

Comprehensive Annual Financial Report



Utility Board of the City of Key West, Florida

For the Fiscal Year Ended September 30, 2008

COMPREHENSIVE ANNUAL FINANCIAL REPORT

UTILITY BOARD OF THE CITY OF
KEY WEST, FLORIDA

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008

JACK WETZLER
ASSISTANT GENERAL MANAGER &
CHIEF FINANCIAL OFFICER

LYNNE TEJEDA
GENERAL MANAGER &
CHIEF EXECUTIVE OFFICER

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(305) 295-1000
1001 James Street
PO Box 6100
Key West, FL 33040-6100
www.KeysEnergy.com

UTILITY BOARD OF THE CITY OF KEY WEST

March 4, 2009

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, 2008, 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.

Putting Customers First With Reliable Energy & New Technologies and Green Initiatives

In a year characterized by “change” in government and financial woes at home and abroad, Keys Energy Services (KEYS) continued to put its customers first with unparalleled service and dedication. Fiscal Year 2008 saw KEYS offer continued energy reliability, and the launch of new technologies and green initiatives to further improve the customer experience.

Reliable Energy

In 2008, KEYS was one of 84 of the nation’s more than 2,000 public power utilities to earn Reliable Public Power Provider™ (RP₃) recognition from the American Public Power Association (APPA) for providing consumers with the highest degree of reliable and safe electric service.

“RP₃ designees exemplify the highest standards of utility operations,” said Paul Allen, chair of APPA’s RP₃ Review Panel. He added that, “these utilities are leading the way in providing reliable and safe electric service to their communities.”

The RP₃ recognizes public power utilities that demonstrate proficiency in four key disciplines: reliability, safety, training, and system improvement. Criteria within each category are based on sound business practices and represent a utility-wide commitment to safe and reliable delivery of electricity.

“We are thrilled to join the ranks of RP₃ designees around the country,” said Lynne Tejada, General Manager & CEO of KEYS. She added that, “this recognition is a testament to the quality work our employees do everyday in helping to power paradise.”

This is the third year that the RP₃ award has been offered. APPA is the national organization representing more than 2,000 not-for-profit, community- and state- owned electric utilities.

New Technologies & Green Initiatives

Not resting on its laurels, KEYS implemented numerous advances in its customer services with new technologies and green initiatives.

New Technologies

KEYS’ TELELINK telephone call system was launched in June.

Using the outage reporting system, customers can: report an outage; confirm the outage location; receive any available information on the outage and KEYS efforts to restore service; provide information on what may have caused the outage; and request a call back when the power is back on to verify their electric service has been restored.

The telephone system also permits customers to: inquire about and pay their energy bill; update account information for KEYS’ records; and obtain information about KEYS’ programs and services.

In September, KEYS launched an online outage tracker to provide customers with real-time information on the status of power in their neighborhood.

The outage tracker works in conjunction with KEYS’ Telelink telephone call system to cross reference incoming customer calls with field equipment to better predict the cause and location of power outages.

“While KEYS does everything within its power to ensure the reliability of power, the great majority of power outages are out of our control,” said Tejada. She added that, “KEYS’ online outage tracker will especially be helpful for customers who wish to stay informed of the status of power in their neighborhood if they have evacuated for a storm.”

Green Initiatives

On the green front, KEYS’ customers can now request to receive a paperless monthly energy bill via e-mail and help reduce the environmental impact of producing and distributing traditional paper bills.

KEYS’ customers are able to select from one of three options for receiving their monthly bill: Paperless Energy Bill (E-Bill); Paperless E-Bill with a three-month transitional energy bill sent via the postal service; or a traditional energy bill sent via the postal service.

“The new paperless payment option is a direct result of KEYS looking to grow green efforts and offer our customers convenient ways to positively impact the environment,” said Tejada. She added that, “customers will also save postage, gas, and time by opting to pay their monthly bill on the web.”

KEYS also launched a rebate program for energy efficient appliances at the close of the Fiscal Year. The rebate program covers rebates for qualified, energy-efficient products, including: solar water heaters, programmable thermostats, clothes washers, refrigerators, and central air conditioners.

“KEYS’ rebate program is made possible through a joint partnership with the Florida Municipal Power Agency and our fellow public power utilities throughout the state,” said Tejada. She added that, “rebates range from \$25.00 to \$450.00, depending on the appliance, and these rebates will help offset the initial cost to purchase an energy efficient appliance.” Currently the rebate program is budgeted at \$70,000, with money being awarded to KEYS’ customers on a first-come, first-served basis.

As KEYS prepares to mark its 66th year of providing power to the residents of Key West and the Lower Florida Keys, its customers can rest assured that when it comes to their local power provider, their interests are always first and their service first-rate.

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 PFSC 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.

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.

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 consisting of two board members.

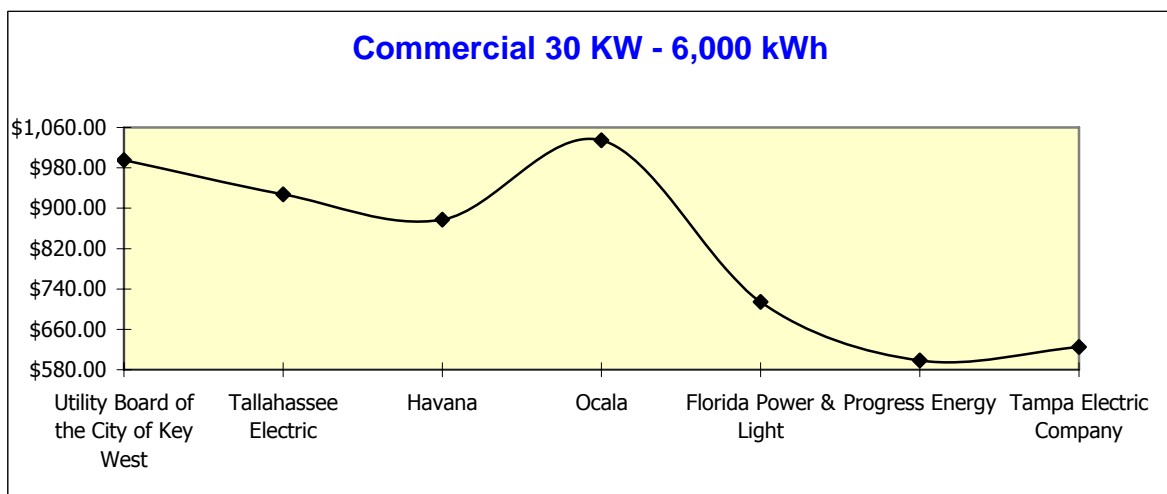
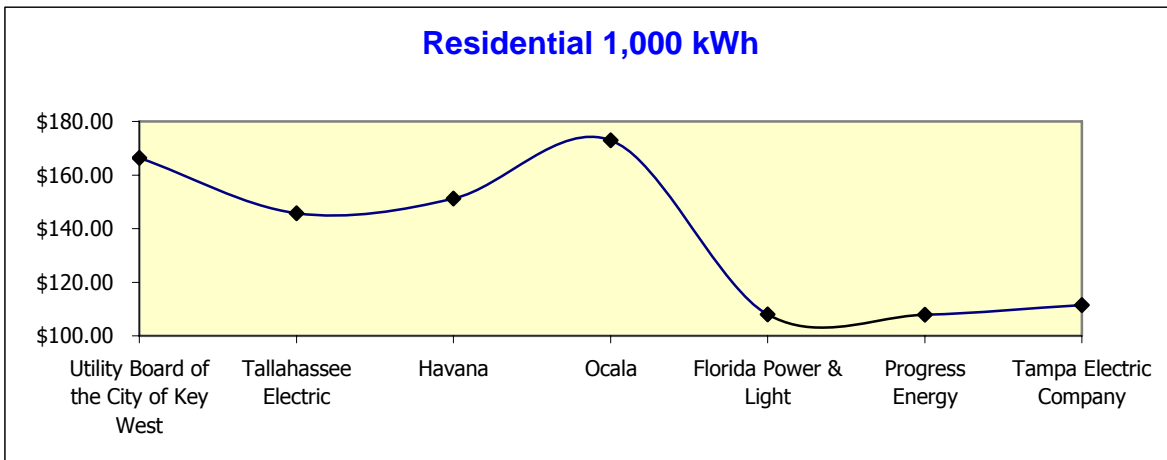
Budgetary Control

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.

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, 2008.

COMPARISON OF AVERAGE MONTHLY ELECTRIC BILLS			
		Residential 1,000 kWh	Commercial 30KW - 6,000 kWh
	Utility Board of the City of Key West	\$ 166.34	\$ 995.56
<i>Other Municipal Utilities in Florida</i>	Tallahassee Electric	\$ 145.72	\$ 927.62
	Havana	\$ 151.27	\$ 877.62
	Ocala	\$ 173.01	\$ 1,034.39
<i>Investor-Owned Utilities in Florida</i>	Florida Power & Light	\$ 108.00	\$ 714.34
	Progress Energy	\$ 107.83	\$ 598.20
	Tampa Electric Company	\$ 111.52	\$ 625.18
<i>Source: Florida Municipal Electric Association, Inc. Tallahassee, Florida</i>			

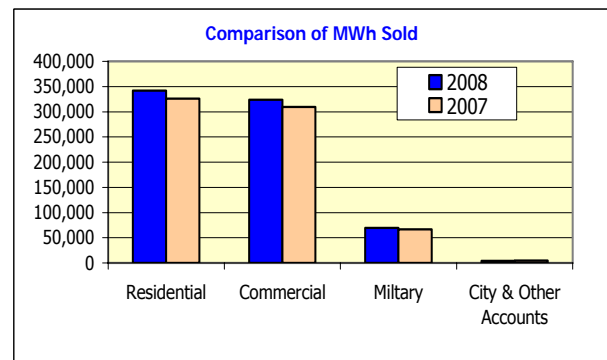
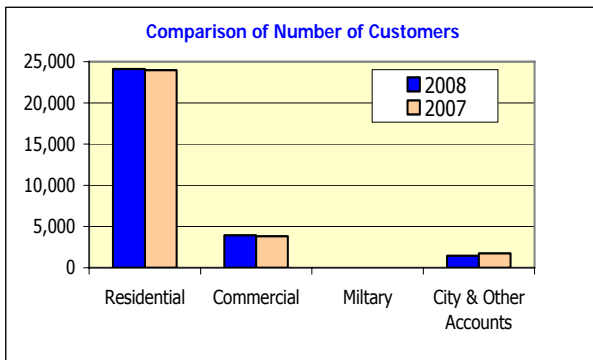


Customer Statistics

At fiscal year-end 2008, the Utility's total customer base was 29,502 or 38 less customers than the 2007 level of 29,540. The number of residential customers increased 126 to 24,093. The number of commercial customers increased by 127 to 3,948.

The average monthly residential consumption of 1,183 kWh was higher than the 2007 level by 49 kWh. The average monthly commercial consumption of 6,836 kWh was higher than the 2007 level by 88 kWh. The consumption for the military increased 3.0 million kWh.

Peak Demand (60 minute net) decreased to 139.1 MW compared to the 2007 peak of 142.0 MW. Load Factor was 63.4% in Fiscal 2008 compared to 61.6% in 2007.



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 2008 produced earnings in the amount of \$751,000, which was \$641,000 less than 2007 restated. This is primarily due to lower 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 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 242 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 Synchronized rating of 36.5 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 72.0 MW. These units contribute to the total Synchronized rating of 108.5 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 \$86.1 million at September 30, 2008, compared to \$92.1 million at September 30, 2007. All outstanding debt had fixed interest rates. 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.

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 bond refunded the FMPA loan of \$948,000 and is funding 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 expense 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 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 2008 and 2007 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, 2007.

This was the 16th 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, 2007

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.



President

Executive Director

Utility Board of the City of Key West, Florida



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. Mr. Hernandez has served as president of the Old Island Restoration Foundation, Chairman of the Historic Architectural Review Commission, Chairman of the Monroe County Democratic Party, Secretary/Treasurer of the Key West Redevelopment Land Agency, a Director of the Private Industry Council of Dade/Monroe, member of the Key West AIDS Memorial Board of Directors, President of the Key West Business Guild, and served as Chairman of the Citizen's Review Board of the City of Key West.

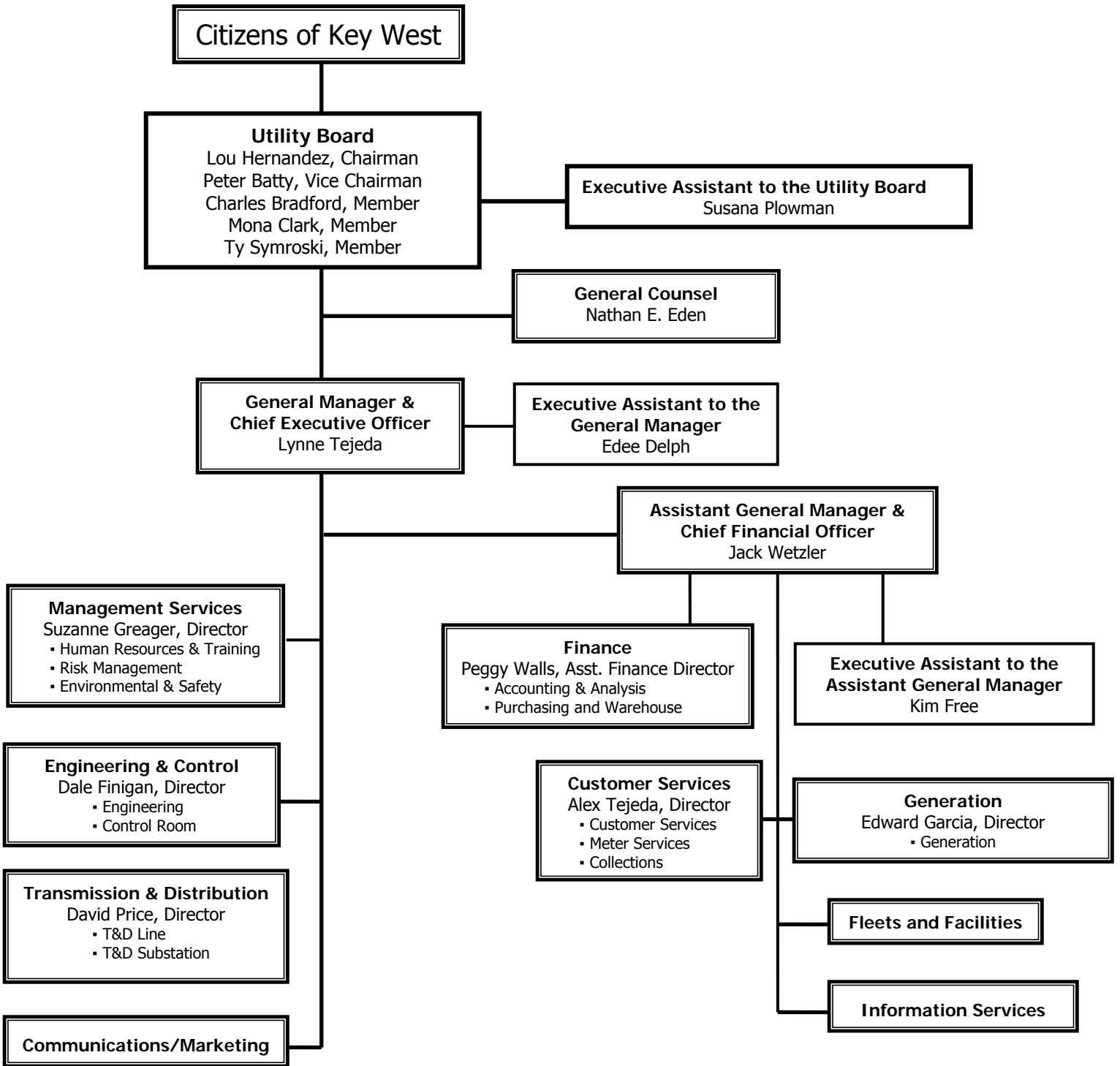
Vice Chairman Peter Batty has served on the Utility Board since 2005. He is a Florida Licensed Real Estate Broker and Mortgage Broker and has lived in the Florida Keys since 1989. On November 18, 2000, he was ordained as a Permanent Deacon to the Archdiocese of Miami. Mr. Batty received his Bachelor of Science degree from Eastern Michigan University and his Masters degree from St. Thomas University. Mr. Batty is a former member of the Florida Keys Community College Education Foundation Board and 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 over 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 St. Paul's Episcopal Church and serves on a number of boards in Key West. In addition, Mr. Bradford 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 Principal at Glynn Archer & Sigsbee Elementary schools. Ms. Clark received her Bachelor of Science in Education degree from Florida A & M University and her Masters 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. Ms. Clark also served on the Florida Keys Community College Board of Trustees from 1993 to 2001, serving as Board Chair from 1999 to 2001. Additionally, Ms. Clark is a Board member of Womankind, Past Sponsor/Director of Tomorrow's Leaders Today, Mentor for the Take Stock in Children program, past Secretary for the Wesley House Board of Directors, and past Treasurer and Vice President of the local branch of the N.A.A.C.P.

