

ORIGINAL

**CLASS A
WATER AND/OR WASTEWATER UTILITIES**

**FINANCIAL, RATE
AND ENGINEERING
MINIMUM FILING
REQUIREMENTS**

OF

KW Resort Utilities Corp.

Exact Legal Name of Utility

VOLUME IV



FOR THE

TEST YEAR ENDED December 31, 2006

DOCUMENT NUMBER - DATE

06670 AUG-30

FPSC-COMMISSION CLERK

ORIGINAL

Compliance with Rule 25-30.436 General Information and Instructions Required of Class A and B Water and Wastewater Utilities in an Application for Rate Increase.

(h) Any system that has costs allocated or charged to it from a parent, affiliate or related party, in addition to those costs reported on Schedule B-12 of Commission Form PSC/WAW 19 for a Class A utility, or PSC/WAW 20 for a Class B utility, (incorporated by reference in Rule 25-30.437) shall file three copies of additional schedules that show the following information:

1. The total costs being allocated or charged prior to any allocation or charging as well as the name of the entity from which the costs are being allocated or charged and its relationship to the utility.

(1) Key West Golf Club (KWGC) \$ 296,213, Common Ownership; (2) Green Fairways \$130,083, Common

2. For costs allocated or charged to the utility in excess of one percent of test year revenues:

a. a detailed description and itemization; and

(1) KWGC: Salaries per Attachment 1a and 1b, Other charges per Attachment 1b; (2) Green Fairways, Operations and maintenance expenses per contract

b. the amount of each itemized cost.

(1) KWGC: \$121,463; (2) Green Fairways: \$130,083

3. The allocation or direct charging method used and the bases for using that method.

(1) KWGC: Time estimate per Attachment 1a, Other charges per Attachment 1b; (2) Direct charge by invoice per contract

4. The workpapers used to develop the allocation method, including but not limited to the numerator and denominator of each allocation factor.

None

5. The workpapers used to develop, where applicable, the basis for the direct charging method.

Not applicable

6. An organizational chart of the relationship between the utility and its parent and affiliated companies and the relationship of any related parties.

See Attachment 2

7. A copy of any contracts or agreements between the utility and its parent or affiliated companies for services rendered between or among them.

Green Fairways attached (Attachment 3)

(i) For any land recorded on the utility's books since rate base was last established, the utility shall file copies of the documents that demonstrate that the utility owns the land upon which the utility treatment facilities are located, or that provides for the continued use of the land, such as a 99-year lease. The Commission may consider a written easement or other cost-effective alternative.

None

DOCUMENT NUMBER - DATE

06670 AUG-30

FPSC-COMMISSION CLERK

**KEY WEST GOLF CLUB ADMINISTRATIVE FEES CHARGED ON
A MONTHLY BASIS TO KW RESORT UTILITIES CORP**

ANNUAL CHARGE 2006 IS \$8,000 X 12 MOS + Y/E COMMISSIONS
\$107,609

These administrative charges are for the services of the following Key West Golf Club personnel - annual payroll costs and services performed as follows:

DOUG CARTER - GENERAL MANAGER:

Oversee daily operations of KWRU. Daily contact with the service company, Keys Environmental Inc. and owner, W.L. Smith. New Customer contracts and management of capital projects.

Annual Gross Wages including health benefits/tax liab
& estimated workers comp charges \$124,600

Estimate 30% of time spent on KWRU work (minimum) \$37,380

GILLIAN SEIFERT - CHIEF FINANCIAL OFFICER:

Accounts Payable, Accounts Receivable, General Ledger, run monthly customer bills, month end financial reporting, Annual Price Index and other reporting to Public Service Commission. Oversee all accounting functions.

Annual Gross Wages including health benefits*
tax liab & estimated workers comp charges \$90,750

Estimate 50% of time spent on KWRU work (minimum) \$45,375

JUDI IRIZARRY - CUSTOMER ACCOUNT MANAGER:

Manage customer utility accounts, including data entry, past due accounts, new accounts and resolving any customer issues. Daily banking and post, general administrative work. Filing and recordkeeper on new customer connections. Field service coordination with service company (Keys Environmental Inc.)

Annual Gross Wages including health benefits*
tax liab & estimated workers comp charges \$54,900

Estimate 100% of time spent on KWRU work \$54,900

Note: * Includes 2 Years bonus' (2005 was paid in Jan 2006)
Tax Liab = 7.65% (Social Sec/Fica/Med)
Workers Comp = 4.6%

KEY WEST GOLF CLUB MONTHLY CHARGES TO KW RESORT UTILITIES
FOR THE YEAR 2006:

2006	Allocated/Charged (1)						Petty Cash (2)						TOTAL CHARGES
	Acctg/ Mgmt fees	Postage	Fedex	Golf Cart Rental	Deisel/gas	supplies/ Copyng/etc	Total Charged	Teo/ Cleaning	Promo	Meeting exps/etc	Bulk Mail	Other	
Jan	\$ 7,500.00	\$ 50.00	\$ 170.44	\$ 200.00	\$ -	\$ 100.00	\$ 8,020.44	\$ 240.00	\$ 200.00	\$ 39.08	\$ 255.07	\$ -	\$ 8,754.59
Feb	8,000.00	50.00	-	200.00	-	100.00	8,350.00	240.00	-	210.98	253.92	-	9,054.90
March	8,000.00	50.00	-	200.00	-	100.00	8,350.00	240.00	-	17.92	300.00	-	8,907.92
April	8,000.00	50.00	101.74	200.00	-	100.00	8,451.74	240.00	-	98.65	267.84	-	9,058.23
May	8,000.00	50.00	120.90	200.00	-	100.00	8,470.90	400.00	335.00	-	658.56	709.45 (3)	10,573.91
June	8,000.00	50.00	-	200.00	57.60	100.00	8,407.60	240.00	-	139.84	270.24	-	9,057.68
July	8,000.00	50.00	46.36	200.00	58.60	100.00	8,454.96	240.00	-	-	277.20	160.00 (4)	9,132.16
Aug	8,000.00	50.00	146.64	200.00	-	100.00	8,496.64	240.00	-	16.73	563.76	-	9,317.13
Sept	8,000.00	50.00	-	200.00	-	100.00	8,350.00	240.00	-	28.91	-	-	8,618.91
Oct	8,000.00	50.00	13.47	200.00	-	100.00	8,363.47	300.00	-	-	258.96	-	8,922.43
Nov	8,000.00	50.00	61.58	200.00	-	100.00	8,411.58	300.00	-	-	283.20	-	8,994.78
Dec	8,000.00	50.00	64.16	200.00	25.40	100.00	8,439.56	240.00	-	-	283.68	70.00 (5)	9,033.24
Dec												12,038.00 (6)	12,038.00
TOTAL	\$ 95,500.00	\$ 600.00	\$ 725.29	\$ 2,400.00	\$ 141.60	\$ 1,200.00	\$ 100,566.89	\$ 3,160.00	\$ 535.00	\$ 552.11	\$ 3,672.43	\$ 12,977.45	\$ 121,463.88

Notes: (1) Key West Golf Club (KWGC) provides office employee labor (Accting/Mgmt fees), postal machine, office equipment, golf cart rental and fuel storage. Labor, first class metered postage, office supplies, and copier usage at a flat monthly rate as shown above. FedEx charges are based on actual charges to the Utility paid by the KWGC. Diesel/gas is direct charged based on actual usage per a log book maintained at the fuel point.

(2) The Utility does not have a petty cash account. The items in this category are paid in cash using the KWGC Pro Shop cash register. These cash draws are specifically identified and charged to the Utility.

(3) Cash payment for computer recovery after a computer system failure at the treatment plant

