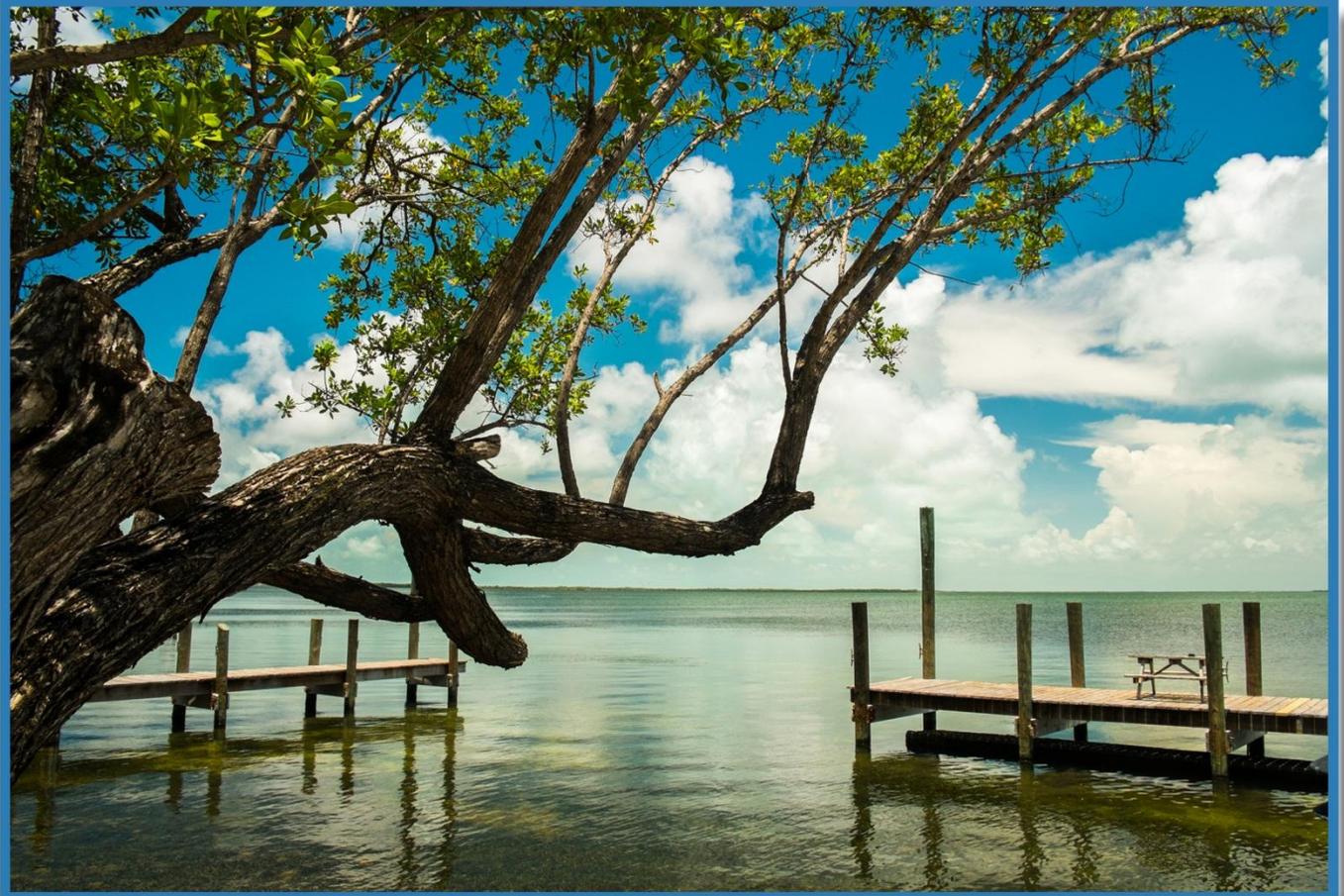


FLORIDA KEYS Aqueduct Authority



comprehensive annual *financial* **REPORT**

FISCAL YEARS ENDED SEPTEMBER 30, 2014 AND 2013

comprehensive
annual
financial
REPORT

For the fiscal years ended September 30, 2014 and 2013

Prepared By: The Department of Finance





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

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INTRODUCTORY *SECTION*

Board of Directors

System Overview

Message from the Executive Director

Message from Management



INTRODUCTORY SECTION

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The Florida Keys Aqueduct Authority *Board of Directors*

J Robert Dean Board Chairman

District 3 - Current term expires December 31, 2016

Owner and Director, Dean-Lopez Funeral Home

jrdean@fkaa.com

Antoinette M. Appell Vice Chairman

District 4 - Current term expires December 31, 2016

Highly Qualified Paraprofessional with the Monroe County School District

tappell@fkaa.com

Brian L Barroso Secretary/Treasurer

District 1 - Current term expires December 31, 2014

Vice President/Market Leader Branch Banking and Trust Company

bbarroso@fkaa.com

David C. Ritz Board Member

District 5 - Current term expires December 31, 2016

President, Ocean Reef Community Association

dritz@fkaa.com

Melva G. Wagner Board Member

District 2 - Current term expires December 31, 2014

Owner, Sellstate Island Properties

mwagner@fkaa.com



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
- ✓ 26 pumping stations
- ✓ 5 wastewater treatment plants
- ✓ 49 approximate miles of wastewater collection lines
- ✓ 14.32 approximate miles 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 years ended September 30, 2014 and 2013.

The Authority remains in sound financial condition, both from a net revenue and a liquidity standpoint. Water volume sales have remained fairly consistent for the past two years, with a slight increase seen recently due to an improving tourist economy in the Keys. Operating expenses have increased slightly, mainly due to salary increases required by our union contract, while capital expenditures have declined significantly from past years.

The Authority continues its partnership with Monroe County in constructing and operating wastewater systems on the County's behalf. In 2013, a new system was installed in Duck Key serving approximately 400 homes. Construction has begun on a regional system on Cudjoe Key and adjoining islands that will ultimately serve approximately 8,800 connections. This large project, financed and paid for by Monroe County, will be a significant component of the Authority's capital improvement workload through 2016 and will be the source of substantial additional revenue for the Authority upon completion.

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

Sincerely,



Kirk Zuelch

Executive Director

February 19, 2015

Florida Keys Aqueduct Authority

1100 Kennedy Drive

Key West, FL 33040

305-296-2454

fkaa.com

Executive Staff

Kirk Zuelch

Executive Director

Kerry Shelby

Deputy Executive Director

Tom Walker

Deputy Executive Director

Denise Preuss

Manager of Finance

Karen Rodriguez

Manager of Human
Resources

Kathy Ovide

Manager of Customer
Service

Rick Kellough

Manager of Technical
Services



Florida Keys Aqueduct Authority

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



Message *from Management*

Florida Statutes require that government entities submit to the Auditor General a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards and government auditing standards by a firm of licensed certified public accountants within the earlier of 45 days after the completion of the audit report but no later than 9 months after the close of each fiscal year. Pursuant to that requirement, we are pleased to issue this Comprehensive Annual Financial Report of the Florida Keys Aqueduct Authority for the fiscal years ended September 30, 2014 and 2013.

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 years ended September 30, 2014 and 2013 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Authority's financial statements for the fiscal years ended September 30, 2014 and 2013 are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

GAAP 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 48,000 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.

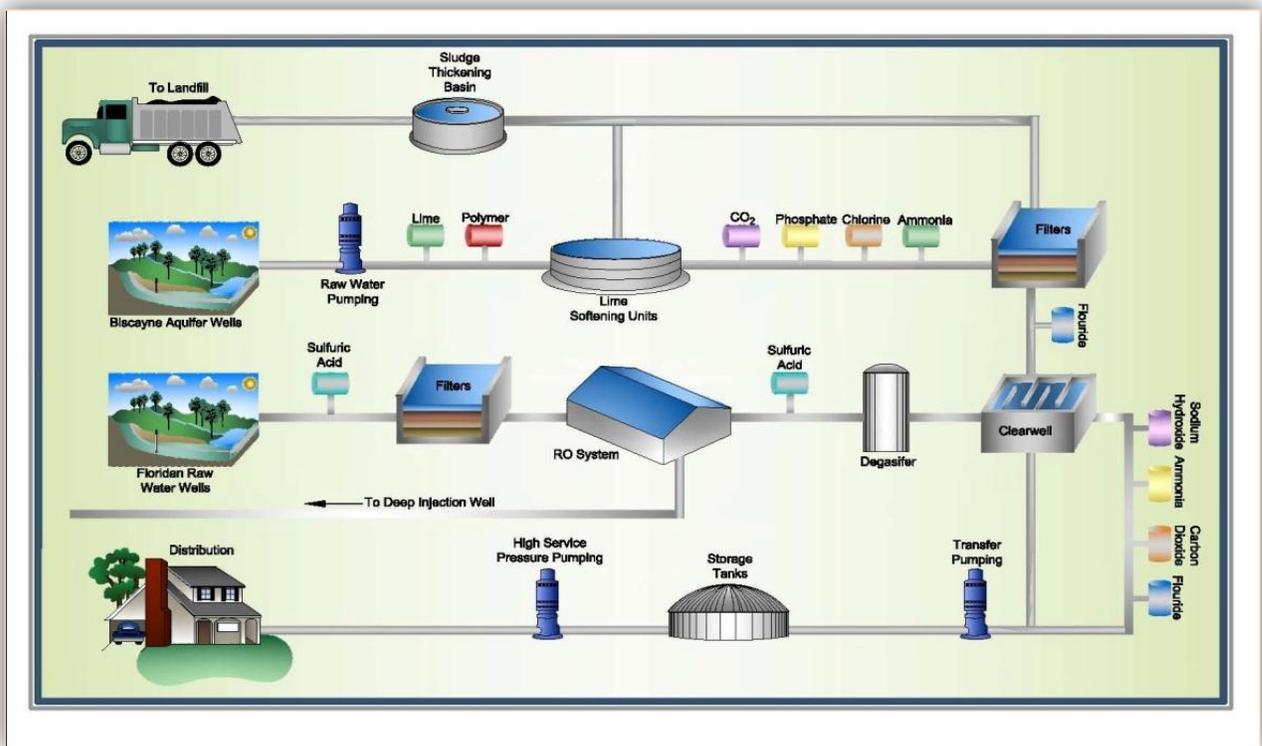
The Authority is permitted by the South Florida Water Management District (SFWMD) to withdraw its supply of water. The Authority's water use permit allows for an average daily withdrawal from the Biscayne Aquifer of 19.93 mgd and a maximum daily withdrawal of 23.79 mgd. However, the permit limits the average daily withdrawal to 17 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 20 distribution pump stations located throughout the service area to maintain water pressure in the distribution system.

Wastewater Treatment Facilities

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

Wastewater Transmission and Collection Systems

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

Reclaimed Water Distribution Systems

The Authority is currently operating a reclaimed water system in Duck Key that supplies irrigation water to residents and resort facilities. The Authority has also installed reclaimed water lines that are supplied by effluent produced by Monroe County's wastewater treatment facility in Big Coppitt Key. 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 74,000 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.

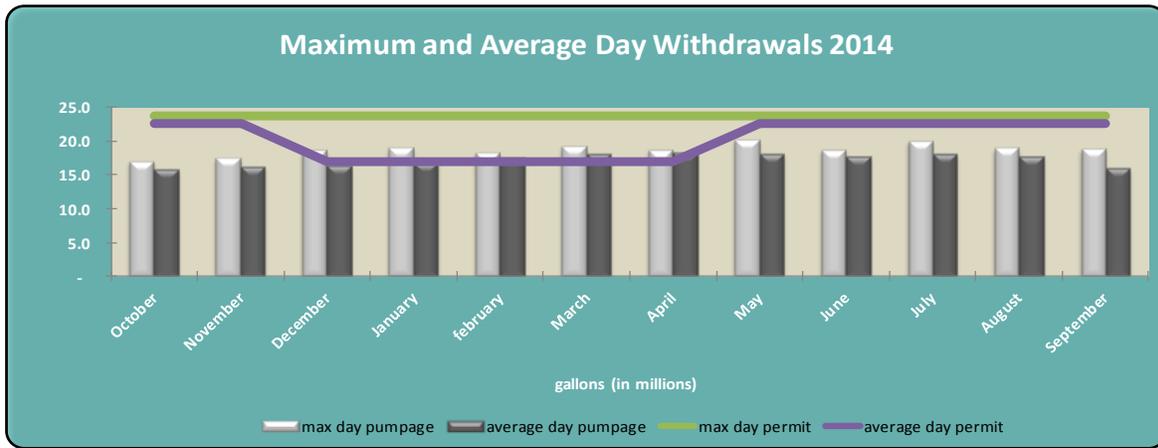
Water demand hit a ten year low in 2008 and has remained at about that level through 2014. Monroe County has one of the lowest consumption per capita in the state of Florida. The primary reasons are that customers are conserving water in response to the severe drought conditions in South Florida and 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 2014. 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 \$34.6 million over the next five years. Most of these projects are either improvements to aging infrastructure or new technologies to improve efficiency and reliability of the system. The Authority anticipates funding these improvements with system development fees, bond proceeds, grants and rate revenue.