Mr. Ty Symroski has served on the Utility Board since 2007. He is the owner of Ty Symroski Land Use Planning, LLC, and previously served as the Monroe County Growth Management Director and Key West City Planner. Mr. Symroski received his Bachelor's degree in Land Use Planning from the University of Michigan and Master's degree in Regional Planning from the University of North Carolina. He is a member of the Sunrise Rotary Club, Key West Chamber of Commerce, past Chair of the Resort and Tourism Division of the American Planning Association, and advisory member of the Florida Keys Scenic Corridor Alliance. Mr. Symroski has lived in Key West and the Lower Keys since 1984.

Organizational Chart Fiscal Year Ended September 30, 2008



Keys Energy Services Employees as of September 30, 2008

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

* Employee of the Quarter 2008

**Employee of the Year 2008

INDEPENDENT AUDITOR'S REPORT

Utility Board of the City
of Key West, Florida
"Keys Energy Services"
Key West, Florida

We have audited the accompanying financial statements of the Utility Board of the City of Key West, Florida, d/b/a Keys Energy Services, ("KEYS") as of and for the years ended September 30, 2008 and 2007, which collectively comprise KEYS' basic financial statements as listed in the table of contents. These financial statements are the responsibility of KEYS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility Board of the City of Key West, Florida, Keys Energy Services as of September 30, 2008 and 2007, and the changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2009, on our consideration of KEYS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial

reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise KEYS' basic financial statements. The introductory section, the schedules of revenues earned and the schedules of revenues and expenditures-budget to actual as listed in the financial section and the statistical section in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of revenues earned and the schedules of revenues and expenditures-budget to actual have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical section in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.


OROPEZA & PARKS
CERTIFIED PUBLIC ACCOUNTANTS

March 4, 2009

Management's Discussion and Analysis

As management of the Utility Board of the City of Key West, Florida, we offer readers of the Utility Board's financial statements this narrative overview and analysis of the financial activities of the Utility Board of the City of Key West for the fiscal year ended September 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our Letter of Transmittal.

Required Financial Statements

The financial statements consist of the Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows. The *Balance Sheet* provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for assessing the liquidity and financial flexibility of the Utility. All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Assets*. This statement reports all the revenues and expenses during the time periods indicated, and can be used to determine whether the Utility has successfully recovered all its costs. The primary purpose of the *Statement of Cash Flows* is to provide information about the Utility's cash receipts and cash payments. This statement reports cash receipts, cash payments, and net changes in cash resulting from activities related to operations, non-capital financing, and capital and related financing. The statement also provides answers to such questions as "where did cash come from?" "what was cash used for?" and "what was the change in cash balance during the reporting period?"

Balance Sheet

The Utility's Net Assets increased in Fiscal 2008 by \$7.5 million, or 10.0%.

	2006	Restated		2007 to 2008 Increase (Decrease)	
		2007	2008	Amount	Percent
Total Unrestricted Current Assets	\$25,176,463	\$25,433,245	\$31,597,158	\$ 6,163,913	24.2%
Total Restricted Current Assets	12,833,724	49,986,599	41,883,441	(8,103,158)	-16.2%
Total Capital Assets	114,832,809	120,850,239	129,110,578	8,260,339	6.8%
Total Restricted Non-Current Assets	3,243,009	2,266,539	2,266,539	-	0.0%
Total Unrestricted Non-Current Assets	8,746,958	9,094,311	8,512,488	(581,823)	-6.4%
Total Assets	<u>\$ 164,832,963</u>	<u>\$ 207,630,933</u>	<u>\$ 213,370,204</u>	<u>\$ 5,739,271</u>	<u>2.8%</u>
Long-Term Debt, Net of Current Portion	71,126,824	108,910,987	104,682,190	(4,228,797)	-3.9%
Total Restricted Current Liabilities	11,998,052	13,223,134	13,916,362	693,228	5.2%
Total Unrestricted Current Liabilities	8,534,458	9,967,046	11,692,874	1,725,828	17.3%
Total Liabilities	<u>91,659,334</u>	<u>132,101,167</u>	<u>130,291,426</u>	<u>(1,809,741)</u>	<u>-1.4%</u>
Net Assets:					
Invested in Capital Assets, net of related debt	\$53,995,651	\$60,991,269	\$67,390,927	6,399,658	10.5%
Restricted for Working Capital	3,243,009	2,266,539	2,266,539	-	0.0%
Unrestricted	15,934,969	12,271,958	13,421,312	1,149,354	9.4%
Net Assets	<u>73,173,629</u>	<u>75,529,766</u>	<u>83,078,778</u>	<u>7,549,012</u>	<u>10.0%</u>
Total Liabilities and Net Assets	<u>\$ 164,832,963</u>	<u>\$ 207,630,933</u>	<u>\$ 213,370,204</u>	<u>\$ 5,739,271</u>	<u>2.8%</u>

The changes to Assets are listed as follows:

- Increase in Total Unrestricted Current Assets – \$6.2 million.
 - Increase in Cash – \$3.0 million due to receipt of funds from sale of Cudjoe Key property, receipt of funds from Steam Plant Rental, and higher kWh Sales.
 - Increase in Customer Receivables – \$2.5 million due to higher kWh Sales.
 - Increase in Other Accounts Receivable Uncollected Sales Tax – \$308,277 due to sales tax billing error.
 - Increase in Other Receivables – \$79,491 billings to at&t for pole replacement.
 - Decrease in Due from Other Governments – \$297,131 payments received from FEMA.
 - Increase in Current Portion of Lease Receivable – \$101,437 due reclassifying current portion of Long Term Lease Receivable.
 - Increase in Inventory – \$368,269 inventory maximum levels were raised for the Storm Hardening Project and for hurricane season.
 - Increase Prepaid Expense – \$119,745 reclassified prepaid sales tax.
- Decrease in Total Restricted Current Assets – \$8.1 million due to the spending of Series 2006 Bond Proceeds.
- Increase in Total Capital Assets – \$8.3 million.
 - Increase in Capital Assets – Net Utility Plant – \$5.1 million. The larger assets added to Utility Plant are as follows:

Disbribution Improvements & Storm Hardening	\$ 3,400,000
Purchase Transformers	\$ 1,625,000
 - Net Increase in Construction Work in Progress – \$3.2 million includes the following projects:

Communication/Fiber Study	\$ 1,800,000
Transmission Oil Circuit Breakers	\$ 731,600
Upgrade Transmission Relay Panels	\$ 493,200
- Decrease in Total Unrestricted Non-Current Assets – \$581,823 due to reclassifying current portion of Long Term Lease Receivable and receipt of payments on the Long Term Receivable.

The changes to Liabilities are listed as follows:

- Increase in Current Liabilities – \$2.4 million due to higher accounts payable, accrued expenses, and the addition of a refundable deposit.
- Net Decrease in Long Term Debt – \$4.2 million as a result of the annual fiscal year debt service payment.

Statement of Revenues, Expenses and Changes in Net Assets

Electric sales of 739.7 Gigawatt hours (GWh's) in Fiscal Year 2008 were higher than Fiscal Year 2007 sales of 706.3 GWh's, by 4.7%.

	<u>2006</u>	Restated <u>2007</u>	<u>2008</u>	<u>2007 to 2008 Increase (Decrease)</u>	
				<u>Amount</u>	<u>Percent</u>
Electric Revenues	\$93,968,368	\$90,080,391	\$110,563,953	\$20,483,562	22.7%
Other Electric Revenues	3,231,697	3,668,481	2,594,140	(1,074,341)	-29.3%
Total Operating Revenues	97,200,065	93,748,872	113,158,093	19,409,221	20.7%
Production Expense - Diesel	1,482,077	1,623,810	1,625,066	1,256	0.1%
Purchased Power	59,946,424	58,531,619	71,009,513	12,477,894	21.3%
Transmission Expenses	3,539,845	3,857,363	3,938,264	80,901	2.1%
Distribution Expenses	3,366,439	3,984,022	4,070,472	86,450	2.2%
Customer Accounts and Collection Expenses	1,243,322	1,332,355	1,571,014	238,659	17.9%
Administrative and General Expenses	11,452,519	11,812,589	11,850,327	37,738	0.3%
Depreciation	6,182,488	6,339,122	6,632,858	293,736	4.6%
Taxes Other Income Taxes	2,467,955	2,390,686	2,883,446	492,760	20.6%
Total Operating Expenses	89,681,069	89,871,566	103,580,960	13,709,394	15.3%
Interest Income	1,047,716	1,392,012	751,008	(641,004)	-46.0%
Miscellaneous Non-Operating Revenue	2,255,168	1,398,741	1,788,124	389,383	27.8%
Payment to City of Key West	(343,341)	(341,279)	(368,741)	(27,462)	8.0%
Interest on Debt	(4,670,672)	(4,435,260)	(4,228,875)	206,385	-4.7%
Interest on Customer Deposit	(194,367)	(197,964)	(67,621)	130,343	-65.8%
Amortization of Bond Discount and Issue Costs	(104,508)	(113,096)	(114,040)	(944)	0.8%
Total Non-Operating Revenue and (Expenses)	(2,010,004)	(2,296,846)	(2,240,145)	56,701	-2.5%
Net Assets Before Special Items	5,508,992	1,580,460	7,336,988	5,756,528	364.2%
Hurricane-Grant Revenue	3,281,600	550,209	292,960	(257,249)	-46.8%
Hurricane-Expenses	(3,094,972)	-	(256,796)	(256,796)	0.0%
Hurricane-Insurance Proceeds	273,306	-	-	-	0.0%
Total Special Items	459,934	550,209	36,164	(514,045)	-93.4%
Net Assets Before Capital Contributions	5,968,926	2,130,669	7,373,152	5,242,483	246.0%
Capital Contributions	85,983	225,468	175,860	(49,608)	-22.0%
Change in Net Assets	6,054,909	2,356,137	7,549,012	5,192,875	220.4%
Net Assets, Beginning of Year	67,118,720	73,173,629	75,529,766	2,356,137	3.2%
Net Assets, End of Year	\$ 73,173,629	\$ 75,529,766	\$ 83,078,778	\$ 7,549,012	10.0%

The Change in Net Assets was \$7.5 million in 2008. This was primarily due to:

- Increase in Total Operating Revenues – \$19.4 million.
 - Increase in Electric Revenue – \$4.4 million is primarily a result of higher kWh Sales.
 - Increase in Purchase Cost Adjustment – \$15.0 million is due to higher Purchase Cost Adjustment Rates.
- Increase in Total Operating Expenses – \$13.7 million.
 - Increase in Purchased Power Costs – \$12.5 million primarily due to higher kWh purchased as well as higher energy rates.
 - Increase in Transmission expenses – \$80,901 is a result of an additional employee in the control center department.
 - Increase in Distribution expenses – \$86,450 is largely due to increases in protective relay testing expenses, environmental expenses, tree trimming expenses, and transformer repairs.

- Increase in Customer Accounts and Collection expenses – \$238,659 is primarily a result of higher uncollectible accounts expenses.
 - Increase in Taxes Other than Income Tax expenses – \$492,760 is due to higher Gross Receipts Tax which is consistent with higher revenue.
 - Increase in Depreciation expense – \$293,736 is a result of more capital projects being placed into service.
 - Increase in all other Operating Expenses – \$38,994 is due to a general rise in operating costs.
- Increase in Total Non-Operating Revenue & Expenses – \$56,701.
 - Decrease in Interest Income – \$641,004 due to lower interest rates.
 - Increase in Miscellaneous Non-Operating Revenue – \$389,383 is due to an increase in payroll reimbursement from FMPA.
 - Increase in the other Non-Operating Revenue & Expenses – \$308,322 is primarily due to lower interest on debt.
 - Decrease in Total Special Items – \$514,045 is due to a decrease in the reimbursement percentage by Federal Emergency Management Agency and the number of storms that had an impact on the Lower Keys was less.
 - Decrease in Capital Contribution – \$49,608 is due to a decrease in new construction by customers requiring line extensions.

Statement of Cash Flows

The Utility's rate structure is designed to collect sufficient revenues to pay debt service and recover operating and maintenance expenses. The Utility successfully accomplished this objective during Fiscal Year 2008. The same situation held true for the prior fiscal year. Income before Capital Contributions increased \$5.2 million primarily due to higher Electric Sales. The Utility increased net assets by \$7.5 million while paying down debt of \$5.7 million in principal and \$2.7 million in interest.

Restricted Assets

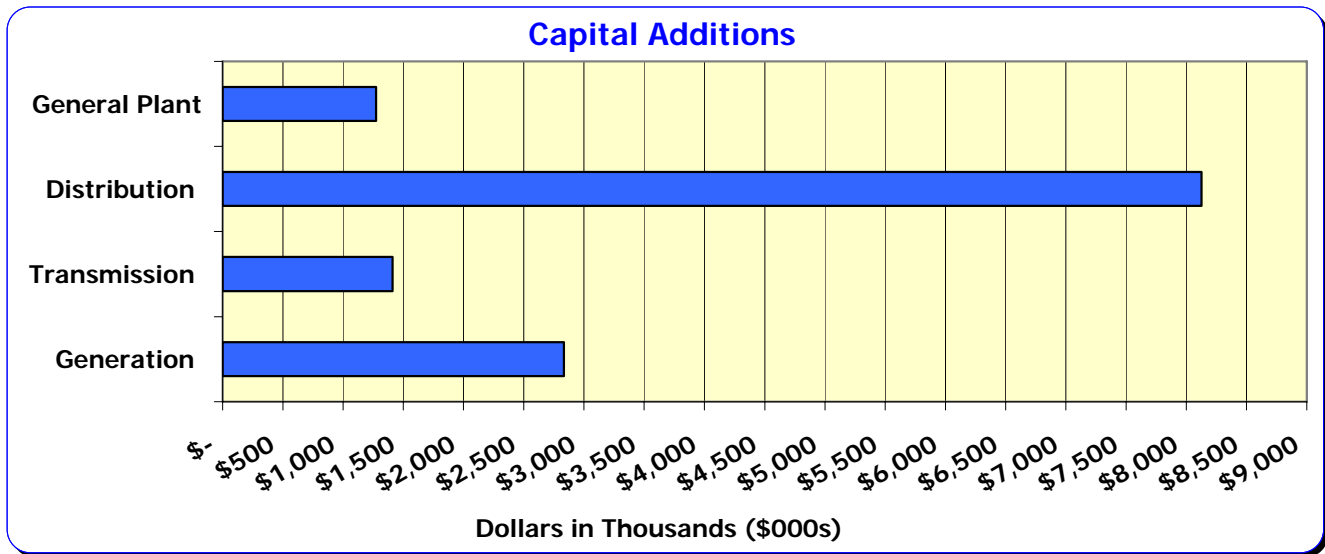
Total restricted assets were \$44.1 million at September 30, 2008, compared to \$52.3 million at September 30, 2007. The Utility's bond resolution specifies the manner in which monies on deposit in the various funds must be used. The Contribution in Aid of Construction Capital Fund is used for initial non-residential, commercial or large power service deposits related to transmission or distribution projects. The Customer Deposit Fund is used for residential and commercial deposits for basic electric service. The Emergency Reserve Fund is used to pay emergency repairs or replacements of capital assets which have been destroyed or damaged. The Rate Stabilization Fund is used to maintain flexibility with respect to future rate adjustments and to provide additional monies for anticipated capital improvements. The Renewal and Replacement Fund is used only for paying the cost of extensions, enlargements, replacements or additions to the capital assets of the Utility. The Sinking Fund is used only to pay principal and interest on Bonds as they mature and become due.

Significant Capital Assets

Net Property, Plant and Equipment totaled \$129.1 million at the end of Fiscal 2008 compared to \$120.9 million the prior year, an increase of \$8.3 million which includes \$488,422 in capitalized interest.

Significant projects placed in service were Distribution Improvements & Storm Hardening and Purchase of Transformers. Please see Note 1 in Notes to Financial Statements for further information.

