

# Comprehensive Annual Financial Report



## Utility Board of the City of Key West, Florida

For the Fiscal Year Ended September 30, 2007

COMPREHENSIVE ANNUAL FINANCIAL REPORT

UTILITY BOARD OF THE CITY OF  
KEY WEST, FLORIDA

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

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CHIEF FINANCIAL OFFICER

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GENERAL MANAGER &  
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UTILITY BOARD OF THE CITY OF KEY WEST

January 15, 2008

To the Chairman and Members  
of the Utility Board of the  
City of Key West, Florida

The Comprehensive Annual Financial Report (CAFR) of the Utility Board of the City of Key West, Florida, for the Fiscal Year ended September 30, 2007, is submitted herewith, pursuant to and by the authority of Chapter 69-1191, Laws of Florida, as amended, and Resolution No. 532 of the Utility Board, Article V, Section 5.01 (H), adopted November 13, 1985, as amended and supplemented. The CAFR was compiled by the staff of the Finance Department with the close cooperation of our independent auditor and represents the official report of the Utility's financial operations and conditions to the citizens, Utility Board, management personnel, rating agencies, bond holders and other interested parties. Management is responsible for the contents of the CAFR.

The *Introductory Section* includes the table of contents and this transmittal letter. The *Financial Section* is comprised of the independent auditor's report, management's discussion and analysis of our financial position and results of operations, the financial statements, supplemental schedules and other auditor's reports. The notes to the financial statements are considered an integral and essential part of adequate disclosure and fair presentation of the financial statements. The *Statistical Section* includes selected financial and demographic trend information. The tables within this section differ from the financial section schedules in that they present some non-accounting data covering more than two fiscal years. Please refer to these sections for in depth analysis.

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

The Utility Board of the City of Key West realizes its role, as a public power entity, has never been more important. The present organization was created by provisions of Chapter 69-1191, Laws of Florida (1969), as amended, to manage, operate, and maintain the electric utility serving the citizens of the City of Key West, Florida and the Lower Florida Keys.

## **Growing Greener, And More Reliable, Every Day At Keys Energy Services**

### **Green Leaders**

As scientific debates about climate change continue, the issue of global warming is hard to ignore.

The Utility Board, which governs Keys Energy Services (KEYS), recently approved the addition of a climate change business priority to KEYS Strategic Plan. The business priority calls for KEYS' staff to, "develop a plan to reduce atmospheric concentrations of greenhouse gases while considering the rate impact on KEYS' customers."

Action plans developed by KEYS staff to implement this business priority include:

- Developing an education program to help customers learn about climate change and what they can do to help.
- Identifying customer assistance programs and determining feasibility of implementation.
- Implementing "GREEN" initiatives for KEYS' facilities and operations.
- Lobbying the Florida Municipal Power Agency (FMPA), the wholesale power company owned by 30 municipal electric utilities within Florida – including KEYS, to establish renewable energy goals for all of its member utilities.

At the state-level, Governor Charlie Crist recently issued three executive orders that propose to move Florida toward greater use of renewable energy, energy efficiency and conservation, and lower greenhouse gas emissions.

While the Governor's plan calls for aggressive goals, KEYS and its fellow utilities throughout the state are working to create action plans to help accomplish these goals while maintaining the high reliability that Floridians enjoy and keeping electric bills affordable.

Although KEYS' climate change business priority and the Governor's state-wide initiatives are new, KEYS has been growing GREEN initiative for quite some time. Noteworthy programs include: KEYS' nationally recognized annual Tree Giveaway program, FREE on-site or online Home Energy Surveys, KEYS' award winning Energy Conservation Calendar, and the *Go Green Renewable Energy* program. The aforementioned programs have long been pillars of KEYS' GREEN efforts and continue to play important roles as lasting environmental changes are sought.

In conjunction with the addition of a climate change business priority to KEYS Strategic Plan, numerous actions have further propelled local GREEN practices. Recent actions include:

- The Utility Board passing a resolution that urges FMPA to adopt an appropriate percentage goal to reduce greenhouse gas emissions, achievable by 2020, and to commit to studying alternative fuel sources during Fiscal Year (October – September) 2008 and implementing use of appropriate sources beginning in Fiscal Year 2009.
- Along with Reef Relief, KEYS submitted a grant proposal to the Florida Department of Environmental Protection seeking funding for approximately \$100,000.00. The funding will assist both agencies in the design, purchase, and installation of a 10 kilowatt solar photovoltaic array. The array would be owned by and located at the Reef Relief Environmental Center in Key West and KEYS staff would help to maintain the system. Reef Relief staff would work as the educational arm for KEYS on solar energy.
- Converting KEYS fleet of 33 diesel vehicles to bio-diesel.
- Purchasing "environmentally friendly" electric transformers that utilize coolants derived from domestically grown soybeans – a renewable energy source.

- Installing Light Emitting Diode (LED) bulbs on all traffic signals within KEYS service area. Electrical load requirements of the LED lights are 10-percent less than that of traditional incandescent traffic lights. Prior to the LED conversion, traffic signals within KEYS service area consumed over 160,000 kilowatt-hours (kWh) of energy per month. Those same traffic signals now consume just over 27,000 kWh per month.
- Replacing incandescent bulbs in KEYS Service Building with compact fluorescent (CFL) bulbs.