The Authority 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 began 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.

FKAA Awards

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Authority for its comprehensive annual financial report for the fiscal year ended September 30, 2013. This was the 23rd 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, 2014. This was the eighth 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

February 19, 2015

Florida Keys Aqueduct Authority

Chart of Organization for Fiscal Year Ended September 30, 2014

Our Customers

Board of Directors

Internal/Compliance Auditor
Tim Esquinaldo

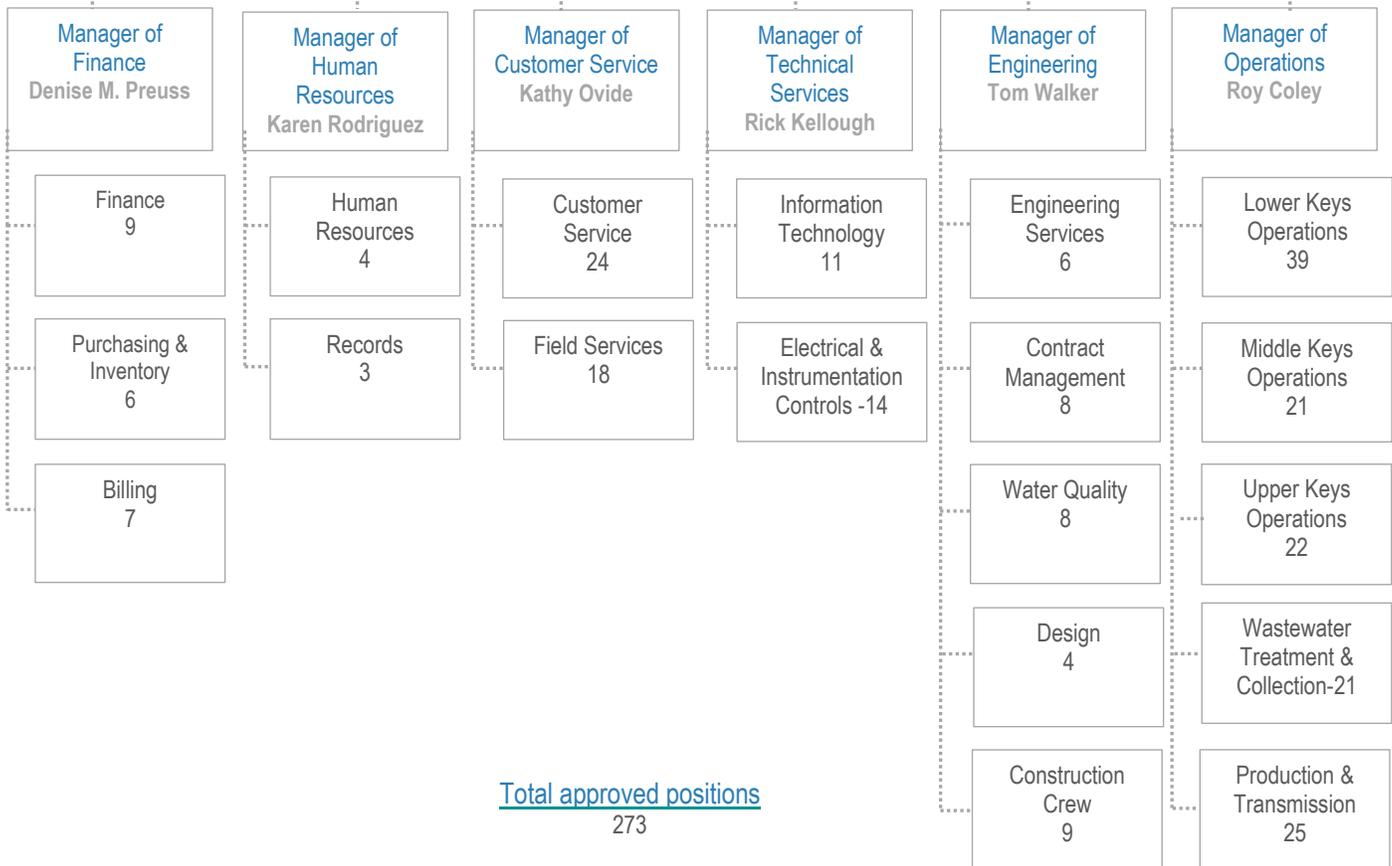
Executive Director
Kirk C. Zuelch

General Counsel
Robert Feldman

Executive Department
4

Deputy Executive Director
Kerry G. Shelby
Administration Division

Deputy Executive Director
Tom Walker
Utility Operations Division



FINANCIAL *SECTION*

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



FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Florida Keys Aqueduct Authority (the Authority) which comprise the statements of net position as of September 30, 2014 and 2013, and the statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of September 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress – OPEB on pages 18 through 23 and 49, respectively, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

Marcum LLP

Miami, FL
February 19, 2015

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, 2014. 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 \$4.4 million, or about 3%, as a result of this year's operations. See the analysis of net position below.
- ✓ Operating revenue increased to \$52.3 million in 2014, 3% over 2013 while operating expenses, before depreciation, increased by 11% in 2014.

Authority highlights

- ✓ The Authority continues to partner with Monroe County to build wastewater systems in the Keys. In 2014, the Authority continued construction on a \$180 million dollar project in the lower keys.
- ✓ The Authority continues to upgrade infrastructure to improve reliability and water flow.
- ✓ The Authority received an award from FDEP for "Operations Excellence" and implemented a sophisticated data management system for wastewater operations

Using This Annual Report

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

Required financial statements

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

Financial Analysis of the Authority as a Whole

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 \$4.4 million. Our condensed analysis below focuses on the Authority’s net position (Table 1) and changes in net position (Table 2) during the year.

Table 1

	2014	2013	2012
Capital assets	\$ 267,557,348	\$ 272,065,316	\$ 276,678,980
Current and other assets	69,342,371	56,119,964	48,483,305
Total assets	<u>336,899,719</u>	<u>328,185,280</u>	<u>325,162,285</u>
Total deferred outflow of resources	10,735,311	9,621,315	16,604,559
Long-term liabilities	161,127,181	154,244,393	162,891,817
Other liabilities	30,435,176	23,053,529	16,434,883
Total liabilities	<u>191,562,357</u>	<u>177,297,922</u>	<u>179,326,700</u>
Net position			
Net investment in capital assets	136,144,330	136,638,415	145,094,339
Restricted	8,266,441	6,760,377	11,952,657
Unrestricted	11,661,902	17,109,881	5,393,148
Total net position	<u>\$ 156,072,673</u>	<u>\$ 160,508,673</u>	<u>\$ 162,440,144</u>

Net investment in capital assets increased slightly in 2014. Long-term liabilities increased by 4% in 2014 due to two new issues of bonds. Other liabilities increased 32% due to an increase in advanced funds from other governments and an increase in accrued accounts payable.

Net investment in capital assets decreased in 2013 due to depreciation exceeding capital plant additions, which reduced the net value of capital assets. Long-term liabilities decreased in 2013 primarily due to the decrease in value of an interest rate swap. Other liabilities increased due to an increase in advanced funds from other governments.

Net investment in capital assets increased in 2012 due to an increased investment in infrastructure and the refunding of wastewater bonds. Restricted net position increased slightly in 2012 due to funds designated as collateral as a result of a decline in value of an interest rate swap and increased advances from other governments. The decrease in unrestricted net position is due to funds used for infrastructure.

Table 2

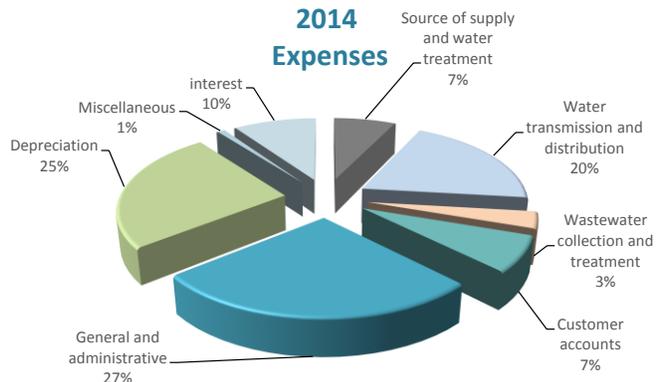
	2014	2013	2012
Net utility operating revenue	\$ 52,325,112	\$ 50,668,536	\$ 48,416,870
Total operating revenues	<u>52,325,112</u>	<u>50,668,536</u>	<u>48,416,870</u>
Operating expenses	52,992,182	48,722,100	48,388,220
Total expenses	<u>52,992,182</u>	<u>48,722,100</u>	<u>48,388,220</u>
Net operating income (loss)	<u>(667,070)</u>	<u>1,946,436</u>	<u>28,650</u>
Non-operating revenue (expenses)			
Interest income	319,722	346,174	357,372
Other income	556,101	779,300	384,486
Interest expenses	(5,682,448)	(6,053,044)	(5,959,476)
Other expenses	(502,024)	(616,416)	(518,864)
Total non-operating revenue (expenses)	<u>(5,308,649)</u>	<u>(5,543,986)</u>	<u>(5,736,482)</u>
Net loss before contributions	(5,975,719)	(3,597,550)	(5,707,832)
Capital contributions	1,539,719	1,666,079	1,364,338
Change in net position	(4,436,000)	(1,931,471)	(4,343,494)
Net position at beginning of year	160,508,673	162,440,144	166,783,638
Net position at end of year	\$ 156,072,673	\$ 160,508,673	\$ 162,440,144

Total operating revenue increased by 3% in 2014 due to greater sales volume and rate indexing. Other operating revenue decreased in 2014 by 29% due to a decrease in delinquent penalties. Numerous delinquent accounts accruing penalties in 2013 were written off in 2014.

Total operating revenue increased by 5% in 2013 due to an increase in water volume sales and rate indexing. Other income increased by 103% mainly due to the revenue received for billing for the City of Key West's wastewater customers.

Operating expenses increased 9% in 2014, again mainly due to increases in health insurance costs and an increase in maintenance and materials as maintenance projects were brought current. Interest expense decreased in 2014 by 6% due to refunding of bonds in 2013. Other expenses decreased 19% due to expenses incurred relating to the refunding of bonds in 2013.

Operating expenses increased by 1% in 2013 mainly due to increases in health insurance costs. Interest expense increased by about 2% due to the addition of a full year of interest on Series 2012 wastewater bonds. Other expenses increased 19% due to bond refunding costs.



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 2014, the Authority had approximately \$267.5 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 \$4.5 million. Net capital assets decreased by \$4.6 million in 2013 over 2012.

The following table summarizes the Authority’s capital assets, net of accumulated depreciation, for the years ended September 30, 2014, 2013 and 2012.