Capital additions are illustrated in the following graph:



Long Term Debt

The Utility's trustee will pay to the bondholders a principal payment of \$6.0 million on October 1, 2008. In accordance with the Bond covenants, monthly transfers are made from the Revenue Fund to the Sinking Fund. The bondholders are paid annual principal payments on October 1st and semiannual interest payments on April 1st and October 1st of each year.

In anticipation of a Florida Public Service Commission ruling that will compel utilities to storm harden their infrastructure KEYS' has taken steps to meet this requirement. 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 is funding 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 installation of fin fan coolers at the Stock Island Generating Facilities. 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 S&P. The Utility's total debt service payments have been structured to remain fairly constant at approximately \$10.4 million a year through 2013, \$9.4 million a year through 2018 and \$6.3 million a year through 2023, and \$4.4 million a year through 2031. Please see Note 5 in Notes to Financial Statements for further information.

Summary

This report is intended to provide our customers, bondholders, and other interested parties with a general overview of the financial position of the Utility Board of the City of Key West and to indicate accountability for the revenues received. Questions about this report or requests for additional information should be directed to the Assistant General Manager & Chief Financial Officer, 305-295-1013, or to our offices located at 1001 James Street, Key West, Florida 33040.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

BALANCE SHEETS

SEPTEMBER 30, 2008 AND 2007

ASSETS

	<u>2008</u>	<u>RESTATED 2007</u>
Current Assets		
Cash and Cash Equivalents	\$ 7,918,839	\$ 4,878,731
Customer Accounts Receivable, net of Allowance for Bad Debts of \$225,397 and \$237,910 for FY 08 and FY07 respectively	9,374,828	6,930,502
Accounts Receivable - Uncollected Sales Tax	308,277	-
Other Accounts Receivable	789,076	709,585
Due From Other Governments	516,689	814,429
Current Portion of Lease Receivable	101,437	
Plant Material and Operating Supplies Inventory	3,791,212	3,422,943
Prepaid Expenses	<u>8,796,800</u>	<u>8,677,055</u>
 Total Unrestricted Current Assets	 31,597,158	 25,433,245
 Cash and Cash Equivalents-Restricted	 41,880,726	 49,983,884
Interest Receivable	<u>2,715</u>	<u>2,715</u>
 Total Restricted Currents Assets	 41,883,441	 49,986,599
 Total Current Assets	 <u>73,480,599</u>	 <u>75,419,844</u>
 Non-Current Assets		
Capital Assets		
Utility Plant	208,463,067	197,574,836
Less Accumulated Depreciation	<u>85,952,899</u>	<u>80,122,746</u>
Net Utility Plant	122,510,168	117,452,090
Construction in Progress	<u>6,600,410</u>	<u>3,398,149</u>
 Total Capital Assets	 129,110,578	 120,850,239
 Restricted Non-Current Assets		
Deposits-Restricted	<u>2,266,539</u>	<u>2,266,539</u>
 Total Restricted Non-Current Assets	 2,266,539	 2,266,539
 Unrestricted Non-Current Assets		
Long Term Lease Receivable	6,485,648	6,944,377
Other Long Term Receivable	1,168,151	1,177,205
Bond Discount and Issue Costs, Net	<u>858,689</u>	<u>972,729</u>
 Total Unrestricted Non-Current Assets	 <u>8,512,488</u>	 <u>9,094,311</u>
 Total Non-Current Assets	 <u>139,889,605</u>	 <u>132,211,089</u>
 Total Assets	 <u>\$ 213,370,204</u>	 <u>\$ 207,630,933</u>
	(Continued)	(Continued)

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

BALANCE SHEETS (CONTINUED)

SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>RESTATED 2007</u>
<u>NET ASSETS AND LIABILITIES</u>		
Current Liabilities		
Unrestricted Current Liabilities		
Accounts Payable	\$ 7,068,091	\$ 6,685,677
Accrued Expenses	4,570,792	3,149,004
Deferred Revenues	53,991	132,365
	<hr/>	<hr/>
Total Unrestricted Current Liabilities	11,692,874	9,967,046
Restricted Current Liabilities		
Current Portion of Long-Term Debt	5,976,707	5,739,856
Accounts Payable	865,410	744,959
Accrued Interest	2,185,244	2,342,556
Accrued Costs FMPA	-	205,950
Security Deposits Payable	610,000	110,000
Due to Customers	4,279,001	4,125,296
	<hr/>	<hr/>
Total Restricted Current Liabilities	13,916,362	13,268,617
	<hr/>	<hr/>
Total Current Liabilities	25,609,236	23,235,663
Long-Term Debt, Net of Current Portion		
Revenue Bonds	86,069,346	92,046,053
Accrued Interest	18,612,844	16,819,451
	<hr/>	<hr/>
Total Long-Term Debt	104,682,190	108,865,504
	<hr/>	<hr/>
Total Liabilities	130,291,426	132,101,167
	<hr/>	<hr/>
Net Assets		
Invested in Capital Assets net of related debt	67,390,927	60,991,269
Restricted for Working Capital	2,266,539	2,266,539
Unrestricted	13,421,312	12,271,958
	<hr/>	<hr/>
Total Net Assets	83,078,778	75,529,766
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 213,370,204	\$ 207,630,933
	<hr/>	<hr/>

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>RESTATED 2007</u>
Operating Revenues		
Sales & Charges for Service	\$ 110,563,953	\$ 91,046,879
Other Operating Revenues	2,594,140	2,701,993
Total Operating Revenues	<u>113,158,093</u>	<u>93,748,872</u>
Operating Expenses		
Production Expenses - Diesel	1,625,066	1,623,810
Purchased Power	71,009,513	58,531,619
Transmission Expenses	3,938,264	3,857,363
Distribution Expenses	4,070,472	3,984,022
Customer Accounts and Collection Expenses	1,571,014	1,332,355
Administrative and General Expenses	11,850,327	11,812,589
Depreciation	6,632,858	6,339,122
Taxes Other than Income Taxes	2,883,446	2,390,686
Total Operating Expenses	<u>103,580,960</u>	<u>89,871,566</u>
Operating Income	<u>9,577,133</u>	<u>3,877,306</u>
Non-Operating Revenue and (Expenses)		
Interest Income	751,008	1,392,012
Miscellaneous Non-Operating Revenue	1,788,124	1,398,741
Payment to City of Key West	(368,741)	(341,279)
Interest on Debt	(4,228,875)	(4,435,260)
Interest on Customer Deposit	(67,621)	(197,964)
Amortization of Bond Discount and Issue Costs	(114,040)	(113,096)
Total Non-Operating Revenue and (Expenses)	<u>(2,240,145)</u>	<u>(2,296,846)</u>
Change in Net Assets Before Special Items	<u>7,336,988</u>	<u>1,580,460</u>
Special Items		
Hurricane-Grant Revenue	292,960	550,209
Hurricane-Expenses	<u>(256,796)</u>	<u>-</u>
Total Special Items	36,164	550,209
Change in Net Assets Before Capital Contributions	<u>7,373,152</u>	<u>2,130,669</u>
Capital Contributions	<u>175,860</u>	<u>225,468</u>
Change in Net Assets	7,549,012	2,356,137
Net Assets, Beginning of Year	<u>75,529,766</u>	<u>73,173,629</u>
Net Assets, End of Period	<u>\$ 83,078,778</u>	<u>\$ 75,529,766</u>

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>RESTATED 2007</u>
Cash Flows Provided (Used) by Operating Activities		
Cash Received from Customers	\$ 110,484,698	\$ 92,789,776
Cash Payments to Suppliers for Goods and Services	(86,848,771)	(74,820,475)
Cash Payments for Restricted Working Capital Deposits	-	976,470
Cash Payments to Employees for Services	(8,781,446)	(8,561,891)
Cash Received for Deposits	1,518,539	1,112,001
Cash Deposits Refunded	(864,834)	(1,007,599)
Cash Received from Other Operating revenue	1,709,750	1,214,978
Cash Received for Hurricane	<u>333,904</u>	<u>559,701</u>
Net Cash Provided by Operating Activities	\$ 17,551,840	\$ 12,262,961
Cash Flows Provided (Used) by Non-Capital Financing Activities		
Cash Paid to City of Key West, Florida	<u>(368,741)</u>	<u>(341,279)</u>
Net Cash (Used) by Non-Capital Financing Activities	<u>(368,741)</u>	<u>(341,279)</u>
Cash Flows Provided (Used) by Capital and Related Financing Activities		
Bond Proceeds	-	42,753,654
Issues Costs	-	(281,079)
Principal Paid on Long-Term Debt	(5,722,666)	(6,463,000)
Interest Paid on Revenue Bond Maturities	(2,677,605)	(2,055,434)
Contributions in Aid of Construction	175,860	225,468
Acquisitions and Construction of Capital Assets	(16,724,355)	(12,527,468)
Proceeds from Disposal of Assets	<u>1,951,609</u>	<u>1,365</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(22,997,157)</u>	<u>21,653,506</u>
Cash Flows Provided (Used) by Investing Activities		
Interest Received on Investments	<u>751,008</u>	<u>1,389,297</u>
Net Cash Provided by Investing Activities	<u>751,008</u>	<u>1,389,297</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(5,063,050)	34,964,485
Cash and Cash Equivalents at Beginning of year	<u>54,862,615</u>	<u>19,898,130</u>
Cash and Cash Equivalents at End of Year	<u>\$ 49,799,565</u>	<u>\$ 54,862,615</u>

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

Reconciliation of Operating Income to
Net Cash Provided by Operating Activities

	<u>2008</u>	<u>RESTATED 2007</u>
Operating Income	\$ 9,577,133	\$ 3,877,306
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	6,632,858	6,339,122
Provision for Uncollectible Accounts	362,750	196,117
Amortization of Deferred Revenue	(132,365)	(316,128)
Receipt of Deferred Revenue	53,991	132,365
Other Non-Operating Sources of Revenue	1,788,124	1,398,741
Hurricane Revenue Net	36,164	550,209
Changes in Assets and Liabilities		
Decrease in Restricted Working Capital Deposit	-	976,470
(Increase) in Accounts Receivable	(2,828,498)	(1,368,268)
(Increase) in Plant Material & Inventory	(368,269)	(700,623)
(Increase) in Prepaid Expenses	(119,745)	(758,545)
Decrease in Due from Other Governments	297,740	9,492
Increase in Accounts Payable	176,464	1,181,706
Increase in Accrued Expenses	1,421,788	640,595
Increase in Customer Deposits	153,705	104,402
Increase in Security Deposits	500,000	-
Total Adjustments	<u>7,974,707</u>	<u>8,385,655</u>
Net Cash Provided by Operating Activities	<u>\$ 17,551,840</u>	<u>\$ 12,262,961</u>

Supplemental Schedule of Non-Cash Financing, Capital and Investing Activities

In 2008 and 2007, amortization of bond discount and issue costs were \$114,040 and \$113,096, respectively.

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and the presentation of the financial report of the Utility Board of the City of Key West, Florida "Keys Energy Services" (KEYS) have been designed to conform to generally accepted accounting principles as applicable to governmental units, in accordance with the Governmental Accounting Standards Board (GASB). The GASB embodies the official pronouncements previously issued by the National Council on Governmental Accounting (NCGA). KEYS applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The following is a summary of the significant accounting policies.

Entity Definition - KEYS was created by an Act of the Florida Legislature to manage, operate and maintain the electric utility servicing the citizens of the City of Key West, Florida (the City) and the lower Florida Keys. KEYS is the successor of the electric public utility once owned by the City and was given all powers and rights necessary to manage, operate, maintain, control, and extend the electric utility property owned by the City of Key West at the time of its creation. The Board is composed of a Chairman who is elected every four years and four members who are elected every four years by the voters of the City. Effective January 2007, the members select the chairman during the Organizational Meeting following an election. The General Manager & CEO of KEYS serves as Secretary to the Board and is responsible for the day-to-day operations of KEYS. KEYS is not a component unit of the City.

Measurement Focus - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. KEYS' operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the enterprise fund are included on the balance sheet. Operating statements present increases (e.g. revenue) and decreases (e.g. expenses) in net assets.

Basis of Accounting - KEYS' financial statements are accounted for based on 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, regardless of the timing of the related cash flows.

Budget - In accordance with KEYS' enabling Legislation, the Utility Board holds public hearings and subsequently adopts an annual budget for operating expenses and capital outlay. 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. The Utility Board approves all other budget changes. Supplemental appropriations were necessary during FY08 and the Utility Board, in accordance with KEYS' 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' basis of accounting.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments – Cash and investments in U.S. Government Securities are recorded at cost or amortized cost. Amortized cost does not significantly vary from market value. Any other investments are stated at fair value in accordance with GASB 31. Florida Statutes govern KEYS' investment policies. These policies are described in more detail in Note 3.

Revenue – Revenue is recognized based on monthly route billings to customers. Revenue is not accrued for services supplied but unbilled at the end of the fiscal period. Charges for new service are reported as revenue only to the extent of connection costs, while amounts exceeding this cost are recorded as contributed capital revenue.

Bond Discount and Issue Costs – Bond discount and issue costs consist of debt issue costs, original issue discounts, and underwriter discounts, which are capitalized and amortized over the term of the related indebtedness.

Property, Plant and Equipment – Property, Plant and Equipment is stated at cost. Transmission, Distribution and Generation Plant are defined by KEYS as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than one year. General Plant assets are defined as assets with an initial, individual cost of \$1,000 or more and an estimated useful life of more than one year. Under FERC accounting practices and procedures, the cost of electric plant retired, together with removal costs less salvage, is charged to accumulated depreciation when property is removed from service.

The following is a summary of property, plant and equipment for the year ended September 30, 2008:

	Restated Balance 2007	Additions	Deletions	Balance 2008
Utility Plant in Service:				
Generation Plant	\$ 45,966,404	\$ 2,832,649	\$ (555,019)	\$ 48,244,034
Transmission Plant	72,614,170	1,410,044	(152,926)	73,871,288
Distribution Plant	63,481,182	8,126,387	(1,673,141)	69,934,428
General Plant	15,292,816	1,273,465	(373,228)	16,193,053
Other	220,264	-	-	220,264
Total Utility Plant in Service	<u>197,574,836</u>	<u>13,642,545</u>	<u>(2,754,314)</u>	<u>208,463,067</u>
Accumulated Depreciation:				
Generation Plant	(23,387,564)	(1,620,678)	(1,385,823)	(26,394,065)
Transmission Plant	(29,875,336)	(1,793,063)	151,103	(31,517,296)
Distribution Plant	(20,751,448)	(2,162,572)	1,673,831	(21,240,189)
General Plant	(6,108,398)	(1,056,545)	363,594	(6,801,349)
Other	-	-	-	-
Total Accumulated Depreciation	<u>(80,122,746)</u>	<u>(6,632,858)</u>	<u>802,705</u>	<u>(85,952,899)</u>
Net Utility Plant in Service	<u>\$ 117,452,090</u>	<u>\$ 7,009,687</u>	<u>\$ (1,951,609)</u>	<u>\$ 122,510,168</u>
Construction Work in Progress	<u>\$ 3,398,149</u>	<u>\$ 16,844,806</u>	<u>\$ (13,642,545)</u>	<u>\$ 6,600,410</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

KEYS' policy concerning capitalized interest costs is in accordance with Statement of Financial Accounting Standards No. 62, which requires the capitalization of interest costs of restricted tax-exempt borrowings less any interest earned on investment funds during the construction period. For the fiscal years ended September 30, 2008 and 2007 as restated, interest costs of \$488,421 and \$22,560, respectively were capitalized as utility plant construction costs which is detailed below.

	<u>2008</u>	<u>Restated</u> <u>2007</u>
Interest Expense	\$ 1,988,596	\$ 1,828,389
Amortization of Issue Premium	<u>(38,439)</u>	<u>(23,754)</u>
	1,950,157	1,804,635
Interest Earnings	<u>(1,461,735)</u>	<u>(1,782,075)</u>
Net Interest Expense to Capitalize	<u><u>\$ 488,422</u></u>	<u><u>\$ 22,560</u></u>

Property, Plant and Equipment is depreciated using the straight-line method at rates which will amortize costs over the estimated useful lives of the assets. The estimated useful lives of the electric plant assets are as follows:

Generation Plant	25 Years
Transmission Plant	31 - 45 Years
Distribution Plant	20 - 45 Years
General Plant	5 - 40 Years

Inventory - Inventories are stated at the lower of cost (determined on an average cost basis) or market.

