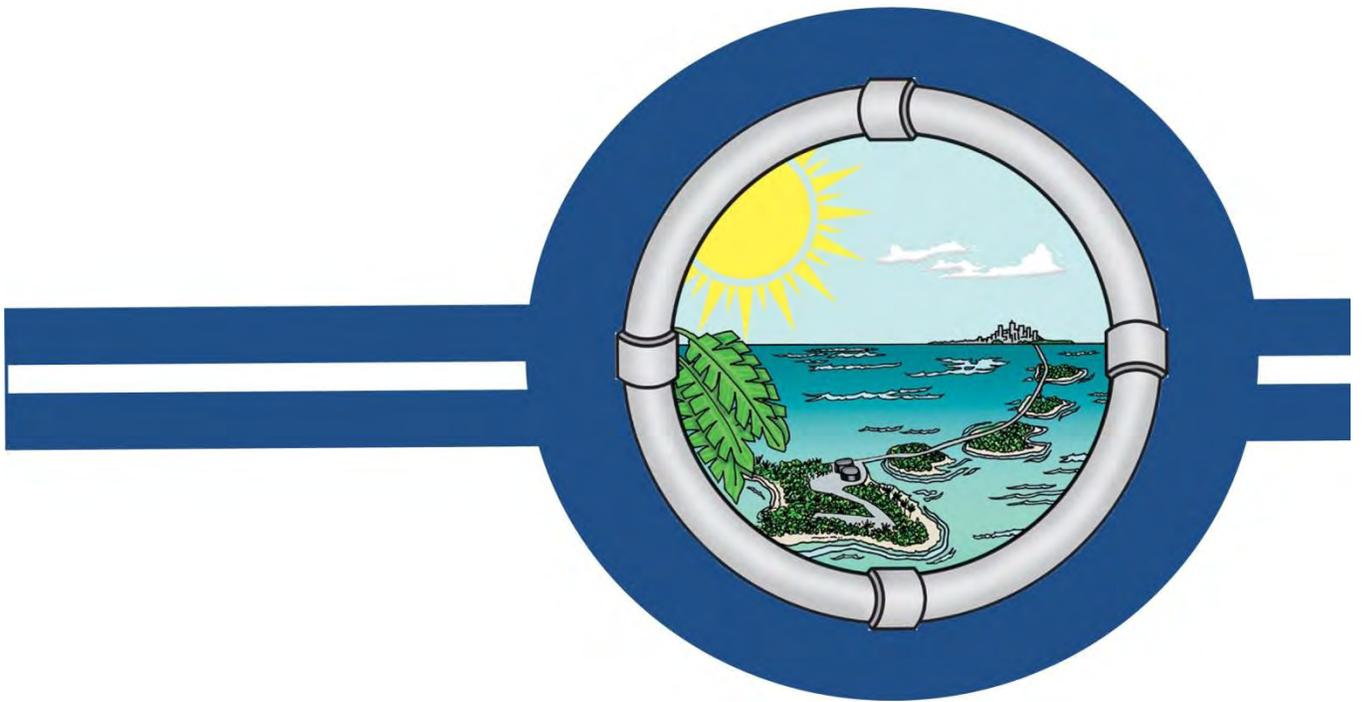
Actuarial Valuation Dates	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
October 1, 2010	\$ -	\$ 10,097,825	\$ 10,097,825	0.00%	\$ 15,648,927	64.5%
October 1, 2008	\$ -	\$ 8,459,931	\$ 8,459,931	0.00%	\$ 16,321,158	51.8%



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Taste it don't waste it

Statistical Section





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Taste it don't waste it

Statistical Section Summary

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

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the Aqueduct's financial performance and well-being have changed over time. 56

Rates and Revenues

These schedules contain trend information to help the reader assess the Authority's ability to generate revenue through user fees. 58

Debt

These schedules present information which helps the reader assess the affordability of the Authority's current levels of outstanding debt. 61

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. 63

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. 69

Financial Trends

Schedules of Changes in Net Position and Schedule of Revenue and Expenses

Last Ten Fiscal Years
(In thousands)

