

Comprehensive Annual Financial Report



Retirement System for the General Employees of the
Utility Board of the City of Key West, Florida

For the Fiscal Year Ended December 31, 2005

Comprehensive Annual Financial Report

Retirement System for General Employees of the
Utility Board of the City of Key West, Florida

Fiscal Year Ended December 31, 2005

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Letter of Transmittal

April 12, 2006

Retirement System for General Employees
Utility Board of the City of Key West
Key West, Florida

The Comprehensive Annual Financial Report (CAFR) of the Retirement System for General Employees, Utility Board of the City of Key West (the Plan), for the fiscal year ended December 31, 2005, is submitted herewith, pursuant to Resolution No. 142 of the Utility Board, adopted December 15, 1953. The effective date was April 9, 1954, as amended and restated as of September 28, 1983, Article Eight, Section 8.07. The Utility Board is the sole participating employer. The Plan is a defined benefit pension plan covering all permanent employees and elected officials of the Utility Board, a governmental entity. The Plan does not cover any employees from any other government entity.

This CAFR was compiled by the Finance Department of The Utility Board of the City of Key West with the cooperation of the independent auditor, pension administrator, actuary, and investment consultant. It represents the official report of the Plan's financial operations to the employees, retirees, Utility Board, management personnel and other interested parties.

Responsibility for the accuracy of the presented data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Plan. We believe the data, as presented, are accurate in all material respects and are presented in a manner designed to fairly set forth the financial position of the Plan. All disclosures necessary for the reader to gain a thorough understanding of the Plan's financial condition have been included.

The Plan has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of January 1, 2003. Statement 34 establishes standards for external financial reporting for all state and local government entities which includes a Management's Discussion and Analysis (MD&A). The Plan's MD&A can be found immediately following the Independent Auditor's Report. In order to meet the needs of a broad spectrum of financial statement readers, the CAFR is presented in five sections: Introductory Section, Financial Section, Investment Section, Actuarial Section and Statistical Section.

The **Introductory Section** includes:

- table of contents
- this transmittal letter
- a listing of the administrative organization
- the report of the Chairperson of the Plan

The **Financial Section** is composed of:

- the opinion of the independent auditor's - Cherry Bekaert & Holland, L.L.P.
- Management's Discussion and Analysis
- audited financial statements
- notes to financial statements
- required supplementary information
- other supplementary information

Letter of Transmittal

The **Investment Section** contains:

- a report on investment activity
- investment policy
- investment performance
- various investment schedules

The **Actuarial Section** includes:

- the certification letter by the independent actuary - Gabriel, Roeder, Smith & Company
- the results of the annual actuarial evaluation
- a summary of plan provisions

The **Statistical Section** includes various schedules, which pertain to significant data related to the Plan.

Major Events and Initiatives

The Retirement System for the General Employees of the Utility Board of the City of Key West, Florida was established in 1954 with approximately \$900,000 in assets. The Pension Board of Trustees consists of 18 members comprised of a cross-section of employees from each department, a retiree representative and the five Utility Board Members. The employee and retiree representatives serve two-year terms, which can be consecutive. The Utility Board Members become Trustees once they become elected officials. Meetings are held quarterly in the months of February, May, August and November.

Accounting Systems and Reports

The accounting policies and the presentation of the financial report of the Plan have been designed to conform to generally accepted accounting principles as applicable to pension plans and reporting as set forth by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. Transactions of the Plan are reported on the accrual basis of accounting. Internal accounting controls are carefully designed to provide reasonable assurance regarding the safekeeping and reliability of all financial records.

Changes in Plan Net Assets

Employer contributions, as well as income from investments, provide the reserves needed to finance retirement benefits.

Deductions to Plan Net Assets

The sole purpose for which the Plan was created was to provide retirement annuities, survivor benefits, and total and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments as designated by the Plan, refunds of contributions to terminated employees, and costs of administering the Plan.

Investments

The Plan has established an investment policy based upon certain investment criteria and allows for the delegation of investment authority to professional investment managers. The statement of investment policy outlines the responsibility for the investment of the fund and the degree of risk that is deemed appropriate for the Plan. Investment Managers are asked to execute the investment policy in accordance with the respective policy guidelines, but are to use full discretion within the policy and guidelines.

Letter of Transmittal

The Pension Investment Committee is comprised of four Trustees, the Auditors, the Plan Attorney and the Secretary/Treasurer. Members of the Investment Committee are charged with the responsibility of maintaining the investment policy and monitoring the performance of the Investment Managers. The Plan continued to retain the investment consulting services of Smith Barney, Inc., and four investment managers: Citigroup Asset Management, Brandes, Lord Abbett, PIMCO and MDT Advisers. A schedule of Investment Advisors and Fees is reported on page 45.

Funding

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. The Plan's funding objective is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. For more information regarding the funding status of the plan, please see the Schedule of Funding Progress on page 27 and for detail of the Plan's progress toward achieving funding goals, please see the Solvency Test and Analysis of Financial Experience schedules presented on page 57.

Independent Audit

Article Eight, Trust and Trustees, Section 8.07, Final Audit, states that the Utility Board shall engage the services of a Certified Public Accountant to perform a certified audit of the fund each year. The cost of such audit shall be the responsibility of the Utility Board. The Utility Board selected the accounting firm of Cherry, Bekaert & Holland, L.L.P. The auditors report on the financial statements is included in the Financial Section of this CAFR.

Professional Services

Outside professionals are appointed by the Board of Trustees and generally also confirmed by the Utility Board of the City of Key West, Florida. The professionals provide accounting, analytical, consulting and legal services that are essential to the effective and efficient operation of the Plan. Opinions from the Certified Public Accountant and the Actuary are included in this CAFR.

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 Retirement System for General Employees of the Utility Board of the City of Key West for its CAFR for the fiscal year ended December 31, 2004. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Retirement System for General Employees/Utility Board of the City of Key West has received a Certificate of Achievement for the last eight consecutive years (fiscal years 1996 – 2004).