Compensated Absences - KEYS records compensation for unused vacation and sick leave as an expense in the year in which the vacation and sick leave is earned in accordance with GASB Statement No. 16. At September 30, 2008, annual vacation leave earned but not taken is \$509,806 and sick leave accumulated but not taken is \$1,149,854. During the next year \$9,540 vacation leave and \$50,137 sick leave will be due based on notification received from employees who intend to retire within the next year.

	<u>Balance</u> <u>2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>2008</u>
Vacation Leave	\$ 423,657	\$ 122,808	\$ (36,659)	\$ 509,806
Sick Leave	858,882	364,547	(73,575)	1,149,854
Total	<u><u>\$ 1,282,539</u></u>	<u><u>\$ 487,355</u></u>	<u><u>\$ (110,234)</u></u>	<u><u>\$ 1,659,660</u></u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Expenses – Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with KEYS principal ongoing operations. The principal operating revenues of KEYS are charges to customers for sales and services.

Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Interest - Interest for the years ended September 30, 2008 and 2007 is summarized as follows:

	<u>2008</u>	<u>2007</u>
Electric Refunding Revenue Bonds, Series 1991	\$ 1,793,393	\$ 1,672,883
Electric Forward Refunding Revenue Bonds, Series 2000	2,092,800	2,370,238
Electric Forward Refunding Revenue Bonds, Series 2001	289,100	326,300
Revenue Bonds, Series 1980c	-	5,213
Series 2001 Loss on Refunding	53,582	60,626
Interest on Customer Deposits	67,621	197,964
Total Interest Expense	\$ 4,296,496	\$ 4,633,224

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Net Assets – Equity is classified as net assets and displayed in three components:

Invested in Capital Assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets.

Restricted for Working Capital – Consists of a restricted working capital deposit required by FMPA for participation in the All Requirements Project.

Unrestricted – All other net assets that do not meet the definition of “restricted for debt service” or “invested in capital assets, net of related debt.”

Income Taxes - No provision for income taxes is reflected in the financial statements as KEYS is considered a unit of local government.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

NOTE 2 – OTHER PROPERTY AND INVESTMENTS

Restricted Assets - Certain assets consisting of cash, cash equivalents and investments are restricted by bond resolutions; additionally, some assets have been classified as restricted in accordance with FERC. KEYS is required by revenue bond covenants to maintain a debt service reserve account in the amount of its highest debt service, which requirement is satisfied by a debt surety bond.

KEYS' Restricted Assets as of September 30, 2008 and 2007, respectively consist of the following:

	<u>2008</u>	<u>2007</u>
Emergency Reserve Fund	\$ 2,000,000	\$ 2,000,000
Contributions in Aid of		
Construction Fund	458,991	321,457
Renewal and Replacement Fund	374,076	140,242
Rate Stabilization Fund	5,302,882	4,602,882
Customer Deposits Fund	4,346,946	4,188,597
Construction Fund	29,397,831	37,730,701
Sinking Fund	-	5
Operating Reserve Fund	-	1,000,000
Total	<u>\$ 41,880,726</u>	<u>\$ 49,983,884</u>

Restricted Deposits- Florida Municipal Power Agency (FMPA) has required a working capital contribution. As of September 30, 2008 remained at \$2,266,539.

NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

KEYS' cash and cash equivalents as of September 30, 2008 and 2007, respectively consist of the following:

	<u>2008</u>	<u>2007</u>
Cash	\$ 39,938,967	\$ 37,871,085
Cash Equivalents		
Repurchase agreements	9,860,598	4,884,522
Local Government Surplus Fund	-	12,107,008
Total cash and cash equivalents	<u>\$ 49,799,565</u>	<u>\$ 54,862,615</u>

All cash and cash equivalents are fully liquid. The Local Government Surplus Fund, created by Section 218.405, Florida Statutes, is an investment pool operated by the Florida State Board of Administration. It is administered by the State Board of Administration, under the regulatory oversight of the State of Florida, Chapter 19-7 of the Florida Administrative Code. In November 2007 it was determined that all deposits with the Florida State Board of Administration be closed and the funds transferred to a local institution.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

State Statutes govern KEYS' investment policies. In addition, KEYS has its own investment practices. 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 and U.S. agencies, certificates of deposit, commercial paper, repurchase agreements, and other securities meeting KEYS' criteria for risk and return.

Collateral is provided for demand deposits and certificates of deposit through the Florida Security for Public Deposits Act. This Act established 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, the qualified public depository must pledge at least 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 the conditions set forth in the Act. Eligible collateral consists of obligations of the United States and its agencies and obligations of states and their political subdivisions, and unaffiliated corporations.

Obligations pledged to secure deposits must be delivered to the State Treasurer or, with the approval of the State Treasurer, to a bank, savings association, or trust company provided a power of attorney is delivered to the Treasurer.

On a monthly basis, the State Treasurer determines that the collateral has a market value adequate to cover the deposits under the provisions of the Act. For purposes of the statement of cash flows, KEYS considers all liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates KEYS investment policy limits its portfolio to maturities of no more than five years unless matched to a specific cash flow.

Credit Risk – KEYS general investment policy is to apply the prudent person rule: investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general avoid speculative investments. KEYS investment policy allows investments in U. S. Treasury, U. S. Agencies, and any U. S. state, certificates of deposits, repurchase agreements, and units of participation in the State of Florida Local Government Surplus Trust Fund.

In addition to these, KEYS also allows investment in commercial paper which is rated at the time of purchase in the single highest classification by Moody's and S&P and does not mature more than 270 calendar days after the date of purchase and agreements with a bank or insurance company which has an unsecured, uninsured and unguaranteed obligation (or claims-paying ability) rated "A3" or better by Moody's and a rating of "A-" or better by Standard & Poor's.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, KEYS deposits may not be returned. KEYS’ does not have a deposit policy for custodial risk. As of September 30, 2008 and 2007, the bank balances were \$50,399,377 and \$55,422,756 respectively. The bank balances were covered by federal depository insurance and for the amount in excess of such federal depository insurance, by the State of Florida’s Security of Public Deposits Act. The Act requires each qualified public depository to deposit with the State Treasurer eligible collateral equal to or in excess of the required collateral as determined by the provisions of the Act. In the event of a failure by a qualified public depository, losses in excess of federal depository insurance and proceeds from the sale of securities pledged by the depository are assessed against the other qualified public depositories of the same type as the depository in default.

NOTE 4 – NON-CURRENT ASSETS

Long Term Lease Receivable – The Key West Steam Plant was decommissioned in 1991. In Fiscal Year 2005 the developer received all the permitting and financing to begin construction to redevelop the Steam Plant site. The Utility Board executed two 99-year lease agreements in 2005: one with Steam Plant Condominiums, LLC for 19 luxury condominiums, and one with Old Town Key West Development, LLC for 38 affordable housing units. Due to four hurricanes in 2005, the completion date has been extended.

The three long-term lease receivables totaling \$6,587,085 are as follows:

- 1) The base rent of the luxury units for \$6,586,998 payments begin at the end of construction.
- 2) The affordable rent of \$87 due at the end of construction.

Summary of Lease Receivable is as follows:

<u>Year</u>	<u>Receivable</u>		
2009	\$ 101,437		
2010	104,937		
2011	108,557		
2012	112,303	Lease Receivable - Current	101,437
2013	116,177		
2014-2107	6,043,674	Lease Receivable - Long Term	6,485,648
	<u>\$ 6,587,085</u>	Total Lease Receivable	<u>\$ 6,587,085</u>

Other Long Term Receivable – The percentage rent of luxury units of \$1,168,151 based on a percentage of sales price due after sale and/or occupancy of unit.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

NOTE 5 – LONG-TERM DEBT

Net Revenues, as defined for purposes of bond security, is all income or earnings derived from the operation of KEYS, except Capital Improvement Charges, investment earnings on Construction and Bond Amortization Funds, and transfers to the Rate Stabilization Fund, less costs of operation and maintenance which do not include capital expenditures, extraordinary repairs, amortization of the costs of issuance of debt obligations, payments under Unconditional Output Contracts, or depreciation. See Note 7 for the rate covenant pertaining to revenues.

Summary of Debt Service Funding Requirements to Maturity

<u>Payment 12 mos ending October 1,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 6,340,000	\$ 4,040,881	\$ 10,380,881
2010	6,695,000	3,678,069	10,373,069
2011	7,090,000	3,293,432	10,383,432
2012	7,495,000	2,885,907	10,380,907
2013	9,784,840	2,447,657	12,232,497
2014-2018	8,652,945	48,215,155	56,868,100
2019-2023	13,915,000	8,809,338	22,724,338
2024-2028	17,430,000	5,456,500	22,886,500
2029-2031	8,220,000	1,118,250	9,338,250
	<u>\$ 85,622,785</u>	<u>\$ 79,945,188</u>	<u>\$ 165,567,973</u>
2008	6,005,000		
	<u>\$ 91,627,785</u>		
Deferred Loss, series 2001	(265,851)		
Premium, series 2006	684,119		
Total	<u>\$ 92,046,053</u>		

Prior to the due date of each series of revenue bonds, KEYS is required to set aside sufficient funds to retire the matured principal amounts in equal, monthly amounts.

Changes in Long-Term Debt during Fiscal Year 2008 are as follows:

	<u>September 30, 2007</u>	<u>Additions</u>	<u>Retired</u>	<u>September 30, 2008</u>
Series 1991	\$ 8,077,785	\$ -	\$ -	\$ 8,077,785
Series 2000	39,915,000	-	4,825,000	35,090,000
Series 2001, net	7,039,470	-	845,321	6,194,149
Series 2006, net	42,753,654	-	69,535	42,684,119
Total	<u>\$ 97,785,909</u>	<u>\$ -</u>	<u>\$ 5,739,856</u>	<u>\$ 92,046,053</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

NOTE 5 – LONG-TERM DEBT (Continued)

Revenue Bonds:

Electric System Refunding Revenue Bonds, Series 1991, collateralized by Net Revenues and certain Reserve Funds, payable October 1, 2014 to October 1, 2018 in installments of various amounts, bearing interest at rates from 7.05% to 7.10%.

Electric System Refunding Revenue Bonds, Series 2000, collateralized by Net Revenues and certain Reserve Funds, payable October 1, 2008 to October 1, 2013 in installments of various amounts, bearing interest at rates from 5.75% to 6.00%.

Electric System Refunding Revenue Bonds, Series 2001, collateralized by Net Revenues and certain Reserve Funds, payable October 1, 2008 to October 1, 2013 in installments of various amounts, bearing interest at rates from 3.70% to 4.62%.

Deferred Loss on Refunding-net, amortized on the straight line basis over the term of the Series 2001 Revenue Bonds

Series 2001, net

Electric System Refunding and Capital Improvement Revenue Bonds, Series 2006, collateralized by Net Revenues and certain Reserve Funds, payable October 1, 2019 to October 1, 2031 in installments of various amounts, bearing interest at rates from 4.0% to 5.0%

Net Original Premium, amortized on the straight line basis over the term of the Series 2006 Refunding and Capital Improvement Bonds

Series 2006, net

Total Long-Term Debt

Less Current Portion

Net Long-Term Debt

	<u>2008</u>	<u>2007</u>
	<u>\$ 8,077,785</u>	<u>\$ 8,077,785</u>
	<u>35,090,000</u>	<u>39,915,000</u>
	6,460,000	7,390,000
	(265,851)	(289,901)
	<u>6,194,149</u>	<u>7,100,099</u>
	42,000,000	42,000,000
	684,119	738,508
	<u>42,684,119</u>	<u>42,738,508</u>
	92,046,053	97,831,392
	5,976,707	5,739,856
	<u>\$ 86,069,346</u>	<u>\$ 92,091,536</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

NOTE 6 – PRIOR YEAR DEFEASANCE OF DEBT

During 1986, 1987, 1991, 1995, 2000 and 2001, KEYS defeased certain revenue bonds by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in KEYS' financial statements. At September 30, 2008, \$21,121,538 of bonds outstanding relative to the 1980C, 1983, 1984 and 1980D issues, \$14,071,222 relative to the 1985 issue, \$8,134,998 relative to the 1987 issue, \$10,591,919 relative to the 1988 issue, and \$6,610,000 relative to the 1991 issue are considered defeased.

NOTE 7 – RATE COVENANT

KEYS has agreed to establish and revise rates such that revenues will be sufficient to pay 100% of its costs of operations and maintenance, all required reserve payments, and 125% of the principal and interest becoming due on all outstanding bonds.

NOTE 8 – PENSION PLAN

Plan Description - The Retirement System for General Employees (the Plan) is a single-employer defined benefit pension plan administered by the Board of Trustees of the Plan. The Plan provides retirement, disability and death benefits to plan members and beneficiaries. Annual cost of living adjustments of 3% are provided to members and beneficiaries. The Plan was created by resolution of the Utility Board, which the Plan by resolution assigns the authority to establish and amend its provisions to the Utility Board. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Retirement System for General Employees, P.O. Drawer 6100, Key West, FL 33041-6100.

Basis of Accounting - The financial statements of the Plan are prepared using the accrual basis of accounting. KEYS' contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits are recognized when due and payable in accordance with the terms of the Plan.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Plan investments do not include any of KEYS' debt securities. All investments represent less than 5% of Plan net assets.

Funding Policy – The contribution requirements of plan members and KEYS are established and may be amended by the Utility Board. Plan members have not been required to contribute to the Plan since October 1, 1985. A former member who takes a refund of accumulated contributions and who is later re-employed by KEYS within three years of his termination of service shall have the right to repay the Plan for amounts received. Upon such re-payment, the member shall receive credit for his years of credited service as of his last termination date. KEYS is required to contribute at a rate based on the annual actuarial valuation, which indicates the minimum required contribution. The minimum required contribution rate of covered payroll would be adjusted to include any benefit changes approved by the Utility Board.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

NOTE 8 – PENSION PLAN (Continued)

Pension overpayment – During Fiscal 2004, KEYS identified benefit calculation errors resulting in overpayment of benefits over several years for a group of retirees. Effective October 1, 2004, KEYS corrected the benefit calculations to preclude subsequent overpayments. The Plan Trustees authorized the Plan Attorney to litigate against the former actuary and the former auditor for negligence. The case against the actuary was dismissed as the courts deemed the actuary as non professionals. The Plan Trustees accepted a settlement from the former auditor in the amount of \$500,000. To date, it is estimated that the overpayment, including interest, amounts to \$829,968. Legal and actuarial fees incurred to date in determining the amount of the overpayment and litigation approximate \$281,000.

After thorough consideration by The Plan Trustees it was determined not to pursue collection of the remaining balance from the recipients. The factors considered in this decision were the potential cost of recovery versus the amount of possible recovery and the impact of recovering the overpayment from some of the effected retirees as one-third of this group are deceased.

Schedule of Funding Progress – KEYS’ annual contribution for the calendar year 2008 of \$2,570,516 (27.9%) was determined as part of the January 1, 2008 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return and (b) projected salary increases of 5.5% per year. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of the Plan assets is the fair value of assets as reported in the Plan financial statements. The unfunded actuarial accrued liability is being amortized as a level payment on a closed basis. The remaining amortization period at January 1, 2008 was 30 years. KEYS had an unfunded actuarial accrued liability of \$8,184,910 and \$8,467,396 as of January 1, 2008 and 2007 respectively. The negative net pension obligation was \$(77,901) at December 31, 2007 was not recorded as payment will not be demanded from the Plan.

Actuarial Valuation Date	Entry Age Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2003	\$ 50,459	\$ 52,434	\$ 1,975	96.2%	\$ 6,845	28.9%
2004	\$ 51,439	\$ 55,408	\$ 3,969	92.8%	\$ 6,898	57.5%
2005	\$ 53,036	\$ 57,511	\$ 4,475	92.2%	\$ 6,934	64.5%
2006	\$ 54,266	\$ 61,004	\$ 6,738	89.0%	\$ 7,644	88.1%
2007	\$ 55,876	\$ 64,344	\$ 8,468	86.8%	\$ 8,344	101.5%
2008	\$ 59,924	\$ 68,109	\$ 8,185	88.0%	\$ 9,203	88.9%

Calendar Year	Annual Pension Cost (APC)	Percentage APC Contributed	Net Pension Obligation
2002	\$ 1,673,299	102%	\$ (26,551)
2003	\$ 1,644,221	101%	\$ (42,957)
2004	\$ 1,911,019	100%	\$ (42,578)
2005	\$ 1,979,611	102%	\$ (77,580)
2006	\$ 2,209,590	100%	\$ (76,895)
2007	\$ 2,461,841	100%	\$ (77,901)

	2007	2008
Annual Required Contribution (ARC)	\$ 2,462,847	\$ 2,577,761
Interest on NPO	(6,152)	(6,232)
Adjustment to ARC	5,146	5,301
APC	<u>\$ 2,461,841</u>	<u>\$ 2,576,830</u>
Utility Board Contribution	(2,462,847)	
Increase (Decrease) in NPO	(1,006)	
NPO (beginning of year)	(76,895)	
NPO (end of year)	<u>(77,901)</u>	

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

NOTE 9 – LEASES

Rent expense under cancelable operating leases related to copiers, mailing equipment and time clocks was \$196,311 and \$209,554 in 2008 and 2007, respectively.