(4) money order/misc

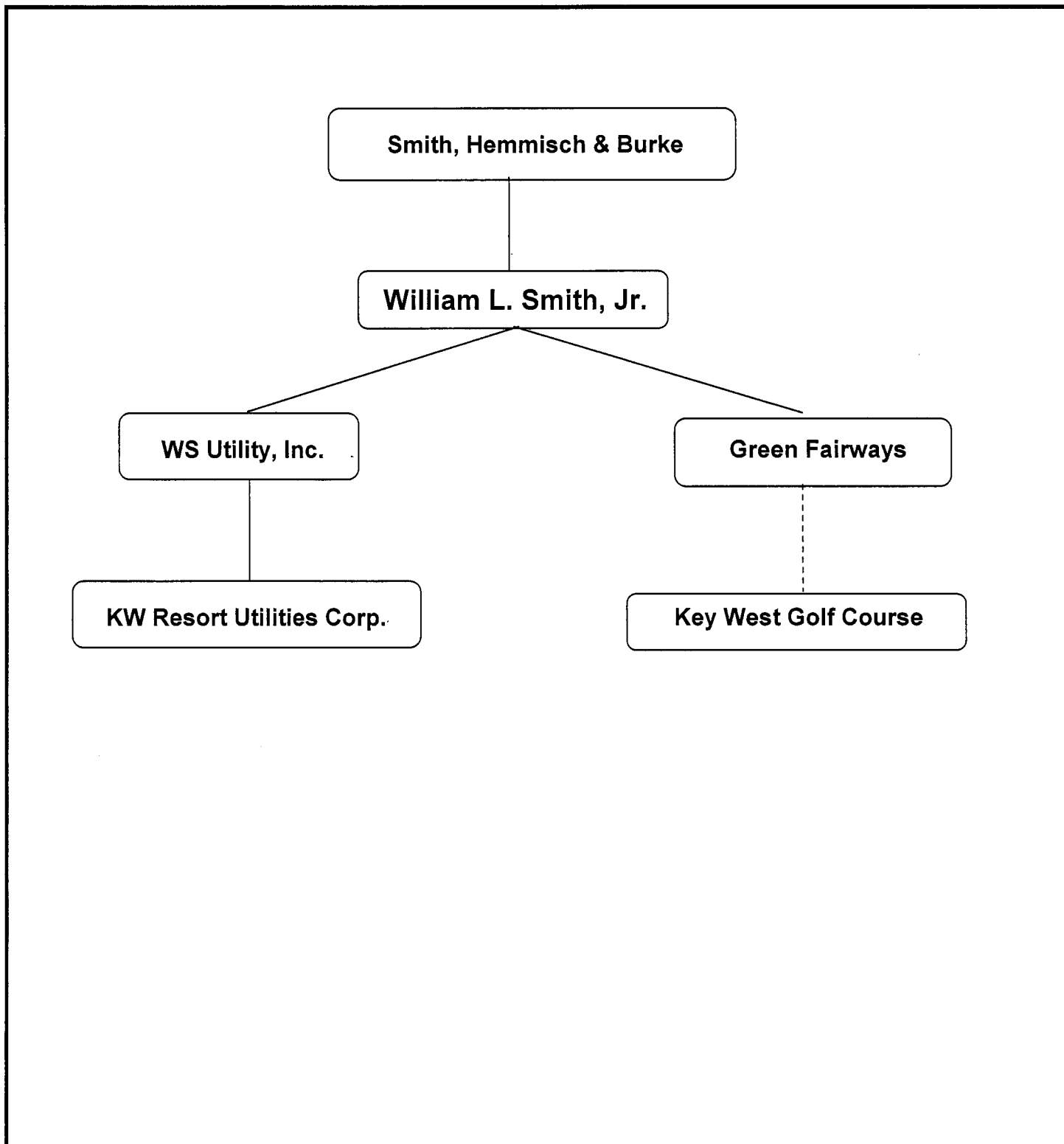
(5) Casual Labor \$60 & Lein release \$10

(6) Year end bonuses & EDU Commissions:

UTILITY NAME: KW Resort Utilities Corp

PARENT / AFFILIATE ORGANIZATION CHART
Current as of 12/31/06

Complete below an organizational chart that shows all parents and subsidiaries of the utility. The chart must also show the relationship between the utility and the affiliates listed on E-7, E-10(a) and E-10(b).



MANAGEMENT AGREEMENT

between

KW RESORT UTILITIES CORP.,

a Florida corporation

and

GREEN FAIRWAYS, INC.,

an Illinois corporation.

Effective Date: July 1, 1999

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TABLE OF DEFINED TERMS

The following capitalized terms are defined in the respective Sections of the Agreement identified below:

- "Agent" as such term is defined in the Preamble to the Agreement.
- "Agent's Authorized Supervisor" as such term is defined in Section 1.02 of the Agreement.
- "Agent's Indemnified Persons" as such term is defined in Section 3.01 of the Agreement.
- "Agent's Independent Contractors" as such term is defined in Section 3.01 of the Agreement.
- "Agent's Termination Notice" as such term is defined in Section 5.02 of the Agreement.
- "Approved Budget" as such term is defined in Section 2.03 of the Agreement.
- "Bank" as such term is defined in Section 2.26 of the Agreement.
- "Budget" as such term is defined in Section 2.03 of the Agreement.
- "Claims" as such term is defined in Section 3.01 of the Agreement.
- "Customers" as such term is defined in Section 2.06 of the Agreement.
- "Employees" as such term is defined in Section 2.13 of the Agreement.
- "Excavation Work" as such term is defined in Section 2.11 of the Agreement.
- "Fiscal Year" as such term is defined in Section 2.03 of the Agreement.
- "Major Work" as such term is defined in Section 2.11 of the Agreement.
- "Management Fee" as such term is defined in Section 4.01 of the Agreement.
- "Office Clerk" as such term is defined in Section 2.13 of the Agreement.
- "Operating Account" as such term is defined in Section 2.26 of the Agreement.
- "Operations Manager" as such term is defined in Section 2.02 of the Agreement.
- "Owner" as such term is defined in the Preamble to the Agreement.
- "Owner's Affiliates" as such term is defined in Section 6.03 of the Agreement.
- "Owner's Indemnified Persons" as such term is defined in Section 3.01 of the Agreement.
- "Owner's Termination Notice" as such term is defined in Section 5.02 of the Agreement.
- "Permits" as such term is defined in Section 2.18 of the Agreement.
- "Property" as such term is defined in the Recitals to the Agreement.

"Regulations" as such term is defined in Section 2.15 of the Agreement.

"Regulatory Agencies" as such term is defined in Section 2.13 of the Agreement.

"Reserve" as such term is defined in Section 2.21 of the Agreement.

"Shut-Down Election" as such term is defined in Section 5.05 of the Agreement.

"Shut-Down Notice" as such term is defined in Section 5.05 of the Agreement.

"Start-Up Period" as such term is defined in Section 2.03 of the Agreement.

"System" as such term is defined in the Recitals to the Agreement.

"System Personnel" as such term is defined in Section 2.13 of the Agreement.

"Utility Agreement" as such term is defined in Section 2.05 of the Agreement.

"Wastewater Reuse Agreement" as such term is defined in Section 2.04 of the Agreement.

MANAGEMENT AGREEMENT

THIS AGREEMENT is made effective as of the First day of July 1999, between KW RESORT UTILITIES CORP., a Florida corporation (the "Owner") and GREEN FAIRWAYS, INC., an Illinois corporation (the "Agent").

W I T N E S S E T H :

WHEREAS, the Owner owns fee title to that certain parcel of real property located on Stock Island, Monroe County, Florida described on Exhibit A annexed hereto, together with the buildings and improvements now and hereafter existing thereon and thereunder (the "Property"), including but not limited to a waste water collection and transmission system and a waste water treatment system (as now and hereafter existing, the "System"); and

WHEREAS, the System currently consists of a 499,000 gallon per day waste water treatment plant, related effluent disposal injection wells, approximately 14,500 feet of waste water collection system, ten (10) waste water pumping stations, and appurtenant force mains, and Reclaimed Water Lines (as hereinafter defined) operated pursuant to a Certificate of Convenience and Necessity issued to Owner by the Florida Public Service Commission; and

WHEREAS, Owner desires to engage Agent as an independent contractor to operate, maintain and manage the System and the Property, and Agent desires to accept such engagement, all subject to the terms and conditions of this Agreement;

NOW, THEREFORE, in consideration of the mutual agreements herein contained, the parties hereto agree as follows:

**ARTICLE I.
APPOINTMENT**

1.01. Appointment. Subject to the terms and conditions hereinafter set forth, Owner hereby appoints Agent and Agent hereby accepts the appointment as exclusive managing agent of the System and the Property. By its acceptance of this appointment, Agent represents and warrants that (i) it is duly organized, validly existing, in good standing under the laws of the State of Illinois, and has all requisite power and authority to enter into and perform its obligations under this Agreement, (ii) the person signing this Agreement for it is duly authorized to execute this Agreement on its behalf, and (iii) it has secured and will keep in effect during the term hereof all necessary licenses, permits and authorizations to enable Agent, and all agents and employees acting on its behalf, to perform all of Agent's duties under this Agreement and shall notify Owner immediately should any such license, permit or authorization no longer be in effect or in good standing.

1.02. Participation of Agent's Authorized Supervisor. In order to perform its duties hereunder, and as a material inducement to Owner to enter into this Agreement, Agent agrees that it will provide throughout the term of this Agreement the services of William L. Smith, Jr. or another employee of Agent reasonably acceptable to Owner ("Agent's") to diligently supervise the management, maintenance and operation of the Property and the System. At all times throughout the term of this Agreement, Agent represents, warrants and covenants to Owner that William L. Smith, Jr. shall be the President of Agent. Agent further agrees that throughout the term of this Agreement, Agent's Authorized Supervisor shall visit the Property not less than two (2) times per month and shall, in addition to performing any other services required in fulfillment of obligations under this Section 1.02 and review and approve of any Budget prior to submission of same to Owner in accordance with Section 2.03. In the

event William L. Smith, Jr. shall leave the employ of Agent or if Agent desires to substitute another employee in place of William L. Smith, Jr. as Agent's Authorized Supervisor, Agent shall immediately notify Owner and Owner shall have the right, in its reasonable discretion, to approve the new Agent's Authorized Supervisor and shall be given the opportunity to interview all candidates for the position of Agent's Authorized Supervisor.