Table 3-Capital Assets

	2014	2013	2012
Land	\$ 8,285,155	\$ 8,285,155	\$ 8,285,154
Buildings, structures & improvements	44,388,984	46,255,553	46,175,331
Equipment, vehicles, furniture & fixtures	5,026,085	4,698,482	4,405,268
Transmission system	37,808,594	36,309,396	38,473,262
Water distribution system	81,023,333	73,938,915	71,900,676
Water meters	7,506,724	8,781,112	9,753,714
Water storage facilities	4,187,214	4,344,766	3,709,856
Pump station equipment	13,528,806	14,736,963	15,586,127
Water treatment equipment	19,326,210	20,247,969	21,479,657
Reverse osmosis equipment	22,532,588	24,050,395	26,132,779
Computer equipment	1,114,423	701,910	732,514
Wastewater treatment equipment	4,255,405	4,529,160	4,829,643
Wastewater collection equipment	7,345,628	7,701,194	7,942,300
Reclaimed water	4,759,062	4,793,762	2,502,159
	261,088,211	259,374,732	261,908,440
Construction work in progress	6,469,137	12,690,584	14,770,540
	\$ 267,557,348	\$ 272,065,316	\$ 276,678,980

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

Table 4-Changes in Capital Assets Summary

	2014	2013	2012
Balance at beginning of year	\$ 272,065,316	\$ 276,678,980	\$ 277,960,474
Additions	16,805,273	12,069,368	8,489,326
Retirements	(2,866,593)	(1,151,564)	(1,872,732)
Depreciation	(14,964,322)	(14,575,944)	(14,385,652)
Accumulated depreciation retired	2,739,121	1,124,432	1,784,103
Increase (decrease) in construction work in progress	(6,221,447)	(2,079,956)	4,703,461
Balance at end of year	\$ 267,557,348	\$ 272,065,316	\$ 276,678,980

This year's major additions to utility plant included:

• Water transmission system upgrades	\$ 3.6 million
• Water distribution system upgrades	9.4 million
• Water treatment equipment	.4 million
• Buildings and structures	.5 million
• Reverse osmosis equipment	.6 million
• Equipment, vehicles furniture and fixtures	1.1 million
• Computer equipment	.6 million
• Wastewater equipment and collection system	.1 million
• Advance metering infrastructure	.1 million

Additionally, the Authority invested approximately \$3.6 million on the repair and replacement to the distribution system and \$1.3 million on the repair and replacement to the transmission system.

The Authority's 2015 capital budget plans for investing approximately \$8.9 million in capital projects, including the following:

• Water distribution system upgrades	\$4.5 million
• Wastewater collection system upgrades	2.9 million
• Water transmission system upgrades	1.2 million
• Water tank upgrades	.3 million

The Authority plans to finance capital projects primarily with cash reserves. However, certain water line replacement projects that were accelerated to coincide with wastewater construction are being financed by proceeds from Series 2013B and Series 2014A bonds with a combined amount of about \$10.4 million. In addition to projects included in the 2014 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, 2014, the Authority had a total of approximately \$136.9 million in water and wastewater bonds outstanding. Reductions in each year reflect principal payments. The Authority's water bonds have underlying ratings of Aa3 by Moody's, A+ by Standard & Poors and AA- by Fitch. Water and Wastewater bonds held by a bank are not rated. In conjunction with the issuance of the Series 2006 bonds (later refunded by Series 2008), the Authority entered into a derivative contract with a counterparty that is considered to be an effective hedging instrument. As such, that instrument is recorded as a long-term liability, along with a complementary deferred outflow of resources on the Authority's statement of net position.

The Authority has a contract with the U.S. Navy to own and manage water distribution 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

	2014	2013	2012
Water and wastewater bonds, net	\$ 136,977,849	\$ 130,919,828	\$ 132,367,828
Credit due to US government	13,431,713	14,128,388	14,791,749
Derivative instrument - swap	10,668,172	9,544,350	15,574,936
Compensated absences	2,681,654	2,469,910	2,275,761
Net OPEB obligation	1,936,434	1,575,571	1,323,068
Total long-term liabilities	\$ 165,695,822	\$ 158,638,047	\$ 166,333,342

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

Economic Factors, Next Year's Budget and Rates

Economic and climate conditions have negatively impacted water sales in recent years. However, the economy within the service area improved in 2014 and water sales volume increased by about 1%. This increase was almost exclusively in the non-residential sector due to increases in tourism. As new wastewater systems are constructed in areas that previously did not pay for wastewater treatment, customers generally tend to reduce their water use in an effort to minimize their wastewater bills.

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

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

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

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

Contacting the Authority's financial management

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

Financial Statements

Statements of Net Position

For the fiscal years ended September 30, 2014 and 2013

Assets	2014	2013
Current assets		
Unrestricted current assets		
Cash	\$ 33,212,746	\$ 23,385,354
Receivables:		
Accounts - customers	5,144,659	5,243,657
Accounts - other	527,593	201,796
Current portion of assessments	342,869	343,686
Materials and supplies	1,925,664	2,032,434
Prepaid expenses	625,841	606,982
Total unrestricted current asset	41,779,372	31,813,909
Restricted current assets		
Cash	21,175,711	13,664,545
Construction advances		3,369,112
Total restricted current assets	21,175,711	17,033,657
Total current assets	62,955,083	48,847,566
Noncurrent assets		
Restricted noncurrent assets		
Cash	3,685,872	4,336,735
Total restricted noncurrent assets	3,685,872	4,336,735
Capital assets		
Capital assets	470,190,890	456,252,210
Construction in progress	6,469,137	12,690,584
Less accumulated depreciation	(209,102,679)	(196,877,478)
Capital assets, net of accumulated depreciation	267,557,348	272,065,316
Assessments receivable, net of current portion	2,701,416	2,935,663
Total noncurrent assets	273,944,636	279,337,714
Total assets	336,899,719	328,185,280
Deferred outflow of resources		
Accumulated change in fair value of hedging derivatives	10,668,172	9,544,350
Deferred amount on debt refundings	67,139	76,965
	10,735,311	9,621,315

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

Financial Statements, Continued

Statements of Net Position (continued)

For the fiscal years ended September 30, 2014 and 2013

LIABILITIES	2014	2013
Current liabilities		
Current liabilities payable from unrestricted assets		
Accounts payable	\$ 6,324,533	\$ 1,295,040
Accrued wages and benefits	1,650,971	1,402,798
Unearned revenues	476,750	761,018
Other liabilities	819,139	591,004
Total current liabilities payable from unrestricted assets	9,271,393	4,049,860
Current liabilities payable from restricted assets		
Customer deposits	3,685,872	4,336,735
Interest payable	253,302	472,208
Advances from other governments	12,655,968	9,801,072
Current portion of credit due to US government	731,662	696,675
Current portion of bonds payable	3,836,979	3,696,979
Total current liabilities payable from restricted assets	21,163,783	19,003,669
Total current liabilities	30,435,176	23,053,529
Long-term liabilities		
Bonds payable, net	136,977,849	130,919,828
Derivative instrument - swap	10,668,172	9,544,350
Credit due to US government	13,431,713	14,128,388
Compensated absences	2,681,654	2,469,910
Net OPEB obligation	1,936,434	1,575,571
	165,695,822	158,638,047
Less current portion	(4,568,641)	(4,393,654)
Total long-term liabilities	161,127,181	154,244,393
Total liabilities	191,562,357	177,297,922
Net position		
Net investment in capital assets	136,145,330	136,638,415
Restricted:		
Debt service	1,881,939	1,981,796
Capital projects	6,384,502	4,778,581
Unrestricted	11,660,902	17,109,881
Total net position	\$ 156,072,673	\$ 160,508,673

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

Financial Statements, Continued

Statements of Revenue, Expenses and Changes in Net Position

For the fiscal years ended September 30, 2014 and 2013

Revenue	2014	2013
Utility revenue water	\$ 45,519,512	\$ 43,931,276
Utility revenue reclaimed water	55,919	49,805
Utility revenue wastewater	2,986,921	2,687,085
Other operating revenue Navy	2,461,416	2,430,048
Other operating revenue	1,634,593	2,001,574
Total operating revenue	52,658,361	51,099,788
Less abatements	(333,249)	(431,252)
Net operating revenue	52,325,112	50,668,536
Operating expenses		
Source of supply	622,364	507,429
Water treatment	3,616,956	3,449,549
Transmission	5,277,311	4,982,952
Distribution	6,369,712	6,333,322
Wastewater treatment	859,055	877,835
Wastewater collection	1,158,775	1,089,444
Customer accounts	4,261,867	3,924,380
General and administrative	15,861,819	12,981,244
Depreciation	14,964,323	14,575,945
Total operating expenses	52,992,182	48,722,100
Operating income (Loss)	(667,070)	1,946,436
Non-operating revenue (expenses)		
Interest income	319,722	346,174
Other income	556,101	722,544
Gain (loss) on disposal of assets and inventory	(147,353)	56,756
Interest expense	(5,682,448)	(6,053,044)
Bond issue costs	(301,290)	(37,860)
Remarketing and letter of credit fees	(53,381)	(578,556)
Total non-operating revenue (expenses)	(5,308,649)	(5,543,986)
Net loss before contributions	(5,975,719)	(3,597,550)
Capital contributions	1,539,719	1,666,079
Change in net position	(4,436,000)	(1,931,471)
Net position, beginning of year	160,508,673	162,440,144
Net position, end of year	\$ 156,072,673	\$ 160,508,673

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

Financial Statements, Continued

Statements of Cash Flows

For the fiscal years ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Payments received from customers	\$ 50,765,002	\$ 49,105,080
Deposits received from customers	307,571	337,853
Other cash received	458,439	1,181,115
Payments for salaries and benefits	(24,540,687)	(23,072,778)
Payments to suppliers for goods and services	(7,616,422)	(13,130,359)
Interest paid on and refunds of customer deposits	(981,155)	(1,473,580)
Net cash provided by operating activities	<u>18,392,748</u>	<u>12,947,331</u>
Cash flows from non-capital financing activities		
Cash received from other governments	65,080,000	27,423,980
Payments for projects of other governments	(62,225,104)	(19,168,013)
Net cash provided by non-capital financing activities	<u>2,854,896</u>	<u>8,255,967</u>
Cash flows from capital and related activities		
System development fees received	1,074,959	1,400,150
Proceeds from capital grants	-	8,816
Payments for capital assets	(6,489,529)	(7,683,111)
Proceeds from sale of capital assets	47,553	83,886
Proceeds from issuance of bonds and debt	10,370,000	19,900,000
Debt issue costs and financing fees paid	(354,671)	(616,416)
Principal payments of bonds	(4,220,000)	(20,305,000)
Interest payments for bonds	(5,282,621)	(5,356,604)
Net cash used by capital and related financing activities	<u>(4,854,309)</u>	<u>(12,568,279)</u>
Cash flows from investing activities		
Interest received	294,360	287,535
Net cash provided by investing activities	<u>294,360</u>	<u>287,535</u>
Net cash inflow from all activities	16,687,695	8,922,554
Cash at beginning of year	41,386,634	32,464,080
Cash at end of year	<u>\$ 58,074,329</u>	<u>\$ 41,386,634</u>

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

Financial Statements, Continued

Statements of Cash Flows (continued)

For the fiscal years ended September 30, 2014 and 2013

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

	2014	2013
Operating income (Loss)	\$ (667,070)	\$ 1,946,436
Credits to US Navy	(1,374,840)	(1,374,840)
Depreciation	14,964,323	14,575,945
Other income	556,101	722,544
Interest on customer deposits	(22,721)	(27,260)
(Increase) decrease in		
Accounts receivable	(226,799)	(555,442)
Materials and supplies	39,336	(94,286)
Prepaid expenses	(18,859)	(54,925)
Increase (decrease) in		
Accounts payable	5,029,493	(2,769,032)
Unearned revenues	(284,268)	427,986
Accrued wages and benefits	820,780	861,261
Other liabilities	228,135	397,411
Customer deposits	(650,863)	(1,108,467)
Net cash provided by operating activities	\$ 18,392,748	\$ 12,947,331
Schedule of cash		
Unrestricted cash	\$ 33,212,746	\$ 23,385,354
Restricted cash	24,861,583	18,001,280
	\$ 58,074,329	\$ 41,386,634
Schedule of noncash investing and financing activities:		
Change in value of derivative instruments	\$ 1,123,822	\$ (6,030,586)
Amortization of deferred amount on debt refunding	67,139	76,965
Capital assets contributed	699,824	496,319
	\$ 1,890,785	\$ (5,457,302)

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

Notes to *Financial Statements*

For the fiscal years ended September 30, 2014 and 2013

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Notes to *Financial Statements*

For the fiscal years ended September 30, 2014 and 2013

Note 1. Summary of Significant Accounting Policies

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

Financial Reporting Entity

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

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

Basis of Presentation

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

Measurement Focus and Basis of Accounting

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

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. The principal operating revenue of the Authority's enterprise fund is monthly user fees charged to customers for service. The Authority also recognizes as operating revenue fees intended to recover the cost of connecting new customers to the system and other services that relate to the supply of water and the collection and treatment of wastewater. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Notes to *Financial Statements (continued)*

September 30, 2014 and 2013

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

Assets, Liabilities and Net Assets

Materials and Supplies

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

Capital Assets

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

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

Construction Work in Progress

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

Compensated Absences

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

Long-term Liabilities

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

Notes to *Financial Statements (continued)*

September 30, 2014 and 2013

Note 1. Summary of Significant Accounting Policies (continued)

Interest on Indebtedness

Interest is charged to expense, as incurred, except for interest related to borrowings used for construction projects which is capitalized, net of interest earned on construction funds borrowed. There was no interest capitalized for the years ended September 30, 2014 and 2013.