NOTE 10 – JOINT INVESTMENT

FKEC Transmission Agreement – To provide the long-term transmission needs of both KEYS and the Florida Keys Electric Cooperative (FKEC), the parties entered into an agreement in which both KEYS and FKEC will maintain an appropriate ownership investment in the transmission line between the Monroe/Dade County line and the north end of the Seven Mile Bridge, at the north end of KEYS' service area. The Transmission Agreement is effective for 40 years from its effective date of January 1, 1992, or until all property, comprising the transmission line has been disposed of and all termination costs have been paid, whichever occurs last.

Based on the estimated usage of the transmission system in 1993 and 2020, and other considerations such as allocations of losses, the parties agreed that KEYS would be required to maintain 56.5% of the investment in the transmission system, and FKEC will be required to maintain 43.5% of the investment in the transmission system. Based on the agreement, KEYS is entitled, at all times, to 40% of the approximately 270 MW transfer limit of the 138 KV transmission system, which is currently estimated to be approximately 110 MW.

The foregoing allocation percentages are used: (1) to set transmission capacity entitlements, including circumstances where the capacity is fully utilized or limited (provisions have been made for either party to use the unused capacity of the other party by paying a non-firm rate based on the previous year's costs); (2) to allocate a net investment responsibility, for which capital costs are borne by each owning party, and which costs are used to calculate a fixed charge rate that is paid by either party if their net investment is less than the required investment (in addition to the fixed charge for deficit investments, the deficit party has the responsibility to make the next investment or portion thereof to establish its total net investment approximately equal to the required allocation); and (3) to determine the allocation of operation and maintenance, administration and general, renewals and replacements, upgrades, and other appropriate expenses including taxes (FKEC is responsible for the operation and maintenance of the transmission facilities within its service territory, based on recommendations from a joint operating committee, with the associated costs allocated to the parties).

Each party is responsible for losses on the transmission system based upon a loss allocation factor for each line segment, which is determined by dividing the energy flow for each party on the line segment by the total flow on the line segment. FKEC has installed substation-metering necessary to calculate the loss allocation factor, and FKEC is, therefore, responsible for performing the calculation, which is calculated on an hourly basis.

The Transmission Agreement provides for the construction of future capital additions to the transmission system, which would be paid for jointly by FKEC and KEYS based on the allocation percentages. Once parity of investment is achieved under the Transmission Agreement, any subsequent investment deficiency requires the deficient party to pay a monthly penalty to the other party, based upon a formula set out in the Transmission Agreement, which is based in part on the non-deficient party's embedded cost of debt capital.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

NOTE 10 – JOINT INVESTMENT (Continued)

Since the joint investment does not constitute a separate legal entity and no joint debt was issued to fund this project, KEYS investment in these facilities is included as part of electric plant on KEYS' balance sheet.

NOTE 11 - PURCHASED POWER COMMITMENTS

All Requirements Power Supply Project – In July 1997, KEYS agreed to become a member of the Florida Municipal Power Agency (FMPA) All-Requirements Power Supply Project (the "All-Requirements Project") and began operations as a project participant effective April 1, 1998. Under the contractual arrangement with FMPA, KEYS has assigned all of its generating and firm purchased power resources to FMPA, and FMPA will serve all of KEYS' requirements (net of up to 2 MW of non-firm capacity when available from the local resource recovery facility). Further, in the event that power cannot be delivered to the KEYS' service area over the tie line from the mainland, KEYS established a policy to have island generation capability equal to at least 60% of KEYS' peak load. KEYS and FMPA have agreed to meet these criteria through a combination of KEYS' 36.5 MW of existing synchronized generating resources and four combustion turbine units that are owned by FMPA, which currently total 72.0 MW. As part of the All-Requirements Project contract, the Florida Municipal Power Agency is required to maintain generation assets within KEYS' Service Area equal to or above 60 percent of the KEYS' load. The FMPA All-Requirements Project, the related assignment of resources by KEYS to FMPA, and other matters pertaining to KEYS' power supply are discussed in the paragraphs following.

KEYS has previously entered into several purchased power agreements with other parties including (i) the FMPA Tri-City Project, (ii) the FMPA Stanton 2 Project; and (iii) a long-term purchase agreement with FPL. As a member of the All-Requirements Project, KEYS' resources and costs under these three contracts have been assigned to FMPA.

KEYS 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 (KEYS has one vote) and the FMPA Board of Directors (KEYS' vote is weighted based on KEYS' net energy for load).

FMPA Tri-City Project (Stanton 1) – KEYS is a member of the FMPA Tri-City Project (Stanton 1). KEYS and FMPA have entered into a Tri-City Project Power Sales Contract and a Tri-City Project Support Contract wherein KEYS has agreed to purchase 54.546% of FMPA's Tri-City Project. The Project consists of a 5.301% undivided ownership interest in Curtis H. Stanton Energy Center ("Stanton") unit No. 1, a 425 MW coal-fired generating unit jointly owned by the Orlando Utilities Commission ("OUC"), the Kissimmee Utility Authority, and FMPA, and operated by the OUC. Stanton Unit No. 1 began commercial operation in July 1987. Based upon the unit's high dispatch rating of 425 MW, the Tri-City Project consists of a 22 MW undivided ownership and KEYS' power entitlement share is approximately 12 MW at the plant bus bar.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

NOTE 11 - PURCHASED POWER COMMITMENTS (Continued)

FMPA Stanton 2 Project – KEYS is a member of the FMPA Stanton 2 Project. KEYS and FMPA have entered into a Stanton 2 Project Power Sales Contract and a Project Support Contract wherein KEYS has agreed to purchase 9.8932% of FMPA's Stanton 2 Project. FMPA's Stanton 2 Project consists of a 23.2367% undivided ownership interest in Stanton Unit No. 2, a 429 MW coal-fired generating unit jointly owned by OUC and FMPA, and operated by OUC. Stanton Unit No. 2 began commercial operation in June 1996. Based on the unit's 429 MW high dispatch rating, the Stanton 2 Project consists of 100 MW undivided ownership and KEYS' power entitlement share is approximately 9.9 MW at the plant bus bar.

Florida Power & Light (FPL) Long-Term Purchase – KEYS entered into an agreement with FPL on August 15, 1991, entitled the Long-Term Agreement to Provide Capacity and Energy by Florida Power & Light Company to Keys Energy Services, the Utility Board of the City of Key West, Florida (the "FPL Long-Term Agreement") which became effective on June 1, 1993 after the termination of a short-term purchase agreement with FPL. The FPL Long-Term Agreement will continue in effect for 20 years. The initial purchase amount (the "Initial Contract Demand") is 45 MW. The contract demand for each year is to be designated by September 1 of each prior year, but the contract demand cannot be less than the initial contract demand during the term of the agreement. In the event KEYS' peak load during a year is lower than the KEYS peak load in the immediately preceding year, KEYS may decrease the portion of its contract demand in excess of the Initial Contract Demand, subject to certain limitations.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Risk Management - KEYS 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 purchases commercial insurance policies from a commercial insurance carrier and other insurance carriers to minimize its risk of loss in these areas. KEYS' has not experienced an insurance settlement in excess of insurance coverage during the past four fiscal years. KEYS' bears the risk of loss up to the deductible amounts.

NOTE 13 – NAVY CONTRACT

The United States Navy is the largest customer of KEYS and accounted for approximately 9.4% of kilowatt hours sold in each Fiscal Year 2008 and 2007. KEYS' contract with the Navy is for a term of ten years with a provision which requires the parties to commence negotiations for a new contract at least two years prior to the end of the current contract. The contract also contains provisions for minimum billing, service reduction and exclusive service provisions. Pursuant to this contract, KEYS has agreed to provide a maximum of 15 megawatts of power at multiple locations.

KEYS executed an amendment to the Navy's service contract on December 8, 1999, which modified the existing rate schedule. On September 12, 2007, both parties signed a new contract that shall continue in effect through August 31, 2017. All terms and conditions remain unchanged and in full force and effect.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

NOTE 14 – REGULATION

According to existing laws of the State of Florida, the five members of the Utility Board act as the regulatory authority for the establishment of electric rates.

The Florida Public Service Commission (FPSC) has authority to regulate the electric "rate structures" of municipal utilities in Florida. It is believed that "rate structures" are clearly distinguishable from the total amount of revenues which a particular utility may receive from rates, and that distinction has thus far been carefully made by the FPSC. Prior to implementation of any rate change, KEYS files the proposed tariff with the Florida Public Service Commission and has established the prerequisite of a Public Notice and the holding of a Public Hearing.

The Florida Electric Power Plant Siting Act has given the FPSC exclusive authority to approve the construction of new power plants. The FPSC also exercises jurisdiction under the National Energy and the Florida Energy Efficiency and Conservation Acts as related to electric use conservation programs and prescribes conformance to the Federal Energy Regulatory Commission's Uniform System of Accounts.

Operations of KEYS are subject to environmental regulation by Federal, State and local authorities and to zoning regulations by local authorities. Federal and State standards and procedures that govern control of the environment can change. These changes can arise from continuing legislative, regulatory, and judicial action respecting the standards and procedures.

Therefore, there is no assurance that the electric plant in operation, under construction or contemplated will always remain subject to the regulations currently in effect, or will always comply with future regulations. An inability to comply with environmental standards or deadlines could result in reduced operating levels or complete shutdown of individual electric generating units not in compliance. Furthermore, compliance with environmental standards or deadlines may substantially increase capital and operating costs.

NOTE 15 – POST EMPLOYMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, KEYS provides life insurance and health care benefits for retired employees. These benefits are provided pursuant to KEYS' personnel policies as adopted by the Utility Board. KEYS is not required to provide contributions to this benefit by any statutory, contractual or other authority.

KEYS employees hired before June 9, 1999 are eligible for these benefits if they qualify for retirement status while working for KEYS. At September 30, 2008, 122 retirees were eligible for and were receiving these benefits. If a retiree is eligible for Medicare they are required to make this their primary, thereby reducing KEYS costs. These and similar benefits for active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. KEYS recognizes the cost of providing these benefits on a pay-as-you-go basis by expensing the insurance premiums for retirees, which were \$775,381 and \$985,075 for 2008 and 2007, respectively.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

NOTE 16 – PAYMENT TO THE CITY OF KEY WEST

KEYS is the successor of the electric public utility once owned by the City. All electric utility property owned by the City of Key West was transferred to KEYS at the time of KEYS' creation. KEYS pays the City an annual amount as a return on the City's contribution to KEYS.

Paragraph (11) of Section 3.03 (B) of the Original Resolution 532 was amended on September 8, 1999 by Resolution 678 to be effective for the amount paid in 2001. The Board will pay to the City a sum equal to the greater of (a) \$200,000 (adjusted annually for changes in the Consumer Price index or (b) one percent (1%) of the Gross Revenues derived from sales of electricity at retail (exclusive of Power Cost Revenues which are defined as (i) revenues determined by reference to the power cost component of base rates, plus or minus (ii) power cost adjustment charges or credits.) The annual payments were \$368,741 and \$341,279 for 2008 and 2007, respectively.

NOTE 17 – FISCAL YEAR 2007 RESTATEMENT

Subsequent to year end, it was determined that additional interest revenue for the Bond Series 2006 should have been capitalized. A new calculation was performed and each bond funded capital project's cost as well as related depreciation was adjusted. The correction resulted in a decrease in total capital assets of \$639,755, a decrease in depreciation expense of \$1,191, and a decrease in interest income of \$640,946.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
SCHEDULES OF REVENUES EARNED
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	Restated 2007
Operating Revenues:		
Electric Revenues	\$ 94,836,525	\$ 90,392,760
Power Cost Adjustment	14,681,817	(312,369)
Service Charges	245,480	248,140
Penalty Charges	663,025	601,588
Reserve Capacity	1,767,171	1,931,766
Charges for New Service	800,131	718,348
Other	163,944	168,639
Total	113,158,093	93,748,872
Other Income:		
Interest	751,008	1,392,012
Hurricane-Grant Revenue	292,960	550,209
Pole Attachment	338,786	375,474
Generating Unit Expense Reimbursement	808,301	499,609
Tree Trimming	118,022	110,550
KW Steam Plant Rental Income	175,322	179,369
Miscellaneous Non-Operating Revenue	347,693	233,739
Total Other Income	2,832,092	3,340,962
Total Revenues	\$ 115,990,185	\$ 97,089,834

UTILITY BOARD OF THE CITY OF KEY WEST
SCHEDULES OF REVENUES AND EXPENDITURES – BUDGET TO ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Annual Budget		Year to Date Actual	Variance- Favorable (Unfavorable)
	Original	Current		
Revenues				
Operating Revenues	\$ 98,688,193	\$ 98,688,193	\$ 109,518,342	\$ 10,830,149
Other Operating Revenues	2,743,239	2,869,310	3,639,751	770,441
Interest Income	3,005,619	1,945,553	751,008	(1,194,545)
Hurricane - Grant Revenue	-	-	292,960	292,960
Non-Operating Revenues	<u>5,167,704</u>	<u>3,458,204</u>	<u>1,788,124</u>	<u>(1,670,080)</u>
Total Budget Revenue	<u>109,604,755</u>	<u>106,961,260</u>	<u>115,990,185</u>	<u>9,028,925</u>
Expenditures				
Production Expenses - Diesel	1,499,639	2,038,980	1,625,066	413,914
Purchased Power	65,275,104	65,275,104	71,009,513	(5,734,409)
Transmission Expenses	4,008,043	3,990,007	3,938,264	51,743
Distribution Expenses	4,487,463	4,457,974	4,070,472	387,502
Customer Accounts and Collection Expenses	1,353,758	1,347,844	1,571,014	(223,170)
Customer Deposit Interest	176,595	176,595	67,621	108,974
Administrative and General Expenses	18,263,138	18,366,819	17,238,368	1,128,451
Senior Lien Debt Service	8,386,900	8,386,900	8,386,900	-
Dividend to City of Key West	370,294	370,294	368,741	1,553
Hurricane - Expenses	<u>-</u>	<u>-</u>	<u>256,796</u>	<u>(256,796)</u>
Total Expenditures	<u>103,820,934</u>	<u>104,410,517</u>	<u>108,532,755</u>	<u>(4,122,238)</u>
Excess of Revenues Over Expenditures	<u>\$ 5,783,821</u>	<u>\$ 2,550,743</u>	<u>\$ 7,457,430</u>	<u>\$ 4,906,687</u>
Adjustments				
Depreciation			(6,632,858)	
Principal Portion of Budgeted Debt Service			6,005,000	
Capitalized Overhead			2,504,595	
Interest Accrued but Unfunded			(1,793,393)	
Amortization of Issuance Costs			(114,040)	
Capital Contributions			175,860	
Amortization of Loss on Refunding			<u>(53,582)</u>	
Change in Net Assets, GAAP Basis			<u>\$ 7,549,012</u>	



815 Peacock Plaza
Key West, Florida 33040
305.294.1049 / 305.294.1040
Fax: 305.294.3951

Scott G. Oropeza, C.P.A., P.A.
John G. Parks, Jr., C.P.A., P.A.
Denise Y. Rohrer, C.P.A., P.A.
James H. Hill, Jr.

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

Utility Board of the City
of Key West, Florida
"Keys Energy Services"
Key West, Florida

We have audited the financial statements of the Utility Board of the City of Key West, Florida, d/b/a Keys Energy Services, ("KEYS") as of and for the year ended September 30, 2008, which collectively comprise KEYS' basic financial statements and have issued our report thereon dated March 4, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects KEYS' ability to initiate, authorize, record,

Utility Board of the City
of Key West, Florida
“Keys Energy Services”
Key West, Florida

process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of KEYS’ financial statements that is more than inconsequential will not be prevented or detected by KEYS’ internal control. We consider the deficiencies described in the accompanying management memorandum to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by KEYS’ internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of KEYS, in a separate letter dated March 4, 2009.

KEYS response to the findings identified in our audit is described in the accompanying letter of management responses. We did not audit KEYS’ response and, accordingly, we express no opinion on it.