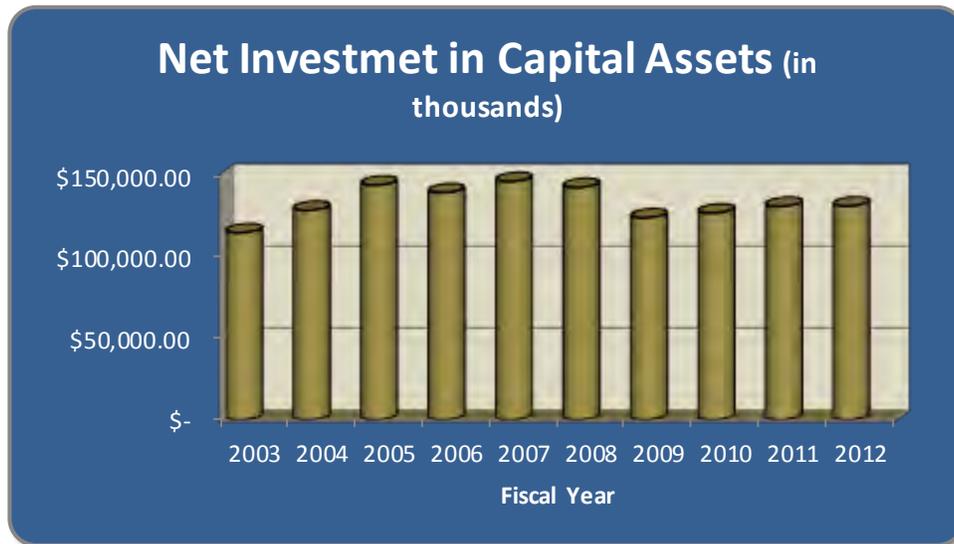
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenue:										
Operating revenue	\$ 44,739	\$ 45,961	\$ 42,837	\$ 41,829	\$ 41,432	\$ 38,123	\$ 37,837	\$ 36,134	\$ 35,211	\$ 34,166
Water surcharge	-	-	-	-	-	955	-	-	-	-
Other operating revenue	4,092	3,705	4,408	3,597	2,568	1,085	1,212	1,139	1,170	1,070
Less abatements and billing corrections	(414)	(404)	(437)	(510)	(274)	(187)	(351)	(184)	(165)	(255)
Net operating revenue	48,417	49,262	46,808	44,916	43,726	39,976	38,698	37,089	36,216	34,981
Operating expenses:										
Source of supply	695	678	644	669	688	846	1,142	807	846	682
Water treatment	3,329	2,959	2,828	3,015	2,822	2,415	2,131	1,975	1,967	2,142
Transmission & distribution	11,189	11,535	12,028	12,760	14,127	12,839	11,755	12,373	12,451	11,179
Wastewater treatment	834	713	565	499	952	955	832	364	49	-
Wastewater collection	1,071	991	969	906	767	572	336	99	24	-
Customer accounts	4,083	4,103	4,223	4,692	5,332	5,420	5,432	5,576	5,478	4,876
General & Administrative	12,797	12,580	12,723	12,433	11,523	10,177	10,452	5,476	5,327	3,902
Depreciation	14,386	14,443	12,401	12,178	10,602	8,645	7,426	7,106	6,677	6,142
Total operating expenses	48,384	48,002	46,381	47,152	46,813	41,869	39,506	33,776	32,819	28,923
Utility operating income	33	1,260	427	(2,236)	(3,087)	(1,893)	(808)	3,313	3,397	6,058
Non-Operating revenue (expenses)										
Interest income	357	369	449	1,075	2,959	2,944	2,160	1,056	589	583
Investment income	-	(757)	4,056	1,092	174	-	-	-	-	-
Other income (reimbursements)	326	376	57	192	274	107	687	490	709	302
Grants & reimbursements from federal & state agencies	8	8	30	20	32	(110)	1,062	180	669	473
Gain(Loss) on disposal of plant assets & inventory	50	(63)	(56)	(58)	261	(316)	(531)	(108)	(371)	(184)
Interest expense	(5,959)	(5,661)	(5,643)	(5,755)	(7,178)	(3,513)	(2,789)	(1,773)	(1,711)	(2,248)
Amortization	(497)	(442)	(388)	(30)	(28)	(80)	(36)	(33)	(30)	(43)
Other expenses	(406)	(113)	(48)	(299)	(116)	(31)	-	-	-	-
Total non-operating revenue	(6,121)	(6,283)	(1,543)	(3,763)	(3,622)	(999)	553	(188)	(145)	(1,117)
Net income (Loss)	(6,088)	(5,023)	(1,116)	(5,999)	(6,709)	(2,892)	(255)	3,125	3,252	4,941
Contributions	1,364	1,371	4,829	(8,228)	11,085	4,079	5,245	10,049	10,706	10,033
Change in net position	(4,724)	(3,652)	3,713	(14,227)	4,376	1,187	4,990	13,174	13,958	14,974
Net position, beginning of year	169,574	173,226	169,513	183,740	179,364	178,177	173,187	160,013	146,055	131,081
Net position, end of year	\$ 164,850	\$ 169,574	\$ 173,226	\$ 169,513	\$ 183,740	\$ 179,364	\$ 178,177	\$ 173,187	\$ 160,013	\$ 146,055

Financial Trends (continued)

Schedules of Net Position by Component

Last Ten Fiscal Years
(in thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Net investment in capital assets	\$ 130,549	\$ 130,376	\$ 126,277	\$ 123,401	\$ 141,894	\$ 145,556	\$ 138,724	\$ 143,315	\$ 127,969	\$ 114,256
Restricted										
Debt service	4,156	4,271	4,295	4,171	3,877	194	489	422	183	197
Capital projects	7,477	6,766	6,502	7,950	7,740	14,837	14,001	13,341	5,788	4,275
Other purposes	320	-	-	-	-	-	-	18	503	10
Unrestricted	22,348	28,161	36,152	33,991	30,229	18,777	24,963	16,091	25,570	27,317
Total net position	\$ 164,850	\$ 169,574	\$ 173,226	\$ 169,513	\$ 183,740	\$ 179,364	\$ 178,177	\$ 173,187	\$ 160,013	\$ 146,055

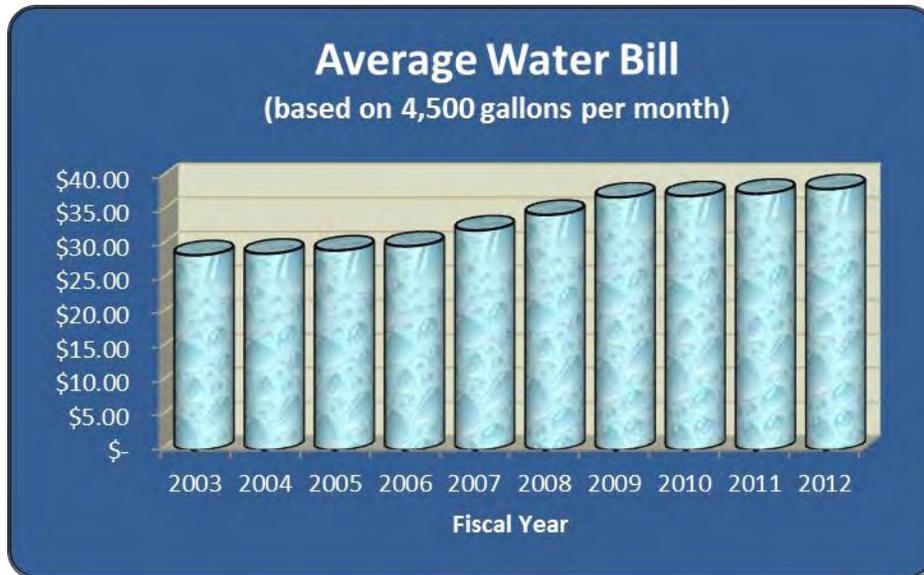


Rates and Revenues

Water Rates for Standard 5/8" Meter

Last Ten Fiscal Years
(per thousand gallons used)

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
2012	\$ 13.27	\$ 5.57	\$ 8.14	\$ 9.12	\$ 10.17	\$ 11.16
2011	13.04	5.47	8.00	8.96	9.99	10.97
2010	12.92	5.42	7.93	8.88	9.90	10.87
2009	12.86	5.39	7.89	8.84	9.85	10.82
2008	11.97	5.02	7.34	8.23	9.17	10.08
2007	11.17	4.69	6.85	7.68	8.55	9.40
2006	10.37	4.35	6.36	7.13	7.93	8.72
2005	10.16	4.26	6.23	6.99	7.77	8.55
2004	10.00	4.19	6.13	6.88	7.65	8.42
2003	10.00	4.14	6.06	6.81	7.57	8.33