KEYS continues to grow GREEN programs and services, and more items will soon be added to the list of accomplishments; however, as KEYS pursues new GREEN initiatives, the Utility Board and KEYS' staff will not lose sight of the bottom-line, customer rates.

While KEYS works to make sure it is doing its part to help the environment, the cost of such actions will always be considered and used when determining the feasibility of implementation. The initial cost of projects, such as the electric transformer conversion and LED traffic signal replacement, are slightly higher than conventional replacements; however, the life expectancy and efficiency of such units quickly pay back initial investments.

As GREEN quickly becomes the color of choice around the world - KEYS, the public power provider for over 27,000 customers in Key West and the Lower Florida Keys, can be counted on to be at the forefront of local efforts to promote green practices and implement lasting environmental changes.

### **Reliably Powering Paradise**

With over 300 miles of electric lines and nearly 14,000 utility poles, Keys Energy Services (KEYS) employees work 24 hours a day to provide reliable electric service to over 27,000 customers from Key West to the Seven-Mile Bridge. While countless preventive measures and programs help to ensure the lights stay on, KEYS still faces challenges unique to the public power utility that powers paradise.

KEYS (then City Electric System) began powering paradise in 1943 with locally generated electricity that, while convenient, was not always reliable. Daily power outages and rotating brown-outs were a frequent occurrence for residents of Key West and the Lower Florida Keys in the mid-part of the 20<sup>th</sup> Century.

The construction of the Transmission Line (or TIELINE) in 1987 saw an immediate increase in reliability once electricity could be transported from the mainland along the 'extension cord that went to sea'. Additionally, redundant spans of the TIELINE were later added along U.S. Highway 1 to increase capacity and reliability into the Keys should a fault occur on the original span. However, while the TIELINE has greatly increased the reliability of power, it remains vulnerable to electrical faults.

In 2006, KEYS customers experienced 12 outages due to a fault on the TIELINE. Of those 12 faults, 6 originated in the Florida Keys Electric Co-operative territory (Marathon to Key Largo), 4 in KEYS service area, and 2 in the Florida Power & Light territory on the Florida mainland.

To combat and prevent faults, KEYS has been tracking power outages since the early 1990s. Aside from providing benchmarks for reliability, the outage statistics help to: identify and target problem areas/zones and faulty construction materials, assist in planning areas for tree trimming and capital improvement allocations, and identify areas susceptible to weather outages.

While most faults that result in power outages are out of KEYS' control, and often outside of its service area, efforts are taken to ensure the continued reliability of electrical facilities within the Utility's service area.

Reliability efforts include:

- Utility Pole Inspections/Hardening:
  - Since January 2007, KEYS has been performing an extensive pole and facility inventory check which includes more than 14,000 power poles and other electrical equipment. Results of the inspections will help KEYS better implement a multi-year utility pole refurbishment project that is expected to take five years to complete and see approximately 3,000 wood utility poles replaced with stronger concrete poles.
- Helicopter Survey:
  - Every two years KEYS performs a helicopter survey of the span of TIELINE between Key West and Marathon to visually inspect poles, hardware, lines, and insulators, not visible from ground-level. The survey was recently conducted in the spring of 2007 and its results have aided in the scheduling of repairs to keep the TIELINE at its maximum capacity and integrity.
- Infrared Photographic Studies:
  - On a yearly basis, KEYS identifies and repairs, heat anomalies, or “hot spots”, with an infrared study of Transmission and Distribution equipment. During the study, a special infrared video camera is used to detect heat anomalies which are a red flag for future equipment failure. In 2006, 179 “hot spots” were identified and repaired, which could have resulted in potential power outages if left uncorrected.
- FREE Tree Trimming Services:
  - Keeping trees trimmed away from electrical lines helps KEYS provide reliable electricity.

Despite efforts to the contrary, power outages can, and will, occur – especially given recent active hurricane seasons.

The overall length of a power outage is the result of the time it takes to identify and subsequently repair an electrical fault. While restoration times vary greatly, residents can be assured KEYS is working hard to get, and keep, paradise energized.

## Entity Definition

*Enabling Legislation* - Pursuant to the provisions of Chapter 69-1191, Laws of Florida, Special Act of 1969, as amended and supplemented, Section 11, the said Utility Board shall have full and complete power and exclusive authority to fix rates and charges for electricity and charges or prices for any other real and personal property, products and services, materials and commodities, by-products of and from all or any of its activities or operations, furnished or sold by said Utility Board, and to provide for the collection of the same.

*Bond Resolution* - Pursuant to the provisions of the Original Bond Resolution, 532, adopted on November 13, 1985, as amended and supplemented, Article V, Section 5.01, (B), the Board covenants to fix, establish, revise from time to time whenever necessary, maintain and collect always such fees, rates, rentals and other charges for the use of the product, services and facilities of the Utility which will always provide Revenues in each Fiscal Year sufficient to pay, and out of such funds pay, 100% of all Operating Expenses of the Utility in such year and all reserve or other payments herein required, and 125% of the Debt Service Requirement in such Fiscal Year on the Bonds. Such rates, fees, rentals or other charges shall not be reduced so as to be insufficient to provide Revenues for such purposes.