Utility Board of the City
of Key West, Florida
"Keys Energy Services"
Key West, Florida

This report is intended solely for the information and use of management, the audit committee, Board of Directors, and the Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.


OROPEZA & PARKS
CERTIFIED PUBLIC ACCOUNTANTS

March 4, 2009

UTILITY BOARD OF THE CITY OF KEY WEST

STATISTICAL SECTION DESCRIPTION

This part of the Keys Energy Services' (KEYS) Comprehensive Annual Financial Report presents detailed information as a context for understanding what the data in the financial statements, note disclosure, and required supplementary information says about KEYS overall financial health.

Financial Trends – These schedules contain trend information to help the reader understand how KEYS financial performance and well being has changed over time.

Revenue Capacity – These schedules contain information to help the reader assess KEYS local revenue source.

Debt Capacity – These schedules present information to help the reader assess KEYS debt burden and its ability to issue additional debt in the future.

Demographic and Economic Information – This schedule offers demographic and economic indicators to help the reader understand the environment in which KEYS financial activities take place.

Operating Information – These schedules contain service and infrastructure data to help the reader understand how the information in KEYS financial report relates to the services KEYS provides and the activities it performs.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CONDENSED BALANCE SHEETS

FISCAL YEARS 2008 - 1999

	<u>2008</u>	Restated <u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	Restated <u>2003</u>	Restated <u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
ASSETS										
Current Assets										
Cash and Investments	\$ 7,918,839	\$ 4,878,731	\$ 7,064,406	\$ 6,657,203	\$ 5,950,771	\$ 5,897,131	\$ 6,094,567	\$ 1,764,083	\$ 2,297,708	\$ 3,650,143
Accounts Receivable, net	9,374,828	6,930,502	6,152,177	5,729,570	5,252,346	4,317,862	4,514,931	6,723,727	5,890,221	5,573,281
Plant Material and Operating Supplies Inventory	3,791,212	3,422,943	2,722,320	2,454,805	2,659,814	2,496,248	3,408,455	3,282,355	2,938,287	2,470,040
Other Current Assets	<u>10,512,279</u>	<u>10,201,069</u>	<u>9,237,560</u>	<u>10,203,625</u>	<u>1,483,817</u>	<u>1,159,438</u>	<u>809,915</u>	<u>355,942</u>	<u>545,171</u>	<u>529,614</u>
Total Unrestricted Current Assets	31,597,158	25,433,245	25,176,463	25,045,203	15,346,748	13,870,679	14,827,868	12,126,107	11,671,387	12,223,078
Cash and Investments-Restricted	41,880,726	49,983,884	12,833,724	11,466,147	19,538,828	19,329,440	22,871,985	26,276,639	31,743,510	34,143,717
Interest Receivable	<u>2,715</u>	<u>2,715</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,320</u>	<u>368,358</u>	<u>287,446</u>
Total Restricted Current Assets	41,883,441	49,986,599	12,833,724	11,466,147	19,538,828	19,329,440	22,871,985	26,319,959	32,111,868	34,431,163
Total Current Assets	<u>73,480,599</u>	<u>75,419,844</u>	<u>38,010,187</u>	<u>36,511,350</u>	<u>34,885,576</u>	<u>33,200,119</u>	<u>37,699,853</u>	<u>38,446,066</u>	<u>43,783,255</u>	<u>46,654,241</u>
Non Current Assets										
Capital Assets										
Net Utility Plant	122,510,168	117,452,090	113,676,371	111,804,113	111,753,669	110,314,331	110,624,848	110,529,716	100,127,962	99,348,305
Construction in Progress	<u>6,600,410</u>	<u>3,398,149</u>	<u>1,156,438</u>	<u>2,307,807</u>	<u>3,278,081</u>	<u>5,021,562</u>	<u>2,336,476</u>	<u>2,158,024</u>	<u>5,994,178</u>	<u>4,116,931</u>
Total Net Capital Assets	129,110,578	120,850,239	114,832,809	114,111,920	115,031,750	115,335,893	112,961,324	112,687,740	106,122,140	103,465,236
Other Property										
Net Non-Utility Plant	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>
Total Other Property	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>
Restricted Non-Current Assets										
Deposits-Restricted	<u>2,266,539</u>	<u>2,266,539</u>	<u>3,243,009</u>	<u>3,243,009</u>	<u>3,243,009</u>	<u>1,621,505</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Restricted Non-Current Assets	2,266,539	2,266,539	3,243,009	3,243,009	3,243,009	1,621,505	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unrestricted Non-Current Assets										
Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,075</u>	<u>554,913</u>	<u>1,035,667</u>	<u>4,506,094</u>	<u>3,929,257</u>	<u>-</u>
Long Term Receivable	6,485,648	6,944,377	6,765,007	6,591,659	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Accounts Receivable	1,168,151	1,177,205	1,177,205	1,177,205	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Charges	<u>858,689</u>	<u>972,729</u>	<u>804,746</u>	<u>909,254</u>	<u>1,013,762</u>	<u>1,118,270</u>	<u>1,222,778</u>	<u>1,481,546</u>	<u>1,796,124</u>	<u>2,300,242</u>
Total Unrestricted Non-Current Assets	8,512,488	9,094,311	8,746,958	8,678,118	1,057,837	1,673,183	2,258,445	5,987,640	5,725,381	2,300,242
Total Non-Current Assets	<u>139,889,605</u>	<u>132,211,089</u>	<u>126,822,776</u>	<u>126,033,047</u>	<u>122,342,369</u>	<u>121,640,354</u>	<u>118,229,542</u>	<u>121,685,153</u>	<u>114,857,294</u>	<u>108,775,251</u>
Total Assets	<u>\$ 213,370,204</u>	<u>\$ 207,630,933</u>	<u>\$ 164,832,963</u>	<u>\$ 162,544,397</u>	<u>\$ 157,227,945</u>	<u>\$ 154,840,473</u>	<u>\$ 155,929,395</u>	<u>\$ 160,131,219</u>	<u>\$ 158,640,549</u>	<u>\$ 155,429,492</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CONDENSED BALANCE SHEETS (CONTINUED)

FISCAL YEARS 2008 - 1999

	<u>2008</u>	Restated <u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	Restated <u>2003</u>	Restated <u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
NET ASSETS AND LIABILITIES										
Current Liabilities										
Unrestricted Current Liabilities										
Accounts Payable	\$ 7,068,091	\$ 6,685,677	\$ 5,709,921	\$ 6,751,776	\$ 5,135,018	\$ 4,657,297	\$ 3,864,900	\$ 3,917,568	\$ 3,477,950	\$ 3,608,804
Accrued Expenses	4,570,792	3,149,004	2,508,409	2,133,812	1,697,905	1,457,832	1,250,345	1,190,933	1,066,370	1,028,575
Deferred Revenues	<u>53,991</u>	<u>132,365</u>	<u>316,128</u>	<u>82,286</u>	<u>108,397</u>	<u>64,835</u>	<u>112,201</u>	<u>274,301</u>	<u>82,520</u>	<u>219,338</u>
Total Unrestricted Current Liabilities	11,692,874	9,967,046	8,534,458	8,967,874	6,941,320	6,179,964	5,227,446	5,382,802	4,626,840	4,856,717
Restricted Current Liabilities										
Current Portion of Long-Term Debt	5,976,707	5,694,373	5,454,373	5,169,373	4,909,373	5,009,373	4,790,611	4,240,611	8,844,404	8,040,014
Accounts Payable	865,410	744,959	914,510	196,656	298,888	518,400	424,638	268,384	1,075,805	1,073,974
Accrued Interest	2,185,244	2,342,556	1,498,275	1,639,823	1,768,198	1,889,160	1,998,717	2,069,870	1,572,960	816,126
Due to Customers	4,279,001	4,125,296	4,020,894	4,084,228	4,012,967	3,924,232	4,001,563	4,058,346	4,390,789	4,401,941
Due to Other Governments	-	-	-	-	-	-	224,018	-	-	-
Accrued Expenses	-	205,950	-	-	-	-	-	-	-	-
Security Deposits Payable	<u>610,000</u>	<u>110,000</u>	<u>110,000</u>	<u>110,000</u>	-	-	-	-	-	-
Total Restricted Current Liabilities	13,916,362	13,223,134	11,998,052	11,200,080	10,989,426	11,341,165	11,439,547	10,637,211	15,883,958	14,332,055
Total Current Liabilities	25,609,236	23,190,180	20,532,510	20,167,954	17,930,746	17,521,129	16,666,993	16,020,013	20,510,798	19,188,772
Long-Term Debt										
Revenue Bonds	86,069,346	92,091,536	55,032,256	60,486,629	65,656,003	70,565,376	75,233,511	83,636,135	87,528,888	55,470,092
Accrued Interest	18,612,844	16,819,451	15,146,568	13,586,094	12,130,463	10,772,630	9,506,029	8,992,072	7,817,871	43,806,585
Loan Payable	-	-	<u>948,000</u>	<u>1,185,000</u>	-	-	<u>340,000</u>	<u>680,000</u>	<u>182,409</u>	-
Total Long-Term Debt	104,682,190	108,910,987	71,126,824	75,257,723	77,786,466	81,338,006	85,079,540	93,308,207	95,529,168	99,276,677
Total Liabilities	<u>130,291,426</u>	<u>132,101,167</u>	<u>91,659,334</u>	<u>95,425,677</u>	<u>95,717,212</u>	<u>98,859,135</u>	<u>101,746,533</u>	<u>109,328,220</u>	<u>116,039,966</u>	<u>118,465,449</u>
Net Assets	<u>83,078,778</u>	<u>75,529,766</u>	<u>73,173,629</u>	<u>67,118,720</u>	<u>61,510,733</u>	<u>55,981,338</u>	<u>54,182,862</u>	<u>50,802,999</u>	<u>42,600,583</u>	<u>36,964,043</u>
Total Net Assets and Liabilities	<u>\$ 213,370,204</u>	<u>\$ 207,630,933</u>	<u>\$ 164,832,963</u>	<u>\$ 162,544,397</u>	<u>\$ 157,227,945</u>	<u>\$ 154,840,473</u>	<u>\$ 155,929,395</u>	<u>\$ 160,131,219</u>	<u>\$ 158,640,549</u>	<u>\$ 155,429,492</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CHANGES IN NET ASSETS

FISCAL YEARS 2008 - 1999

	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Revenues										
Utility Activities:										
Charges for Electric:										
Customer Charge	\$ 2,196,785	\$ 2,182,999	\$ 2,097,779	\$ 2,106,597	\$ 2,076,473	\$ 2,062,558	\$ 2,046,854	\$ 2,027,916	\$ 1,919,513	\$ 1,552,443
Energy	85,037,568	81,175,294	50,721,562	52,074,914	52,842,391	51,946,140	50,539,343	49,849,743	48,867,233	39,521,839
Demand	4,868,544	4,786,021	4,586,551	4,767,462	4,741,167	4,774,887	4,636,591	4,480,583	4,464,433	3,610,631
Power Cost Adjustment	14,681,817	(312,369)	34,217,993	19,451,323	16,695,062	9,892,463	5,624,742	9,751,318	857,080	14,089,541
Gross Receipts	<u>2,733,628</u>	<u>2,248,446</u>	<u>2,344,483</u>	<u>2,005,905</u>	<u>1,929,535</u>	<u>1,782,729</u>	<u>1,607,900</u>	<u>1,691,395</u>	<u>1,432,430</u>	<u>593,394</u>
Total Charges for Electric	109,518,342	90,080,391	93,968,368	80,406,201	78,284,628	70,458,777	64,455,430	67,800,955	57,540,689	59,367,848
Charges for Service:										
Penalty Charge	663,025	601,588	470,133	482,655	523,623	457,717	387,600	515,682	354,867	392,166
Service Charge	245,480	248,140	134,068	141,677	132,024	159,050	116,349	118,541	121,100	114,665
Initial Permanent Service	169,040	217,610	31,400	57,800	57,625	35,050	37,575	41,750	61,377	43,253
Line Extension	631,091	500,738	697,538	69,354	195,370	108,115	135,202	4,575	2,465	1,800
Contributions in Aid of Construction	<u>175,860</u>	<u>225,468</u>	<u>85,983</u>	<u>119,347</u>	<u>81,417</u>	<u>146,587</u>	<u>127,323</u>	<u>185,059</u>	<u>287,541</u>	<u>621,384</u>
Total Charges for Service	1,884,496	1,793,544	1,419,122	870,833	990,059	906,519	804,049	865,607	827,350	1,173,268
Charges for Other Services:										
Green Power	11,700	5,374	3,547	3,601	1,985	-	-	-	-	-
Capacity Credits	1,767,171	1,931,766	1,804,033	2,029,173	1,909,808	1,883,557	1,598,265	1,471,961	1,368,859	1,243,512
Other	<u>152,244</u>	<u>163,265</u>	<u>90,978</u>	<u>288,275</u>	<u>234,374</u>	<u>34,979</u>	<u>99,870</u>	<u>80,883</u>	<u>59,306</u>	<u>82,131</u>
Total Charges for Other Services	<u>1,931,115</u>	<u>2,100,405</u>	<u>1,898,558</u>	<u>2,321,049</u>	<u>2,146,167</u>	<u>1,918,536</u>	<u>1,698,135</u>	<u>1,552,844</u>	<u>1,428,165</u>	<u>1,325,643</u>
Total Utility Activities	<u>113,333,953</u>	<u>93,974,340</u>	<u>97,286,048</u>	<u>83,598,083</u>	<u>81,420,854</u>	<u>73,283,832</u>	<u>66,957,614</u>	<u>70,219,406</u>	<u>59,796,204</u>	<u>61,866,759</u>
Non-Utility Activities:										
Rental Income	614,805	644,179	633,419	402,898	316,060	266,547	247,632	224,991	222,391	248,955
Miscellaneous	983,232	644,012	1,529,184	269,151	129,512	11,032	657,534	854,732	1,656,063	118,110
Tree Trimming	118,022	110,550	92,565	81,573	181,774	175,290	188,974	-	236,691	236,691
Investment Earnings	751,008	1,392,012	1,047,716	613,525	301,862	396,649	655,969	1,815,338	1,862,118	1,260,837
Special Item-Hurricane	292,960	550,209	3,281,600	1,900,702	-	-	-	-	331,832	4,439,834
Special Item-Insurance Proceeds	-	-	273,306	-	-	-	-	-	-	-
Special Item-SO2 Credits	72,065	-	-	-	-	-	-	-	-	4,285,700
Grant Revenue	-	-	-	119,367	110,937	3,022	6,500	193,019	5,000	-
Gain on Disposition of Property	-	-	-	4,568,719	-	-	-	-	-	-
Total Non-Utility Activities	<u>2,832,092</u>	<u>3,340,962</u>	<u>6,857,790</u>	<u>7,955,935</u>	<u>1,040,145</u>	<u>852,540</u>	<u>1,756,609</u>	<u>3,088,080</u>	<u>4,314,095</u>	<u>10,590,127</u>
Total Revenues	<u>\$ 116,166,045</u>	<u>\$ 97,315,302</u>	<u>\$ 104,143,838</u>	<u>\$ 91,554,018</u>	<u>\$ 82,460,999</u>	<u>\$ 74,136,372</u>	<u>\$ 68,714,223</u>	<u>\$ 73,307,486</u>	<u>\$ 64,110,299</u>	<u>\$ 72,456,886</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CHANGES IN NET ASSETS (Continued)