Wastewater Rates

Last Five Fiscal Years

Fiscal Year	Base Charge	0-10,000 gallons
2012	\$ 26.72	\$ 10.11
2011	26.26 - 49.42	7.71 - 9.94
2010	26.02 - 48.96	7.64 - 9.85
2009	25.90 - 48.73	7.60 - 9.80
2008	34.99 - 47.65	7.21 - 8.95
2007	26.37 - 35.91	5.43 - 7.31
2006	25.70 - 35.00	5.29 - 7.13
2005	25.19 - 34.31	5.19 - 5.35

Rates and Revenues (continued)

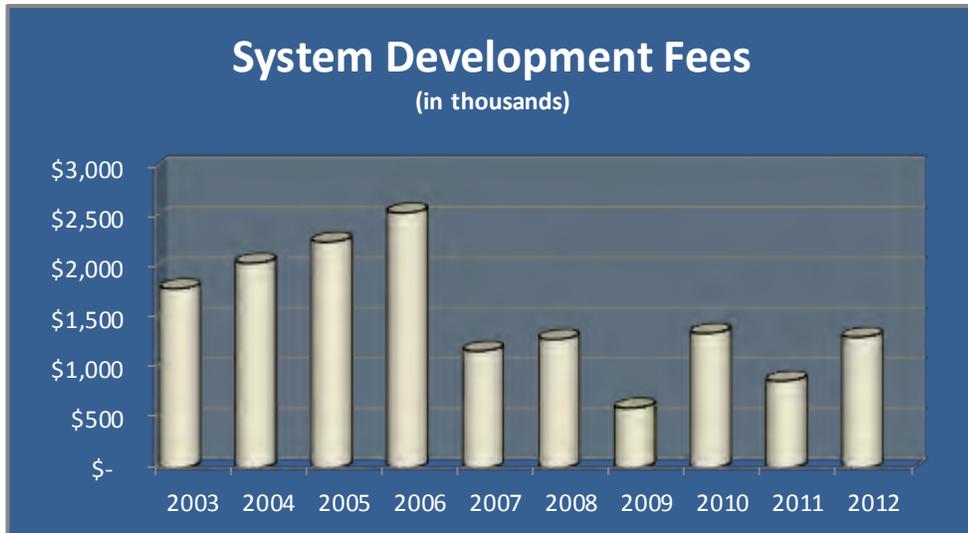
Reclaimed Rates

Reclaimed water consumption charge-Per thousand gallons, billed in 100 gallon increments/70% of each potable rate block

System Development Fees Collected

Last Ten Fiscal Years
(in thousands)

Fiscal Year	System Development Fees Collected	
2012	\$	1,302
2011		866
2010		1,341
2009		597
2008		1,281
2007		1,164
2006		2,540
2005		2,250
2004		2,039
2003		1,785



Rates and Revenues, continued

Ten Largest Customers

Fiscal Years Ended September 30, 2012 and 2003

2012		Total Gallons Consumed	Total Water Revenues	% of Water Revenues
1	United States Navy	273,154,600	\$ 1,027,335	2.9%
2	Monroe County Detention Center	49,371,300	487,934	1.4%
3	Heartland Hotel	27,798,900	264,601	0.8%
4	Ocean Reef Club Inc	29,569,500	262,538	0.7%
5	NWCL LLC	23,475,400	234,997	0.7%
6	Board of Public Instruction	24,247,300	225,585	0.6%
7	NHC FL13 LP	19,906,100	214,844	0.6%
8	BH/NV Hawks Cay Prop Holding	19,320,200	197,685	0.6%
9	CSC Holiday Land LP	17,939,200	178,663	0.5%
10	CHL Partnership	12,361,700	172,744	0.5%

2003		Total Gallons Consumed (000)	Total Water Revenues	% of Water Revenues
1	United States Navy	387,691,000	\$ 772,133	2.3%
2	Board of County Commissioners	51,417,500	389,789	1.2%
3	Monroe County Board of Public Instruction	35,430,800	238,489	0.7%
4	CHL Partnership	30,731,900	225,837	0.7%
5	Key West Beach Suites, LTD	28,417,300	222,661	0.7%
6	Ocean Reef Club, Inc.	30,799,600	210,777	0.6%
7	Hawks Cay Resort	28,032,100	210,775	0.6%
8	AGH Leasing	26,699,400	201,257	0.6%
9	Twin Harbors, Inc	22,804,500	176,237	0.5%
10	Heartland Hotel Corp.	23,919,800	171,735	0.5%

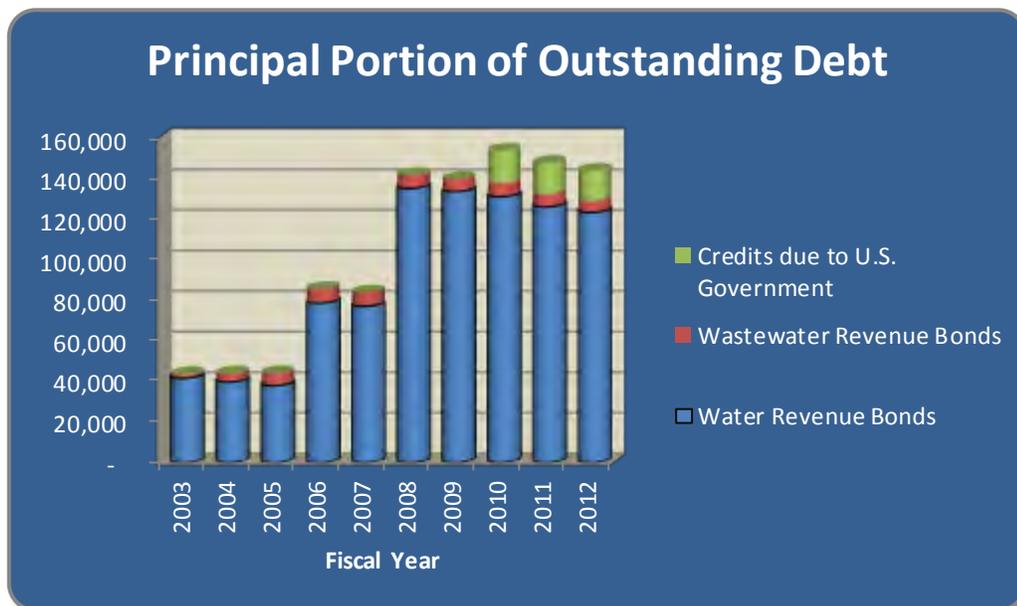
Debt

Principal Portion of Outstanding Debt

Last Ten Fiscal Years

(in thousands)