The Board further covenants and agrees that the Board will annually within thirty (30) days after adoption of the budget revise such fees, rates, rentals and other charges for the use of the product, services and facilities of the Utility to the extent necessary for the estimated Gross Revenues during the next succeeding Fiscal Year to increase over the amount of actual Gross Revenues for the next preceding Fiscal Year by the amount that the estimated Operating Expenditures during such next succeeding Fiscal Year shall exceed the actual Operating Expenses of the Utility during such next preceding Fiscal Year.

*The Florida Public Service Commission (FPSC)* – Since KEYS is a public utility the FPSC has rate structure jurisdiction. No rules and regulations, or schedules of rates and charges, or modifications or revisions of the same, shall be effective until filed with and approved by the FPSC as provided by law. Upon acceptable showing by any utility, the FPSC may waive or modify, as to that utility, the provisions of any rule, except when such provisions are fixed by Statute. No deviation from these rules shall be permitted unless authorized in writing by the FPSC.

Each utility shall file with the FPSC tariffs applicable to all territory served by it, showing all rates, classifications, and charges for service subject to the jurisdiction of the FPSC, furnished by the utility, and all rules and regulations relating thereto. A letter of transmittal shall be accompanied by various items in connection with each service classification in which any change is proposed. Where the change involves a rate or charge and the electric utility elects to make a cost study, the utility shall file a cost information statement containing a summary of the cost study performed. After acceptance, one stamped copy will be returned to the utility, which shall be the notice to the utility that the filing has been accepted and approved.

*Florida Municipal Power Agency (FMPA)* - The Utility is a member of, and receives all of its power needs from FMPA's All-Requirements Project. Each member appoints one representative to FMPA's Board of Directors, which governs the Agency's activities. The governance of rates charged to members includes the All-Requirements Project Committee (one vote per member) and the FMPA Board of Directors (a member's vote is weighted based on the Member City's net energy for load).

### **Basis of Accounting**

The financial statements are prepared on the basis of accounting required by the Federal Energy Regulatory Commission (FERC), which is an application of generally accepted accounting principles that is peculiar to utilities. Revenues are recognized in the period earned and expenses are recognized in the period incurred.

Budgetary control is maintained through the use of monthly financial reports and the use of purchase orders, work orders, and miscellaneous cash disbursements and approval procedures. Property, Plant and Equipment is stated at cost, which includes costs of contract work, labor, materials, allocated indirect charges, and capitalized interest. Major renewals and betterments are capitalized while minor replacements and repairs are expensed as incurred. The cost of electric plant retired, together with removal costs less salvage, is charged to accumulated depreciation at such time as property is removed from service.

In June 1999, the Governmental Accounting Standards Board (GASB) adopted Statement 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. The standard requires that a “Management Discussion and Analysis” be included with annual audited basic financial statements. KEYS implemented GASB Statement 34 for the fiscal year ended September 30, 2002. Your attention is directed to Note 1 of the Notes to the Financial Statements, which fully describes the accounting practices for the presentation of the financial statements.

### **Internal Accounting Controls**

In developing and maintaining the accounting system, consideration is given by the administration as to the adequacy of internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition; the reliability of financial records for preparing financial statements in conformity with generally accepted accounting principles; and maintaining accountability for assets. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the evaluation of costs and benefits requires estimates and judgments by management. For the fiscal year ended September 30, 2007, the Auditor noted no matters involving internal control over financial reporting and its operation that would be considered to be a material weakness.

The first level of control comes directly from the Enabling Act (69-1161). Section 17 requires that the Utility Board hire an independent certified public accountant to complete an annual audit. The second level of control comes from the covenants made by the Utility Board to the bondholders. Among other requirements, the Utility Board must keep accounts in accordance with generally accepted accounting principles and to file audited annual financial statements with the Auditor General of the State of Florida within 180 days after the close of its fiscal year. As an additional level of control the Utility Board has established an audit committee of which two board members are part.