Equity Classifications

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

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

Net Position Flow Assumption

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

Budget

In accordance with the Authority's enabling legislation, the Board holds public hearings and subsequently adopts an annual budget for revenue, operating expenses and capital 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.

Notes to *Financial Statements (continued)*

September 30, 2014 and 2013

Note 1. Summary of Significant Accounting Policies (continued)

Revenue and Expenses

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

Revenue Recognition

All water and wastewater revenues are recognized 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.

Construction Advances

The Authority records advances from other governments that are used to pay for construction projects. The advances are reduced when the Authority is invoiced by the contractor.

Note 2. Cash

The Authority had the following cash balances of \$58,074,329 and \$41,386,634 at September 30, 2014 and 2013 respectively.

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, 2014 and 2013, all the Authority's bank deposits, having a bank balance of \$59,698,117 and \$42,198,750, respectively, were held by financial institutions designated as Qualified Public Depositories by the Treasurer of the State of Florida. As such, these deposits were covered first by federal depository insurance and the balance covered by the State of Florida's Security for Public Deposits Act. All Qualified Public Depositories, as established by the Act, must place with the State Treasurer eligible collateral equal to or in excess of the required collateral determined by the provisions of the act. In the event of default by a qualified public depository, the State Treasurer will pay public deposits all losses. Losses in excess of insurance and collateral will be paid through assessments among all Qualified Public Depositories.

Notes to *Financial Statements (continued)*

September 30, 2014 and 2013

Note 3. Restricted Assets

Restricted assets as of September 2014 and 2013 consisted of the following.

	2014	2013
Current restricted assets:		
Debt service	\$ 2,135,241	\$ 2,454,004
Advances from other governments	17,744,420	9,914,491
Grant funds	1,296,050	1,296,050
Construction advances	-	3,369,112
	21,175,711	17,033,657
Noncurrent restricted cash	3,685,872	4,336,735
Total restricted assets	\$ 24,861,583	\$ 21,370,392

Construction Advances

The Authority had advanced construction funds to the Florida Department of Transportation (FDOT) of \$3,369,112 of September 30, 2013. These advances were used to fund the relocation and replacement of the Authority's transmission lines due to the construction of road improvements by FDOT. This project was completed in 2014. Unexpended funds of \$434,627 are shown as receivable from FDOT on the Authorities statement of net position at September 30, 2014.

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

Notes to *Financial Statements (continued)*

September 30, 2014 and 2013

Note 3. Restricted Assets, (continued)

The Authority's balances in the debt service account were \$2,135,241 and \$2,454,004 at September 30, 2014 and 2013, 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 \$3,685,872 and \$4,336,735 at September 30, 2014 and 2013 respectively.

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Notes to Financial Statements (continued)

September 30, 2014 and 2013

Note 4. Capital Assets

Capital asset activity for the fiscal years ended September 30, 2014 and 2013 was as follows:

	2013			2014			
	Balance 9/30/2012	Additions	Retirements	Balance 9/30/2013	Retirements	Balance 9/30/2014	
Capital assets not being depreciated:							
Land	\$ 8,285,154	\$ 1	\$ -	\$ 8,285,155	\$ -	\$ 8,285,155	
Construction work in progress	14,770,540	5,663,996	(7,743,952)	12,690,584	8,399,185	(14,620,632)	6,469,137
Total capital assets not being depreciated	23,055,694	5,663,997	(7,743,952)	20,975,739	8,399,185	(14,620,632)	14,754,292
Capital assets being depreciated:							
Buildings, structures & improvements	66,361,534	2,270,087	(19,500)	68,612,121	411,295	(375,361)	68,648,055
Equipment, vehicles, furniture & fixtures	13,112,465	1,025,615	(118,412)	14,019,668	1,158,987	(656,640)	14,522,015
Transmission system	101,972,602	-	-	101,972,602	3,663,066	-	105,635,668
Distribution system	107,901,699	4,224,508	(680,036)	111,446,171	9,485,366	(1,078,231)	119,853,306
Water meters	14,786,877	569,354	(229,134)	15,127,097	97,479	(17,138)	15,207,438
Water storage facilities	7,826,944	803,087	-	8,630,031	-	-	8,630,031
Pump station equipment	26,198,752	375,594	-	26,574,346	65,555	(370,333)	26,269,568
Water treatment equipment	38,907,291	132,494	-	39,039,785	443,551	(351,097)	39,132,239
Reverse osmosis equipment	37,658,101	-	-	37,658,101	635,932	-	38,294,033
Computer equipment	4,131,654	257,789	(104,482)	4,284,961	671,444	(17,793)	4,938,612
Wastewater treatment equipment	6,114,494	37,918	-	6,152,412	64,408	-	6,216,820
Collection system	9,406,143	-	-	9,406,143	29,893	-	9,436,036
Reclaimed water	2,670,696	2,372,921	-	5,043,617	78,297	-	5,121,914
Total assets being depreciated	437,049,252	12,069,367	(1,151,564)	447,967,055	16,805,273	(2,866,593)	461,905,735
Less accumulated depreciation:							
Buildings, structures & improvements	(20,186,203)	(2,188,265)	17,900	(22,356,568)	(2,261,411)	358,908	(24,259,071)
Equipment, vehicles, furniture & fixtures	(8,707,197)	(729,869)	115,880	(9,321,186)	(826,883)	652,139	(9,495,930)
Transmission system	(63,499,340)	(2,163,867)	-	(65,663,207)	(2,163,867)	-	(67,827,074)
Distribution system	(36,001,023)	(2,186,268)	680,036	(37,507,255)	(2,400,949)	1,078,231	(38,829,973)
Water meters	(5,033,163)	(1,520,679)	207,857	(6,345,985)	(1,371,867)	17,138	(7,700,714)
Water storage facilities	(4,117,088)	(168,177)	-	(4,285,265)	(157,552)	-	(4,442,817)
Pump station equipment	(10,612,625)	(1,224,758)	-	(11,837,383)	(1,171,906)	268,527	(12,740,762)
Water treatment equipment	(17,427,634)	(1,364,182)	-	(18,791,816)	(1,360,598)	346,385	(19,806,029)
Reverse osmosis equipment	(11,525,322)	(2,082,384)	-	(13,607,706)	(2,153,739)	-	(15,761,445)
Computer equipment	(3,399,140)	(286,670)	102,759	(3,583,051)	(258,931)	17,793	(3,824,189)
Wastewater treatment equipment	(1,284,851)	(338,401)	-	(1,623,252)	(338,163)	-	(1,961,415)
Collection system	(1,463,843)	(241,106)	-	(1,704,949)	(385,459)	-	(2,090,408)
Reclaimed water	(168,537)	(81,318)	-	(249,855)	(112,997)	-	(362,852)
Total accumulated depreciation	(183,425,966)	(14,575,944)	1,124,432	(196,877,478)	(14,964,322)	2,739,121	(209,102,679)
Total capital assets being depreciated, net	253,623,286	(2,506,577)	(27,132)	251,089,577	1,840,951	(127,472)	252,803,056
Total net capital assets	\$ 276,678,980	\$ 3,157,420	\$ (7,771,084)	\$ 272,065,316	\$ 10,240,136	\$ (14,748,104)	\$ 267,557,348

Notes to Financial Statements (continued)

September 30, 2014 and 2013

Note 5. Long-term Liabilities

Long- term liabilities activity for the fiscal years ended September 30, 2014 and 2013 were as follows:

	Beginning balance	2013		Ending balance	2014		Ending balance	Due within one year
		Additons	Deductions		Additons	Deductions		
Water revenue refunding bonds Series 2003	\$ 19,395,000	\$ -	\$ (19,395,000)	\$ -	\$ -	\$ -	\$ -	\$ -
Water revenue bonds Series 2007	51,470,000	-	(910,000)	50,560,000	-	(950,000)	49,610,000	990,000
Water revenue refunding bonds Series 2008	52,625,000	-	-	52,625,000	-	-	52,625,000	-
Wastewater revenue bonds Series 2012	5,635,000	-	-	5,635,000	-	(670,000)	4,965,000	-
Water revenue bonds Series 2013A	-	19,900,000	-	19,900,000	-	(2,320,000)	17,580,000	2,370,000
Water revenue bonds Series 2013B	-	-	-	-	7,700,000	(220,000)	7,480,000	285,000
Water revenue bonds Series 2014	-	-	-	-	2,670,000	(60,000)	2,610,000	100,000
Subtotal	129,125,000	19,900,000	(20,305,000)	128,720,000	10,370,000	(4,220,000)	134,870,000	3,745,000
From bond premium	951,021	-	951,021	-	-	-	-	-
Add unamortized Series 2007 bond premium	2,291,807	-	(91,979)	2,199,828	-	(91,979)	2,107,849	91,979
Total bonds payable	132,367,828	19,900,000	(19,445,958)	130,919,828	10,370,000	(4,311,979)	136,977,849	3,836,979
Derivative instrument - swap	15,574,936	-	(6,030,586)	9,544,350	1,123,822	-	10,668,172	-
Credit due to US Government	14,791,749	-	(663,361)	14,128,388	-	(696,675)	13,431,713	731,662
Compensated absences	2,275,761	2,469,910	(2,275,761)	2,469,910	2,681,654	(2,469,910)	2,681,654	-
Net OPEB obligation	1,323,068	252,503	-	1,575,571	360,863	-	1,936,434	-
Total long-term liabilities	\$ 166,333,342	\$ 22,622,413	\$ (28,415,666)	\$ 158,638,047	\$ 14,536,339	\$ (7,478,564)	\$ 165,695,822	\$ 4,568,641

Notes to *Financial Statements (continued)*

September 30, 2014 and 2013

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
2015	\$ 3,745,000	\$ 5,198,878	\$ 8,943,878	\$ 731,662	\$ 643,177	\$ 1,374,839
2016	4,155,000	5,211,324	9,366,324	768,406	606,433	1,374,839
2017	4,290,000	5,074,496	9,364,496	806,996	567,844	1,374,840
2018	4,410,000	4,956,415	9,366,415	847,523	527,316	1,374,839
2019	4,520,000	4,845,338	9,365,338	890,086	484,753	1,374,839
2020-2024	24,865,000	22,131,301	46,996,301	5,167,557	1,706,641	6,874,198
2025-2029	30,370,000	16,742,506	47,112,506	4,219,483	363,316	4,582,799
2030-2034	35,770,000	9,935,864	45,705,864	-	-	-
2035-2037	22,745,000	2,225,860	24,970,860	-	-	-
Totals	\$ 134,870,000	\$ 76,321,982	\$ 211,191,982	\$ 13,431,713	\$ 4,899,480	\$ 18,331,193

Water Revenue and Water 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%. These Series 2003 bonds were refunded in 2013 as further discussed in this note.

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 through 2037. The interest rates on the outstanding bonds range from 4.0% to 5.25%. The proceeds from these bonds were 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 as the bonds are remarketed (0.05% at September 30, 2014). Principal payments will be due annually on September 1 beginning in 2022 through 2037. 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.