Fiscal Year	Water Revenue Bonds	Wastewater Revenue Bonds	Credits due to U.S. Government	Totals	Total per Customer
2012	\$ 123,490	\$ 5,635	\$ 14,792	\$ 143,917	2.96
2011	\$ 126,105	\$ 6,280	\$ 15,423	\$ 147,808	3.18
2010	131,195	6,613	16,024	153,832	3.34
2009	133,679	6,124	-	139,803	3.10
2008	135,259	6,479	-	141,738	3.12
2007	77,160	6,748	-	83,908	1.83
2006	78,673	7,011	-	85,684	1.86
2005	37,955	6,083	103	44,141	0.97
2004	39,750	4,078	240	44,068	0.97
2003	41,600	1,674	369	43,643	0.97



Debt (continued)

Revenue Bond Coverage

Last Ten Fiscal Years

(in thousands)

Fiscal Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements	Coverage
Water					
2012	\$ 46,780	\$ 32,512	\$ 14,268	\$ 8,263	1.73
2011	48,164	32,259	15,905	8,293	1.92
2010	46,335	32,573	13,762	8,307	1.66
2009	46,162	34,080	12,082	7,798	1.55
2008	45,740	35,060	10,680	7,736	1.38
2007	41,447	31,875	9,572	4,534	2.11
2006	38,427	30,891	7,536	3,706	2.03
2005	37,037	25,554	11,483	3,354	3.42
2004	36,607	24,960	11,647	3,460	3.37
2003	35,163	22,547	12,616	3,478	3.63
Wastewater (3)					
2012	\$ 2,737	\$ 1,905	\$ 832	\$ 621	1.34
2011	3,047	1,704	1,343	628	2.14
2010	2,455	1,497	958	478	2.00
2009	1,642	1,368	274	221	1.24
2008	1,999	1,425	574	477	1.20
2007	2,141	1,537	604	475	1.27
2006	1,764	1,539	225	268	0.84
2004	-	-	-	-	-
2003	-	-	-	-	-

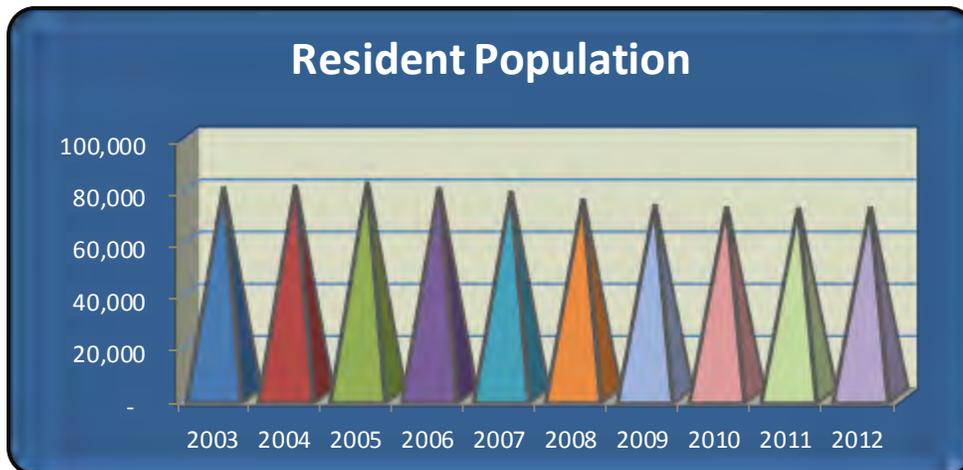
- (1) Includes revenue from sale of water, surcharges, fuel adjustment, meter tapping, service charges, miscellaneous operating revenues, interest income from investment of unrestricted accounts, less customer meter deposit interest expense and arbitrage.
- (2) Excludes depreciation and includes abatements due to leakage.
- (3) 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 1920-2012

Year	Resident Population	Increase Decrease	Annual Percentage Change	Personal Income (in thousands)	Per Capita Income
1920	19,550	(2,013)	-9.3%	not available	
1930	13,624	(5,926)	-30.3%		
1940	14,078	454	3.3%		
1950	29,957	15,879	112.8%		
1960	47,921	17,964	60.0%		
1970	52,586	4,665	9.7%	196,901	3,747
1980	63,188	10,602	20.2%	577,294	9,060
1990	79,300	16,112	25.5%	1,771,001	22,636
2000	79,589	289	0.4%	2,946,305	37,019
2001	80,588	999	1.3%	2,993,361	37,144
2002	81,140	552	0.7%	2,982,544	36,758
2003	80,537	(603)	-0.7%	3,052,433	37,901
2004	81,236	699	0.9%	3,265,931	40,203
2005	82,413	1,177	1.4%	3,498,309	42,449
2006	80,510	(1,903)	-2.3%	4,167,817	56,260
2007	78,987	(1,523)	-1.9%	4,463,225	61,216
2008	76,081	(2,906)	-3.7%	4,531,670	61,825
2009	73,773	(2,308)	-3.0%	3,978,031	54,773
2010	73,090	(683)	-0.9%	4,129,832	56,415
2011	72,670	(420)	-0.6%	4,354,126	58,941
2012	72,897	227	0.3%	not available	