Letter of Transmittal

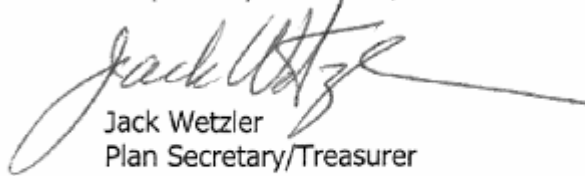
We believe our current CAFR continues to conform to the Certificate of Achievement program requirements, and we are submitting to GFOA.

Acknowledgments

The preparation of this CAFR reflects the combined effort of many individuals including the Utility Board's Finance Staff, particularly Peggy Walls, Supervisor of Accounting and Analysis; Peter R. Alfele, CPA, Cherry, Bekaert & Holland, L.L.P.; Kim Free, Pension Plan Administrator; Lawrence F. Wilson, A.S.A., the Plan's actuary with Gabriel, Roeder, Smith & Company and the investment management consultant, James S. Zisson, Smith Barney Citigroup.

The CAFR is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of the Plan. This report will be sent to the trustees, consultants and investment managers for the Plan. In addition, the CAFR will be available to the members and other interested parties. We feel that they will find it helpful in understanding their retirement system; a Plan which continues to maintain a strong and positive financial future.

Respectfully submitted,



Jack Wetzler
Plan Secretary/Treasurer

Director of Finance & CFO
Utility Board of the City of Key West

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Retirement System for General
Employees/Utility Board of the
City of Key West, Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

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.



Carla E. Perry

President

Jeffrey R. Enos

Executive Director

PENSION BOARD OF TRUSTEES

**RETIREMENT SYSTEM FOR THE GENERAL EMPLOYEES
OF THE UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

RETIREE'S REPRESENTATIVE – 2
Elected for a 2 year term by the Retirees

Harry Bethel, Sr. - Term Expires: 03/31/07
Chumpy Esquinaldo - Term Expires: 03/31/07

MANAGERS/IT/COMM/MGMT. SVCS. – 1

16 Staff Members – Includes GM Office,
Communications, IT & Mgmt. Svcs. Staff
Suzanne Greager - Term Expires 3/31/06

FINANCE DEPARTMENT – 1

16 Staff Members – Includes Dir. Office,
Accounting, Adm., Compliance & IP Staff
Stacey Roberts - Term Expires 03/31/06

CUSTOMER SERVICES DEPT. – 2

31 Staff Members – Includes Dir. Office, BP
Branch, Cust. Svcs. & Meter Svcs. Staff
Sylvia Adams - Term Expires 03/31/07
Catherine Nix - Term Expires 03/31/07

GENERATION DEPARTMENT – 2

32 Staff Members – Includes Dir. Office, Fleets
Facilities, Generation & Maintenance Staff
Butch Carey - Term Expires 03/31/07
Randy Roberts - Term Expires 03/31/06

ELECTRICAL OPERATIONS DEPARTMENT - 4

52 Staff Members – Includes Dir. Office, Power
System Control, Engineering, Substation & T&D Staff
Robert Barrios - Term Expires 03/31/07
Tommy Grassi - Term Expires 03/31/07
David Price - Term Expires 03/31/07
Michael Siegrist – Term Expires 03/31/07

REQUIRED MEMBER – 1
General Manager & CEO

Lynne Tejada

Representative Departments & Trustee Seats based on an employee count of 147 @ December 31, 2005

**Retirement System for General Employees of the
Utility Board of the City of Key West
Administrative Organization**

Cherry, Bekaert & Holland, L.L.P.
Certified Public Accountants

Ronald J. Cohen, P.A.
Plan Counsel

Gabriel, Roeder, Smith & Company
Actuaries

Kim Free
Plan Administrator

Jack Wetzler, Director of Finance & CFO
Plan Secretary/Treasurer

Smith Barney Citigroup
Investment Consultants

Summary of the Plan and Benefits as of December 31, 2005

Benefit Factor-	2.4%
Average Final Compensation-	Highest 5 of the last 10 yrs of service
2005 Net Minimum Funding Payment-	28.5% of payroll
Normal Retirement-	30 yrs credited service (the max allowed)
Early Retirement-	20 yrs credited service- any age, or 55 yrs of age with 10 years minimum credited service
Active plan members-	146
Retirees and beneficiaries receiving benefits-	148
Cost of living allowance-	3% (January 1 st of each year)
Net assets held in trust for pension benefits	\$51,991,417

Report of the Chairperson of the Board of Trustees

To all members of the Retirement System for General Employees,

As Chairperson of the Board of Trustees of the Retirement System for General Employees, Utility Board of the City of Key West, Florida (the Plan), I am pleased to present to you, the membership, our Comprehensive Annual Financial Report for the fiscal year ended December 31, 2005. This report is a representation of the Plan's financial position, plan activities, funding status, and investment plan results.

You and your family deserve the security of a well-funded pension plan. The current funded status of the Plan, actuarial procedures adopted by the Board on a continual review basis, and prudent investment strategies are all designed to provide that security. The Plan has a highly effective diversified investment policy. If you followed the market this past year, you know the major financial markets can be extremely volatile. Our policies are designed to generate reasonable total returns on a long-term basis at an acceptable level of risk--despite short-term market instability.

The Plan has four investment managers, Citigroup Asset Management (since 1987), PIMCO, Brandes, Lord Abbett, and MDT All-Cap (added in March) and their performance is compared to various industry specific benchmarks. The Plan's benchmarks were as follows:

- o an overall return of 8.0%
- o a Lipper Balanced Index of 7.5%
- o a fixed portfolio return of 3.0% (Lehman Bros. Inter Govt./Corp Bond Index)
- o an equity return of 10.9% (S&P 500 Index)
- o an equity value return of 16.5% (Russell 1000 Value Index).

During 2005, on a net basis, Citigroup Asset Management achieved a return of 4.9%, a fixed income return of 1.9%, and an equity return of 9.0%. PIMCO Total Return produced an overall fixed return of 4.1%. Brandes results were an equity value return of -2.7%, and Lord Abbett had a large cap equity value return of 3.7%. (See the "Investment Section" for more information).