ARTICLE II. RESPONSIBILITIES OF AGENT

2.01. Responsibilities. Agent agrees to operate, manage and maintain the Property and the System in a diligent, careful and vigilant manner in compliance with all applicable laws and regulations and in accordance with the provisions of this Agreement. Without limiting the generality of the foregoing, the authorities, duties and responsibilities of Agent in connection with the operation, management and maintenance of the Property and the System shall be as hereinafter set forth in this Agreement.

2.02. Operations Manager. Agent shall contract with at least one (1) full-time licensed waste water treatment plant operator approved by Owner experienced in the management and operation of systems similar to the System (the "Operations Manager"), whose services shall be primarily devoted to the operations of the System. The Operations Manager shall report to William L. Smith, Jr., or another person satisfactory to Owner, during the term of this Agreement. The Operations Manager shall spend not less than eight (8) hours per weekday and, to the extent required in coordination with the System Personnel (as defined below), one visit of not less than two (2) hours per weekend day in the execution of his or her duties. In the event the Operations Manager shall leave the employ of Agent, Agent shall immediately notify Owner and Owner shall have right to approve the new Operations Manager and shall be given the opportunity to interview all candidates for the position of Operations Manager.

2.03. Approved Budget. (a) Within thirty (30) days of the execution of this Agreement and on or before October 31 of each year thereafter for-so long as this Agreement or any renewals thereof shall remain in full force and effect, Agent shall submit to Owner:

- (1) A schedule setting forth all approved tariffs then in effect;
- (2) A schedule setting forth all established rate classes then in effect;
- (3) A schedule setting forth an inventory of Owner's equipment and personal property at the Property or relating to the System based on an inventory performed with the assistance of Owner or Owner's representative;
- (4) A schedule setting forth the identity of all current Customers and the type(s) of service consumed by each Customer;
- (5) A schedule setting forth all material terms and provisions of all leases, including capital leases, affecting the Property or any portion thereof and, if applicable, a full payment amortization schedule for the term of any such lease;
- (6) A schedule setting forth the identity of all trade creditors providing supplies or services with respect to the Property and the System or the operation thereof, the obligations owed to such creditors and the material terms and provisions with respect to such obligations;
- (7) A month-by-month budget (the "Budget") for the current fiscal year which shall commence January 1, 1996 and end December 31, 1996 and for every subsequent fiscal

year thereafter commencing January 1 and ending December 31 (each, a "Fiscal Year") for as long as this Agreement or any renewals thereof shall remain in full force and effect, showing, in detail in form and substance satisfactory to Owner:

- (i) proposed capital expenditures for each month, including, but not limited to, expenditures for roof, parking lot, System equipment replacement or alteration, Major Work and Excavation Work (as such terms are defined in Section 2.11) and capital expenditures to the System or the Reclaimed Water Lines (as hereinafter defined) in order to comply with the provisions of the Wastewater Reuse Agreement (as hereinafter defined), together with such studies, reports or inspections as may be reasonably required indicating the need for such capital expenditures;
- (ii) proposed operating expenditures for each month, including, but not limited to, proposed expenses to be incurred for insurance, utilities, real estate taxes, waste removal, permits, licenses, authorizations, repairs and maintenance (including, without limitation, repairs to or replacement of Reclaimed Water Lines), jet rodding of sewer lines and dumping, hauling and disposal of sewage; and
- (iii) proposed income for each month from all sources in connection with the use and operation of the Property and the System, including, but not limited to, income from Capacity Reservation Fees and Connection Charges payable to Owner under the Utility Agreement (as such terms are hereinafter defined), and income from Customer charges, fees, assessments, prices and penalties, and any other sources.

(b) In the event Owner shall not approve all or any portion of the Budget, Agent shall promptly revise same in accordance with Owner's requests and shall resubmit the revised Budget or portions thereof to Owner for its approval. In no event shall any Budget be effective prior to receipt of the written approval of Owner. The Budget, as approved by Owner, is sometimes hereinafter referred to as the "Approved Budget".

(c) During the period beginning with the execution of this Agreement and ending thirty (30) days subsequent thereto (the "Start-Up Period"), Agent shall not make any expenditures or enter into any contracts or agreements with respect to the Property without the prior written consent of Owner.

2.04. Wastewater Reuse Agreement. Reference is made to that certain Wastewater Reuse Agreement dated as of December 13, 1994 between Owner and Key West Country Club, Inc., recorded in Official Records Book 1345, Page 612 of the Public Records of Monroe County, Florida, which is annexed hereto as Exhibit B and incorporated herein by this reference and made a part hereof (the "Wastewater Reuse Agreement"). All capitalized terms used in this Section 2.04 and not otherwise defined elsewhere in this Agreement, shall have the respective meanings assigned thereto in the Wastewater Reuse Agreement. Agent shall provide Reclaimed Water to the Customer in accordance with the terms and provisions of the Wastewater Reuse Agreement and shall otherwise strictly comply with all of the terms and provisions of the Wastewater Reuse Agreement relating to the operation of the Treatment Plant and Reclaimed Water Lines and the delivery of Reclaimed Water to the Customer. Agent shall immediately notify Owner in writing of any default by the Customer under the Wastewater Reuse Agreement.

2.05. Utility Agreement. Reference is made to that certain Utility Agreement dated as of December 13, 1994 between Owner and Key West Country Club Development, Inc., recorded in Official Records Book 1370, Page 1749 of the Public Records of Monroe County, Florida, which is annexed hereto as Exhibit C and incorporated herein by this reference and made a part hereof (the "Utility Agreement"). All capitalized terms used in this Section 2.04 and not otherwise defined elsewhere in this Agreement, shall have the respective meanings assigned thereto in the Utility Agreement. Agent shall collect and give receipt for all Connection Charges and Capacity Reservation Charges due and payable to Owner under the Utility Agreement and shall deposit same in the Operating Account (as defined in Section 2.26 hereof) and shall otherwise strictly comply with all of the terms and provisions of the Utility Agreement relating to the operation of the Service Company. Agent shall immediately notify Owner in writing of any default by Developer under the Utility Agreement.

2.06. Collections. Agent shall promptly calculate and bill customers of Owner, including, without limitation, the "Customer" under the Wastewater Reuse Agreement and any "Customer" under the Utility Agreement (collectively, the "Customers") on a monthly basis or as otherwise acceptable to Owner in accordance with approved tariffs, the Wastewater Reuse Agreement and the Utility Agreement, as applicable, and diligently demand, collect, receive and give receipt for any and all charges, fees, assessments, prices or penalties charged to Customers. In furtherance of its obligations under this Section, Agent shall deliver reminder door tags in accordance with applicable laws and interrupt service to collect delinquent bills from Customers through the installation of suitable service control fixtures where not presently provided or otherwise in accordance with approved tariffs. Agent shall keep Owner informed of its collection efforts and shall perform its collection efforts in compliance with applicable laws. In addition, Agent shall identify and collect any additional income due from Customers arising from or in connection with the use and operation of the System and the Property, whether such income is now or hereafter generated. All monies so collected shall be deposited in the Operating Account (as hereinafter defined in Section 2.26). Agent shall not "write-off", forgive or otherwise defer any income without having first obtained the written approval of Owner. Unless prohibited by law or otherwise directed by Owner, all charges, fees, assessments, prices and penalties collected from Customers shall be promptly deposited into Operating Account and so reported.

2.07. Customer Relations. Subject to the Approved Budget and in accordance with approved tariffs, Agent shall promptly respond on behalf of Owner to inquiries from Customers and shall promptly furnish written and oral replies on behalf of Owner to inquiries from the customer relations departments of the Florida Public Service Commission and other consumer service agencies having jurisdiction over Owner. Agent shall maintain a written log of all contacts with Customers. Agent shall handle all service disconnection requests in a timely and professional manner.

2.08. Enforcement. Agent shall secure, as fully as practicable, the compliance of all Customers with all rules and regulations affecting the System; keep Customers informed of all rules and regulations affecting the System; and receive, promptly consider, and act upon or deny service requests by Customers and maintain records showing all such requests, complaints and other communications and the action taken with respect to each such request. Complaints by Customers of a material nature shall, after prompt and thorough investigation by Agent, be reported to Owner with appropriate recommendations; provided, however, that if any such complaints may give rise to any criminal liability or material adverse financial consequences on the part of either Agent or Owner, Agent shall immediately give oral notification thereof to Owner, to be followed within twenty-four (24) hours thereafter by a written memorandum outlining the factual basis of such complaint to the extent known to Agent, together with a copy of any written communication(s) received regarding such complaint and any appropriate recommendations.