In July 2013, the Authority privately placed \$19,990,000 Series 2013A water revenue refunding bonds with a bank at an interest rate of 1.64%. The proceeds from this issue were used to refund Series 2003 water revenue refunding bonds. Interest is payable on March 1 and September 1 and principal is payable annually on September 1 through 2021. The refunding resulted in cash flow savings over the remaining years of \$2,615,148. Economic gain on a net present value basis was \$2,598,008. The refunding also resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$78,602. This difference is reported in the accompanying financial statements as a deferred outflow of resources and is being amortized to interest expense over the life of the bonds.

Notes to *Financial Statements (continued)*

September 30, 2014 and 2013

Note 5. Long-term Liabilities (continued)

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

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

For the current year, debt service requirements for principal and interest and total pledged revenue to meet the 110% test were \$6,752,864 and \$13,291,914, 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 was payable on April 1 and October 1 and principal payable annually on October 1 of each year until these bonds were refunded as further discussed in this note.

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 was payable on April 1 and October 1 and principal payable annually on October 1 of each year until these bonds were refunded as further discussed in this note.

Notes to *Financial Statements (continued)*

September 30, 2014 and 2013

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%. Interest was payable on April 1 and October 1 and principal payable annually on October 1 of each year until these bonds were refunded as further discussed in this note.

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 and principal payable annually on October 1 of each year through 2030. The refunding resulted in cash flow savings over the remaining years of \$821,322. Economic gain on a net present value basis was \$508,554.

Wastewater revenue and wastewater revenue refunding bonds were issued under the Authority's Resolution No. 00-20 adopted October 18, 2000 and Resolution No. 01-25 adopted September 19, 2001. The payment of the principal and interest on these bonds is collateralized by a pledge of and lien upon the net revenues derived from the operation of the Authority's wastewater utility and other monies including investments held in certain accounts established by the bond resolution. Under the bond resolution, the Authority will fix, establish, maintain and collect the wastewater rates and revise the same from time to time, whenever necessary, that will always provide in each fiscal year, (a) net revenues adequate at all times to pay in each fiscal year at least one hundred ten percent (110%) of the annual debt service requirement becoming due in such fiscal year on each series of outstanding bonds or (b) net revenues, together with impact fees collected, adequate to pay at least one hundred twenty percent (120%) of the current annual debt service requirement becoming due in such fiscal year on the outstanding bonds. The rates will not be reduced to a level that would be insufficient to provide net revenues fully adequate for the purposes provided by the bond resolution.

For the current year, debt service requirements for principal and interest and total pledged revenue to meet the 120% test were \$491,580 and \$1,302,041, respectively.

Interest Rate Swaps

At September 30, 2014, the Authority was a party to a synthetic fixed rate swap agreement as described above. The following are disclosures of pertinent aspects of this agreement. The synthetic fixed rate swap was determined to be an effective hedge and therefore follows hedge accounting where the transaction is strictly a statement of net position transaction. Since the fair value was in a negative position, the swap is recorded as a derivative liability with a corresponding deferred outflow of resources which represent the accumulated change in fair value of the swap.

Objective

In connection with the Florida Keys Aqueduct Authority Series 2006 water revenue and revenue refunding bonds, issued in April 2006 as variable rate securities bearing interest at a weekly interest rate, the Authority simultaneously executed a floating-to-fixed interest rate swap (swap) to lock in a synthetic fixed 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).

Notes to *Financial Statements (continued)*

September 30, 2014 and 2013

Note 5. Long-term Liabilities (continued)

Terms

The Authority executed the swap with Citigroup Financial Products, Inc. (Citi) in April 2006 with an expiration date of September 1, 2035. In April 2012, Citi was replaced as counterparty by the Bank of New York Mellon (counterparty). This transaction did not terminate the hedge accounting for this swap as a result in the change of the counterparty. The swap has a notional amount of \$49.7 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, 2014 and 2013, the rates for the variable rate bonds and swap were as follows:

		Rates	
		2014	2013
Interest Rate Swap:			
Fixed payment to counterparty	Fixed	3.8320%	3.8320%
Variable payment from counterparty	LIBOR	0.3487%	0.3604%
Net interest rate swap payments		3.4833%	3.4716%
Series 2008 Variable Rate Bond Payments	Weekly Variable Rate	0.0600%	0.0700%
Remarketing liquidity and letter of credit fees		0.7200%	0.7200%
Synthetic interest rate on bonds		4.2633%	4.2616%

Fair Value

As of September 30, 2014 and 2013, the swap had a negative fair value of \$10,668,172 and \$9,544,350 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

Notes to *Financial Statements (continued)*

September 30, 2014 and 2013

Note 5. Long-term Liabilities (continued)

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, 2014 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
2015-2019	\$ -	\$ 2,052,375	\$ 8,656,001	\$ 10,708,376
2020-2024	8,695,000	1,986,894	8,370,370	19,052,264
2025-2029	17,335,000	1,454,583	6,072,785	24,862,368
2030-2034	21,660,000	714,168	2,948,788	25,322,956
2035	4,935,000	38,493	157,619	5,131,112
	\$ 52,625,000	\$ 6,246,513	\$ 26,205,563	\$ 85,077,076

Credit Risk

As of September 30, 2014 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, 2014, the counterparty was rated Aa2 and AA- by Moody's Investors Service and Standard & Poor's respectively.

Termination Risk

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

Basis Risk

The swap exposes the Authority to basis risk should the relationship between LIBOR and the remarketing rate on the 2008 bonds converge, changing the overall synthetic fixed rate on the Series 2008 bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic fixed rate (4.552%) and the overall synthetic fixed rate as of September 30, 2014 (4.2633%). 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.

Notes to *Financial Statements (continued)*

September 30, 2014 and 2013

Note 6. Rates for Service (continued)

The base facility charge for standard 5/8” meter customers for the years ended September 30, 2014 and 2013 was \$13.57 and \$13.43, respectively. The consumption blocks and related rates in effect at September 30, 2014 and 2013 were as follows:

	Gallons	Rate per 1,000 gallons	
		2014	2013
Block 1	0-6,000	\$ 5.70	\$ 5.64
Block 2	6,001-12,000	8.32	8.24
Block 3	12,001-30,000	9.33	9.23
Block 4	30,001-50,000	10.41	10.30
Block 5	>50,000	11.42	11.30

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

The Authority has contractual agreements with the City of Key West for their municipal water use and with the United States Navy that define water rates for those entities. Municipal facilities in the City of Key West pay \$4.34 per thousand gallons for all water used and pays the same base facility charge as other customers. The United States Navy pays the same base charges as other customers, but pays a flow charge of \$3.56 per thousand gallons for all water used.

Wastewater

The Authority provides wastewater service to a number of different districts. The rate structure is similar to the water rate structure, with each district having a base facility charge and a flow charge. The flow charge is based on water flows. Flows are capped at 10,000 gallons for wastewater billing purposes for single-family dwelling customers. The base facility charge for years 2014 and 2013 was \$27.33 and \$27.05 respectively. The rates for single-family, 5/8” water metered customer are as follows:

	2014	2013
Rate per 1,000 gallons	\$ 10.35	\$ 10.24

Reclaimed water

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

Notes to *Financial Statements (continued)*

September 30, 2014 and 2013

Note 7. Other Operating Revenue

Other operating revenue consisted of the following at September 30, 2014 and 2013

		2014		2013
Penalty charges	\$	754,792	\$	1,205,115
Service and installation charges		750,621		687,965
Hydrant rental fees		50,125		46,850
Front footage fees		79,055		61,644
Navy water system operations charge		2,461,416		2,430,048
Total	\$	4,096,009	\$	4,431,622

Note 8. Risk Retention

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority carries commercial insurance for risks of loss. The Authority retains a certain level of risk relating to employee health insurance. A cash reserve account of \$1,621,178 is set aside to pay employee health claims. The Authority has an insurance policy that covers individual claims in excess of \$100,000. Based on the duration period of claims, management determined that any incurred but not reported (IBNR) claims are immaterial.

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 six open claims at September 30, 2014 covered by insurance. In addition, a contingency reserve has been established to cover uninsured losses.

As of September 30, 2014, 2013 and 2012 the total liabilities on pending claims were as follows:

	2014	2013	2012
Claims payable, beginning of year	\$ 377,189	\$ 495,771	\$ 355,045
Incurred claims	3,396,730	2,438,924	2,602,956
Payments on claims	(3,186,447)	(2,557,506)	(2,462,230)
Claims payable, end of year	\$ 587,472	\$ 377,189	\$ 495,771

Note 9. Commitments and Contingencies

Construction commitments

The Authority had contractual commitments of \$101,069,447 at September 30, 2014 for design and construction of capital projects and general contractual commitments. Of that amount, \$91,238,097 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, 2014, the Authority was operating only one system under this agreement,

Notes to *Financial Statements (continued)*

September 30, 2014 and 2013

Note 9. Commitments and Contingencies (continued)

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, 2017. The following is a summary of the minimum rental costs for the remaining terms of the leases:

Year Ended September 30th

2015	\$	18,665
2016		2,777
2017		1,215

Rent expense for the year ended September 30, 2014 and 2013 was \$18,518 and \$14,540 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.

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, 2013 annual report (the latest available

Notes to *Financial Statements (continued)*4

September 30, 2014 and 2013

Note 10. Retirement Plan (continued)

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 2014 for employers in 2014, 2013 and 2012 expressed as a percentage of covered payroll for regular employees were 7.37%, 6.95%, and 5.18%, respectively. The contribution rates for senior management employees for the same periods were 21.14%, 18.31%, and 6.30% respectively. The contribution rates for employees enrolled in the DROP Program for the same periods were 12.28%, 12.84%, and 4.42% respectively. The contribution rates for retirees reemployed after July 1, 2010 who are not eligible for retirement coverage were 3.80%, 3.39% and 1.60% in 2014, 2013 and 2012 respectively. These percentages include 1.26% for a monthly health insurance subsidy for retirees. Contributions made by the Authority to FRS were \$1,580,977, \$1,111,318, and \$866,598 in 2014, 2013 and 2012, 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.

Funding Policy and Annual OPEB Cost

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

The annual OPEB cost is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The required contribution rate for the employer is based on actual costs (pay as you go). The plan members are not required to contribute.

Notes to Financial Statements (continued)

September 30, 2014 and 2013

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

The annual OPEB cost for the Authority for 2014 and 2013 and the related information is as follows:

	2014	2013
Annual Required Contribution (ARC)	\$ 496,888	\$ 487,637
Interest on net OPEB obligation (NOO)	71,088	59,538
Adjustment to ARC	(58,940)	(49,363)
Annual OPEB Cost	509,036	497,812
Employer Contribution	(148,173)	(245,309)
Increase in NOO	360,863	252,503
NOO (beginning of year)	1,575,571	1,323,068
NOO (end of year)	\$ 1,936,434	\$ 1,575,571

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014 was:

Fiscal Year Ending	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
September 30, 2014	\$ 509,036	\$ 148,173	29.11%	\$ 1,936,434
September 30, 2013	\$ 497,812	\$ 245,309	49.28%	\$ 1,575,571
September 30, 2012	\$ 655,502	\$ 257,420	39.27%	\$ 1,323,068

Funded status and funding progress

The funded status of the plan as of October 1, 2012 and 2010 actuarial valuations 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, 2012	\$ -	\$ 8,282,627	\$ 8,282,627	0.00%	\$ 16,793,230	49.3%
October 1, 2010	\$ -	\$ 10,097,825	\$ 10,097,825	0.00%	\$ 15,648,927	64.5%

Notes to *Financial Statements (continued)*

September 30, 2014 and 2013

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

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

Actuarial methods and assumptions

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

Contribution rate	4.0%
Actuarial valuation date	10/01/12
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*

September 30, 2014 and 2013

Schedule of Funding Progress-OPEB

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

STATISTICAL *SECTION*

Financial Trends

Rates and Revenues

Debt

Demographic and Economic Information

Operating Information



STATISTICAL SECTION

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Statistical Section *Summary*

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

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the Aqueduct's financial performance and well-being have changed over time. 53