As you are all aware, there was an error in the calculation of the monthly pension benefit for a group of retirees, for a number of years. This occurred when the benefit multiplier was increased from 2.2% to 2.4%. Effective October 2004, the monthly benefits were corrected. The Plan's attorney has been engaged to resolve this issue.

Your Board of Trustees is aware of their responsibility to protect all members and retirees of the Plan. We take this responsibility very seriously and are committed to maintaining the very best retirement program possible. I am honored to have served as your Chairperson for the past 18 years and look forward to 2006. Special thanks go to the administrative staff, professionals, and investment managers for their dedication and hard work. Thanks also to my fellow Board members for their commitment. Most of all, thanks to you for your continued interest and support.

Sincerely,



Harry L. Bethel, Sr., Chairperson



Report of Independent Auditors

Board of Trustees
Retirement System for General Employees of the
Utility Board of the City of Key West
Key West, Florida

We have audited the accompanying statements of plan net assets of the Retirement System for General Employees of the Utility Board of the City of Key West (Plan) as of December 31, 2005 and 2004, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's board of trustees and officers. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the Retirement System for General Employees of the Utility Board of the City of Key West's plan net assets as of December 31, 2005 and 2004 and the changes therein 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 April 12, 2006 on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and the required supplementary information listed on the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section, other supplementary information, investment section, actuarial section and statistical section listed on the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied to the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cherry, Bebert & Holland, LLP

West Palm Beach, Florida
April 12, 2006

Retirement System for General Employees of the

Utility Board of the City of Key West

Management's Discussion and Analysis

As management of the Retirement System for General Employees of the Utility Board of the City of Key West (the "Plan"), we offer readers of the Plan's financial statements this narrative overview of the financial activities of the Plan for the years ended December 31, 2005 and 2004. This narrative is intended to supplement the Plan's financial statements, and we encourage readers to consider the information presented here in conjunction with these statements.

Overview of the financial statements

The following discussion and analysis is intended to serve as an introduction to the Plan's financial statements.

The financial statements, which are included in this report, contain:

- Statements of Plan Net Assets
- Statements of Changes in Plan Net Assets
- Notes to the Financial Statements

The report contains the following Required Supplementary Information to the financial statements:

- Schedule of Funding Progress
- Schedule of Employer Contributions
- Notes to the Required Supplementary Information

In addition, Other Supplementary Information is included to provide additional analysis of selected account groups.

The financial statements contained in the report are described below:

The Statements of Plan Net Assets is a point-in-time snapshot of account balances at fiscal year-end. It reports the assets available for future payments to retirees and any current liabilities that are owed as of the statement date. The resulting Net Assets value ($\text{Assets} - \text{Liabilities} = \text{Net Assets}$) represents the value of assets held in trust for pension benefits.

The Statements of Changes in Net Assets displays the effect of pension fund transactions that occurred during the fiscal year, where $\text{Additions} - \text{Deductions} = \text{Net Increase (Decrease) in Net Assets}$. This Net Increase (Decrease) in Net Assets reflects the change in the net asset value of the Statement of Plan Net Assets from the prior year to the current year. Both statements are in compliance with Governmental Accounting Standards Board (GASB) Pronouncements.

The Notes to the Financial Statements are an integral part of the financial statements and provide additional information that is essential to the comprehensive understanding of the data provided in the financial statements. These notes describe the accounting and administrative policies under which the Plan operates and provide additional levels of detail for select financial statement items.

Retirement System for General Employees of the Utility Board of the City of Key West

Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect the ongoing plan perspective. Therefore, in addition to the financial statements explained above, this financial report includes two additional Required Supplementary Information schedules with historical trend information.

The Schedule of Funding Progress includes actuarial information about the status of the plan from an ongoing, long-term perspective and the progress made in accumulating sufficient assets to pay pension benefits when due. Valuation Assets approximately equal to Actuarial Accrued Liabilities indicate that sufficient assets exist to fund future pension benefits of the current members and benefits recipients.

The Schedule of Employer Contributions presents historical trend information regarding the value of total annual contributions required to be paid by the Utility Board and the actual performance of the Utility Board in meeting this requirement.

The Notes to Required Supplementary Information provide background information and explanatory detail to aid in understanding the required supplementary schedules.

Financial highlights

The net assets of the Plan exceeded its liabilities at the close of the fiscal years ended December 31, 2005 and 2004, with \$51,991,417 and \$51,271,516, respectively, in net assets held in trust for pension benefits.

Net assets increased by \$719,901, or 1.4% during 2005, primarily due to the Employer contribution along with positive investment performance. Net assets increased by \$1,737,501 or 3.3% during 2004, primarily due to investment returns.

The Plan's funding objective is to meet long-term benefit obligations. As of January 1, 2006, the date of the latest actuarial valuation, the funded ratio of the Plan was 112%. In general, this means that for every dollar of pension benefits due, the Plan has \$1.12 of net assets available for payment.

Additions to plan net assets for the year ended December 31, 2005 were \$3,547,337, which include contributions of \$2,014,613 and net gains from investment activities totaling \$1,532,724. Additions of plant net assets for the year ended December 31, 2004 were \$4,374,972, which included contributions of \$1,910,640 and net gains from investment activities totaling \$2,464,332.

Deductions from plan net assets increased from \$2,637,921 during 2004 to \$2,827,436 in 2005 or about 7.2%. Most of the increase relates to increased benefit payments to new and existing retirees in 2005.

Analysis of financial activities

The Plan's funding objective is to meet long-term benefit obligations through investment income and contributions. Accordingly, the collection of contributions and the income from investments provide the reserves needed to finance future retirement benefits.

**Retirement System for General Employees of the
Utility Board of the City of Key West**

The financial markets in 2005 and 2004 continued to produce a positive return. Net assets held in trust for pension benefits were \$51,991,417 in 2005 and \$51,271,516 in 2004. Since these net assets are used to meet ongoing benefit obligations to plan participants and their beneficiaries, the positive returns have improved the Plan's funding status.