2.09. Routine Maintenance and Repairs. Subject to any limitations imposed by Owner in

this Agreement, the provisions of the Approved Budget, or otherwise, Agent shall monitor the System and cause the Property and the System to be maintained in good operating condition in accordance with the Permits (as defined in Section 2.18), approved tariffs and in compliance with all applicable laws and in compliance with the provisions of the Wastewater Reuse Agreement and the Utility Agreement, as applicable, such maintenance to include but not be limited to (1) performing (or causing to be performed) periodic inspection and minor maintenance required to keep all mechanical equipment associated with the System in good operating condition, including, without limitation, routine lubrication and maintenance as recommended by manufacturers of the applicable equipment, (2) inspecting wastewater pumping stations on a daily basis (seven days per week) for proper operation and lubrication, (3) investigating all necessary preventative maintenance programs, submitting to Owner recommendations and proposals for such programs and performing such necessary preventive maintenance as shall be approved by Owner, (4) monitoring collection systems, including, without limitation, lift stations, gravity lines and manholes, (5) monitoring Reclaimed Water Lines, (6) monitoring and maintaining meters, control panels, motors, pumps, blowers and related equipment, (7) purchasing supplies, materials and services, (8) executing contracts in the name of Owner (as agent on behalf of Owner) for utilities and other necessary and advisable services in accordance with the terms of the Approved Budget, (9) paying all bills in connection with such activities and (10) regularly inspecting the physical condition of the Property and the System.

2.10. Intentionally left blank.

2.11. Supervision of Work. Subject to any limitations imposed by Owner in this Agreement, the provisions of the Approved Budget, or otherwise, Agent shall diligently supervise the following work performed by third parties at any time during the term of this Agreement: (a) all work in the nature of major repairs and to the System and any additions and alterations to the System ("Major Work"), (b) any work requiring physical excavation or uncovering of mains, services, laterals or similar facilities ("Excavation Work"); provided, however, that Owner acknowledges that Agent's obligations under this Section 2.11 shall not extend to the obligations of a general contractor. All Major Work and Excavation Work shall be subject to the prior written approval of Owner. Agent shall recommend contractors and subcontractors to perform all Major Work and Excavation Work and any other work Agent is not equipped or authorized to perform under this Agreement and shall not engage the services of any such contractor or subcontractor without the prior written approval of Owner.

2.12. System Testing and Reporting. Agent shall perform periodic sampling of raw and treated waste water as required by the Regulatory Agencies, the Regulations or the Permits (all as defined herein), including, without limitation, daily sampling of pH, Cl₂, alkalinity, settleable solids, dissolved oxygen and flows and periodic testing of treated effluent for Seawater Intrusion (as defined in the Wastewater Reuse Agreement), and shall prepare and execute (except where applicable law requires execution by an officer of Owner) all periodic inspection and monitoring reports required by Regulatory Agencies (as defined in Section 2.13), including, without limitation, any Florida Department of Environmental Protection discharge monitoring reports as may be required pursuant to the terms of the operating permit for the System. Agent shall, in accordance with the Wastewater Reuse Agreement, perform all testing, give all notices and otherwise perform all obligations of Owner relating to the detection and existence of Seawater Intrusion. Agent shall at all times endeavor to include expenses for any testing to be performed by outside, independent laboratories within the Approved Budget. Agent shall submit copies of any periodic reports to Owner for Owner's review and approval prior to submission of same to any Regulatory Agency. Agent shall also prepare all periodic financial reports required by Regulatory Agencies, including the Annual Report required by the Florida Public Service Commission. Agent shall submit copies of such reports to Owner for Owner's review and approval prior to submission of same to any Regulatory Agency.

2.13. Employ and Supervise Employees and/or Subcontractors. (a) Subject to the

Approved Budget, Agent shall employ, train, and supervise such employees and/or subcontractors as are necessary for the operation, maintenance and management of the Property and the System and discharge (or cause to be discharged) all persons unnecessary or undesirable to the operation, maintenance and management thereof, including, without limitation, (1) Operations Manager, (2) capable and duly licensed supervisory and operating personnel and related laborers ("System Personnel") to properly, adequately, safely and economically manage, operate and maintain the System in accordance with industry standard practices and in compliance with all applicable law and requirements of all governmental bodies and regulatory agencies, including, without limitation, the Florida Public Service Commission, the U.S. Environmental Protection Agency, the Florida Department of Environmental Regulation, the South Florida Water Management District, the Monroe County Health Department, the national or local Board of Fire Underwriters, and the City of Key West (collectively, the "Regulatory Agencies"), which System Personnel shall be available on-call for emergencies twenty-four (24) hours per day, seven (7) days per week, and (3) one clerical support and customer service employee ("Office Clerk"). The Operations Manager, System Personnel, Office Clerk and any other employees and/or subcontractors hired by Agent and at any time under the employment of Agent are hereinafter sometimes collectively referred to as "Employees".

(b) All matters pertaining to the employment of Employees are the responsibility of Agent, who shall in all respects, be the employer of such Employees. At no time shall the Employees and/or independent contractors and/or their employees be considered employees of Owner. Agent acknowledges and agrees that all costs and expenses arising out of or in connection with the employment and termination of Employees (including, without limitation, compensation, insurance, benefits and compliance with governmental reporting requirements) are expenses of Agent to be paid by Agent from its own funds. Agent shall fully comply with all local, state and federal labor and tax laws and regulations, including, but not limited to, workers' compensation, social security, unemployment insurance, health insurance, hours of labor, wages, working conditions, and other employer-employee related subjects. Agent shall be responsible for the preparation of and shall timely file all local, state and federal labor payroll tax reports and other similar reports, and shall timely make payments of all withholding and other payroll taxes with respect to all Employees. This Agreement is not one of agency between Agent for Owner, but one with Agent engaged independently in the business of managing, operating and maintaining the Property and the System as an independent contractor. All employment arrangements are therefore solely Agent's concern, and Owner shall have no liability with respect thereto except as provided in this Section 2.13(b).

(c) Owner agrees to make available to Agent office space at the Property for use by Employees and Agent agrees that Employees shall use such office space solely in performance of Agent's duties and fulfillment of Agent's obligations under this Agreement.

(d) Owner agrees that (1) in the event there are any vehicles at the Property owned by Owner, Owner will permit use of such vehicles by Employees and (2) in the event there are no vehicles at the Property owned by Owner, Owner will reimburse Agent for expenses incurred by Agent in renting or leasing any vehicles for use in performance of its duties and fulfillment of its obligations under this Agreement; provided, however, that Agent shall endeavor to include any such rental and leasing expenditures in the Approved Budget. Agent shall procure automobile liability insurance in statutory amounts respecting any vehicles not owned by Owner and provide Owner with duplicate insurance policies evidencing same and with evidence of the renewal or expiration of the term thereof. Agent agrees that Employees shall use any vehicles (whether owned by Owner or rented or leased by Agent) solely in performance of Agent's duties and fulfillment of Agent's obligations under this Agreement. Owner shall reimburse Agent for fuel and maintenance expenses for such vehicles (whether owned by Owner or rented or leased by Agent); provided, however, that Agent shall endeavor to include any such fuel or maintenance expenses in the Approved Budget. Agent shall maintain accurate records of monthly fuel

and maintenance expenses and shall make such records available for inspection by Owner.

2.14. Insurance. (a) Owner agrees to procure blanket property and casualty insurance and comprehensive general liability insurance on the Property in the amounts which it, in its sole discretion, deems to be appropriate. Agent shall promptly investigate and make a full written report to Owner and if directed by the Owner, to the insurance carriers retained by Owner, as to all alleged accidents and/or alleged claims for damages relating to the ownership, operation, management and maintenance of the Property and the System, including any damage or destruction to the Property and the System and the estimated cost of repair, and shall prepare any and all other reports required by any insurance company in connection therewith. Agent shall acquaint itself with all terms and conditions of insurance policies relating to the Property, cooperate with and make all reports required by the insurance carriers and do nothing to jeopardize the rights of Owner and/or any other party insured under said policies.

(b) Agent shall procure and carry at all times at Agent's sole cost and expense and provide Owner with duplicate insurance policies in effect as of the date of the execution of this Agreement and, if different, the policies in effect as of the effective date of this Agreement, and with evidence of the renewal of such policies no later than thirty (30) days prior to the expiration of the term thereof (each of which insurance policies shall name Owner as an insured and contain a provision giving Owner thirty (30) days' prior written notice by certified mail, return receipt requested, before cancellation or reduction of coverages): General Liability with limits of liability of not less than \$3,000,000, Workers' Compensation in statutory amounts and Employers' Liability coverages with limits of liability of not less than \$500,000 and Fidelity Bond coverages with limits of liability of not less than \$100,000. Such Fidelity Bond coverages shall be on a blanket basis covering Agent and all those of its employees who have access to or are responsible for the handling of Owner's funds in such reasonable amount and having such deductible as shall be determined from time to time by Owner, underwritten by a bonding company selected by Agent and approved by Owner. In the event Agent is unable to procure such bonds, Owner may (but shall be under no obligation to) attempt to procure such bond at Agent's expense and Agent shall fully cooperate with Owner in this regard.