FISCAL YEARS 2008 - 1999

	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Expenses										
Utility Activities:										
Operating Expenses										
Production - Diesel	\$ 1,625,066	\$ 1,623,810	\$ 1,482,077	\$ 1,074,167	\$ 887,371	\$ 916,557	\$ 779,761	\$ 816,946	\$ 681,671	\$ 841,671
Purchased Power	71,009,513	58,531,619	59,946,424	49,287,046	44,523,179	41,311,655	34,230,472	36,742,561	29,133,085	26,253,614
Transmission	3,938,264	3,857,363	3,539,845	3,646,679	3,298,491	3,711,111	3,485,983	3,589,637	3,673,226	3,575,771
Distribution	4,070,472	3,984,022	3,366,439	3,017,736	3,250,018	2,832,211	3,075,612	2,985,558	3,167,390	3,295,190
Customer Service	1,571,014	1,332,355	1,243,322	1,280,590	1,085,522	1,015,116	985,698	1,033,617	1,035,576	1,062,064
Administrative & General	11,850,327	11,812,589	11,452,519	11,540,112	10,004,675	8,757,455	8,460,644	5,977,699	5,601,023	5,881,170
Depreciation	6,632,858	6,339,122	6,182,488	6,391,999	6,441,587	6,367,595	6,500,687	5,680,618	5,488,771	5,783,556
Gross Receipts Tax	2,738,286	2,252,740	2,348,479	2,010,155	1,932,116	1,786,472	1,611,989	1,695,508	1,432,385	1,533,057
Employer Payroll Tax	145,160	137,946	119,476	116,919	89,107	68,831	65,945	63,034	60,557	55,116
Total Utility Activities	<u>103,580,960</u>	<u>89,871,566</u>	<u>89,681,069</u>	<u>78,365,403</u>	<u>71,512,066</u>	<u>66,767,003</u>	<u>59,196,791</u>	<u>58,585,178</u>	<u>50,273,684</u>	<u>48,281,209</u>
Non-Utility Activities										
Debt Expenses										
Interest on Debt	4,228,875	4,435,260	4,670,672	4,811,456	4,959,686	5,116,455	5,468,680	5,788,814	7,107,912	7,424,554
Interest Customer Deposit	67,621	197,964	194,367	109,429	29,345	31,538	74,701	279,513	252,913	198,347
Amortization of Bond Discount	114,040	113,096	104,508	104,508	104,508	104,508	259,703	127,714	187,707	189,507
Payment to City of Key West	368,741	341,279	343,341	340,548	325,998	318,394	334,485	323,851	317,146	249,644
Special Item - Hurricane	256,796	-	3,094,972	2,214,686	-	-	-	-	334,397	5,074,097
Retirement of Steam Plant	-	-	-	-	-	-	-	-	-	6,894,284
Total Non-Utility Activities	<u>5,036,073</u>	<u>5,087,599</u>	<u>8,407,860</u>	<u>7,580,627</u>	<u>5,419,537</u>	<u>5,570,895</u>	<u>6,137,569</u>	<u>6,519,892</u>	<u>8,200,075</u>	<u>20,030,433</u>
Total Expenses	<u>\$ 108,617,033</u>	<u>\$ 94,959,165</u>	<u>\$ 98,088,929</u>	<u>\$ 85,946,030</u>	<u>\$ 76,931,603</u>	<u>\$ 72,337,898</u>	<u>\$ 65,334,360</u>	<u>\$ 65,105,070</u>	<u>\$ 58,473,759</u>	<u>\$ 68,311,642</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CHANGES IN NET ASSETS (Continued)

	FISCAL YEARS 2008 - 1999									
	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<u>Change in Net Assets</u>										
Utility Activities										
Total Utility Revenues	\$ 113,333,953	\$ 93,974,340	\$ 97,286,048	\$ 83,598,083	\$ 81,420,854	\$ 73,283,832	\$ 66,957,614	\$ 70,219,406	\$ 59,796,204	\$ 61,866,759
Total Utility Expenses	<u>103,580,960</u>	<u>89,871,566</u>	<u>89,681,069</u>	<u>78,365,403</u>	<u>71,512,066</u>	<u>66,767,003</u>	<u>59,196,791</u>	<u>58,585,178</u>	<u>50,273,684</u>	<u>48,281,209</u>
Utility Change in Net Assets	9,752,993	4,102,774	7,604,979	5,232,680	9,908,788	6,516,829	7,760,823	11,634,228	9,522,520	13,585,550
Non-Utility Activities										
Total Non-Utility Revenues	2,832,092	3,340,962	6,857,790	7,955,935	1,040,145	852,540	1,756,609	3,088,080	4,314,095	10,590,127
Total Non-Utility Expenses	<u>5,036,073</u>	<u>5,087,599</u>	<u>8,407,860</u>	<u>7,580,627</u>	<u>5,419,537</u>	<u>5,570,895</u>	<u>6,137,569</u>	<u>6,519,892</u>	<u>8,200,075</u>	<u>20,030,433</u>
Non-Utility Change in Net Assets	(2,203,981)	(1,746,637)	(1,550,070)	375,308	(4,379,392)	(4,718,355)	(4,380,960)	(3,431,812)	(3,885,980)	(9,440,306)
Change in Net Assets	<u>\$ 7,549,012</u>	<u>\$ 2,356,137</u>	<u>\$ 6,054,909</u>	<u>\$ 5,607,988</u>	<u>\$ 5,529,396</u>	<u>\$ 1,798,474</u>	<u>\$ 3,379,863</u>	<u>\$ 8,202,416</u>	<u>\$ 5,636,540</u>	<u>\$ 4,145,244</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

NET ASSETS BY COMPONENT

FISCAL YEARS 2008 - 1999

	<u>2008</u>	Restated <u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	Restated <u>2003</u>	Restated <u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Utility Activities										
Invested in capital assets, net of related debt	\$ 67,390,927	\$ 60,991,269	\$ 53,995,651	\$ 48,044,762	\$ 47,004,365	\$ 42,238,508	\$ 34,953,312	\$ 26,426,478	\$ 12,568,467	\$ 36,964,043
Restricted for Working Capital	2,266,539	2,266,539	3,243,009	3,243,009	3,243,009	1,621,505	-	-	-	-
Unrestricted	<u>13,421,312</u>	<u>12,271,958</u>	<u>15,934,969</u>	<u>15,830,949</u>	<u>11,263,359</u>	<u>12,121,325</u>	<u>17,915,179</u>	<u>24,376,521</u>	<u>30,032,116</u>	<u>-</u>
Total Net Assets	<u>\$ 83,078,778</u>	<u>\$ 75,529,766</u>	<u>\$ 73,173,629</u>	<u>\$ 67,118,720</u>	<u>\$ 61,510,733</u>	<u>\$ 55,981,338</u>	<u>\$ 52,868,491</u>	<u>\$ 50,802,999</u>	<u>\$ 42,600,583</u>	<u>\$ 36,964,043</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

REVENUES BY TYPE OF CUSTOMER

FISCAL YEARS 2008 - 1999

	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Residential	\$ 51,560,478	\$ 42,438,131	\$ 44,302,430	\$ 37,767,031	\$ 36,658,912	\$ 33,526,793	\$ 29,945,374	\$ 30,573,275	\$ 25,901,263	\$ 25,063,159
Senior Citizen	498,448	428,097	452,712	369,301	314,552	229,184	195,524	207,605	149,109	157,444
Small Commercial	11,598,413	9,595,506	9,861,649	8,386,852	8,170,521	7,209,746	6,980,914	7,723,758	6,325,532	6,709,550
Large Commercial	33,354,993	27,432,935	28,882,226	24,131,212	23,690,538	20,955,224	18,998,550	20,122,328	17,229,071	18,900,932
Large Commercial-Primary	2,109,808	1,653,887	1,783,289	1,503,875	1,516,123	1,382,608	1,431,486	1,666,483	1,373,286	1,406,978
Industrial	-	-	-	-	-	7,313	46,533	25,134	17,809	19,348
Metro	-	-	-	-	-	-	-	-	-	22,474
Military	9,587,871	7,797,799	7,986,754	7,618,487	7,296,000	6,561,783	6,285,413	6,848,174	5,938,793	6,475,052
Churches	120,566	96,087	103,375	87,974	94,843	81,599	73,457	77,890	67,855	75,787
Recreating Lighting	25,540	30,242	28,274	28,956	25,102	23,384	22,505	23,827	21,221	19,770
Street Lighting	441,036	382,452	397,735	339,410	327,408	302,405	289,625	345,077	336,963	357,487
Area Lights	<u>221,189</u>	<u>225,255</u>	<u>169,924</u>	<u>173,103</u>	<u>190,629</u>	<u>178,738</u>	<u>186,049</u>	<u>187,404</u>	<u>179,787</u>	<u>159,867</u>
Total Electric Revenues	<u>\$ 109,518,342</u>	<u>\$ 90,080,391</u>	<u>\$ 93,968,368</u>	<u>\$ 80,406,201</u>	<u>\$ 78,284,628</u>	<u>\$ 70,458,777</u>	<u>\$ 64,455,430</u>	<u>\$ 67,800,955</u>	<u>\$ 57,540,689</u>	<u>\$ 59,367,848</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

ACTUAL NUMBER OF CUSTOMERS BILLED

(Month of September)

FISCAL YEARS 2008 - 1999

	<u>2008</u>	Restated <u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	Restated <u>2003</u>	Restated <u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Residential	23,728	23,602	23,626	23,722	23,485	23,430	23,244	23,002	22,945	22,347
Senior Citizen	365	365	385	359	328	273	227	266	209	243
Small Commercial	3,275	3,135	3,083	3,003	2,981	2,867	2,847	2,885	2,855	2,709
Large Commercial	650	666	641	689	682	676	663	611	632	662
Large Commercial-Primary	6	5	5	5	5	6	6	9	8	9
Military	1	1	1	1	1	1	1	1	1	1
Churches	17	15	14	14	14	16	14	15	15	15
Recreating Lighting	3	3	4	4	4	4	4	4	4	4
Street Lighting	5	5	5	5	5	5	5	5	4	4
Area Lights	<u>1,452</u>	<u>1,743</u>	<u>1,743</u>	<u>1,743</u>	<u>1,743</u>	<u>1,743</u>	<u>1,743</u>	<u>1,743</u>	<u>1,545</u>	<u>1,536</u>
Total Customers	<u><u>29,502</u></u>	<u><u>29,540</u></u>	<u><u>29,507</u></u>	<u><u>29,545</u></u>	<u><u>29,248</u></u>	<u><u>29,021</u></u>	<u><u>28,754</u></u>	<u><u>28,541</u></u>	<u><u>28,218</u></u>	<u><u>27,530</u></u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

kWh SALES BY TYPE OF CUSTOMER

FISCAL YEARS 2008 - 1999

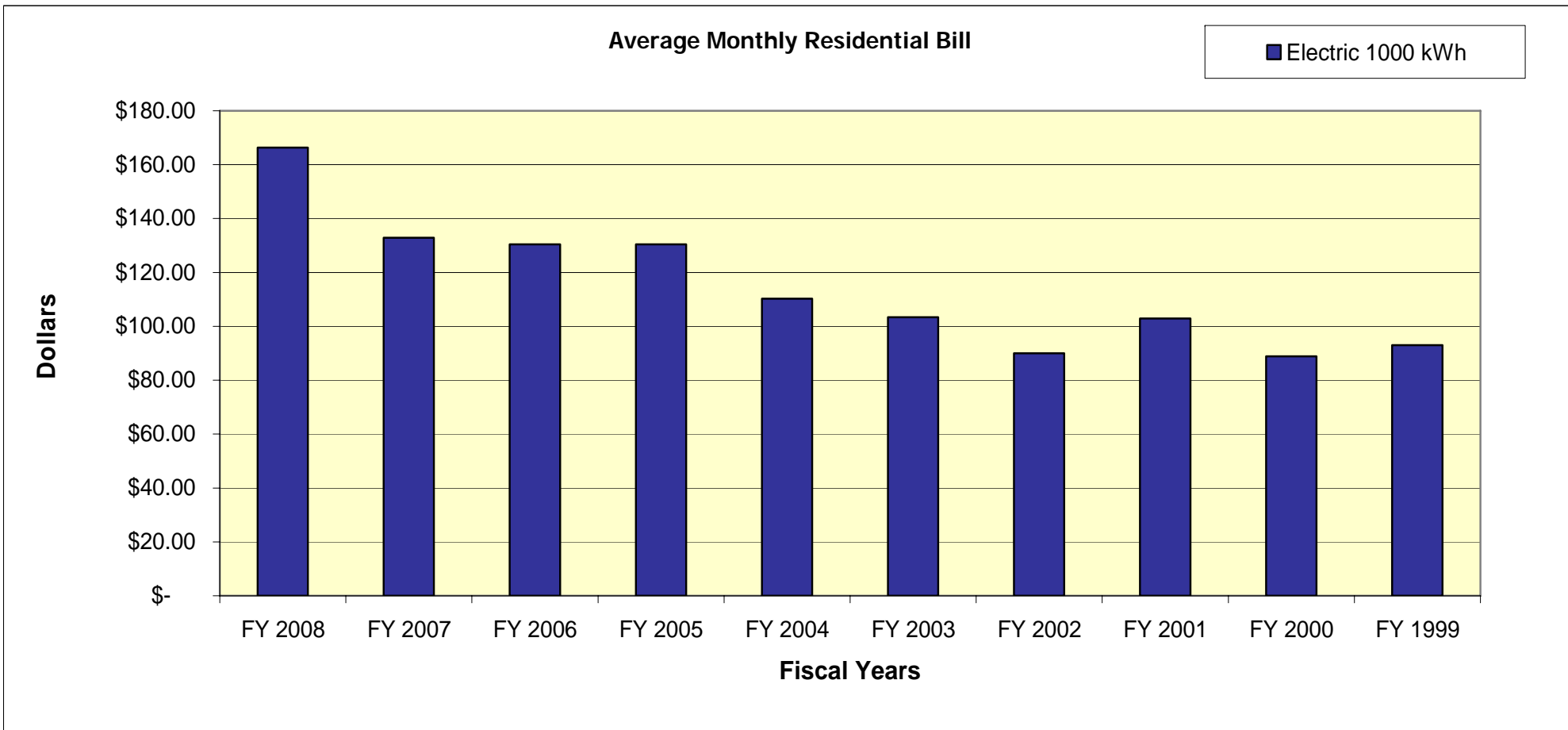
	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Residential	338,662,570	322,694,803	322,821,261	328,463,571	331,255,087	336,527,072	313,373,473	297,876,406	291,705,894	280,380,410
Senior Citizen	3,395,803	3,390,179	3,433,442	3,367,914	2,990,238	2,421,557	2,162,669	2,132,083	1,800,705	1,930,306
Small Commercial	74,675,605	71,492,573	70,301,646	71,315,388	72,215,876	70,546,836	71,191,876	69,505,253	64,739,573	59,229,157
Large Commercial	233,186,440	223,211,328	223,397,382	225,840,948	232,357,842	229,252,417	217,523,554	204,191,750	201,076,612	193,964,088
Large Commercial-Primary	15,283,453	14,028,201	14,390,129	14,745,675	15,445,343	15,697,282	17,088,655	17,725,220	16,600,701	15,850,316
Industrial	-	-	-	-	-	71,760	472,400	250,800	147,120	140,640
Metro	-	-	-	-	-	-	-	-	-	169,147
Military	69,584,689	66,557,591	64,737,435	75,332,040	75,596,527	76,739,131	76,916,836	73,989,067	75,165,609	72,940,692
Churches	718,511	648,111	671,840	669,595	757,371	743,337	649,482	605,706	590,667	579,606
Recreating Lighting	145,520	194,740	175,760	210,460	188,060	191,100	188,600	188,620	189,900	168,740
Street Lighting	2,694,288	2,750,949	2,817,954	2,654,569	2,651,128	2,652,752	2,655,220	2,955,277	3,199,842	3,201,830
Area Lights	<u>1,377,516</u>	<u>1,377,516</u>	<u>1,377,516</u>	<u>1,377,516</u>	<u>1,377,516</u>	<u>1,377,516</u>	<u>1,410,415</u>	<u>1,443,168</u>	<u>1,443,168</u>	<u>1,443,168</u>
Total kWh	<u>739,724,395</u>	<u>706,345,991</u>	<u>704,124,365</u>	<u>723,977,676</u>	<u>734,834,988</u>	<u>736,220,760</u>	<u>703,633,180</u>	<u>670,863,350</u>	<u>656,659,791</u>	<u>629,998,100</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

AVERAGE MONTHLY BILL

FISCAL YEARS 2008 – 1999



UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

RESIDENTIAL RATE ANALYSIS

(Month of September)

FISCAL YEARS 2008 - 1999

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Customer Charge	\$ 6.24	\$ 6.24	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00
Rate Per kWh	0.1231	0.1231	0.0799	0.0799	0.0799	0.0799	0.0799	0.0799	0.0799	0.0799
PCA Per kWh	0.0370	0.0035	0.0450	0.0328	0.0244	0.0175	0.0041	0.0170	0.0030	0.0200

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

RATE INCREASES

FISCAL YEARS 2008 - 1999

FISCAL YEAR	RATE INCREASES	RATE DECREASES	
FY 2008	0.0%	0.0%	
FY 2007	4.5%	0.0%	
FY 2006	0.0%	0.0%	
FY 2005	0.0%	0.0%	
FY 2004	0.0%	0.0%	
FY 2003	0.0%	0.0%	
FY 2002	0.0%	0.0%	
FY 2001	0.0%	0.0%	
FY 2000	0.0%	14.0%	***
FY 1999	0.0%	0.0%	