Net Assets (Table 1.1)				
As of December 31, 2005 and 2004				
	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease) Amount</u>	<u>Increase (Decrease) Percentage</u>
Current and other assets	\$1,710,109	\$2,390,124	(\$680,015)	(28.45%)
Investments, at fair value	<u>50,633,559</u>	<u>49,692,611</u>	<u>940,948</u>	<u>1.89%</u>
Total Assets	52,343,668	52,082,735	260,933	.50%
Total liabilities	<u>(352,251)</u>	<u>(811,219)</u>	<u>(458,968)</u>	<u>(56.6%)</u>
Net Assets	<u>\$51,991,417</u>	<u>\$51,271,516</u>	<u>\$719,901</u>	<u>1.4%</u>

Net Assets (Table 1.2)				
As of December 31, 2004 and 2003				
	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease) Amount</u>	<u>Increase (Decrease) Percentage</u>
Current and other assets	\$ 2,390,124	\$ 853,728	\$1,536,396	180.0%
Investments, at fair value	<u>49,692,611</u>	<u>48,680,737</u>	<u>1,011,874</u>	2.1%
Total Assets	52,082,735	49,534,465	2,548,270	5.1%
Total liabilities	<u>(811,219)</u>	<u>0</u>	<u>(811,219)</u>	<u>100.0%</u>
Net Assets	<u>\$ 51,271,516</u>	<u>\$ 49,534,465</u>	<u>\$1,737,051</u>	<u>3.5%</u>

As the years roll forward and the total assets and liabilities grow, the Plan's investment income will play a more significant roll in funding future retirement benefits – eventually providing 80 to 90 percent of the necessary funds. Therefore, investment return over the long term is critical to the funding status of the retirement Plan.

**Retirement System for General Employees of the
Utility Board of the City of Key West**

During 2005, the Plan's investment portfolio returned net gains of approximately 3.06%. This is the third year in a row net gains are available to offset investment losses incurred in previous years and improved the Plan's financial position. It is important to remember that a retirement Plan's funding is based on a long time horizon, where temporary ups and downs in the market are expected. The more critical factor is that the Plan be able to meet an expected earnings yield of 8.0% annual return on investments. The Plan's 3 and 5-year returns before fees have been 9.84% and 2.09%, respectively.

Based on our latest actuarial valuation as of January 1, 2006, the Plan's actuarial value of liabilities of \$61,004 thousand exceeds its actuarial value of assets of \$54,266 thousand by \$6,738 thousand, producing a funded ratio of 112 percent. The funded ratio is a key indication of financial strength of a retirement Fund and analyzing this percentage over time indicates whether the Plan is becoming stronger or weaker. Investment losses incurred in the previous years and recent benefit improvements have caused a downward trend in the funded ratio for recent years.

Net assets

The Plan's net assets are established from contributions and the accumulation of investment income, net of investment and administrative expenses and benefit payments.

Additions to plan net assets

As noted above, the net assets needed to finance retirement benefits are accumulated through the collection of contributions and through investment earnings (net of investment expenses.) The additions totaled \$3,547,337 for the year ended December 31, 2005. This was \$827,635 less than the prior year primarily due to lower investment earnings in 2005.

Additions to Net Assets (Table 2.1)				
For the Years Ended December 31, 2005 and 2004				
	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease) Amount</u>	<u>Increase (Decrease) Percentage</u>
Employer contributions	\$2,014,613	\$1,910,640	\$103,973	5.4%
Investment income	1,901,070	2,829,569	(928,499)	(32.8%)
Investment expenses	(368,346)	(365,237)	(3,109)	(.9%)
Total additions	<u>\$3,547,337</u>	<u>\$4,374,972</u>	<u>\$(827,635)</u>	<u>(18.9%)</u>

**Retirement System for General Employees of the
Utility Board of the City of Key West**

Additions to Net Assets (Table 2.2)				
For the Years Ended December 31, 2004 and 2003				
	<u>2004</u>	<u>2003</u>	Increase (Decrease) Amount	Increase (Decrease) Percentage
Employer contributions	\$1,910,640	\$1,660,627	\$ 250,013	15.1%
Investment income	2,829,569	8,384,168	(5,554,599)	(66.3%)
Investment expenses	<u>(365,237)</u>	<u>(328,691)</u>	<u>(36,546)</u>	<u>(11.1%)</u>
Total additions	<u>\$4,374,972</u>	<u>\$9,716,104</u>	<u>\$(5,341,132)</u>	<u>(55.0%)</u>

Deductions from plan net assets

The Plan was created to provide retirement, survivor and disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments and the cost of administering the Plan.

Deductions from Net Assets (Table 3.1)				
For the Years Ended December 31, 2005 and 2004				
	<u>2005</u>	<u>2004</u>	Increase (Decrease) Amount	Increase (Decrease) Percentage
Benefit payments	\$2,705,806	\$2,553,007	\$152,799	6.0%
Administrative expenses	<u>121,630</u>	<u>84,914</u>	<u>36,716</u>	<u>43.2%</u>
Total deductions	<u>\$2,827,436</u>	<u>\$2,637,921</u>	<u>\$189,515</u>	<u>7.2%</u>

Expenses for the year ended December 31, 2005 totaled \$2,827,436, an increase of 7.2% from 2004. This increase was primarily due to additional benefit payments to new and existing retirees in 2005. Administrative expenses increased due to professional fees incurred in connection with various legal matters. The net of deductions of plan net assets of \$2,827,436 and additions to plan net assets of \$3,547,337 resulted in an overall increase of \$719,901 in net assets held in trust for pension benefits for the year ended December 31, 2005.

**Retirement System for General Employees of the
Utility Board of the City of Key West**

Deductions from Net Assets (Table 3.2)				
For the Years Ended December 31, 2004 and 2003				
	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease) Amount</u>	<u>Increase (Decrease) Percentage</u>
Benefit payments	\$ 2,553,007	\$ 2,396,683	\$156,324	6.5%
Administrative expenses	84,914	44,628	40,286	90.3%
Total deductions	<u>\$ 2,637,921</u>	<u>\$ 2,441,311</u>	<u>\$196,610</u>	<u>8.1%</u>

Fiduciary responsibilities

The Board of Trustees is the fiduciary of the pension trust fund. Fiduciaries are charged with the responsibility of assuring that the assets of the Plan are used exclusively for the benefit of plan participants and their beneficiaries.