(c) Agent shall obtain and maintain evidence of current liability insurance (including, without limitation, automobile liability) in amounts acceptable to Owner and/or workers' compensation insurance in statutory amounts from all independent contractors performing services for or on behalf of Owner and/or Agent at the Property or relating to the System prior to commencement of any job.

(d) Owner shall procure and carry at all times at Owner's sole cost and expense and provide Owner with duplicate insurance policies in effect as of the date of the execution of this Agreement and, if different, the policies in effect as of the effective date of this Agreement, and with evidence of the renewal of such policies no later than thirty (30) days prior to the expiration of the term thereof (each of which insurance policies shall name Agent as an insured) automobile liability insurance in statutory amounts covering use of any vehicles owned by Owner and used by Employees and agents of Agent in the accordance with Section 2.13 hereof.

2.15. Compliance. Subject to compliance with the Approved Budget and the prior written approval of Owner as to method and timing, Agent shall -comply with and cause the Property and the System to comply with all present and future laws, ordinances, orders, rules, regulations and requirements of the Regulatory Agencies or any other body exercising the functions similar to those of the Regulatory Agencies which may be applicable to the Property (collectively, the "Regulations"), and obtain all necessary Permits (as defined in Section 2.18) for the Property and the System. Agent shall provide to Owner and the Regulatory Agencies any information required for renewal of Permits and/or rate increases. Agent, at Owner's direction, shall also comply with and cause the Property to comply with all terms, covenants and provisions contained in any mortgage, deed of trust or other security agreement,

operating agreement or other agreement now or hereafter encumbering or affecting the Property and any security agreement now or hereafter encumbering or affecting the personal property located at the Property or any portion thereof, and the delivery to Agent of any such document or agreement shall be deemed to be adequate direction by Owner. The costs of such compliance shall be an operating expense borne by Owner to the extent such costs shall be within the Approved Budget or otherwise approved in writing by Owner.

2.16. Dispute Tax Assessments. Agent shall obtain and review the appropriateness of bills for real estate and personal property taxes, improvement assessments and other impositions applicable to the Property and the System which are or may become liens against the Property and shall advise Owner (a) of any material increase in any taxes, (b) whether the amount of any taxes should be challenged, and (c) the means available for obtaining a reduction of taxes, together with its recommendations as to the course of action to be pursued, all such duties to be performed at Agent's expense. If Owner shall so request in writing, Agent shall institute appropriate protests or challenges to the taxes or take such other appropriate steps to obtain a reduction of taxes. All taxes and any approved expenses of Agent incurred in contesting taxes or otherwise seeking a reduction thereof, including legal, professional, appraisal and accounting fees, if required, shall be considered operating expenses to be borne by Owner to the extent such costs are within the applicable line items in the Approved Budget or are otherwise approved in writing by Owner.

2.17. Advertising; Public Relations. (a) Subject to (1) compliance with the Approved Budget and (2) the prior written approval of Owner as to the form and substance of any advertisement or promotional activities relating to the Property and the System, Agent may hire such advertising agencies, place such advertisements and generally supervise and attend to all promotional activities and functions relating to the Property and the System and the operation thereof as Agent shall deem advisable.

(b) At Owner's request, Agent shall represent Owner in connection with matters of general public interest which pertain to the Property and the System and, after written notice to and discussion with Owner, to the extent Owner directs, Agent shall attempt to amicably resolve any complaints, disputes or disagreements in connection therewith as promptly as is reasonably possible.

(c) Agent shall provide information to prospective purchasers of the Property subject to the prior written approval of Owner as to form and substance and shall immediately notify Owner of interest from, or offers made by, any prospective purchaser; provided, however, that Agent shall not make contact with or respond to any inquiries from real estate brokers and real estate agents and shall promptly refer any inquiries from same to Owner.

(d) Agent shall not engage in any advertisement or promotional activities, erect or display any promotional signs or disseminate any promotional literature representing to the public its role as manager or operator of the Property and the System without the prior written approval of Owner in each instance as to form and substance.

2.18. Additional Operating Activities. Agent shall, whenever possible, perform the following additional operational activities:

(a) Procure competitive bids for services required for the efficient operation of the Property and the System. Agent shall contract in the name of the Owner for labor, services, materials, capital improvements and repairs to be furnished to or in respect of the Property and the System; provided, however, that Agent shall have no authority to make any expenditure or incur any obligation which results in a line item amount of any Approved Budget being exceeded or which is not consistent with the Approved Budget; provided, further, all contracts for labor, services, materials, capital improvements and

repairs shall be awarded on the basis of the best overall price, quality and service; provided, further that Agent shall not modify, amend or terminate same without the prior written consent of Owner. All contracts shall be cancelable upon thirty (30) days-notice. All approved contracts shall be signed by Agent on behalf of Owner (as agent for Owner). Owner shall be entitled to receive the benefit of any discount or commission which Agent shall obtain in connection with such contracts or purchases, regardless of the form of any such discount or commission. Copies of all contracts shall be promptly forwarded to Owner after the execution thereof;

(b) Maintain, at all times, an adequate supply of hand tools, laboratory equipment, maintenance and repair parts, supplies, lubricants, meters, chemicals, uniforms and forms required to adequately and safely perform its obligations under this Agreement in accordance with all applicable laws. Such items shall at all times remain the personal property of Owner unless same were the property of Agent prior to the date hereof;

(c) Maintain an appropriate control system for purchases of all materials, supplies, inventory and equipment purchased pursuant to the terms hereof for the efficient operation of the Property and the System and strive to procure required materials in an efficient and cost-effective manner with regard to quality and at a price which shall not exceed the line item for same in the Approved Budget;

(d) Maintain, at all times, security at a level at least equal to the current level of security in or about the Property in order to protect the assets of Owner;

(e) Maintain, at all times, a twenty-four (24) hour answering and dispatch service for the benefit of all Customers and promptly respond to all emergency calls received by such emergency answering and dispatch service at the request of Owner or any Customer;

(f) Perform monthly meter reading services, when authorized and required, for any Customer meters and perform monthly meter reading services with respect to all Customer billing meters, including, without limitation, any meters for Reclaimed Water;

(g) Oversee any construction and/or development of the Property or System contemplated by the Approved Budget and negotiate (upon written direction of Owner), administer and monitor all construction agreements to which Owner is a party and take such other actions as may be necessary to cause Owner to comply with its obligation under such agreements; provided, however, that Owner acknowledges that Agent's obligations under this Section 2.18(g) shall not extend to the obligations of a general contractor;

(h) Assist Owner in procuring such appraisal of the Property by appraisers approved by Owner as may be required by Owner;

(i) Cooperate with consultants, engineers and other agents of Owner in connection with any inspection of the Property and the System by same;

(j) Notify Owner immediately of the suspension of delivery of Reclaimed Water under the Wastewater Reuse Agreement due to the existence of Sea Water Intrusion;

(k) Be available for communication with Owner and keep Owner advised at all times of all items which affect the Property and the System in any manner;

(l) In consultation with Owner, use diligent efforts to determine if any hazardous substance or waste is being used or discharged upon the Property and immediately notify Owner of any dumping, use or leakage of any such hazardous substance or waste on or near the Property. Agent shall notify

Owner of any areas of potential concern relating to any hazardous substance or waste that may affect the Property;

(m) Cause all fire, safety and insurance requirements respecting the Property to be complied with and maintain all procedures now in effect to be used in the event of fire or other casualty at the Property;

(n) Notify Owner immediately of (1) any threatened or pending condemnation, rezoning or other governmental orders, proceedings or lawsuits involving the Property or the System, (2) the date or dates of the expiration of all existing governmental permits, certificates, licenses, franchises, consents and related orders and approvals, including, without limitation, Permit No. FLA014951-258748 issued as of July 11, 1995 (collectively, the "Permits") and all other deadlines relating to the Property or the System; and (3) any violations relating to the use, repair or maintenance of the Property and the System or violations relating to the Permits;

(o) Comply in a timely manner with the terms and provisions of the Permits including, without limitation, the terms and provisions relating to the renewal thereof, and comply in a timely manner with requirements arising under any Development Orders, PUD requirements or any other rules and regulations now or hereafter affecting the Property. Agent shall maintain all past, current and future records regarding Permits and rate increases in the office on the Property;

(p) Provide Owner with written notice of all requirements affecting the Property or the System including, without limitation, prior notice of the expiration date of any Permit, and a timetable for compliance with such requirements arising under any Development Order, Permit, Regulations, PUD requirement or any other rules, regulations or restrictions now or hereafter affecting same. Such notice shall be updated monthly to disclose new requirements and the progress made with respect to compliance with any existing requirements;

(q) Cooperate with and provide assistance to any future managers of the Property and the System (or any other properties in the vicinity of the Property owned by Owner);

(r) Supervise and inspect new Customer tie-ins;

(s) Advise Owner regarding operational efficiencies; and

(t) Perform any other service or activity incidental to the normal and professional operation of a property or system of a similar type and character of the Property or the System or as otherwise reasonably requested from time to time by Owner.