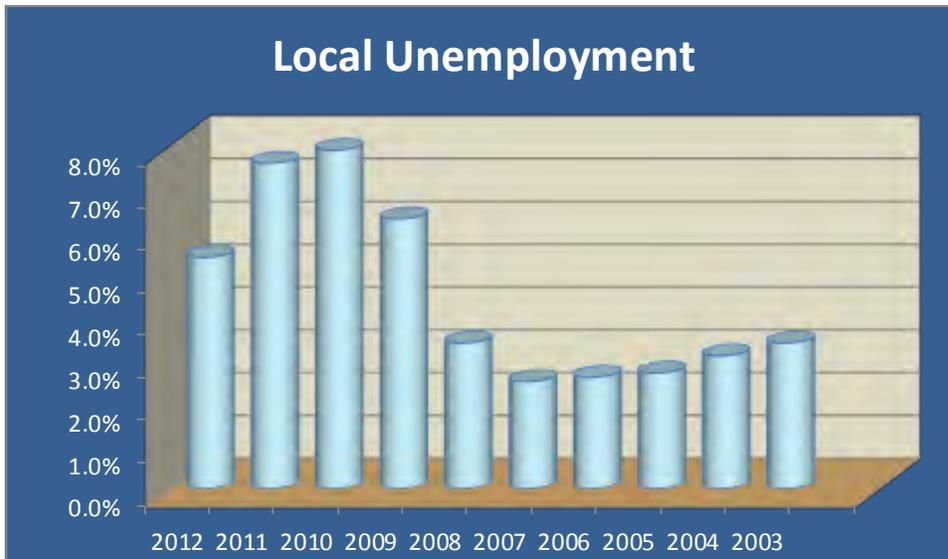


Demographic and Economic Information (continued)

Employment Statistics 2003-2012

	Labor Force	Employment	Unemployment	Unemployment Rate
2012	47,658	45,091	2,567	5.4%
2011	49,662	46,178	3,484	7.6%
2010	44,491	40,990	3,502	7.9%
2009	45,833	42,954	2,880	6.3%
2008	46,511	44,916	1,595	3.4%
2007	44,045	42,933	1,112	2.5%
2006	44,271	43,143	1,128	2.6%
2005	45,366	44,139	1,227	2.7%
2004	45,919	44,508	1,411	3.1%
2003	46,852	45,249	1,604	3.4%

Source: Labor Market Statistics Center



Demographic and Economic Information (continued)

Ten Largest Employers

Fiscal Years Ended September 30, 2012 and 2008

2012	Number of Employees	% of Population
Average Labor Force for 2012	52,069	
1 Monroe County School District	1,241	2.4%
2 Ocean Reef Club	800	1.5%
3 Health Management Assoc. Inc.	636	1.2%
4 Starwood Hotels and Resort	620	1.2%
5 Monroe Board of County Commissioners	572	1.1%
6 Hilton Hotels	546	1.0%
7 Monroe County Sheriff Office	546	1.0%
8 U.S. Armed Services	523	1.0%
9 Lower Kerys Medical Center	455	0.9%
10 Winn Dixie Stores	425	0.8%
Total employees and percentage of the work force	6,364	12.1%

2008	Number of Employees	% of Population
Average Labor Force for 2008	47,433	
1 U.S. Armed Services	1,269	2.7%
2 Monroe County School District	1,086	2.3%
3 Ocean Reef Club	800	1.7%
4 Health Management Assoc. Inc.	696	1.5%
5 Monroe County Sheriff's Department	600	1.3%
6 Starwood Hotels and Resorts	520	1.1%
7 Waters Edge	450	0.9%
8 Winn Dixie Stores Inc.	425	0.9%
9 Casa Marina Resort	411	0.9%
10 Sears/Kmart	406	0.9%
Total employees and percentage of the work force	6,663	14.0%

source: Labor Market Statistics Center

Note: This disclosure is intended to compare the current ten largest employers to those nine years ago. However, information prior to 2008 is unavailable.

Demographic and Economic Information (continued)

Schedule of Customer Accounts

Last Ten Fiscal Years

	Residential	Non Residential	U.S. Navy	City of Key West Government	Cruise Ships Through the Outer Mole	Senior Citizens	Total
2012	42,401	4,753	21	76	4	1,408	48,663
2011	40,884	4,291	18	75	-	1,255	46,523
2010	40,911	4,183	20	36		948	46,098
2009	40,150	4,059	20	41		808	45,078
2008	40,644	4,017	20	43		693	45,417
2007	40,955	4,142	20	77		670	45,864
2006	41,138	4,108	19	76		606	45,947
2005	40,694	4,063	19	76		601	45,453
2004	40,602	4,010	19	76		581	45,288
2003	40,194	3,973	19	73		573	44,832

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
2012	21,830	10,117	16,716	48,663
2011	20,823	9,638	16,062	46,523
2010	20,698	9,514	15,886	46,098
2009	20,007	9,373	15,698	45,078
2008	20,250	9,417	15,750	45,417
2007	20,499	9,561	15,804	45,864
2006	20,647	9,541	15,759	45,947
2005	20,415	9,397	15,641	45,453
2004	20,367	9,269	15,652	45,288
2003	20,109	9,146	15,577	44,832

Note: Geographic groupings prior to 2004 were slightly different from 2004 forward

Demographic and Economic Information (continued)

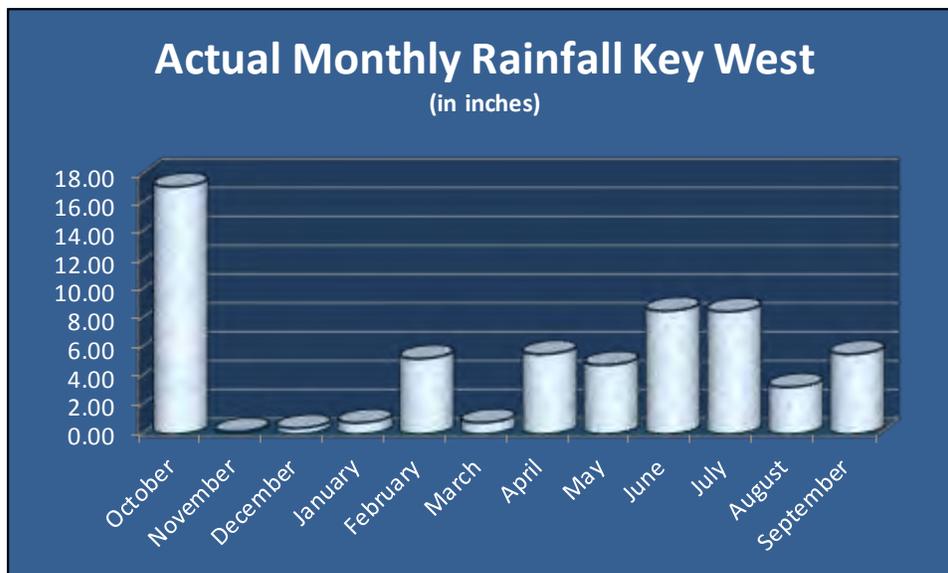
Monthly Rainfall

Year Ended September 30, 2012

(in inches)