Requests for information

This financial report is designed to provide the Board of Trustees, our membership, Utility Board and investment managers with an overview of the Plan's finances and accountability for the money received. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Jack Wetzler, Plan Secretary/ Treasurer
Retirement System for General Employees of the
Utility Board of the City of Key West
1001 James Street
Key West, FL 33041-6100

Basic

Financial

Statements

**Retirement System for General Employees of the
Utility Board of the City of Key West**

Statements of Plan Net Assets

	December 31,	
	2005	2004
Assets		
Cash	\$ 874,911	\$ 797,287
Receivables		
Interest	223,728	212,614
Pending Trades	388,517	1,168,874
Miscellaneous	-	832
Total Receivables	612,245	1,382,320
Prepaid Benefits	222,953	210,517
Investments at Fair Value		
Cash and Cash Equivalents	557,523	722,317
Mutual Funds	3,915,305	2,684,130
Common Stock	30,738,881	30,852,823
Mortgage and Asset Backed Securities	701,984	976,164
International Bonds	230,429	544,416
Corporate Bonds	3,629,523	5,329,577
Government Securities	10,859,914	8,583,184
Total Investments	50,633,559	49,692,611
Total Assets	52,343,668	52,082,735
Liabilities		
Accounts Payable	-	1,026
Pending Trades Payable	352,251	810,193
Total Liabilities	352,251	811,219
Net Assets held in trust for pension benefits	\$ 51,991,417	\$ 51,271,516

(A schedule of funding progress is presented on
on Page 27.)

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

**Retirement System for General Employees of the
Utility Board of the City of Key West**

Statements of Changes in Plan Assets

	<u>Years Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
Additions		
Employer Contributions	\$ 2,014,613	\$ 1,910,640
Investment Income		
Net Appreciation (Depreciation) in Fair Value of Investments	553,433	1,341,707
Interest	735,449	776,786
Dividends	612,188	626,687
Capital Gains Distributions	-	84,389
	<u>1,901,070</u>	<u>2,829,569</u>
Less Investment Expenses	<u>(368,346)</u>	<u>(365,237)</u>
Net Investment Income	<u>1,532,724</u>	<u>2,464,332</u>
Total Additions	<u>3,547,337</u>	<u>4,374,972</u>
Deductions		
Benefits	2,705,806	2,553,007
Administrative Expenses	<u>121,630</u>	<u>84,914</u>
Total Deductions	<u>2,827,436</u>	<u>2,637,921</u>
Net Increase	719,901	1,737,051
Net Assets Held in Trust for Pension Benefits		
Beginning of Year	<u>51,271,516</u>	<u>49,534,465</u>
End of Year	<u>\$ 51,991,417</u>	<u>\$ 51,271,516</u>

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

**Retirement System for General Employees of the
Utility Board of the City of Key West
Notes to Financial Statements
Years Ended December 31, 2005 and 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity – The Retirement System for General Employees of the Utility Board of the City of Key West (the “Plan”) was established by resolution of the Utility Board of the City of Key West (the “Utility Board”), a governmental entity created by an Act of the Florida Legislature. The Plan accounts for the retirement activities for General Employees of the Utility Board. The Plan is a separate legal entity governed by an eighteen member Board of Trustees consisting of the five elected members of the Utility Board, the General Manager & CEO of Keys Energy Services, eleven members elected by/from active members of the Utility Board and one retiree elected by/from retired members of the Plan.

Basis of accounting - The financial statements are prepared using the accrual basis of accounting. Contributions from the employer are recognized as revenue when due and when the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recorded when the corresponding liabilities are incurred regardless of when payment is made.

Method used to value investments - Investments are reported at fair value. Money market funds are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price or exchange rate. Net appreciation (depreciation) in fair value of investments includes the difference between cost and fair value of investments held as well as the net realized gains and losses for securities which are sold. Interest and dividend income is recognized on the accrual basis when earned. Purchases and sales of investments are recorded on a trade date basis. Investments which do not have an established market are reported at estimated fair value.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 2- PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

Plan description - The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Plan document for more information. The Plan is a single employer defined benefit pension plan covering all permanent employees immediately upon completion of probationary period and elected officials of the Utility Board effective April 9, 1954. Benefit provisions are established and may be amended by the Utility Board.

Members who have attained the earlier of age 60 or completion of 30 years of service with the Utility Board are entitled to retirement benefits. With the approval of the Utility Board, a member may remain in active employment beyond his normal retirement date. The annual retirement benefit shall equal 2.4% of average final salary (AFS) times years of credited service, where AFS equals the highest annual basic compensation received during a period of the five highest years out of the ten years of service immediately preceding retirement.

**Retirement System for General Employees of the
Utility Board of the City of Key West
Notes to Financial Statements
Years Ended December 31, 2005 and 2004**

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (Continued)

If employees terminate before rendering ten years of service, they forfeit the right to receive the full portion of their accumulated benefits attributable to the Utility Board's contributions. Employees may elect to receive their pension benefits in the form of a life annuity, joint and last survivor annuity or a ten year certain and life thereafter option. Retirees receive an annual 3% cost of living increase. In addition, benefits may be increased from time to time as circumstances permit.

A member who becomes totally and permanently disabled as provided in the Plan, and who has completed five years of credited service as of the date of disability, shall be eligible for a disability retirement benefit. For a service or non-service incurred disability, a member shall be eligible to receive a benefit based on credited service and AFS during the three years immediately preceding disability, provided, however, that the disability benefit shall at least equal 20% of the member's final three year AFS at date of disability. These benefits will be decreased on an actuarial basis to reflect any workers' compensation or similar injury payments made, which may be required by law.