### **Budgetary Control**

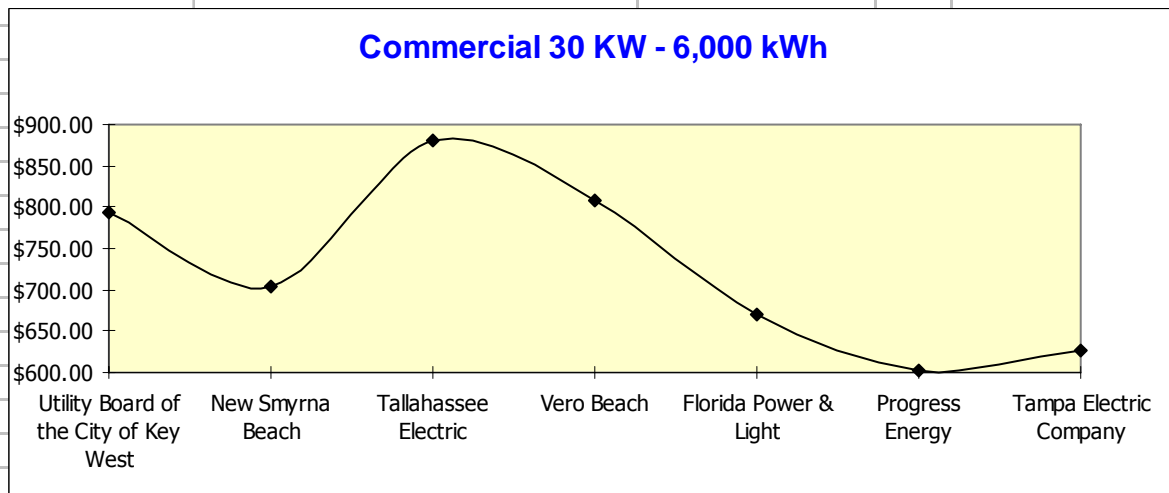
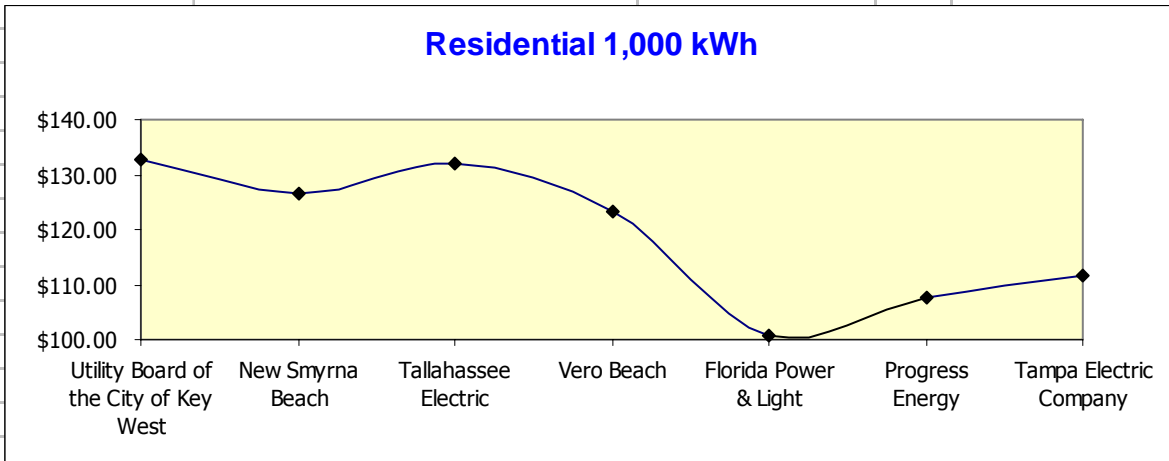
In accordance with the Enabling Legislation, the Utility Board holds public hearings and subsequently adopts an annual budget for operating expenses and capital outlay prior to October 1 of the fiscal year. Actual revenues and expenses are compared to the budget on a line item basis (which is the legal level of control) within cost centers, and an Analysis of Variances Report is prepared and submitted to the Utility Board each month as required by bond indentures. During the year, staff can make amendments within the operating budget or the capital budget that do not change the total budget for those categories, provided that the change is within the same limitations established by Resolution adopted by the Utility Board. The Utility Board approves all other budget changes. Supplemental appropriations were necessary and the Utility Board in accordance with Utility Board policies amended the budgetary data presented herein. Budget appropriations lapse at each fiscal year-end, except for the Capital Budget. The budget is adopted on a basis consistent with KEYS’ accrual basis of accounting except for depreciation and amortization, debt service on revenue bonds, and allocation of administrative costs to capital projects.

**Rates for Service**

The following table compares average monthly charges for electric service among selected utilities in Florida for the fiscal year ended September 30, 2007.

<b>COMPARISON OF AVERAGE MONTHLY ELECTRIC BILLS</b>			
		Residential 1,000 kWh	Commercial 30KW - 6,000 kWh
	Utility Board of the City of Key West	\$ 132.84	\$ 794.56
<i>Other Municipal Utilities in Florida</i>	New Smyrna Beach	\$ 126.58	\$ 703.25
	Tallahassee Electric	\$ 132.17	\$ 879.78
	Vero Beach	\$ 123.25	\$ 806.94
<i>Investor-Owned Utilities in Florida</i>	Florida Power & Light	\$ 100.84	\$ 669.88
	Progress Energy	\$ 107.58	\$ 602.52
	Tampa Electric Company	\$ 111.68	\$ 626.56

*Source: Florida Municipal Electric Association, Inc. Tallahassee, Florida*

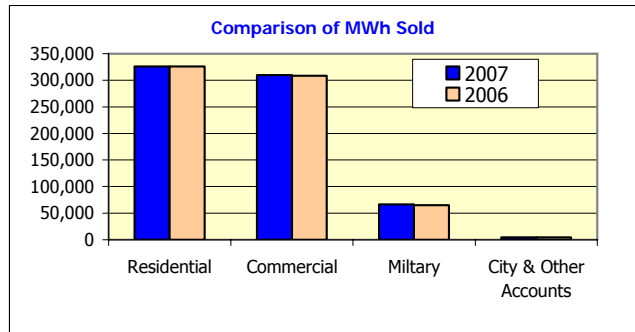
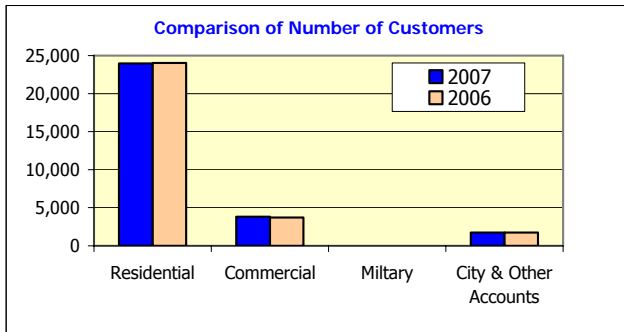


## Customer Statistics

At fiscal year-end 2007, the Utility's total customer base was 29,540 or 33 more customers than the 2006 level of 29,507. The number of residential customers decreased by 44 to 23,967. The number of commercial customers increased by 78 to 3,821.