	Average-Key West International Airport	Actual-Key West International Airport	Average-Miami International Airport	Actual-Miami International Airport
October	5.20	17.13	7.02	15.52
November	2.45	0.17	2.87	1.80
December	2.02	0.40	1.87	1.04
January	1.95	0.78	1.85	0.21
February	1.61	5.22	2.01	3.38
March	1.61	0.79	2.50	4.97
April	1.97	5.53	3.42	7.85
May	3.01	4.78	5.92	14.67
June	4.55	8.53	9.17	12.56
July	3.74	8.47	6.65	8.92
August	5.37	3.25	7.94	15.92
September	6.69	5.53	9.14	11.03
Totals	40.17	60.58	60.36	97.87

Source: Southeast Regional Climate Center

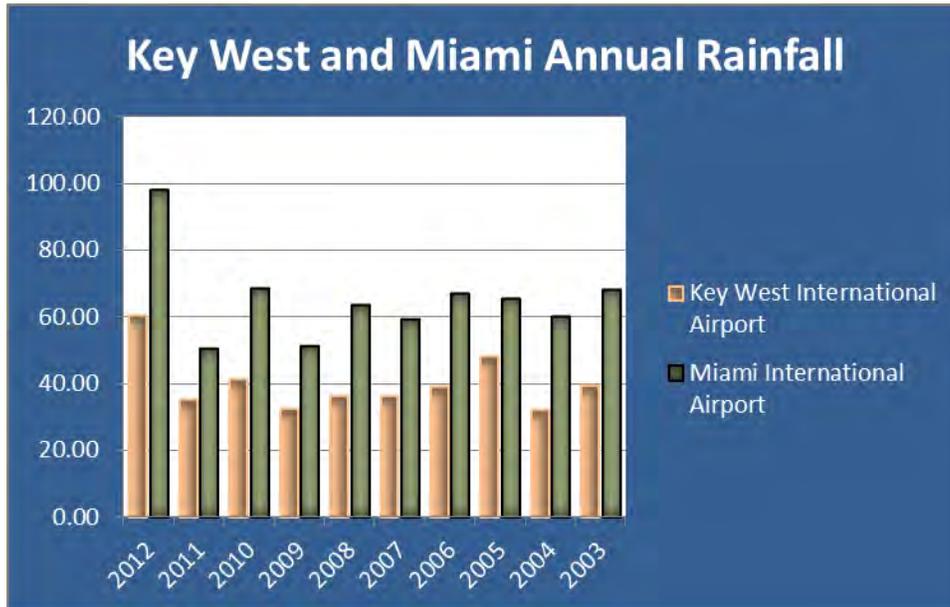


Demographic and Economic Information (continued)

Annual Rainfall

Last 10 Fiscal Years
(in inches)

Year	Key West International Airport	Miami International Airport
2012	60.58	97.87
2011	35.07	50.56
2010	41.47	68.56
2009	32.40	51.14
2008	36.52	63.59
2007	36.54	59.27
2006	39.19	66.97
2005	48.04	65.42
2004	32.00	60.00
2003	39.40	68.01



Operating Information

Operating and Capital Indicators Last Ten Fiscal Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Water										
Water treatment plant permitted capacity	23.79 mgd	22.00 mgd	22.00 mgd							
Reverse osmosis permitted capacity	9 mgd	9 mgd	9 mgd	9 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	650	650	650	650	650
Number of pumping stations	25	25	25	25	25	19	19	19	19	19
Water storage capacity	49.4 mg	45 mg	45 mg	45 mg	45 mg	40 mg				
Wastewater										
Number of wastewater treatment plants	5	5	5	5	4	4	4	1	1	0
Combined permitted plant capacities	.83 mgd	.83 mgd	.83 mgd	.5 mgd	.5 mgd	.5 mgd	.5 mgd	16 mgd	16 mgd	-
Approximate miles of wastewater collection lines	49	49	49	44	19	19	19	11	7	0

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

Operating Information (continued)

Water Production and Usage

Last Ten Fiscal Years
(in thousands of gallons)

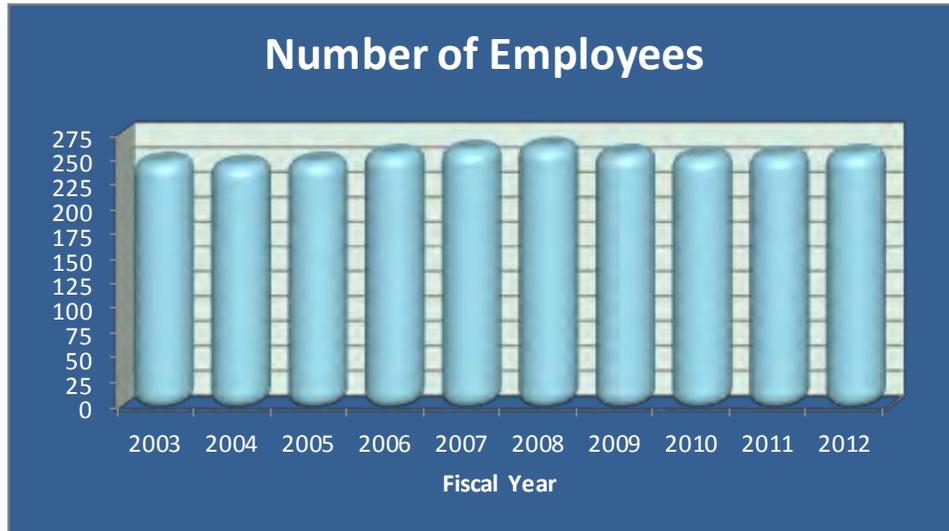
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Water Available for Sale										
Biscayne Aquifer	5,874,860	5,764,178	5,591,692	5,862,527	5,906,816	5,818,327	6,242,867	6,399,058	6,439,027	6,089,304
Floridan Aquifer	123,896	560,597	253,278	13,156	51,067	75,077	106,050	92,801	-	-
Reverse Osmosis			-	72,614	-	506	33,560	-	-	-
Less water lost in production			-	-	(1,000)	(89,949)	(80,762)	(141,539)	(113,314)	-
Total Water Available for Sale	5,998,756	6,324,775	5,844,970	5,948,297	5,956,883	5,803,961	6,301,715	6,350,320	6,325,713	6,089,304
Water Sales:										
Residential	2,735,438	2,802,000	2,722,904	2,744,956	2,846,368	2,901,719	3,172,931	2,983,898	2,976,460	2,867,074
Non Residential	1,686,189	1,709,284	1,675,373	1,665,133	1,663,846	1,728,763	1,840,531	1,886,640	1,913,803	1,908,069
U.S. Navy	290,151	274,047	239,671	242,906	291,323	304,343	326,372	320,708	368,142	387,691
City of Key West	25,055	23,328	20,602	19,849	24,604	28,225	28,391	33,862	42,688	37,324
Cruise ship through Outer Mole	1,332	1,363	-	-	-	-	-	-	-	-
Senior Citizens	54,312	48,772	41,259	36,166	37,452	27,141	27,448	26,323	26,942	23,163
Total Water Sold	4,792,477	4,858,794	4,699,809	4,709,010	4,863,593	4,990,191	5,395,673	5,251,431	5,328,035	5,223,321
Other accounted for water*	268,283	889,391	568,266	674,231	746,552	398,484	314,366	155,309	383,524	12,387
Total Accounted for Water	5,060,760	5,748,185	5,268,075	5,383,241	5,610,145	5,388,675	5,710,039	5,406,740	5,711,559	5,235,708
Unaccounted for water	937,996	576,590	576,895	565,056	346,738	595,184	591,676	943,580	614,154	853,596
Unaccounted for water as a percentage of total water production	15.6%	9.1%	9.9%	9.5%	5.8%	10.3%	9.4%	14.9%	9.7%	14.0%
Average daily water production (million gallons/day)	16.43	17.33	16.01	16.30	16.30	15.90	17.30	17.40	17.30	16.70
Average daily water sales (million gallons/day)	13.13	13.31	12.88	12.90	13.30	13.70	14.80	14.40	14.60	14.30