In the case of death of a member while currently employed, the spouse/domestic partner, or children under the age of 21 if no spouse/domestic partner shall receive 75% of the amount of the retirement benefit which said employee would have received had the employee continued employment until the employee's normal retirement date at the current rate of pay. Within 90 days from the date of death, a spouse/domestic partner with children under 21 years of age may elect to continue this benefit for life of the spouse /domestic partner, or may elect to receive 100% of the said retirement benefit such member would have received until the youngest child is 21 years of age. Upon attainment of age 21 by the youngest child, the benefits payable to an eligible surviving spouse/domestic partner shall be reduced to 60% of the said pension.

At the beginning of the calendar year, the Plan's membership consisted of the following:

	<u>January 1,</u>	
	<u>2006</u>	<u>2005</u>
Retirees and beneficiaries currently receiving benefits	149	142
Terminated employees entitled to benefits no yet receiving them	23	21
Current employees	<u>144</u>	<u>139</u>
Total	<u>316</u>	<u>302</u>

Contributions - Contribution requirements are established and may be amended by the Utility Board. The Utility Board's policy is to make contributions each payroll period based on a percentage of eligible salaries such that all employees' benefits will be fully funded by the time they retire.

**Retirement System for General Employees of the
Utility Board of the City of Key West
Notes to Financial Statements
Years Ended December 31, 2005 and 2004**

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (Continued)

The Utility Board also funds certain administrative and consulting expenses not reflected in these financial statements, as they are not significant. All other administrative costs of the Plan are financed from investment earnings and Employer contributions. Although it has not expressed any intention to do so, the Utility Board has the right to discontinue its contributions or amend the Plan at any time and to terminate the Plan subject to the provisions set forth in it.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk – Florida Statutes require the Plan to maintain its deposits with financial institutions in a qualified public depository by the Treasurer of the State of Florida. The Plan's accounts maintained in qualified public depositories are covered by federal depository insurance for an amount equal to the aggregate of each participant's ascertainable, non-contingent interest in the Plan (up to \$100,000 per participant). Amounts in excess of federal depository insurance are secured by the Public Depository Trust Fund (Trust Fund) maintained by the Treasurer. The Trust Fund is a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a member fails.

Investments

Authorized Investments – The Plan's investments practices are governed by Chapter 280 (Florida Security for Public Deposits Act) and 218 (Local Government Investment Policies), Florida Statutes, and the Plan's adopted investment policy. Florida Statutes and the Plan's investment policy authorized the Board of Trustees to invest in common stocks, fixed income securities, and cash equivalents. The policy prohibits investments in commodities, private placements letter, stocks and real estate.

At December 31, 2005 the Plan's investments were categorized as follows:

	Credit Rating by Standard & <u>Poor's</u>	<u>Fair Value</u>	Weighted Average <u>Maturity (years)</u>
Cash Equivalents	AAA	\$ 557,523	N/A
Mutual Funds	N/A	3,915,305	N/A
Common Stock	N/A	30,738,881	N/A
Mortgage and Asset Backed Securities	AAA	701,984	14.45
International Bonds	AA	230,429	9.09
Corporate Bonds	AA3	3,629,523	4.10
Government Securities	N/A	10,859,914	5.50
		<u>\$ 50,633,559</u>	

**Retirement System for General Employees of the
Utility Board of the City of Key West
Notes to Financial Statements
Years Ended December 31, 2005 and 2004**

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Investment Rate Risk – This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses resulting from rising interest rates, the Plan's investment policy establishes benchmarks based on credit quality and duration. The benchmarks are monitored and changed when warranted by investment market environment. Debt portfolios are structured and managed to produce returns based on risks inherent in the selected benchmarks. The Plan's investment policy limits investments in certificates of deposits and commercial paper to securities with maturities of one year or less and targets the average maturity of the fixed income securities not to exceed 7 to 12 years.

Custodial Credit Risk – This is the risk in the event of the failure of the counterparty, the Plan will not be to recover the value of its investments or collateral securities that are held by counterparty. The Plan's policy is to maintain its investments in custodial accounts that identify securities held as assets of the Plan by registering securities in the name of the Plan, or in street name or nominee name as the Plan's agent.

Credit Risk – This is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. This risk is generally measured by the assignment of a rating by a nationally recognized statistical rating organization. The Plan's investment policy limits investments in commercial paper to securities with a Moody's rating of Prime 1, and guaranteed insurance contracts to companies with a Standard & Poor's debt rating of A or better at time of purchase. Investments in long term debt securities are limited to investments that are classified in the top three ratings by either Standard & Poor's (A or better) and/or Moody's (A or better). Preferred stocks must be rated BAA or better by Moody's and Stand & Poor's at the time of purchase.

Concentration of Credit Risk – The Plan's investment policy limits common stock investments to 60% of the total market value of the Plan's assets. Fixed income securities are limited to 80% of the total market value of the Plan's assets. Investments in any individual common stock or fixed income security are limited to 5% of the Plan's total assets at the time of purchase (other than investments in U.S. Treasury and Federal agency securities). No common stock investment in any one company may exceed 7.5% of any portfolio's total assets, measured on a market basis and no more than 20% of the Plan's assets may be invested in any one industry.

At December 31, 2005 or 2004, no investments in any one issuer represented 5% or more of the System investments.

NOTE 4 – INCOME TAX STATUS

The Internal Revenue Service has ruled that the Plan qualifies under Section 401(a) of the Internal Revenue Code (IRC) and is, therefore, not subject to tax under present income tax law. Once qualified, the Plan is required to operate in conformity with the IRC to maintain its qualification. The Board of Trustees is not aware of any course of action or series of events that have occurred that might adversely affect the qualified status.

**Retirement System for General Employees of the
Utility Board of the City of Key West
Notes to Financial Statements
Years Ended December 31, 2005 and 2004**

NOTE 5 – CONTINGENCIES

In 2004, the Plan identified errors in the benefit calculations of a group of retirees, resulting in overpayments for a period of years. The Board of Trustees has examined the effects of the miscalculations, and the Board of Trustees has filed suit for damages against its former service providers in an attempt to recover its losses. The Plan provides, that in certain circumstances, the Board of Trustees can correct errors to benefit payments upon discovery and, as far as practical, to adjust future payments in such a manner that the actuarial equivalent of the benefit to which the member or beneficiary was correctly entitled is paid. Whether that provision is applicable to this situation has not been definitively determined. Effective October 1, 2004, the monthly payments of the affected members were adjusted to the amounts determined to reflect the benefit provisions of the Plan. The Board of Trustees has not acted to recover the overpayments by adjusting the benefits of the affected members to the actuarial equivalent of the entitled amounts. The effect of the recovery, if any, of the overpayments resulting from the litigation with the former service providers or others and/or adjustments to future benefits amounts, if any, is not reflected in the Plan's basic financial statements, as the amount cannot be readily determined at this time.