*** Note the decrease in Fiscal Year 2000 was only for commercial customers

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

DEBT CAPACITY

FISCAL YEARS 2008 - 1999

COMPUTATION OF DEBT SERVICE COVERAGE

	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Operating Revenue	\$ 113,158,093	\$ 93,748,872	\$ 97,200,065	\$ 83,478,736	\$ 81,339,438	\$ 73,137,245	\$ 66,830,291	\$ 69,988,022	\$ 59,444,821	\$ 61,245,375
Other Income	2,539,133	2,790,753	3,302,844	1,486,514	1,040,145	849,518	1,750,109	3,134,405	4,043,540	6,150,293
Rate Stabilization Transfers	(700,000)	(677,808)	(1,000,535)	235,272	(1,020)	(617,148)	2,330,599	(2,082,435)	6,335,703	(4,334,726)
Bond Amortization Fund Interest					-	-	-	(120,475)	(120,475)	(120,475)
Total Revenues Available	114,997,226	95,861,817	99,502,374	85,200,522	82,378,563	73,369,615	70,910,999	70,919,517	69,703,589	62,940,467
Total Operating Expenses	97,015,782	83,730,408	83,692,856	72,085,736	65,099,824	60,430,945	54,085,176	53,184,073	45,037,826	42,696,000
Net Revenues Available for Coverage	<u>\$ 17,981,444</u>	<u>\$ 12,131,409</u>	<u>\$ 15,809,518</u>	<u>\$ 13,114,786</u>	<u>\$ 17,278,739</u>	<u>\$ 12,938,670</u>	<u>\$ 16,825,823</u>	<u>\$ 17,735,444</u>	<u>\$ 24,665,763</u>	<u>\$ 20,244,467</u>
Annual Debt Service	<u>\$ 8,386,900</u>	<u>\$ 8,451,538</u>	<u>\$ 8,511,550</u>	<u>\$ 8,509,645</u>	<u>\$ 8,506,395</u>	<u>\$ 8,508,320</u>	<u>\$ 8,493,242</u>	<u>\$ 9,293,376</u>	<u>\$ 9,730,135</u>	<u>\$ 9,726,777</u>
Debt Service Coverage Ratio	2.14	1.44	1.86	1.54	2.03	1.52	1.98	1.91	2.53	2.08

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

DEBT CAPACITY

PRINCIPAL PAYMENTS PAYABLE FOR ALL DEBT ISSUES THROUGH 2031

Payments Due for FY	Total for all Debt Issues	1991 Series Bond Issue	2000 Series Bond Issue	2001 Series Bond Issue	2006 Series Bond Issue
2009	\$ 6,005,000	\$ -	\$ 5,040,000	\$ 965,000	\$ -
2010	6,340,000	-	5,335,000	1,005,000	-
2011	6,695,000	-	5,645,000	1,050,000	-
2012	7,090,000	-	5,990,000	1,100,000	-
2013	7,495,000	-	6,350,000	1,145,000	-
2014	9,784,840	1,859,840	6,730,000	1,195,000	-
2015	1,735,344	1,735,344	-	-	-
2016	1,599,539	1,599,539	-	-	-
2017	1,491,821	1,491,821	-	-	-
2018	1,391,241	1,391,241	-	-	-
2019	2,435,000	-	-	-	2,435,000
2020	2,530,000	-	-	-	2,530,000
2021	2,660,000	-	-	-	2,660,000
2022	2,780,000	-	-	-	2,780,000
2023	2,900,000	-	-	-	2,900,000
2024	3,045,000	-	-	-	3,045,000
2025	3,185,000	-	-	-	3,185,000
2026	3,320,000	-	-	-	3,320,000
2027	3,465,000	-	-	-	3,465,000
2028	3,640,000	-	-	-	3,640,000
2029	3,820,000	-	-	-	3,820,000
2030	4,010,000	-	-	-	4,010,000
2031	4,210,000	-	-	-	4,210,000
	<u>\$ 91,627,785</u>	<u>\$ 8,077,785</u>	<u>\$ 35,090,000</u>	<u>\$ 6,460,000</u>	<u>\$ 42,000,000</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

DEMOGRAPHIC AND ECONOMIC INFORMATION

FISCAL YEARS 2008 - 1999

Year	Key West Population ⁽¹⁾	Key West Personal Income ⁽³⁾	Monroe County Per Capita Income ⁽²⁾	Monroe County Median Age ⁽¹⁾	Monroe County Unemployment Rate ⁽²⁾
2008	(4)	(4)	(4)	(4)	5.5%
2007	22,682	(4)	(4)	53	2.8%
2006	23,262	\$ 54,955	\$ 36,564	53	3.3%
2005	27,000	\$ 50,024	\$ 35,612	(4)	3.0%
2004	25,811	\$ 43,905	\$ 35,423	(4)	2.3%
2003	25,811	\$ 38,353	\$ 35,423	43	3.1%
2002	25,853	\$ 37,085	\$ 33,549	43	2.6%
2001	25,735	\$ 37,198	\$ 38,309	43	2.6%
2000	25,478	\$ 37,022	\$ 37,421	40	2.0%
1999	27,698	\$ 33,419	\$ 34,456	40	2.0%

⁽¹⁾ Key West Chamber of Commerce

⁽²⁾ US Department of Labor Bureau of Labor Statistics

⁽³⁾ Bureau of Economic Analysis

⁽⁴⁾ Data not available

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

OPERATING EXPENSES

FISCAL YEARS 2008 - 1999

	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Electric Operating Expenses										
Production - Diesel	\$ 1,625,066	\$ 1,623,810	\$ 1,482,077	\$ 1,074,167	\$ 887,371	\$ 916,557	\$ 779,761	\$ 816,946	\$ 681,671	\$ 841,671
Purchased Power	71,009,513	58,531,619	59,946,424	49,287,046	44,523,179	41,311,655	34,230,472	36,585,038	29,133,085	26,253,614
Transmission	3,938,264	3,857,363	3,539,845	3,646,679	3,298,491	3,711,111	3,485,983	3,589,637	3,673,226	3,575,771
Distribution	4,070,472	3,984,022	3,366,439	3,017,736	3,250,018	2,832,211	3,075,612	3,143,081	3,167,390	3,295,190
Customer Accounts, Collection and Services	1,571,014	1,332,355	1,243,322	1,280,590	1,085,522	1,015,116	985,698	1,033,617	1,035,576	1,062,064
Administrative and General	11,850,327	11,812,589	11,452,519	11,540,112	10,004,675	8,757,455	8,460,644	5,977,699	5,601,023	5,881,170
Depreciation	6,632,858	6,339,122	6,182,488	6,391,999	6,441,587	6,367,595	6,500,687	5,680,618	5,488,771	5,783,556
Taxes Other Than Income Tax	2,883,446	2,390,686	2,467,955	2,127,074	2,021,223	1,855,303	1,677,934	1,758,542	1,492,942	1,588,173
Total Electric Operating Expenses	<u>\$ 103,580,960</u>	<u>\$ 89,871,566</u>	<u>\$ 89,681,069</u>	<u>\$ 78,365,403</u>	<u>\$ 71,512,066</u>	<u>\$ 66,767,003</u>	<u>\$ 59,196,791</u>	<u>\$ 58,585,178</u>	<u>\$ 50,273,684</u>	<u>\$ 48,281,209</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

ENERGY SOURCES

FISCAL YEARS 2008 - 1999

<u>Description</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<u>Gross Generation in MW:</u>										
Diesel and Combustion Turbine	4,872	15,066	20,338	26,067	20,836	29,708	26,229	19,656	26,632	14,580
Less: Station Auxiliaries	<u>4,367</u>	<u>4,073</u>	<u>3,566</u>	<u>3,463</u>	<u>3,372</u>	<u>3,310</u>	<u>3,232</u>	<u>3,063</u>	<u>3,085</u>	<u>3,271</u>
Net Generation	505	10,993	16,772	22,604	17,464	26,398	22,997	16,593	23,547	11,309
Sales To Other Distributors										
Net Delivered Purchased Power and Stanton Generation	<u>774,025</u>	<u>755,185</u>	<u>738,938</u>	<u>758,537</u>	<u>763,799</u>	<u>767,542</u>	<u>734,541</u>	<u>704,034</u>	<u>683,454</u>	<u>681,454</u>
Net Energy for Load	774,530	766,178	755,710	781,141	781,263	793,940	757,538	720,627	707,001	692,763
Less: Losses	<u>(34,806)</u>	<u>(59,832)</u>	<u>(51,586)</u>	<u>(57,163)</u>	<u>(46,428)</u>	<u>(57,719)</u>	<u>(53,905)</u>	<u>(49,763)</u>	<u>(50,341)</u>	<u>(62,765)</u>
Retail Energy Sales	<u>739,724</u>	<u>706,346</u>	<u>704,124</u>	<u>723,978</u>	<u>734,835</u>	<u>736,221</u>	<u>703,633</u>	<u>670,864</u>	<u>656,660</u>	<u>629,998</u>
Losses	4.5%	7.8%	6.8%	7.3%	5.9%	7.3%	7.1%	6.9%	7.1%	9.1%
Generation Capacity (kW) - Name Plate Rating (1)	137,500	123,100	123,100	87,100	87,100	87,100	87,100	87,100	87,100	87,100
KEYS 60 Minute Net Peak Demand	139,100	142,000	135,511	145,500	139,700	138,900	133,800	129,900	131,300	125,400
Percentage of On Island Resources for Net Peak Demand (2)	98.8%	86.7%	90.8%	59.9%	62.3%	62.7%	65.1%	67.1%	66.3%	69.5%
Load Factor	63.6%	61.6%	63.7%	61.3%	63.8%	65.3%	64.6%	63.3%	61.5%	63.1%
<u>Delivered Purchased Power and Stanton Resources (kW):</u>										
FP&L Long - Term Power	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000
FMPA Tri-City Project (Stanton 1)	12,289	12,289	12,289	12,367	12,289	12,289	12,289	11,633	11,633	12,289
FMPA Stanton 2 Project	9,862	9,862	9,770	9,708	9,862	9,862	9,862	9,243	9,243	9,862
Other Short Term Firm	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Purchased	<u>67,151</u>	<u>67,151</u>	<u>67,059</u>	<u>67,075</u>	<u>67,151</u>	<u>67,151</u>	<u>67,151</u>	<u>65,876</u>	<u>65,876</u>	<u>67,151</u>
Total Generating and Purchased Capability	<u>204,651</u>	<u>190,251</u>	<u>190,159</u>	<u>154,175</u>	<u>154,251</u>	<u>154,251</u>	<u>154,251</u>	<u>152,976</u>	<u>152,976</u>	<u>154,251</u>
Net Reserve Margin Including Purchased Power (3)	47.1%	34.0%	40.3%	6.0%	10.4%	11.1%	15.3%	17.8%	16.5%	23.0%

(1) KEYS has a "Capacity and Energy Sales Agreement" with the Florida Keys Electric Cooperative (FKEC) to provide a minimum capacity and energy in the event that the transmission line is interrupted. The minimum is based upon a formula in the contract.

(2) The Utility Board has revised the On Island Generation Capacity to meet its annual peak demand from 70% to 60%.

(3) Net Reserve Margin represents the amount of capacity in excess of KEYS peak demand, as a percentage of system peak demand. Commencing 2002, this calculation utilizes The Net 60 Minute Peak. The calculation is Total Generating and Purchased Capability less KEYS Net 60 Minute Net Peak Demand divided by KEYS 60 Minute Net Peak Demand.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

GENERATING CAPACITY

FISCAL YEARS 2008 - 1999

<u>Generating Units</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Name Plate	<u>M e g a w a t t s (M W)</u>									
Combustion Turbine #1	23.5	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Combustion Turbine #2	19.8	18.6	18.6	18.6	18.6	18.6	18.6	18.6	18.6	18.6
Combustion Turbine #3	19.8	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1
Combustion Turbine #4	48.0	43.0	43.0	-	-	-	-	-	-	-
Medium Speed Diesels #1	9.5	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7
Medium Speed Diesels #2	9.5	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7
Stock Island Peaking High Speed Diesel #1	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Stock Island Peaking High Speed Diesel #2	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Stock Island Peaking High Speed Diesel #3	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Cudjoe Key Peaking High Speed Diesel #1	-	-	-	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Cudjoe Key Peaking High Speed Diesel #2	-	-	-	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Big Pine Key Peaking High Speed Diesel #1	-	-	-	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Total Name Plate	<u>137.6</u>	<u>123.1</u>	<u>123.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>
Islanded										
Combustion Turbine #1	18.0	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6
Combustion Turbine #2	14.0	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2
Combustion Turbine #3	9.0	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Combustion Turbine #4	44.0	43.0	43.0	-	-	-	-	-	-	-
Medium Speed Diesels #1	7.0	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Medium Speed Diesels #2	7.0	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Stock Island Peaking High Speed Diesel #1	1.5	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #2	1.5	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #3	1.5	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Cudjoe Key Peaking High Speed Diesel #1	-	-	-	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Cudjoe Key Peaking High Speed Diesel #2	-	-	-	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Big Pine Key Peaking High Speed Diesel #1	-	-	-	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Total Islanded	<u>103.5</u>	<u>113.3</u>	<u>113.3</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>
Synchronized										
Combustion Turbine #1	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
Combustion Turbine #2	14.0	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2
Combustion Turbine #3	14.0	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Combustion Turbine #4	44.0	43.0	43.0	-	-	-	-	-	-	-
Medium Speed Diesels #1	7.0	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Medium Speed Diesels #2	7.0	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Stock Island Peaking High Speed Diesel #1	1.5	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #2	1.5	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #3	1.5	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Cudjoe Key Peaking High Speed Diesel #1	-	-	-	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Cudjoe Key Peaking High Speed Diesel #2	-	-	-	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Big Pine Key Peaking High Speed Diesel #1	-	-	-	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Total Synchronized	<u>108.5</u>	<u>118.7</u>	<u>118.7</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>

Nameplate - Capacity provided by the manufacturer.

Islanded - Capacity when not connected to the mainland through the T-Line; used when calculating On-Island Generation Capacity.

Synchronized - Realistic capacity due to limiting factors associated with the units.

Cudjoe Key Peaking High Speed Diesels and Big Pine Key Peaking High Speed Diesel were decommissioned in FY2006.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

EMPLOYEE INFORMATION

FISCAL YEARS 2008 - 1999

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
General Manager's Department	13	10	17	18	17	17	16	11	11	11
Engineering & Control	22	22	20	19	19	19	20	20	20	20
Customer Services	33	33	32	32	30	31	33	32	31	30
Finance	16	17	10	10	15	13	13	21	21	22
Transmission & Distribution	34	36	36	34	35	38	42	39	39	38
General Plant	15	17	0	0	8	9	9	11	14	12
Generation	<u>22</u>	<u>23</u>	<u>38</u>	<u>39</u>	<u>22</u>	<u>21</u>	<u>18</u>	<u>20</u>	<u>18</u>	<u>24</u>
Total	<u>155</u>	<u>158</u>	<u>153</u>	<u>152</u>	<u>146</u>	<u>148</u>	<u>151</u>	<u>154</u>	<u>154</u>	<u>157</u>

Notes:

The numbers above do not include five (5) Utility Board Members

The approved budgets were used for years 2001 - 1997.
Commencing 2002, actual employee head count is used.

The following departmental movements were made during Fiscal Year 2007:
Information Technologies has been moved from General Manager's Department to General Plant.
Fleets and Facilities have been moved from Generation to General Plant.
Purchasing and Warehouse have been moved from Generation to Finance.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

TEN HIGHEST CONSUMPTION LOCATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

Ranking	Customer Account	Demand KW	Energy kWh	Dollars
1	U.S. Navy	11,925.8	69,584,689	\$ 9,623,027
2	City of Key West	3,287.0	13,796,761	\$ 2,044,304
3	Monroe County School Board	3,931.8	11,502,192	\$ 1,776,663
4	Monroe County Detention Center	1,176.0	8,004,150	\$ 1,088,120
5	Winn Dixie Stores	1,084.9	7,229,989	\$ 1,058,249
6	Key West HMA Inc	1,144.4	7,179,132	\$ 1,054,265
7	US Coast Guard Key West Sector	2,304.0	6,951,600	\$ 984,302
8	Wyndham Casa Marina Hotel	893.2	5,007,622	\$ 745,855
9	Tannex Development Corp.	898.0	4,357,795	\$ 651,074
10	Florida Keys Aqueduct Authority	1,211.2	3,880,725	\$ 607,208

Since the customer information above is listed by rank and the rank changes yearly only the current year is presented.