The average monthly residential consumption of 1,134 kWh was higher than the 2006 level by 2 kWh. The average monthly commercial consumption of 6,748 kWh was lower than the 2006 level by 126 kWh. The consumption for the military increased 1.8 million kWh.

Peak Demand (60 minute net) increased to 142.0 MW compared to the 2006 peak of 136.0 MW. Load Factor was 61.6% in Fiscal 2007 compared to 63.1% in 2006.



## Cash Management

The Utility Board's investment policies are governed by state statutes, bond covenants, and the Utility Board's own investment practices. Utility Board monies must be deposited in banks designated as qualified public depositories by the State of Florida, Department of Insurance and Treasurer. Permissible investments include the obligations of the U.S. Treasury, U.S. agencies and any state of the United States of America; certificates of deposit; repurchase agreements; and commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1" by S&P and which matures not more than 270 calendar days after the date of purchase; units of participation in the State of Florida Local Government Surplus Funds Trust Fund; and investment agreements with a bank or insurance company which has an unsecured, uninsured and unguaranteed obligation rated "A3" or better by Moody's and "A-" or better by S&P.

Collateral is provided for demand deposits and certificates of deposit through the Florida Security for Public Deposits Act. This Act establishes guidelines for qualification and participation by banks and savings associations, procedures for the administration of the collateral requirements, and characteristics of eligible collateral. Under the Act, a qualified public depository must pledge collateral valued at not less than 50% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance. Additional collateral, up to a maximum of 125%, may be required if deemed necessary under certain conditions.

The investment goal of the Utility Board is to invest public funds in a manner which will provide the highest investment return with the maximum security, while meeting the daily cash flow demands of the Utility Board and conforming to all state and local laws governing the investment of public funds. Safety of principal is regarded as the foremost objective of the investment program. Maintaining sufficient liquidity is also an important investment objective. The cash management performance for Fiscal Year 2007 produced earnings in the amount of \$2.0 million, which was \$985,200 more than 2006. This is primarily due to higher interest rates.

### **Purchased Power**

The Utility Board voted on July 7, 1997, to participate in the FMPA All-Requirements Project (ARP) whereby the Utility will purchase their bulk power supply requirements, in excess of certain excluded resources, from the ARP. The Utility began operations as a project participant effective April 1, 1998. The Utility Board has previously entered into several purchased power arrangements including (i) the FMPA Tri-City Project (Stanton 1); (ii) the FMPA Stanton 2 Project, and (iii) long-term purchase agreement from Florida Power & Light Company (FPL). As a member of the ARP, the Utility Board's resources and costs under these three contracts have been assigned to FMPA. Other power resource and sale arrangements include the Utility Board's purchases from a small resource recovery unit located on Stock Island, sale of power to the Florida Keys Electric Cooperative Association, Inc. (FKEC) and interchange service arrangements with other Florida utilities and with power marketers. All of the power purchases listed above, except for the purchase from the resource recovery unit, require transmission over the FKEC transmission system. On January 1, 1992, this became a jointly owned system between KEYS and FKEC and is covered by a Long-Term Joint Investment Transmission Agreement. Please see Notes to Financial Statements for further information.

### **Transmission Facilities**

KEYS is connected to the mainland Florida transmission network through a 61-mile long, 138 kV transmission line jointly owned by the Utility Board and the FKEC and which allows interconnection between KEYS and FKEC at its Marathon Substation. The 138 kV transmission line extends northeast along U.S. 1 through FKEC's service territory and ties in with FPL at the Monroe-Dade County line. The Utility Board's solely-owned portion of the 138 kV line extends from Marathon Key, in the FKEC service territory, to the Stock Island (U.S. 1) Substation. Along this route, the line loops in and out of the Utility Board's Big Pine and Big Coppitt substations.

Pursuant to the current transmission agreement with FKEC, the Utility Board constructed and jointly owns with FKEC a second 138 kV transmission line, which extends 21 miles from the Tavernier Substation in the FKEC service territory to the Monroe-Dade County line, where it ties into the FPL 138 kV transmission line. The two transmission lines between Florida City and Tavernier provide greater reliability and increased import capability to KEYS. With the addition of this latest segment of 138 kV line and the conversion of the decommissioned steam generating unit at the Stock Island Plant to a synchronous condenser, the firm MW transfer allocation for KEYS over the Transmission Line is approximately 110 MW. The transfer capability of the transmission line is approximately 270 MW. KEYS local transmission facilities consist of seven-69 kV lines (14.9 miles) in Key West/Stock Island and four-138 kV lines (51.2 miles) from Key West to Marathon. Distribution is supplied from the 69/138 kV system to KEYS' eight distribution substations.