NOTE 6 – PLAN AMENDMENTS

During the years ended December 31, 2005 and 2004, the Utility Board passed resolutions amending the Plan. The effects of the resolutions were to:

Resolution No. 64 - Change eligibility for membership for employees hired after October 1, 2003 to begin after the employee's probationary period has been completed and the employee is made a regular full time employee. Effective date: February 17, 2004.

Resolution No. 65 - Eliminate Option 3, which provides for receipt of "other agreed upon options allowing, within certain limitations stated therein, a member to apply for a form of benefit that is not otherwise offered". Effective date: February 17, 2004.

Resolution No. 66- Amend the definition of pensionable earnings to use the member's base hourly rate each pay period, multiplied by 80 hours, less any hours that are considered leave without pay. Effective date: May 18, 2004.

Resolution No. 67- Allow certain employees to sign checks and make internet transfers on-line. Effective date: November 16, 2004.

Resolution No. 68- The Actuarial Equivalent amounts will now be determined based on the 1994 Group Annuity Reserving Table. Effective Date: November 16, 2004.

Resolution No. 69- Amended appointment of trustee, terms of office and rules and decisions. Effective Date: May 16, 2005.

NOTE 6 – PLAN AMENDMENTS (Continued)

**Retirement System for General Employees of the
Utility Board of the City of Key West
Notes to Financial Statements
Years Ended December 31, 2005 and 2004**

Resolution No. 70- Amended section 1 of Resolution 67 allowing certain employees to sign checks and make internet transfers on-line. Effective date: November 14, 2005.

Required
Supplemental
Information
(Unaudited)

**Retirement System for General Employees of the
Utility Board of the City of Key West
Required Supplementary Information**

**Schedule of Funding Progress
(Unaudited)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/00	\$ 53,398	\$ 41,776	(11,622)	127.8%	\$ 6,168	-188.4%
01/01/01	52,329	48,646	(3,683)	107.6%	6,398	-57.6%
01/01/02	49,513	50,730	1,217	97.6%	6,764	18.0%
01/01/03	50,459	52,434	1,975	96.2%	6,845	28.9%
01/01/04	51,439	55,408	3,969	92.8%	6,898	57.5%
01/01/05	53,036	57,511	4,475	92.2%	6,934	64.5%
01/01/06	54,266	61,004	6,738	89.0%	7,644	88.1%

Dollar amounts in thousands

**Schedule of Employer Contributions
(Unaudited)**

Annual Year Ended December 31,	Required Contributions	Percentage Contributed
2000	\$ 384,057	268
2001	1,245,998	100
2002	1,673,299	102
2003	1,643,987	101
2004	1,910,640	100
2005	2,014,613	100

**Retirement System for General Employees of the
Utility Board of the City of Key West
Notes to Schedule of Funding Progress
and Schedule of Employer Contributions**

The information presented in the required supplementary information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2005
Actuarial Cost Method	Entry Age
Amortization Method	Level payment, closed
Remaining amortization period	40 years
Asset valuation method	Five year smoothed market
Actuarial assumptions:	
Investment rate of return *	8.0%
Projected salary increases *	5.5%
Cost of living adjustments	3.0%

*Includes adjustment for inflation 3.0%

Significant factors affecting trends in actuarial information

2005 changes in Plan provisions and actuarial methods since prior actuarial valuation-
None

2004 changes in Plan provisions and actuarial methods since prior actuarial valuation-
The definition of pensionable earnings was changed to use the member's base hourly rate each pay period, multiplied by 80 hours, less any hours that are considered leave without pay

2003 changes in Plan provisions and actuarial methods since prior actuarial valuation-
Eligibility for employees hired after October 1, 2003 was changed to begin after the employee's probationary period is completed

2002 changes in Plan provisions and actuarial methods since prior actuarial valuation-
Non service connected death benefits was changed to the same percentage as service connected death benefits
The age of surviving children eligible to receive death benefits changed from age 19 to age 21
Assumed rate of projected salary increases was lowered from 6.0% to 5.5%
Asset valuation method was changed from market value to five year smoothed market

**Retirement System for General Employees of the
Utility Board of the City of Key West
Notes to Schedule of Funding Progress
and Schedule of Employer Contributions**

Significant factors affecting trends in actuarial information (Continued)

2001 changes in Plan provisions and actuarial methods since prior actual valuation-
None

2000 changes in Plan provisions and actuarial methods since prior actuarial valuation

The annual increase in benefits for retirees was increased from 2% to 3%, effective
January 1, 2001

1999 changes in Plan provisions and actuarial methods since prior actuarial valuation

None

Other Supplementary
Information

**Retirement System for General Employees of the
Utility Board of the City of Key West
Other Supplementary Information
Schedules of Administrative, Investment
and Consultant Expenses**

	Years Ended December 31,	
	2005	2004
Administrative Expenses		
Administrative fees	\$ 8,251	\$ 10,182
Professional services	48,761	6,871
Actuarial	61,934	65,922
Dues	-	800
Medical review	1,912	270
Meeting Expenses	-	310
Miscellaneous	772	559
	\$ 121,630	\$ 84,914

Investment Expenses

Investment manager fees		
Citigroup Asset Management	\$ 210,346	\$ 245,837
Brandes	44,449	41,255
Lord Abbett	42,908	39,615
PIMCO	41,851	38,446
MDT Advisers	28,696	-
Total investment manager fees	368,250	365,153
Other investment expenses		
Foreign tax paid	96	84
	\$ 368,346	\$ 365,237

Consultant Expenses

None

Supplementary

Auditors'

Report



**Report on Internal Control Over Financial Reporting and on Compliance
And Other Matters Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Trustees
Retirement System for General Employees of the
Utility Board of the City of Key West
Key West, Florida

We have audited the financial statements of Retirement System for General Employees of the Utility Board of the City of Key West (Plan) as of and for the year ended December 31, 2005, and have issued our report thereon, dated April 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to the 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 the Plan's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than those specified parties.