Rates and Revenues

These schedules contain trend information to help the reader assess the Authority's ability to generate revenue through user fees. 55

Debt

These schedules present information which helps the reader assess the affordability of the Authority's current levels of outstanding debt. 58

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. 60

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. 66

Financial Trends

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenue:										
Operating revenue	\$ 48,562	\$ 46,668	\$ 44,739	\$ 45,961	\$ 42,837	\$ 41,829	\$ 41,432	\$ 38,123	\$ 37,837	\$ 36,134
Water surcharge	-	-	-	-	-	-	-	955	-	-
Other operating revenue	4,096	4,432	4,092	3,705	4,408	3,597	2,568	1,085	1,212	1,139
Less abatements and billing corrections	(333)	(431)	(414)	(404)	(437)	(510)	(274)	(187)	(351)	(184)
Net operating revenue	52,325	50,669	48,417	49,262	46,808	44,916	43,726	39,976	38,698	37,089
Operating expenses:										
Source of supply	622	507	695	678	644	669	688	846	1,142	807
Water treatment	3,617	3,450	3,329	2,959	2,828	3,015	2,822	2,415	2,131	1,975
Transmission & distribution	11,647	11,316	11,189	11,535	12,028	12,760	14,127	12,839	11,755	12,373
Wastewater treatment	859	878	834	713	565	499	952	955	832	364
Wastewater collection	1,159	1,090	1,071	991	969	906	767	572	336	99
Customer accounts	4,262	3,924	4,083	4,103	4,223	4,692	5,332	5,420	5,432	5,576
General & Administrative	15,862	12,981	12,801	12,581	12,723	12,433	11,523	10,177	10,452	5,476
Depreciation	14,964	14,576	14,386	14,443	12,401	12,178	10,602	8,645	7,426	7,106
Total operating expenses	52,992	48,722	48,388	48,003	46,381	47,152	46,813	41,869	39,506	33,776
Utility operating income	(667)	1,947	29	1,259	427	(2,236)	(3,087)	(1,893)	(808)	3,313
Non-Operating revenue (expenses)										
Interest income	319	346	357	369	449	1,075	2,959	2,944	2,160	1,056
Investment income	-	-	-	(757)	4,056	1,092	174	-	-	-
Other income (reimbursements)	556	722	326	376	57	192	274	107	687	490
Grants & reimbursements from federal & state agencies	-	-	8	8	30	20	32	(110)	1,062	180
Gain(Loss) on disposal of plant assets & inventory	(148)	57	50	(63)	(56)	(58)	261	(316)	(531)	(108)
Interest expense	(5,682)	(6,053)	(5,959)	(5,661)	(5,643)	(5,755)	(7,178)	(3,513)	(2,789)	(1,773)
Amortization	-	-	-	-	(388)	(30)	(28)	(80)	(36)	(33)
Other expenses	(354)	(616)	(519)	(442)	(48)	(299)	(116)	(31)	-	-
Total non-operating revenue	(5,309)	(5,544)	(5,737)	(6,170)	(1,543)	(3,763)	(3,622)	(999)	553	(188)
Net income (Loss)	(5,976)	(3,597)	(5,708)	(4,911)	(1,116)	(5,999)	(6,709)	(2,892)	(255)	3,125
Capital grants and contributions	1,540	1,666	1,364	1,371	4,829	(8,228)	11,085	4,079	5,245	10,049
Change in net position	(4,436)	(1,931)	(4,344)	(3,540)	3,713	(14,227)	4,376	1,187	4,990	13,174
Net position, beginning of year	160,509	162,440	166,784	173,226	169,513	183,740	179,364	178,177	173,187	160,013
Adjustment for restatement				(2,902)						
Net position, end of year	\$ 156,073	\$ 160,509	\$ 162,440	\$ 166,784	\$ 173,226	\$ 169,513	\$ 183,740	\$ 179,364	\$ 178,177	\$ 173,187

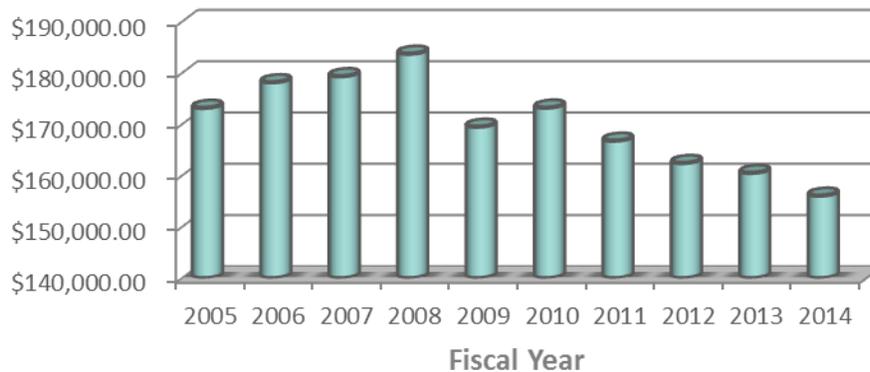
Financial Trends, Continued

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Net investment in capital assets	\$ 136,145	\$ 136,638	\$ 130,549	\$ 127,586	\$ 126,277	\$ 123,401	\$ 141,894	\$ 145,556	\$ 138,724	\$ 143,315
Restricted										
Debt service	1,882	1,982	4,156	4,271	4,295	4,171	3,877	194	489	422
Capital projects	6,384	4,779	7,477	6,766	6,502	7,950	7,740	14,837	14,001	13,341
Other purposes	-	-	320	-	-	-	-	-	-	18
Unrestricted	11,661	17,110	19,938	28,161	36,152	33,991	30,229	18,777	24,963	16,091
Total net position	\$ 156,072	\$ 160,509	\$ 162,440	\$ 166,784	\$ 173,226	\$ 169,513	\$ 183,740	\$ 179,364	\$ 178,177	\$ 173,187

Net Investment in Capital Assets

(in thousands)



(per thousand gallons used)

Rates and *Revenues*

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

Fiscal Year	Base Charge	0-6,000 gallons	6,001-12,000 gallons	12,001-30,000 gallons	30,001-50,000 gallons	>50,000 gallons
2014	\$ 13.57	\$ 5.70	\$ 8.32	\$ 9.33	\$ 10.41	\$ 11.42
2013	13.43	5.64	8.24	9.23	10.30	11.30
2012	13.27	5.57	8.14	9.12	10.17	11.16
2011	13.04	5.47	8.00	8.96	9.99	10.97
2010	12.92	5.42	7.93	8.88	9.90	10.87
2009	12.86	5.39	7.89	8.84	9.85	10.82
2008	11.97	5.02	7.34	8.23	9.17	10.08
2007	11.17	4.69	6.85	7.68	8.55	9.40
2006	10.37	4.35	6.36	7.13	7.93	8.72
2005	10.16	4.26	6.23	6.99	7.77	8.55

Wastewater Rates
Last Ten Fiscal Years*

Fiscal Year	Base Charge	0-10,000 gallons
2014	27.33	10.35
2013	27.05	10.24
2012	26.72	10.11
2011	26.26 - 49.42	7.71 - 9.94
2010	26.02 - 48.96	7.64 - 9.85
2009	25.90 - 48.73	7.60 - 9.80
2008	34.99 - 47.65	7.21 - 8.95
2007	26.37 - 35.91	5.43 - 7.31
2006	25.70 - 35.00	5.29 - 7.13
2005	25.19 - 34.31	5.19 - 5.35

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

Reclaimed Rates

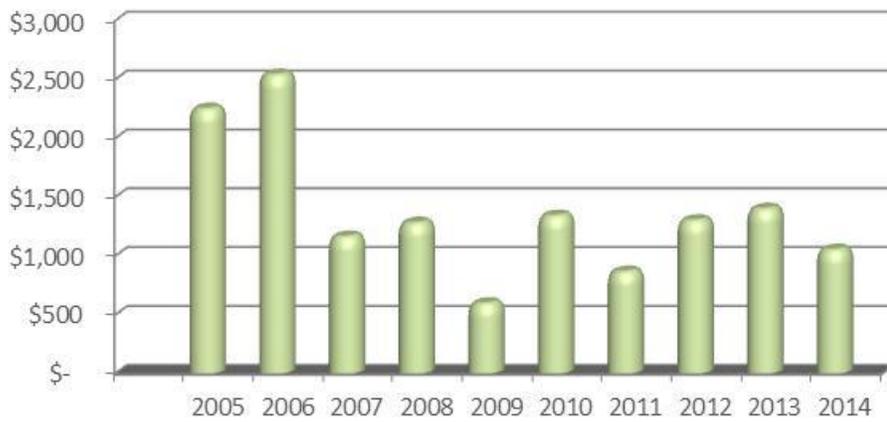
Reclaimed water consumption charge-Per thousand gallons, billed in 100 gallon increments at 50% of each potable rate block. Adopted May 27, 2010

Rates and Revenues, Continued

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

Fiscal Year	System Development Fees Collected
2014	\$ 1,052
2013	1,400
2012	1,302
2011	866
2010	1,341
2009	597
2008	1,281
2007	1,164
2006	2,540
2005	2,250

System Development Fees
(in thousands)



Rates and Revenues, Continued

Ten Largest Customers
Fiscal Years Ended September 30, 2014 and 2005

2014		Total Gallons Consumed (000)	Total Water Revenues	% of Water Revenues
1	United States Navy	295,578	\$ 1,048,332	3.0%
2	Monroe County Detention Center	49,267	490,966	1.4%
3	Board of Public Instruction	41,168	362,539	1.0%
4	Heartland Hotel	34,440	332,752	1.0%
5	Keys Hotel Operator Inc.	27,239	279,221	0.8%
6	Ocean Reef Club Inc.	31,118	273,464	0.8%
7	NWLC LLC dba Cheeca Lodge and Spa	58,266	234,754	0.7%
8	KW Beach Suites LTD PA	21,540	228,944	0.7%
9	Resort Hotels of Key Largo	18,631	202,123	0.6%
10	City of Key West	30,099	201,306	0.6%

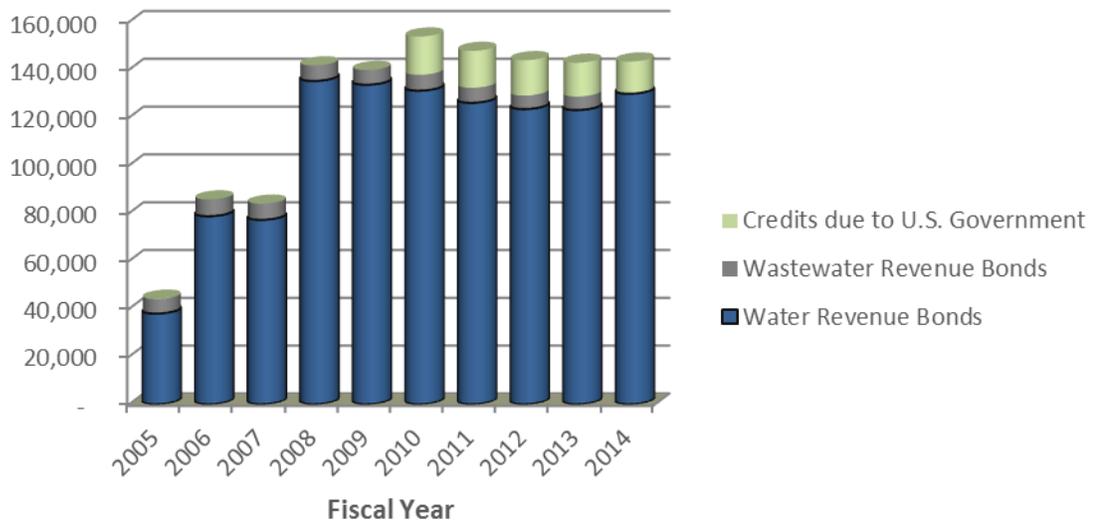
2005		Total Gallons Consumed (000)	Total Water Revenues	% of Water Revenues
1	United States Navy	320,708	\$ 857,104	2.4%
2	Board of County Commissioners	59,584	453,641	1.3%
3	Monroe County Board of Public Instruction	39,177	266,308	0.8%
4	NWLC LLC dba Cheeca Lodge and Spa	34,709	278,022	0.8%
5	City of Key West	31,179	105,892	0.3%
6	CHL Partnership	30,024	222,584	0.6%
7	Ocean Reef Club	29,898	209,656	0.6%
8	Heartland Hotel	28,667	214,113	0.6%
9	Sheraton Suites KW	27,650	221,284	0.6%
10	Hawks Cay Investors	25,009	189,153	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
2014	\$ 129,905	\$ 4,965	\$ 13,432	\$ 148,302	3.02
2013	123,085	5,635	14,128	142,848	2.93
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