### **Distribution Facilities**

KEYS' distribution system comprises approximately 230 miles of three-phase equivalent 13.8 kV lines from the Utility's power plants and eight distribution substations. Switching for the 13.8 kV distribution is provided by 13.8 kV metal-clad switchgear. Distribution at 13.8 kV is provided via substation power transformers with varying capacities. There are numerous sectionalizing and isolation switches on the 13.8 kV distribution systems. Additionally, transformer vaults are used on the distribution systems to step down from distribution voltage to utilization voltage at hotels and other large loads.

### **Local Generation Facilities**

The Utility Board currently owns, operates and maintains six generating units with a total Nameplate rating of 43.4 MW. This includes a combustion turbine (CT) unit, two medium speed diesel units and three peaking diesel units located at Stock Island.

Additionally, FMPA owns three combustion turbines at Stock Island. The combined Nameplate ratings are 79.7 MW. These units contribute to the total Nameplate rating of 123.1 MW and the Utility operates all the units with No. 2 oil. Under provisions of the ARP Supply Contract, the output of the Utility-owned generating facilities is being purchased in its entirety by FMPA as part of the ARP. The table entitled "Generating Capacity" in the Statistical Section provides more detailed information.

### **Debt Administration**

The principal amount of Long Term Debt, net of the current portion, was \$92.1 million at September 30, 2007, compared to \$55.0 million at September 30, 2006. All outstanding debt had fixed interest rates, with exception of the Loan Payable. Total revenue bond debt was comprised of three refunding bond issues 1991, 2000 and 2001, and one revenue bond issue 2006. All issues are rated AAA by Standard & Poor's (S&P) and insured by AMBAC Indemnity Corporation. The outstanding balance of the FMPA Pooled Loan was \$0 and \$948,000 for 2007 and 2006, respectively.

### **Long Term Financial Planning**

On October 31, 2006, KEYS issued \$42.0 million of Electric System Refunding and Capital Improvement Revenue Bonds, Series 2006. The bonds refunded the FMPA loan of \$948,000 and will fund several capital projects, including a pole hardening program, transmission and distribution improvements, a new substation located in Stock Island, installation of new feeders at the Big Pine substation, replacement of certain substation transformers and installment of fin fan coolers at the Stock Island Generating Facilities. Since many of the projects rehabilitate deteriorating lines, the impact on operating and maintenance related to that rehabilitation is expected to be favorable. The issue is rated AAA by Standard & Poor's (S&P) and Fitch and Aaa by Moody's and is insured by the MBIA Insurance Company. In addition, KEYS obtained an underlying bond rating of A2 from Moody's and A- from Standard & Poor's (S&P).

### **Risk Management**

The Utility is exposed to various risks of loss related to torts, damage, theft or destruction of assets, errors or omissions, injuries to employees, and natural disasters. KEYS will either retain the exposures to loss or transfer the risk to a commercial carrier to minimize the financial impact on the Utility. The Utility retains the risk of loss up to the deductible amounts.

The Risk Management section has developed a specific coverage program. Under this program, coverage is provided for worker's compensation, comprehensive general liability, excess liability, automobile comprehensive and physical damage, crime and fiduciary, public official's errors and omissions, property, boiler and machinery, windstorm, flood and pollution liability. The Risk Management section is striving to meet the goal of continuous no-lost-time accidents and minimizing injury claims through their coordinated and continuous efforts in monitoring potential risk exposures and implementing safety control programs, such as Safety Training Observation Program ("STOP"), coupled with effective claims administration.

### **Independent Audit**

Resolution No. 532 of the Utility Board, Article V, Section 5.01 (H), adopted November 13, 1985, as amended and supplemented requires an annual audit by independent certified public accountants. For Fiscal Years 2007 and 2006 the Utility Board selected the accounting firm of Oropeza & Parks, CPAs. The auditor's report on the financial statements is included in the Financial Section of this report.

### **Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Utility Board of the City of Key West for its comprehensive annual financial report for the fiscal year ended September 30, 2006.

This was the 15<sup>th</sup> consecutive year that the Utility Board has achieved this prestigious national award. In order to be awarded a Certificate of Achievement, a government unit must publish an easy to read and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

We believe that our current comprehensive annual financial report continues to conform to the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **Acknowledgments**

We extend our personal thanks to the dedicated efforts of the Finance Department and efforts of those employees who spent many hours preparing, revising and finalizing this document. We are grateful to Oropeza & Parks, CPAs whose professional skill and integrity have allowed us to present a report that meets the highest standards of financial reporting. Finally, we would like to thank the members of the Utility Board of the City of Key West for their interest and support in planning and conducting the operations of the Utility in a responsible and progressive manner.