2.19. Adherence to Approved Budget. Agent shall use all efforts reasonable and necessary to ensure that the actual costs of maintaining and operating the Property and the System shall not exceed the Approved Budget pertaining thereto, whether by line item or cumulative expense.

2.20. Payment of Operating and Capital Expenses. Agent shall pay in a timely manner (taking advantage of any discounts for early payment) all expenses for the Property and the System from the Operating Account (as defined in Section 2.26).

2.21. Books of Record and Distributions. (a) Agent shall maintain accurate records of all funds received and disbursed in connection with Agent's management of the Property and the System and such records, together with all supportive and underlying documentation, shall be available for Owner's inspection at all times either at the Property and the System or at Agent's office located at 6450 Junior

College Road, Key West, Florida 33040. All such records shall be maintained in accordance with generally accepted accounting principles, on a full accrual basis. Agent shall not dispose of any books or records relating to the Property and the System except upon receipt of the written approval of Owner. Agent shall maintain such control over accounting and financial transactions as is required to protect Owner's assets from theft, error or fraudulent activity.

(b) All books, cards, registers, receipts, documents, warranties, insurance policies, contracts, leases, violations, correspondence, plans and specifications, bid documentation, rate schedules, Customer information and any other papers or the information contained therein which are in any manner connected with the operation of the Property and the System are the sole property of Owner and shall be delivered to Owner at the expiration or termination of this Agreement and at any time during the term of this Agreement upon Owner's request. Agent agrees that it will not at any time (whether during the term of this Agreement or after the termination of this Agreement and irrespective of the reason for such termination), disclose to anyone, other than in the ordinary course of Owner's business, any such confidential documents or other confidential information or trade secret for its own benefit, or for the benefit of third parties, and all memoranda, notes, records or other documents compiled by it or made available to it during the term of this Agreement concerning the business of Owner and its clients and customers. If Agent commits a breach of this Section 2.21, Owner shall have the right to have this provision specifically enforced by any court having equity jurisdiction without being required to post bond or other security and without having to prove the inadequacy of the available remedies at law, it being acknowledged and agreed that any such breach will cause irreparable injury to Owner and that money damages will not provide an adequate remedy to Owner. In addition, Owner may take all such other actions and remedies available to it under law or in equity and shall be entitled to such damages as it can show it has sustained by reason of such breach. Notwithstanding the foregoing, the restrictions on disclosure of confidential information set forth herein shall not be applicable to information that was in the public record or available to the public on a non-confidential basis before disclosure to Agent, or which comes into the public record or becomes available to the public on a non-confidential basis after such disclosure, other than through an act in violation of the provisions of this Section 2.21. The foregoing provisions of this Section shall survive the expiration or termination of this Agreement.

2.22. Inventories, Etc. Agent shall prepare, keep current, and submit to Owner as Owner shall from time to time request or as otherwise required herein: (a) an inventory of Owner's equipment and personal property at the Property or relating to the System; (b) a list of existing Customers and their use of System services; (c) a description of all events that occurred during the month then ended that might have an effect on the Property or the System including, but not limited to, claims or alleged claims of any nature which are not covered by or may be disputed under insurance policies; and (d) such other reports as Owner shall request in connection with the operation and management of the Property and the System.

2.23. Reports. Agent shall prepare and deliver to Owner:

(a) The following reports within fifteen (15) days after the end of each month during the term of this Agreement, which reports shall be in form and substance satisfactory to Owner:

- (1) Operating statement - on either or both a cash basis or accrual basis for such accounting period and year to date;
- (2) Balance sheet;
- (3) Bank statements and reconciliations;

-
- (4) Schedule of capital improvements; and
 - (5) Report of actual variances between any Approved Budget line item and actual or anticipated expenditures for such item, with detailed explanations and a forecast of operating results at year end.

(b) The following reports and other documents within thirty (30) days after the end of each Fiscal Year quarter or when otherwise requested by Owner, which reports and other documents shall be in form and substance satisfactorily to Owner:

- (1) Statement of operating receipts;
- (2) Statement of disbursements;
- (3) Schedule of accounts payable and accrued expenses;
- (4) Delinquent accounts receivable aging;
- (5) Schedule of reserve and escrow accounts;
- (6) Cash disbursements journal;
- (7) Calculation of payroll, taxes and benefits and professional fees (if any) for the period, together with supporting documentation;
- (8) Schedule of draw requests; and
- (9) A descriptive, qualitative report of the activities of the Property and the System identifying existing areas of concern and recommended courses of action including, without limitation, a monthly inspection report substantially in the form of Exhibit D annexed hereto.

(c) On October 31, 1998 and on or before October 31 of each year thereafter for so long as this Agreement or any renewals thereof shall remain in full force and effect, a detailed inventory of Owner's equipment and all personal property at the Property or relating to the System.

(d) Within ten (10) days after the end of the term for each insurance policy carried by Agent pursuant to the terms of Section 2.14(b) hereof, renewal policies, evidence of payment and/or financing, and loss information for the preceding policy term.

2.24. Audits. Owner reserves the right to conduct examination of, and to audit, without prior notification, the books and records maintained by Agent. Such examination and audits may be performed at the Property or at Agent's office if the books and records are maintained at Agent's offices. Should the audit discover errors in recordkeeping, Agent shall immediately correct same and shall promptly inform Owner in writing of the action taken to correct such errors. Audits conducted by Owner or its designees shall be an expense of Owner. Agent shall cooperate with the Owner's accountants in any audit of such books, records and accounts and the preparation of annual audited statements. Agent shall insure such control over accounting and financial transactions as is reasonably required to protect Owner's assets from theft, willful misconduct, or fraudulent activity on the part of Agent's employees and agents. The right to audit the books and records maintained by Agent shall survive the expiration or termination of this Agreement.

2.25. Meeting with Owner. Agent agrees that Agent's Authorized Supervisor and the Operations Manager shall be available for meetings with Owner in Key West, Florida, upon Owner's reasonable request and at Owner's expense, to discuss the management activities to be conducted by Agent hereunder. Agent further agrees to communicate verbally with Owner, or its designated agent, on no less than a monthly basis to provide Owner with a monthly status report.

2.26. Operating Account. (a) Agent shall maintain an operating account (the "Operating Account") in a bank selected by Owner (the "Bank"), which account shall be in the name of, and the exclusive property of, Owner and shall be solely for the deposit of monies belonging to Owner and not for deposit of monies of Agent or others, and shall require for withdrawal of monies therefrom the signature of one authorized officer of Agent approved by Owner, as authorized officers of Agent, or an authorized officer of Owner. All monies deposited into the Operating Account shall be remitted to Owner in accordance with the provisions of Section 2.21 hereof.

(b) If at any time the cash in the Operating Account shall not be sufficient to pay the bills and charges which may be incurred with respect to the Property and the System pursuant to the Approved Budget, Agent shall notify Owner immediately of such condition or the potential for such condition. Agent shall also provide to Owner a sources and uses statement to document such cash shortages and Owner shall, at its option, provide sufficient monies to eliminate such cash shortage.

2.27. Use of Counsel and Other Professionals. If assistance of any attorneys, architects, accountants, engineers or other professionals is necessary for any reason, Agent shall obtain such assistance from only such professionals as may have been approved in writing by Owner (which approval shall include the approval of all fee arrangements) after having first secured Owner's authority for such specific engagement. Agent shall cooperate with all other persons employed by Owner in connection with the Property and the System including, without limitation, Owner's accountants in regard to the preparation and filing by Owner of Federal, State, City or local municipal income or other tax returns and annual audit reports or reports required by any governmental authority.

2.28. Notice of Engagement. If Agent or any of its affiliates shall begin construction or development of, or acquire any equity interest in, or shall assume management responsibilities with respect to, any other property similar to the Property situated within five (5) miles of the Property, Agent shall give Owner written notice thereof within ten (10) days after the occurrence of such event.

2.29. Exclusions. Agent shall not have the authority to, and shall not:

- (a) Sell, assign, transfer or pledge any rights, compensation or obligations under this Agreement;
- (b) Contract to finance, mortgage, ground lease, lease, hypothecate, encumber or otherwise pledge the Property, the System or any portion thereof;
- (c) Except as otherwise approved by the Owner in writing, enter into any service contracts which are not terminable without penalty at the option of either Agent or Owner for any reason on 30 days or less notice;
- (d) Enter into any agreement for the sale of the Property, the System or any portion thereof; and
- (e) Except as otherwise approved by Owner in writing, (1) remove, permit or cause the removal of any personal property of Owner from the Property (except for the vehicle

described in Section 2.11 which may be removed and used off-site by Agent in performance of Agent's duties or fulfillment of Agent's obligations hereunder); (2) provide, permit or cause the provision of System service to any third party (including Customers and any other facility or property managed or owned by Agent) without in each instance charging the applicable rate in connection therewith; (3) promote or permit the use of all or any portion of the Property or the System (including, without limitation, personal property and equipment) to be used on-site by or for the benefit of any third party (excluding Customers but including and any other facility or property managed or owned by Agent), without regard to whether adequate payment or other consideration is received in connection therewith; or (4) permit or cause the Property or any portion thereof to be used for any purpose unrelated to the operation, management and maintenance thereof and the performance of Agent's duties or fulfillment of Agent's obligations hereunder.