*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.

Operating Information (continued)

Number of Employees by Activity
Last Ten Fiscal Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Water:										
Production	25	25	25	25	27	26	27	27	28	28
Transmission and distribution	82	81	81	80	85	86	80	80	80	84
Wastewater:										
Treatment	8	6	6	7	3	2	3	1	0	0
Collection	5	6	6	6	7	7	2	2	0	0
Engineering and Construction:										
Engineering	25	26	26	26	27	26	25	25	24	20
Construction	9	10	9	9	9	8	10	10	10	12
Administration:										
Customer service	43	43	44	46	55	56	59	65	66	68
Finance, accounting and purchasing	25	25	25	25	22	24	24	14	17	16
Information Technology	22	21	20	19	14	12	11	10	6	6
Other administrative personnel	13	12	12	14	15	14	16	15	15	15
Totals	257	255	254	257	264	261	257	249	246	249



Operating Information (continued)

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

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Land	\$ -	\$ -	\$ -	\$ 250	\$ -	\$ -	\$ 570	\$ -	\$ 3,215	\$ 423
Building, structures and improvements	296	1,008	9,960	7,646	7,065	7,902	2,190	2,367	3,541	4,355
Equipment, vehicles, furniture and fixtures	1,025	664	585	717	1,407	2,065	1,583	563	831	1,038
Transmission system	178	1,146	8,640	-	4,069	-	34	-	20	1,027
Distribution systems	4,240	3,351	5,579	2,494	2,051	356	5,050	277	1,878	12,790
Water meters	2,335	1,998	1,999	2,636	1,295	3,989	34	189	190	199
Water storage facilities	-	-	-	-	-	-	-	6	-	1,270
Pumping stations	89	7	1,805	51	7,113	1,321	2,095	344	202	239
Water treatment facilities	23	393	204	6,254	14,713	44	331	45	1,136	1,268
Reverse osmosis equipment	-	-	22,878	-	2,205	2,547	-	643	527	37
Computer equipment	280	309	139	265	556	870	683	147	75	331
Wastewater treatment equipment	23	1,965	12	838	3	79	3,201	2	4,212	-
Collection system	-	-	6	320	-	182	8,898	2,345	5,697	-
Reclaimed system	-	411	1,820	-	439	-	-	-	-	-
	\$ 8,489	\$ 11,252	\$ 53,627	\$ 21,471	\$ 40,916	\$ 19,355	\$ 24,669	\$ 6,928	\$ 21,524	\$ 22,977

Operating Information (continued)

Schedule of Insurance in Effect
September 30, 2012

Type of Coverage	Carrier/Policy Number	Coverage Amount	Deductible Self-retention	Effective Date	Expiration Date
Liability package	FMIT #0178		\$75,000 STOP LOSS	10/1/2011	9/30/2012
General liability		\$3,000,000 OCC	\$25,000		
Automobile liability		\$3,000,000 OCC	\$25,000 Comp., \$1000 PD,		
Public officials liability		\$3,000,000 OCC	\$1,000 PIP		
			\$25,000		
Crime	Travelers / #105590021	\$500,000	\$25,000	10/1/2011	9/30/2014
Property w/boiler & machinery	Lexington Insurance #14728210 Ace American Insurance #EUTN05111596	\$127,011,112	Wind (named storms) 5% of location values \$250,000 min Flood-Florida City only 5% of ins. Values w/min. of \$1,000,000 (excess of NFIP) All other perils \$50,000 ded. Boiler & machinery \$25,000 ded	3/31/2012	3/31/2013
Flood building/contents	Bankers NFIP Various		varies \$1,000 building \$1,000 contents	12/7/2011 4/27/2012 5/7/2012 6/28/2012	12/7/2012 4/27/2013 5/7/2013 6/28/2013
Worker's compensation	Florida Municipal Self Insurers FMIT 0178	Statutory	\$2,500/each injury	10/1/2011	10/1/2012
Pollution & Environmental coverage	Indian Harbor Insurance PEC0025220	\$10,000,000 aggregate	\$25,000	12/23/2010	12/23/2013
Board members bonding	Fidelity & Deposit Various		\$10,000 per member	2/24/2009 8/15/2011	12/31/2012 12/31/2014

Operating Information (continued)