Respectfully submitted,



Jack Wetzler  
Assistant General Manager &  
Chief Financial Officer



Lynne Tejeda  
General Manager &  
Chief Executive Officer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Utility Board of the City of Key West, Florida

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Charles S. Cox*

President

*Jeffrey R. Emer*

Executive Director

# Utility Board of the City of Key West, Florida



**Chairman Robert R. Padron** has served on the Utility Board since 1995. He was employed by Keys Energy Services from 1961 to 1994, and retired as the General Manager. Mr. Padron holds a Bachelor of Science degree from Tulane University and a Master's of Science degree from Nova University. He serves on various committees of the Florida Municipal Power Agency (FMPPA), the American Public Power Association (APPA) and the Florida Municipal Electric Association (FMEA), where he is a past president. He was the 2002 recipient of the APPA's Spence Vanderlinden Public Official Award.

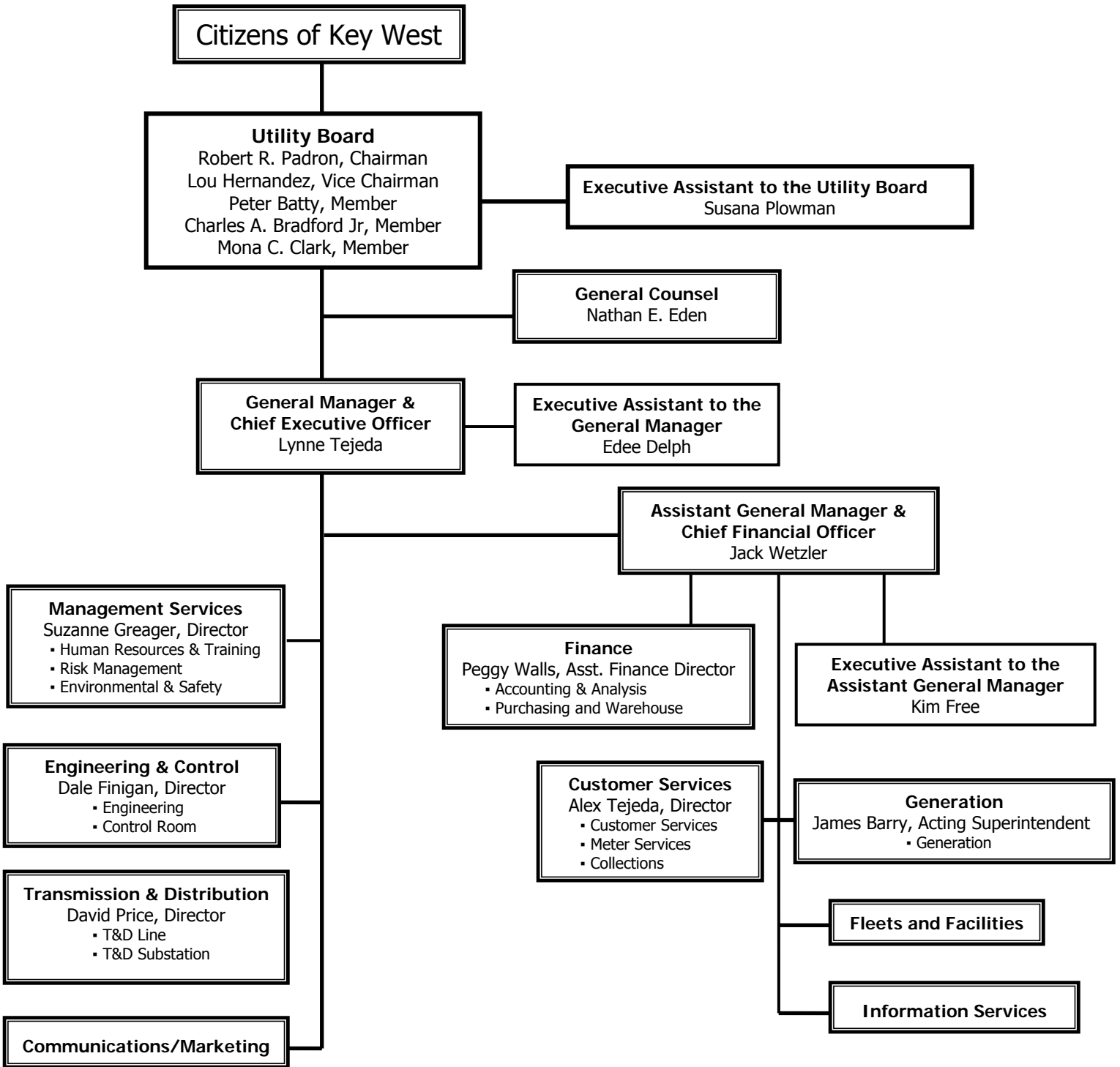
**Vice Chairman Lou Hernandez** has served on the Utility Board since 1997. He is the Executive Director of HELPLINE, Inc., a crisis intervention and information referral telephone hotline in Monroe County. Upon graduation from Texas A&M University, Mr. Hernandez was commissioned by the U.S. Army and served as an Infantry Officer in Vietnam. After completing his Armed Services commitment, Mr. Hernandez secured a Federal internship with the US Department of Transportation in the Human Resources Development area. He worked with several Federal agencies, completing his career in Washington as the Director of Training and Employee Development with the General Services Administration. He moved to Key West in 1983 and has worked in the home renovation business and as a counselor at FTPA and the Public Health Department. He is the current Vice-Chair of the Citizen's Review Board of the City of Key West.