2.30. Additional Services at Additional Cost. In the event Owner requests that Agent perform any services not otherwise included within the responsibilities of Agent under this Agreement, including, without limitation, groundwater monitoring and semiannual sludge and effluent nitrogen analysis, Agent shall perform such services at an additional cost to Owner. Agent shall maintain accurate records with respect to such services and shall provide such records to Owner, together with invoices for payment, and any compensation due and payable to Agent for such services shall not, without the prior written approval of Owner, be paid by Agent to itself from the Operating Account.

ARTICLE III. INDEMNIFICATION

3.01. Indemnification. (a) Owner agrees to defend, indemnify and hold Agent, all persons and companies affiliated with Agent and all officers, shareholders, directors and employees of Agent and of any affiliated companies or persons, (collectively, "Agent's Indemnified Persons"), free and harmless and to release the Agent's Indemnified Persons from and against all claims, costs, expenses, demands, attorneys' fees and disbursements, suits, liabilities, judgments and damages of any and every kind or nature arising or resulting from or in any way connected with the Agent's performance of its duties and obligations under this Agreement (collectively, the "Claims") other than any Claims arising or resulting from or in any way connected with (a) any acts by Agent's Indemnified Persons or any independent contractors engaged by Agent to act on behalf of Agent ("Agent's Independent Contractors") outside the scope of Agent's authority under this Agreement, (b) the negligent or willful acts or omissions of Agent's Indemnified Persons or Agent's Independent Contractors, or (c) the breach of this Agreement by Agent's Indemnified Persons or Agent's Independent Contractors. Owner agrees to reimburse Agent's Indemnified Persons upon demand for any monies (including reasonable attorneys' fees and disbursements) which Agent's Indemnified Persons are required to pay out for any Claims.

(b) Agent agrees to defend, indemnify and hold Owner, all persons and companies affiliated with Owner and all officers, shareholders, directors and employees of Owner and of any affiliated companies or persons (collectively, "Owner's Indemnified Persons"), free and harmless and to release the Owner's Indemnified Persons from and against any Claims arising or resulting from or in any way connected with (a) any acts by Agent's Indemnified Persons or Agent's Independent Contractors outside the scope of Agent's authority under this Agreement, (b) the negligent or willful acts or omissions of Agent's Indemnified Persons or Agent's Independent Contractors or (c) the breach of this Agreement by Agent's Indemnified Persons or Agent's Independent Contractors. Agent agrees to reimburse Owner's Indemnified Persons upon demand for any monies (including reasonable attorneys' fees and disbursements) which Owner's Indemnified Persons are required to pay out for any such Claims.

(c) The foregoing provisions of this Section 3.01 shall survive the expiration or termination of this Agreement.

ARTICLE IV. COMPENSATION

Owner agrees to pay to Agent and Agent agrees to accept, as full and complete consideration for all undertakings herein provided or contemplated the following compensation:

4.01. Management Fee. Owner shall during the term of this Agreement pay Agent for the performance of its management and administrative duties hereunder a management and administration fee (the "Management Fee") of \$60,000.00 in twelve (12) installments of \$5,000.00 payable on the tenth day of each month for the then-current month. In the event the term of this Agreement commences, expires or terminates on a day other than the first or last day of a calendar month, the Management Fee shall be apportioned and payable appropriately.

In addition, Owner shall pay Agent a fee equal to ten percent (10%) of the cost of all capital expense projects entered into by Owner for supervision and contract management during the term of this agreement.

ARTICLE V. TERM

5.01. Term. This Agreement shall become effective as of July 1, 1999, and shall continue in full force and effect for a term of one (1) year until and including May 31, 2000. This agreement shall be renewable at the end of the current term for a successive term of one (1) year, unless either party gives written notice of its intention not to renew before the expiration of the current term.

5.02. Termination. Notwithstanding anything to the contrary contained in this Agreement, Owner may terminate this Agreement for any reason or no reason whatsoever without penalty upon thirty (30) days prior written notice to the Agent ("Owner's Termination Notice") and Agent may terminate this Agreement for any reason or no reason whatsoever without penalty upon sixty (60) days prior written notice to Owner ("Agent's Termination Notice"). Upon delivery of Owner's Termination Notice to Agent or receipt of Agent's Termination Notice by Owner, as the case may be, Owner may, at Owner's option, (i) suspend, Agent's performance of all or any portion of its duties during the period following delivery of Owner's Termination Notice or receipt of Agent's Termination Notice, as the case may be, and (ii) direct that Agent terminate all employees of Agent at the Property and that Agent terminate or suspend any services or supplies provided by third parties. Owner's Termination Notice or Agent's Termination Notice, as the case may be, shall designate the termination date of this Agreement. The transmittal of Agent's Termination Notice to Owner shall not preclude Owner from accelerating the termination date designated by Agent in Agent's Termination Notice which acceleration may be effected by Owner sending a subsequent written notice to Agent pursuant to this Section 5.02.

5.03. Other Termination. In the event a petition for bankruptcy is filed by or against either Owner or Agent, or in the event that either shall make an assignment for the benefit of creditors or take advantage of any insolvency act, either party hereto may forthwith terminate this Agreement upon written notice to the other. This Agreement shall also be automatically terminated and the obligations of the parties hereunder shall immediately cease (except for the obligations of Agent set forth in Section 5.04 and except with respect to those provisions that survive the expiration or termination of this Agreement, as specifically provided herein), upon a sale of the Property by Owner.

5.04. Responsibilities upon Expiration or Termination. (a) Upon the expiration or termination of this Agreement, for any reason or no reason whatsoever, Agent shall forthwith, without necessity of demand or notice, deliver the following to Owner or Owner's appointed agent on the effective date of termination or on such earlier date as requested by Owner:

- (1) A final accounting reflecting the balance of income and expenses for the Property and the System as of the date of termination;
- (2) Any balance of monies, as verified by the final accounting described in clause (a) of this Section, remaining in the Operating Account, together with any other monies of Owner held by Agent with respect to the Property and the System;
- (3) All files, records or documents of any kind, including but not limited to, contracts, leases (including equipment leases), warranties, bank statements, employment records, rate schedules, customer lists, plans and specifications, inventories, correspondence, receipts, paid and unpaid bills or invoices and maintenance records;
- (4) A schedule setting forth an inventory of Owner's equipment and personal property at the Property or relating to the System;
- (5) An assignment to Owner, or its nominee or designee, of all service contracts relating to Property and the System; and
- (6) All other documents and information relating to the Property and the System necessary for the Owner or Owner's designee to assume the immediate management thereof.

The obligation of Agent to deliver the foregoing shall survive the termination of this Agreement.

(b) Agent and Agent's Authorized Supervisor shall, for a period of sixty (60) days after the termination of this Agreement, and for such further period as may be necessary, make themselves available to consult with and advise Owner, or such other person or persons as may be designated by Owner, regarding the management, operation and maintenance of the Property and the System.

5.05. Shut Down Election. Without limiting the right of Owner to terminate this Agreement in accordance with Section 5.02 hereof or any other right of Owner to terminate set forth in this Agreement, Owner may at any time for any reason or no reason whatsoever elect ("Shut Down Election") upon not less than thirty (30) days prior written notice to Agent (or immediately upon receipt of notice if Agent shall have sent a notice of termination to Owner pursuant to Section 5.02 hereof) ("Shut Down Notice") to shut down or limit all or any part of the operations of Agent pursuant to this Agreement and to otherwise suspend Agent's performance of all or any portion of its duties under this Agreement. Owner shall have the right at any time to withdraw or revoke any Shut Down Notice previously sent to Agent, in which event all operations of Agent shall continue as if the Shut Down Election was never exercised. If Owner shall exercise the Shut Down Election, at the request of Owner, Agent shall terminate all or any number of the Employees designated by Owner. The Shut Down Election shall not relieve Owner of its obligation to pay Agent the Management Fee.

5.06. Subsequent Employment. Upon the expiration or earlier termination of this Agreement, Owner shall have the right to employ any employee of Agent without any claim of, or liability to, Agent.