Principal Portion of Outstanding Debt



Debt, *Continued*

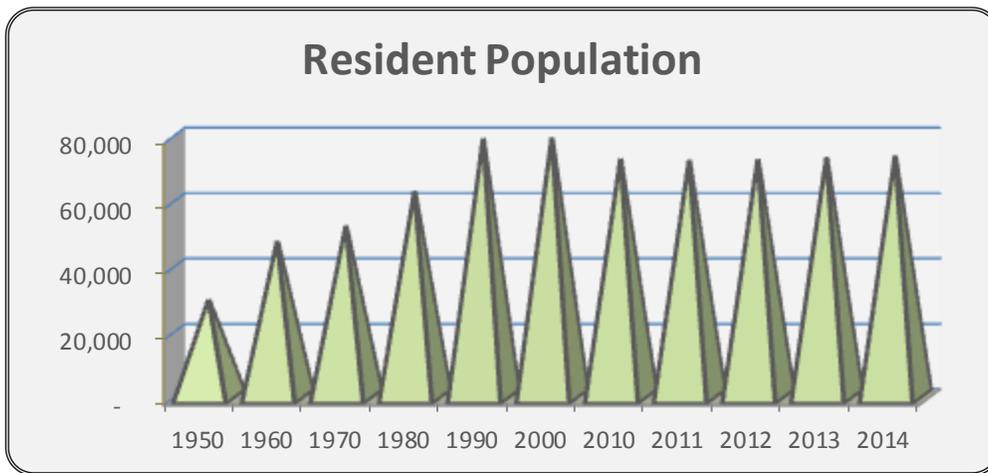
Revenue Bond Coverage
Last Ten Fiscal Years
(in thousands)

Fiscal Year	Gross Revenues (1)	Operating Expenses (2)	Revenue Available for Debt Service	Debt Service Requirements	Coverage
Water					
2014	\$ 49,635	\$ 36,343	\$ 13,292	\$ 6,753	1.97
2013	48,759	32,610	16,149	8,082	2.00
2012	46,780	32,512	14,268	8,263	1.73
2011	48,164	32,259	15,905	8,293	1.92
2010	46,335	32,573	13,762	8,307	1.66
2009	46,162	34,080	12,082	7,798	1.55
2008	45,740	35,060	10,680	7,736	1.38
2007	41,447	31,875	9,572	4,534	2.11
2006	38,427	30,891	7,536	3,706	2.03
2005	37,037	25,554	11,483	3,354	3.42
Wastewater (3)					
2014	\$ 2,987	\$ 2,018	\$ 1,302	\$ 492	2.65
2013	3,021	1,967	1,054	607	1.74
2012	2,737	1,905	832	621	1.34
2011	3,047	1,704	1,343	628	2.14
2010	2,455	1,497	958	478	2.00
2009	1,642	1,368	274	221	1.24
2008	1,999	1,425	574	477	1.20
2007	2,141	1,537	604	475	1.27
2006	1,764	1,539	225	268	0.84
2005			No debt service requirements		

Demographic and *Economic Information*

Population of Monroe County, Florida
Selected Years 1950-2014

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



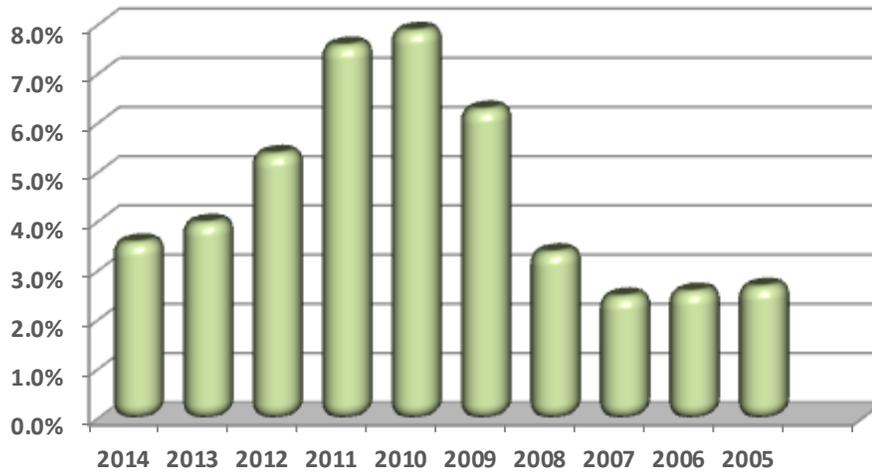
Source: University of Florida, Bureau of Economic and Business Research (BEBR)

Demographic and *Economic Information, Continued*

Employment Statistics 2005-2014

	Labor Force	Employment	Unemployment	Unemployment Rate
2014	50,044	48,231	1,813	3.6%
2013	49,103	47,137	1,966	4.0%
2012	47,658	45,091	2,567	5.4%
2011	49,662	46,178	3,484	7.6%
2010	44,491	40,990	3,502	7.9%
2009	45,833	42,954	2,880	6.3%
2008	46,511	44,916	1,595	3.4%
2007	44,045	42,933	1,112	2.5%
2006	44,271	43,143	1,128	2.6%
2005	45,366	44,139	1,227	2.7%

Local Unemployment



Demographic and *Economic Information, Continued*

Principal Employers

Fiscal Years Ended September 30, 2014 and 2007

Employer	2014 Employees
US Armed Forces (includes civilians support and Contractors)	2,664
Monroe County Schools	993
Ocean Reef Club (500 to 600 year round)	816
Monroe County Sheriff's Office	595
Monroe County Government	522
Community Health Care Center	450
Publix	435
City of Key West	424
Hawk's Cay Resort	375
Casa Marina/Reach Resort	340

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

source-Key West Chamber of Commerce

note-Data prior to 2007 is not available

Information prior to 2007 unavailable

Demographic and *Economic Information, Continued*

Schedule of Customer Accounts
Last Ten Fiscal Years

	Residential	Non Residential	U.S. Navy	City of Key West Government	Cruise Ships Through the Outer Mole	Senior Citizens	Total
2014	42,753	4,912	18	53	4	1,346	49,086
2013	42,258	4,835	19	55	4	1,545	48,716
2012	42,401	4,753	21	76	4	1,408	48,663
2011	40,884	4,291	18	75	-	1,255	46,523
2010	40,911	4,183	20	36	-	948	46,098
2009	40,150	4,059	20	41	-	808	45,078
2008	40,644	4,017	20	43	-	693	45,417
2007	40,955	4,142	20	77	-	670	45,864
2006	41,138	4,108	19	76	-	606	45,947
2005	40,694	4,063	19	76	-	601	45,453

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
2014	21,893	10,237	16,956	49,086
2013	21,789	10,124	16,803	48,716
2012	21,830	10,117	16,716	48,663
2011	20,823	9,638	16,062	46,523
2010	20,698	9,514	15,886	46,098
2009	20,007	9,373	15,698	45,078
2008	20,250	9,417	15,750	45,417
2007	20,499	9,561	15,804	45,864
2006	20,647	9,541	15,759	45,947
2005	20,415	9,397	15,641	45,453

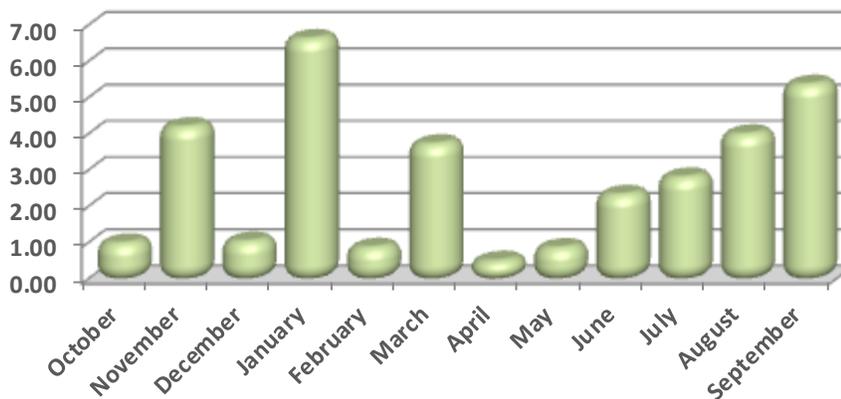
Demographic and *Economic Information, Continued*

Monthly Rainfall
 Fiscal Year Ended September 30, 2014
 (in inches)

	Average-Key West International Airport	Actual-Key West International Airport	Average-Miami International Airport	Actual-Miami International Airport
October	5.52	1.04	7.26	6.87
November	2.29	4.25	3.05	5.73
December	1.82	1.09	1.83	4.67
January	1.84	6.68	1.94	1.91
February	1.64	0.92	2.01	1.16
March	1.54	3.78	2.46	2.61
April	1.75	0.56	3.45	1.18
May	3.22	0.91	6.41	3.29
June	4.39	2.38	8.74	19.62
July	3.66	2.86	6.44	10.29
August	4.77	4.05	7.44	9.07
September	6.52	5.42	8.93	7.25
Totals	38.96	33.94	59.96	73.65

Source: Southeast Regional Climate Center

Actual Monthly Rainfall Key West
 (in inches)



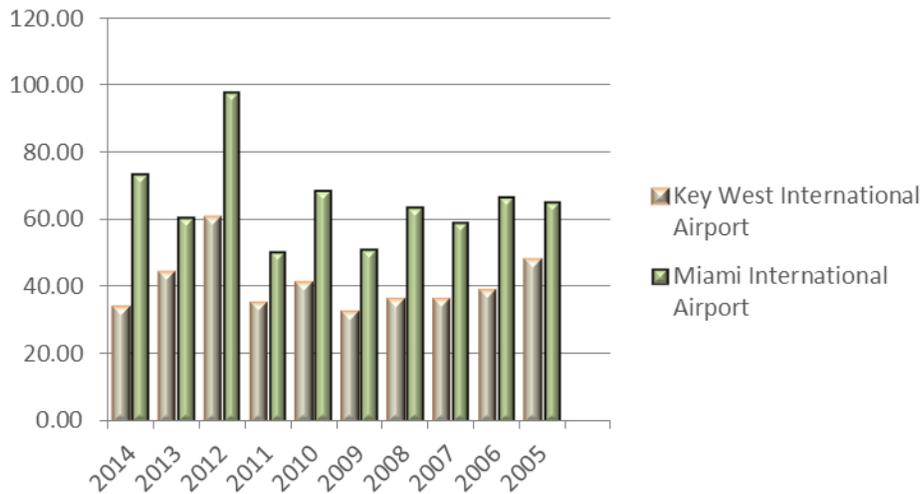
Demographic and *Economic Information, Continued*

Annual Rainfall
Last 10 Fiscal Years
(in inches)

Year	Key West International Airport	Miami International Airport
2014	33.94	73.65
2013	44.43	60.58
2012	60.58	97.87
2011	35.07	50.56
2010	41.47	68.56
2009	32.40	51.14
2008	36.52	63.59
2007	36.54	59.27
2006	39.19	66.97
2005	48.04	65.42

Key West and Miami Annual Rainfall

(in inches)



Operating Information

Operating and Capital Indicators
Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Water										
Water treatment plant permitted capacity	23.79 mgd									
Reverse osmosis permitted capacity	9 mgd	3 mgd	3 mgd	3 mgd	3 mgd					
Miles of transmission main	187	187	187	187	187	187	187	187	187	187
Miles of distribution main	690	690	690	690	690	690	690	650	650	650
Number of pumping stations	26	25	25	25	25	25	25	19	19	19
Water storage capacity	49.4	49.4	49.4 mg	45 mg	45 mg	45 mg				
Wastewater										
Number of wastewater treatment plants	5	5	5	5	5	5	4	4	4	1
Combined permitted plant capacities	.92 mgd	.92 mgd	.83 mgd	.83 mgd	.83 mgd	.5 mgd	.5 mgd	.5 mgd	.5 mgd	16 mgd
Approximate miles of wastewater collection lines	49	49	49	49	49	44	19	19	19	11
Approximate feet of reclaimed water lines	14.32	14.32	3.47	1.90	1.90	1.90	-	-	-	-