**Mr. Peter Batty** has served on the Utility Board since 2005. He is a Florida Licensed Real Estate Broker and Mortgage Broker and has lived in the Florida Keys since 1989. On November 18, 2000, he was ordained as a Permanent Deacon to the Archdiocese of Miami. Mr. Batty received his Bachelor of Science degree from Eastern Michigan University and his Master's degree from St. Thomas University. Mr. Batty is a member of the Florida Keys Community College Education Foundation Board and former Vice President of the Wesley House Board of Directors. Mr. Batty was born in Salisbury, England, and immigrated to the United States in 1955. He and his wife Ellen have raised four children in the Florida Keys.

**Mr. Charles A. Bradford Jr.** has served on the Utility Board since 2006. He has worked in the Banking and Finance industry for 30 years and is currently the Vice President of Keys Federal Credit Union. Mr. Bradford received his Bachelor's degree in Banking and Finance from the University of North Florida and has certifications in consumer lending, cash flow analysis, and accounting. He is a member of the City of Key West's Port Advisory Board and Workforce Housing Committee, Sunrise Rotary Club, and is past Chair of the Key West Chamber of Commerce and former member of KEYS Advisory Committee. Mr. Bradford has lived in the Florida Keys since 1980.

**Ms. Mona C. Clark** has served on the Utility Board since 2004 and holds the distinction of being the first female Board member in the Utility's history. She has worked for the Monroe County School District for over 30 years, serving as an educator and an administrator. She is currently the Assistant Administrator at Glynn Archer and Sigsbee Elementary Schools. Ms. Clark received her Bachelor of Science in Education degree from Florida A & M University and her Master's of Education/Leadership degree from the University of South Florida. Ms. Clark is the Chair of the Mayor's Revolving Loan Fund for the City of Key West and Chair of the Citizen's Advisory Task Force for the Monroe County Housing Authority.

Organizational Chart Fiscal Year Ended September 30, 2007



## Keys Energy Services Employees as of September 30, 2007

Sylvia Adams	Edee Delph	James McClendon	David Rodriguez
John Albury	Joseph Diaz	Cindy McVeigh	Manuel Rodriguez
Matthew Alfonso	Patty Dixon	Neil Mellies	Steve Rodriguez
Barbara Archer	Michael Domenech	Ony Mendez	Armando Rojas
Frank Arencibia	Eugene Edwards	Juan Menendez	Bobby Ruble
Heather Arencibia	John Fallon	James Menite	Stan Rzad
Marcos Arencibia	Albert Fernandez	Robert Mesa	Daniel Sabino
Pedro Arencibia	Desiree Fernandez	Elizabeth Miller	Manuel Sanchez
Eric Balbuena	Dale Finigan	Armando Mira III	Austin Sands
Deborah Barnett	Nancy Flores	Horace Mobley	Thomas Schuler
Robert Barrios	Margie Fontanez	Sharon Moore	Jeremiah Sipe
Julio J. Barroso	Elizabeth Franco	Scott Morgan	Vin Smith*
James Barry	Kim Free	David Morris	Dennis Stone
Terry Beeman	Russell Free	James Newton	Susan Storm
Jeffry Berg	Daniel Garcia	Griff Niekerk	Alex Tejada
Robert Berger	Eddie Garcia	Catherine Nix	Lynne Tejada
Tony Bethel	Mark Garcia	Patrick Nolan*	Larry Thomas
Cassie Blanco	Ralph A. Garcia	Chomi Oropeza	Barry Travis
Alan Bradley	Roger George	Milagros Ortiz	Amber Turnbull
Karla Bravo	Dave Gerstenkorn**	Glicel Owen	Ivan Urbay
Kris Bremer	Edward Giesler	Allen Palka	Hugo Valdes
Lynda Bringle	Thomas Grassi	Carliss Parks	Bryan Veliz
Heath Brundage	Suzanne Greager	Jeff Partington	Mary Vidal
Robert Burchett	Michael Griffin	Don Paxson	Chuck Vinson
Elaine Carey	Sabrina Hall	Catherine Peace	Dane'le Waldon
Harry Carey	Susan Ham	Chasity Perez	Peggy Walls
Mike Carey	Kevin Hawthorne	Desi Perez	Charles Walterson
Walter Cashwell	Timothy Hertzog	Dina Perez	Stefan Washington
George Castellon	Ana Kerr	Jack Pins	Frankie Webb
Nick Ckonjevic	Emmanuel Kerr	Jerry Pita	Jack Wetzler
Michael Commander	Johnny Kerr	Susana Plowman	Bruce Woodard
David Cottar	Steven Key	Eva Pope	Donnie Yarbrough
Kevin Crockett	Sean Kipp	Eddie Powell	Joshua Yarbrough
Fred Culpepper	Phil Klausing	Letisia Powell	Idalia Yorba*
Jamie Curry	Harold Knowles	David Price	Erica Zarate
John Curry	Chip Lafferty	Alberto Pumar	
Wayne Davila	Brenda LaLama	Martha Ramas	
James Davis	Wayne Lewallen	Beverly Ray	
Maria De La Torre	Victor Linares	Milton Roberts	
Jose Del Rio	Herschell Major	Randy Roberts	
Daniel Delice	Laurence Marius	Alvaro Rodriguez	

\* Employee of the Quarter 2007

\*\*Employee of the Year 2007