**ARTICLE VI.
MISCELLANEOUS PROVISIONS**

6.01. Notices. Any and all notices required or which either party herein may desire to give to the other shall be made in writing and shall be given by certified or registered mail, postage prepaid, return receipt requested, or by recognized overnight courier, such as FedEx or Airborne Express, and shall be deemed to be given on the third business day following the date of posting in a United States Post Office or branch post office or one day after delivery to the overnight courier, or by facsimile with confirmed receipt, and shall be addressed:

To Owner: KW RESORT UTILITIES CORP.
6630 Front Street
Key West, Florida 33040
Facsimile: (214) 953-3769

With Copies To: William L. Smith, Jr.
10 South LaSalle, Suite 2660
Chicago, Illinois 60603
Facsimile: (312) 939-7765

To Agent GREEN FAIRWAYS, INC.
10 South LaSalle, Suite 2660
Chicago, Illinois 60603
Facsimile: (312) 939-7765

6.02. Relationship. Notwithstanding anything to the contrary contained herein, Agent shall be an independent contractor performing management functions for Owner but shall, at all times, be subject to the provisions of this Agreement with respect to managerial decisions. All records maintained by Agent with respect to the operation, leasing or maintenance of the Property and the System shall, at all times, be and constitute the property of Owner and shall be surrendered to Owner in accordance with the terms hereof, without charge or expense. Nothing herein shall create an agency coupled with an interest. Nothing herein shall be construed as creating a partnership or joint venture between Owner and Agent.

6.03. Owner's Limited Liability. Agent agrees that it does not have and will not have any claims or causes of action against any general or limited partner in or of the Owner, whether direct or indirect, or any disclosed or undisclosed officer, director, employee, trustee, shareholder, partner, principal, parent, subsidiary or other affiliate of Owner, including, without limitation, Citicorp, Citibank, N.A., Citicorp Real Estate, Inc. or Aspiration, Inc., (collectively, "Owner's Affiliates") arising out of or in connection with this Agreement or the transactions contemplated hereby. Agent agrees to look solely to Owner and its assets for the satisfaction of any liability or obligation arising under this Agreement or the transactions contemplated hereby, or for the performance of any of the covenants, warranties, obligations or other agreements contained herein, and further agrees not to sue or otherwise seek to enforce any personal obligation against any of Owner's Affiliates with respect to any matters arising out of or in connection with this Agreement or the duties and obligations contemplated hereby. Without limiting the generality of the foregoing provisions of this Section 6.03, Agent hereby unconditionally and irrevocably

waives any and all claims and causes of action of any nature whatsoever it may now or hereafter have against Owner's Affiliates and hereby unconditionally and irrevocably releases and discharges Owner's Affiliates from any and all liability whatsoever which may now or hereafter accrue in favor of Agent against Owner's Affiliates, in connection with or arising out of this Agreement and the duties and obligations contemplated hereby.

6.04. Compliance with Law. During the term of this Agreement, Agent and anyone authorized to act for Agent shall comply with all applicable state and local laws. Neither Owner, Agent nor anyone authorized to act for such parties shall, in the rental or sale, in the provision of services or any other manner, discriminate against any person on the grounds of race, colors, creed, religion, sex, national origin, or any other basis prohibited by law.

6.05. Amendment. This Agreement contains the entire agreement of the parties and any attempt to change or modify the terms hereof shall be null and void, unless approved and agreed to in writing by Owner and Agent. All prior agreements and understandings are hereby agreed to be null and void.

6.06. Governing Law. This Agreement shall be construed, interpreted and applied in accordance with, and shall be governed by, the laws applicable in the State of Florida.

6.07. Stipulation of Jurisdiction. In the event Owner seeks to enforce this Agreement, by legal action, Agent hereby waives the right to be sued in the city or county of Agent's principal place of business, state, province or country of incorporation. Owner and Agent do hereby irrevocably and unconditionally stipulate and agree that the Federal Courts in the State of Florida or the Circuit Court of the State of Florida in and for Monroe County, shall have exclusive jurisdiction to hear and finally determine any dispute, claim or controversy or action arising out of or connected (directly or indirectly) to this Agreement. Agent agrees that final judgment(s) in any such action or proceeding shall be conclusive and may be enforced in any other jurisdiction by suit on the judgment or in any manner provided by law. Nothing in this Section shall affect the right of Owner to serve legal process in any manner permitted by law or affect the right of Owner to bring any action or proceeding against Agent or its property in the courts of any other jurisdiction. To the extent that Agent has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property, Agent hereby irrevocably waives such immunity in respect of its obligations under this Agreement. The foregoing consent, in advance, to the jurisdiction of the above-mentioned courts is a material inducement for Owner to enter into this Agreement.

6.08. Assignment. Agent shall not assign this Agreement or any right hereunder without the prior written consent of Owner. Any transfer of a majority in interest of the voting stock or general partnership interests in Agent or any material change in the individuals having operating responsibility for Agent shall be deemed an assignment of this Agreement. Owner may freely assign its rights under this Agreement.

6.09. Construction. The plural may include the singular and the singular may include the plural and this Agreement shall be interpreted in this regard as the context may require.

6.10. Headings. All captions and headings herein are inserted only for convenience and ease of reference and are not to be considered in the construction or interpretation of any provision of this Agreement.

6.11. Remedies. No failure or delay on the part of any party in exercising any right, power or

remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies provided for herein are cumulative and are not exclusive of any remedies that may be available to any party at law or in equity or otherwise.

6.12. Time of the Essence. Time is of the essence to each provision of this Agreement.

6.13. Authority. Each individual executing this Agreement on behalf of any party to this Agreement represents and warrants that he or she is authorized to enter into this Agreement on behalf of that party and that this Agreement binds that party.

6.14. Third Parties. Nothing in this Agreement, express or implied, is intended to confer any rights or remedies under or by reason of this Agreement on any person and the parties hereto and their respective permitted successors and permitted assigns, nor is anything in this Agreement intended to relieve or discharge any obligation of any third person or any party hereto or give any third person any right to subrogation or action over or against any party to this Agreement.

6.15. Merger. This Agreement supersedes all prior agreements or understanding, written or oral, of the parties hereto relating to the subject matter of this Agreement, and, together with the writings to be delivered pursuant to this Agreement, incorporates the entire understanding of the parties hereto with respect to the subject matter hereof.

6.16. No Representations. The parties acknowledge and agree that no party to this Agreement nor any person or entity acting on their behalf has made any representation or promise to the other party which is not expressly set forth herein.

6.17. Duties and Obligations. Any and all duties or obligations that any party to this Agreement may have to the other parties to this Agreement are limited to those expressly stated in this Agreement, and neither the duties and obligations of such party nor the rights of the other party to this Agreement shall be expanded beyond the express terms of this Agreement on the basis of any legal or equitable principle or on any other basis whatsoever.

6.18. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument, but only after all of the other parties hereto have executed at least one counterpart to this Agreement.

6.19. Waiver. The waiver of any terms and conditions of this Agreement on any occasion or occasions shall not be deemed as a waiver of such on any future occasions.

6.20. Divisibility. In the event any article, section or paragraph of this Agreement is deemed illegal or unlawful, the same shall be struck herefrom and all other articles, sections or paragraphs shall remain valid and in full effect.

6.21. Liens. This Agreement shall not create an interest in real property and it shall not be recorded in the public records of any jurisdiction. Notwithstanding anything to the contrary contained herein, neither Agent nor any officer, partner, representative or agent thereof shall be entitled to place, file or record a lien against the Property on account of any sums alleged to be due and payable to Agent; provided, however, that nothing contained in this Section 6.21 shall be deemed to limit Agent's rights with respect to any judgment including any rights under applicable law to foreclose such judgment.

6.22. JURY TRIAL WAIVER. OWNER AND AGENT HEREBY KNOWINGLY, UNCONDITIONALLY, VOLUNTARILY, INTENTIONALLY AND IRREVOCABLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER DOCUMENT CONTEMPLATED TO BE EXECUTED IN CONNECTION HEREWITH, OR ANY COURSE OF CONDUCT COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PERSON OR ANY EXERCISE BY ANY PARTY OF ITS RESPECTIVE RIGHTS UNDER THIS AGREEMENT OR IN ANY WAY RELATING TO THE PROPERTY (INCLUDING, WITHOUT LIMITATION, ANY ACTION TO RESCIND OR CANCEL THIS AGREEMENT OR ANY CLAIMS OR DEFENSES ASSERTING THAT THIS AGREEMENT WAS FRAUDULENTLY INDUCED OR IS OTHERWISE VOID OR VOIDABLE). THIS PROVISION IS A MATERIAL INDUCEMENT FOR OWNER TO ENTER INTO THIS AGREEMENT.


IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date and year first above written.

Signed, sealed and delivered in the presence of:

OWNER:
KW RESORT UTILITIES CORP.,
a Florida corporation,

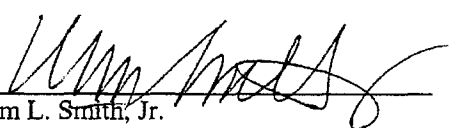
AGENT:
GREEN FAIRWAYS, INC.,
an Illinois Corporation,

By:



William L. Smith, Jr.
President

By:



William L. Smith, Jr.
President