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

Operating Information, Continued

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Water Available for Sale										
Biscayne Aquifer	6,079,842	5,889,923	5,874,860	5,764,178	5,591,692	5,862,527	5,906,816	5,818,327	6,242,867	6,399,058
Floridan Aquifer	147,863	213,680	123,896	560,597	253,278	13,156	51,067	75,077	106,050	92,801
Desalinated sea water	-	-	-	-	-	72,614	-	506	33,560	-
Less water lost in production**	70,146	6,123	-	-	-	-	(1,000)	(89,949)	(80,762)	(141,539)
Total Water Available for Sale	6,297,851	6,109,726	5,998,756	6,324,775	5,844,970	5,948,297	5,956,883	5,803,961	6,301,715	6,350,320
Water Sales:										
Residential	2,686,055	2,689,390	2,735,438	2,802,000	2,722,904	2,744,956	2,846,368	2,901,719	3,172,931	2,983,898
non-residential	1,826,920	1,770,246	1,686,189	1,709,284	1,675,373	1,665,133	1,663,846	1,728,763	1,840,531	1,886,640
U.S. Navy	273,266	273,584	290,151	274,047	239,671	242,906	291,323	304,343	326,372	320,708
City of Key West	16,844	20,481	25,055	23,328	20,602	19,849	24,604	28,225	28,391	33,862
Cruise ship through Outer Mole	2,109	1,292	1,332	1,363	-	-	-	-	-	-
Senior Citizens	54,982	58,477	54,312	48,772	41,259	36,166	37,452	27,141	27,448	26,323
Total Water Sold	4,860,176	4,813,470	4,792,477	4,858,794	4,699,809	4,709,010	4,863,593	4,990,191	5,395,673	5,251,431
Other accounted for water*	228,813	336,096	268,283	889,391	568,266	674,231	746,552	398,484	314,366	155,309
Total Accounted for Water	5,088,989	5,149,566	5,060,760	5,748,185	5,268,075	5,383,241	5,610,145	5,388,675	5,710,039	5,406,740
Unaccounted for water	1,208,862	960,160	937,996	576,590	576,895	565,056	346,738	595,184	591,676	943,580
Unaccounted for water as a percentage of total water production	19.2%	15.7%	15.6%	9.1%	9.9%	9.5%	5.8%	10.3%	9.4%	14.9%
Average daily water production (million gallons/day)	17.25	16.74	16.43	17.33	16.01	16.30	16.30	15.90	17.30	17.40
Average daily water sales (million gallons/day)	13.32	13.19	13.13	13.31	12.88	12.90	13.30	13.70	14.80	14.40

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

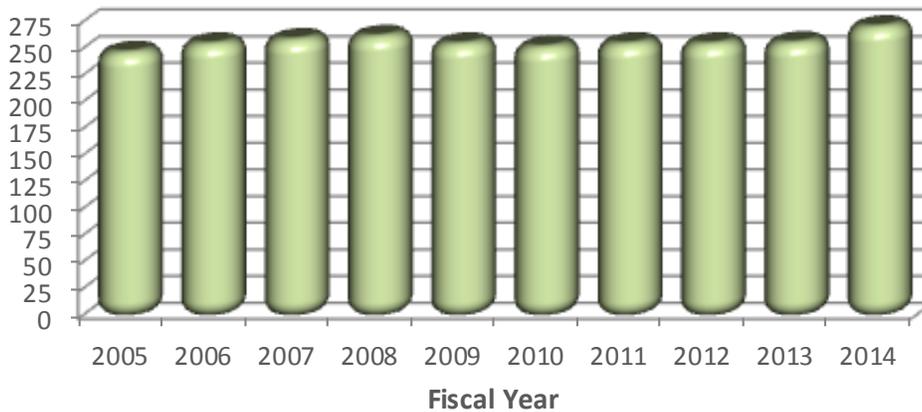
**This is the difference between sum of the individual supply wells and the total water measured leaving the WTP

Operating Information, Continued

Number of Employees by Activity
Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Water:										
Production	25	25	25	25	25	25	27	26	27	27
Transmission and distribution	83	82	82	81	81	80	85	86	80	80
Wastewater:										
Treatment	13	9	8	6	6	7	3	2	3	1
Collection	8	4	5	6	6	6	7	7	2	2
Engineering and Construction:										
Engineering	27	25	25	26	26	26	27	26	25	25
Construction	9	9	9	10	9	9	9	8	10	10
Administration:										
Customer service	43	42	43	43	44	46	55	56	59	65
Finance, accounting and purchasing	24	24	25	25	25	25	22	24	24	14
Information Technology	26	22	22	21	20	19	14	12	11	10
Other administrative personnel	15	16	13	12	12	14	15	14	16	15
Totals	273	258	257	255	254	257	264	261	257	249

Number of Employees



Operating Information, Continued

Additions to the Utility Plant by Class
Last Ten Fiscal Years

(in thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Land	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 250	\$ -	\$ -	\$ 570	\$ -
Building, structures and improvements	411	2,270	296	1,008	9,960	7,646	7,065	7,902	2,190	2,367
Equipment, vehicles, furniture and fixtures	1,159	1,026	1,025	664	585	717	1,407	2,065	1,583	563
Transmission system	3,663	-	178	1,146	8,640	-	4,069	-	34	-
Distribution systems	9,485	4,224	4,240	3,351	5,579	2,494	2,051	356	5,050	277
Water meters	97	569	2,335	1,998	1,999	2,636	1,295	3,989	34	189
Water storage facilities	-	803	-	-	-	-	-	-	-	6
Pumping stations	66	376	89	7	1,805	51	7,113	1,321	2,095	344
Water treatment facilities	444	132	23	393	204	6,254	14,713	44	331	45
Reverse osmosis equipment	636	-	-	-	22,878	-	2,205	2,547	-	643
Computer equipment	671	258	280	309	139	265	556	870	683	147
Wastewater treatment equipment	64	38	23	1,965	12	838	3	79	3,201	2
Collection system	30	-	-	-	6	320	-	182	8,898	2,345
Reclaimed system	78	2,373	-	411	1,820	-	439	-	-	-
	\$ 16,804	\$ 12,069	\$ 8,489	\$ 11,252	\$ 53,627	\$ 21,471	\$ 40,916	\$ 19,355	\$ 24,669	\$ 6,928

Operating Information, Continued

Schedule of Insurance in Effect
September 30, 2014

Type of Coverage	Carrier/Policy Number	Coverage Amount	Deductible Self-retention	Effective Date	Expiration Date
Liability package General liability	FMIT #0178	\$3,000,000 OCC	\$75,000 Stop Loss \$25,000	10/1/2013	9/30/2014
Automobile liability		\$3,000,000 OCC	\$25,000 Comp., \$1,000 PD, \$1,000 PIP		
Public officials liability		\$3,000,000 OCC	\$25,000		
Crime	Travelers / #105590021	\$500,000	\$25,000	3/31/2014	3/31/2016
Property w/boiler and machinery	Westport-203907 30% Ace American Insurance STA 08440 / 70%	\$128,194,820	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	3/31/2014	3/31/2015
Flood building/contents	Bankers NFIP Various		varies \$1,000 building \$1,000 contents	12/7/2013 4/27/2014 5/6/2014 6/28/2014	12/7/2014 4/27/2015 5/7/2015 6/28/2015
Worker's compensation	Florida Municipal Self Insurers FMIT 0178	Statutory	\$2,500/each injury	10/1/2013	10/1/2014
Pollution & Environmental coverage	Ironshore Speialty / 1873800	10,000,000 aggregate pollution 1,000,000 aggregate storage tank	\$10,000 25,000 Navy	12/23/2013	12/23/2016
Board members bonding	Fidelity & Deposit Various		\$10,000 per member	12/6/2012 8/15/2011	12/31/2016 12/31/2014
Fiduciary Insurance	Travellers / 106065534	\$1,000,000	No deductible	3/1/2014	3/1/2015

Operating Information, Continued

Drinking Water Quality Standards & Analyses 2014

Primary Drinking Water Standards

Inorganic Contaminants	MCL* mg/l*	2014 Finished Water mg/l*
Antimony	0 . 006	ND*
Arsenic	0 . 050	ND*
Asbestos	7 MFL	ND*
Barium	2 . 000	0.009
Beryllium	0 . 004	ND*
Cadmium	0 . 005	ND*
Chromium	0 . 100	ND*
Cyanide	0 . 200	0.011
Fluoride***	4 . 000	0.87
Lead	0 . 015	ND*
Mercury	0 . 002	ND*
Nickel	0 . 100	ND*
Nitrate (as N)	10 . 000	3.32
Nitrite (as N)	1 . 000	ND*
Total Nitrate (as N) & Nitrite	10 . 000	3.32
Selenium	0 . 050	ND*
Sodium	160 . 000	18.3
Thallium	0 . 002	ND*

Turbidity Level	MCL* NTU*	2014 Finished Water NTU*
	1 . 0	0.05

Disinfectant By-Products	MCL* mg/l*	2014 Distribution Water mg/l*
Trihalomethanes	0 . 080	0.027

Disinfectant By-Products	MCL* mg/l*	2014 Distribution Water mg/l*
Haloacetic Acids	0 . 060	0.014

Volatile Organic Contaminants	MCL* mg/l*	2014 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*	2014 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 orepoxyde	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*	2014 Finished Water pCi/l*
Gross Alpha	15	2.6
Radium 226		0.8
Radium 228		1.9

Operating Information, Continued

Drinking Water Quality Standards & Analyses 2014

Secondary Drinking Water Standards

Secondary Contaminant	MCL mg/l*	2014 Finished Water mg/l*
Aluminum	0.20	ND
Chloride	250	44.7
Color	15 Color Units	10
Copper	1.00	ND*
Fluoride	2.00	0.87
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	0.001
Sulfate	250	49.6
Total Dissolved Solids (TDS)	500	240
Zinc	5	ND*

date tested 2/28/14

General	mg/l*
Total Hardness (or in grains per gallon)	99 5.8
Calcium Hardness	82
Alkalinity	38
Total Chlorine	3.2

*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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REPORTING *SECTION*

Independent Auditors' Report on Internal Control Over Financial Reporting on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
General of the State of Florida



REPORTING SECTION

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Florida Keys Aqueduct Authority (the Authority), which comprise the statement of net position as of September 30, 2014 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 19, 2015.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



Compliance and Other Matters

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

Purpose of this Report

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

Marcum LLP

Miami, FL
February 19, 2015

Auditor General *SECTION*

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

Independent Accountants' Report on Compliance Pursuant to
Section 218.415 Florida Statutes



Auditor General *SECTION*

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

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

Report on the Financial Statements

We have audited the financial statements of the Florida Keys Aqueduct Authority, as of and for the fiscal year ended September 30, 2014, and have issued our report thereon dated February 19, 2015.

Auditors' Responsibility

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

Other Reports and Schedule

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Accountants' Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated February 19, 2015, should be considered in conjunction with this management letter.

Prior Audit Findings

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

Official Title and Legal Authority

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



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

Financial Condition

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

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Authority's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Annual Financial Report

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

Other Matters

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

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

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

Marcum LLP



Miami, FL

February 19, 2015



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

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

We have examined the Authority's compliance with Section 218.415 Florida Statutes during the fiscal year ended September 30, 2014. Management is responsible for the Authority's compliance with those requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

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

In our opinion, the Florida Keys Aqueduct Authority complied, in all material respects, with the aforementioned requirements for the fiscal year ended September 30, 2014.

This report is intended solely for the information and use of the Board of Directors, the Audit Committee, management of the Florida Keys Aqueduct Authority, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

Marcum LLP

Miami, FL
February 19, 2015