Drinking Water Quality Standards & Analyses 2012

Primary Drinking Water Standards

Inorganic Contaminants	MCL* mg/l*	2012 Finished Water mg/l*
Antimony	0 . 006	ND*
Arsenic	0 . 050	ND*
Asbestos	7 MFL	ND*
Barium	2 . 000	0.01
Beryllium	0 . 004	ND*
Cadmium	0 . 005	ND*
Chromium	0 . 100	ND*
Cyanide	0 . 200	ND*
Fluoride***	4 . 000	0.84
Lead	0 . 015	ND*
Mercury	0 . 002	ND*
Nickel	0 . 100	ND*
Nitrate (as N)	10 . 000	2.6
Nitrite (as N)	1 . 000	ND*
Total Nitrate (as N) & Nitrite	10 . 000	2.6
Selenium	0 . 050	ND*
Sodium	160 . 000	17
Thallium	0 . 002	ND*

Turbidity Level	MCL* NTU*	2012 Finished Water NTU*
	1 . 0	0.06

Disinfectant By-Products	MCL* mg/l*	2012 Finished Water mg/l*
Trihalomethanes	0 . 080	0.024
2012 Annual Average For Distribution mg/l* 0.0048		

Disinfectant By-Products	MCL* mg/l*	2012 Finished Water mg/l*
Haloacetic Acids	0 . 060	0.018
2012 Annual Average For Distribution mg/l* 0.0069		

Volatile Organic Contaminants	MCL* mg/l*	2012 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*	2012 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*	2012 Finished Water pCi/l*
Gross Alpha	15	ND*
Radium 226		ND*
Radium 228		ND*

Operating Information (continued)

Drinking Water Quality Standards & Analyses 2012, continued

Secondary Drinking Water Standards

Secondary Contaminant	MCL mg/l*	2012 Finished Water mg/l*
Aluminum	0.20	0.02
Chloride	250	34
Color	15 Color Units	5
Copper	1.00	ND*
Fluoride	2.00	0.84
Foaming Agents	0.50	ND*
Iron	0.30	ND*
Manganese	0.05	ND*
Odor	3.0 ton	ND*
PH**	6.50-8.50	9.3
Silver	0.10	ND*
Sulfate	250	48
Total Dissolved Solids (TDS)	500	186
Zinc	5	ND*

date tested 02/21/2012

General	mg/l*
Total Hardness	98
(or in grains per gallon)	5.7
Calcium Hardness	83
Alkalinity	37
Total Chlorine	3.7

*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.

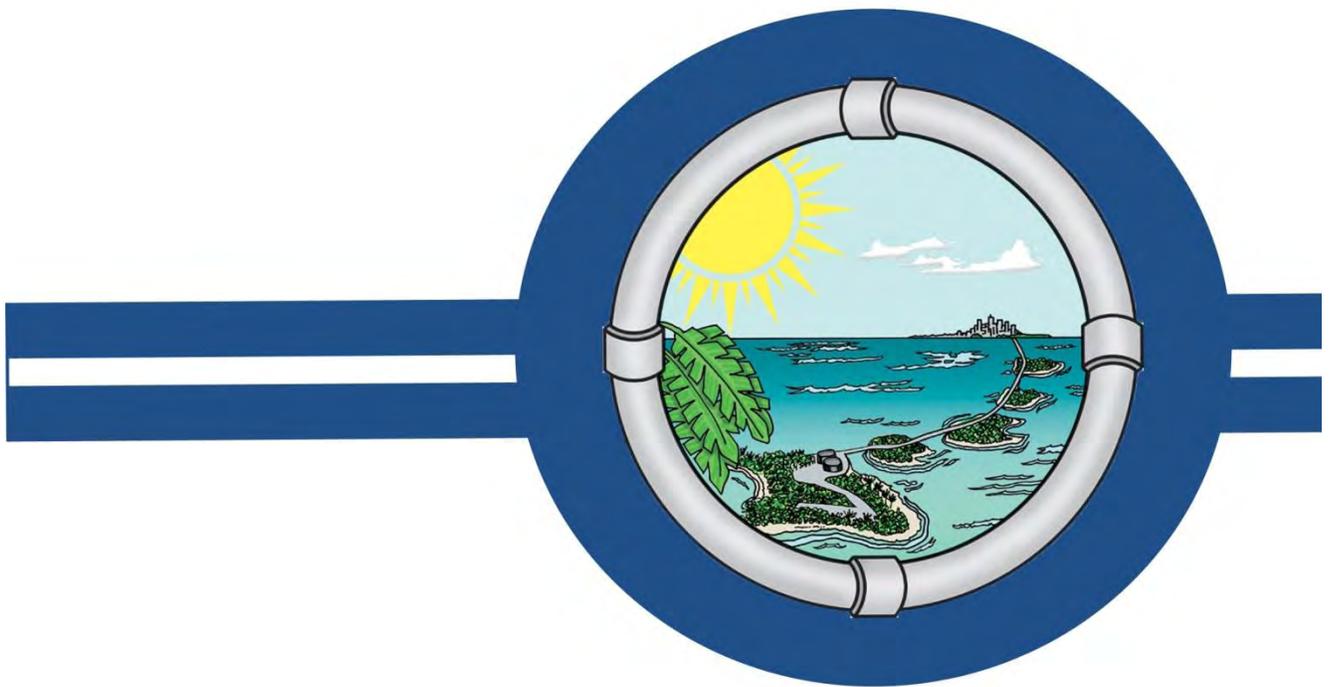
Note: The primary drinking water standards are established for health reasons and the secondary drinking water standards are established for aesthetic reasons. The MCL is the maximum allowable level a regulated contaminant should be present in drinking water. The finished water results indicate the measured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



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Taste it don't waste it

Reporting Section





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Taste it don't waste it



**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***

Board of Directors
Florida Keys Aqueduct Authority
Key West, Florida

We have audited the financial statements of the Florida Keys Aqueduct Authority (the Authority) as of September 30, 2012 and for the year then ended and have issued our report thereon dated March 14, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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.

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Directors, the Audit Committee, management and regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Marcum LLP

Miami, FL
March 14, 2013

FLORIDA KEYS AQUEDUCT AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

STATUS OF PRIOR YEAR FINDINGS

FINANCIAL STATEMENT FINDINGS

The following addresses the status of financial statement findings reported in the fiscal year ended September 30, 2011 schedule of findings and responses:

Matters that are not repeated in the accompanying schedule of findings and responses:

- 11-01 – Accounts Receivable Credit Balance Reconciliation