Cherry, Bekant + Holland, L.L.P.

West Palm Beach, Florida
April 12, 2006

Report on Investment Activity

Mr. Jack Wetzler, Secretary/Treasurer
Retirement System for the General Employees
Utility Board of the City of Key West, Florida
1001 James Street
Key West, FL. 33040

Dear Mr. Wetzler:

re: 2005 Keys Energy Pension Plan Results: 3.84% Gross
(3.06% net) vs. 3.68% for Plan Benchmark

The Keys Energy Pension Plan managed portfolios ended the 2005 year at \$50,842,263 according to the Smith Barney Consulting Group, which as noted above was a 3.84% increase of \$1,897,561 after Plan withdrawals and fees for net return of 3.06%. Plan performance (gross) was 16 basis points better than its 55% S&P500, 35% Lehman Gov./Corp bond index, 10% 90-day T-bills overall benchmark. It was 69 basis points under its' composite benchmark. The 4th quarter Plan return of .89% vs. 1.56% for Plan composite is where all of the underperformance was primarily due to the underperformance of FS/Brandes US Value, which was off -2.80% for quarter vs. 1.20% gain in its' benchmark and its' -2.69% 12 month return vs. 6.84% for its' annual benchmark. The Plan trailing three year return has averaged 9.84% gross (8.57% net) vs. 10.35% for composite benchmark; the trailing 5 years is 2.09% vs. 2.45% for benchmark and since 6/30/92 the Plan return has averaged 8.07% gross (7.32% net) vs. 8.46% for its' composite indexes, which do not have expenses or fees.

Over time, the Plan's 3 year number of 9.84% (8.57% net) exceeds its 8% actuarial assumption, during what was a favorable market period, boosted by a very strong 2003 of 20% which was almost 4% better than benchmark. The 5 year number of 2.09% is tough as it still includes the 2000-2001 equity market damage and is indicative of a market environment where large stocks are still 18% below their March 2000 highs and technology stocks are approximately 60% below their all-time highs. Since inception, we are on course at 8.07% gross (7.32% net) to your actuarial target, and just under the benchmarks. Total fees were \$384,202 or approximately 75 basis points and are included in \$1,270,503 of withdrawals shown above.

The Plan's reward/risk trade-off has been to achieve less "down capture" return or decline noticeably less than its composite during 60% of the 3 year rolling periods since 1998. Specifically, the Plan declined 14% less, on average over this period than its' composite benchmark as it has been geared towards capital preservation more than capital appreciation. The offset is that it also doesn't bounce as high as its' composite on the upside, with an 86% upside capture ratio since 1998, on average. If we look at Plan Sponsor Universe Report (from Wilshire Assoc. Coop Universe Service of 115 Public Funds with median value of \$80.81 million) we see the Plan in-line or slightly ahead of its' benchmarks for periods shown, ahead for 5 years and just under since inception. (above data only available as of 9/30/05).

Report on Investment Activity

During the last 5 years, and last in particular, what separates defensively oriented, US invested liquid plans like Keys Energy from Public Plans with higher returns, has not been manager skill, as much as it has been other Plan's exposure to international, emerging markets stocks and bonds, low and medium volatility alternative investments (i.e. fund-of-funds that have been "absolute return" oriented), REIT's and smaller value and growth stocks. The investment policy has a higher quality, more conservative traditional equity and fixed income approach, whereas the market has rewarded increased risk taking in lower quality stocks and bonds so far this decade. Of these categories we have not invested in, the ones our asset allocation group still sees the most value in from here are international and emerging markets equities and alternative investments, as REITS and smaller cap stocks have had historically large gains and appear to have less "headroom" for further advances vs. the former. Therefore, if we want to change the reward/risk profile of the Plan, we need to adjust it's asset allocation to include some of the above investment areas, starting with International equities (17% of equities, 10% of overall), which we've done a screening search on as directed last November and some exposure to conservative/moderate "funds-of-funds", which we need to examine in further detail, with some fixed income assets (approx. 13% of fixed income, 5% of overall) with a reward/risk profile of intermediate bonds, but expected higher returns (which we've also screened on).

While the historical odds are good that this year should be a good one for stocks vs. the relative flat year (4.89% for stocks last year) and not much more the year before, bond market returns do not look attractive; therefore if we want to target higher annual returns, we need to consider making some changes in our asset allocation.

What worked, what didn't

The best thing that happened to the Plan last year was the March new manager hire of FS/MDT All-Cap core portfolio. While 9 months is a very short time, their 12.57% return vs. 8.51% for their Russell 3000 broad stock all-cap benchmark was outstanding, adding approximately \$620,000 to Plan returns last year. With 95 stock positions, it is also the Plan's most diversified portfolio. One of the reasons for their success, aside from it's highly disciplined quantitative stock-pricing process, is its' exposure to the broadest cross section of the market, by style and size, as it has seemed increasingly futile to handicap whether to tilt towards large/mid/small value or large/mid/small growth. The portfolio yields 1.45%

CAM NA Large Cap Growth Balanced return was 4.92% ahead of its' 4.23% index return. This 60% stock/40% bond portfolio's stock portion return 7.08% vs. 5.26% for its R1000 Growth index and 4.89% (includes dividends) for the S&P500. Its' 1.92% bond return also beat its' 1.58% intermediate bond index return. Since June 1992, CAM NA has averaged 8.54% vs. 8.40% for its' benchmark (including 10.13% for its' equity portion vs. 8.75% for large growth stocks and 10.74% for S&P500, and 6.23% for its' bonds vs. 6.19% for intermediate bonds. This portfolio contributed \$84,819 to Plan returns last year. It also had withdrawals, including fees, of \$8,738,202 used to fund new manager MDT last March with approximately \$4,811,000 plus approximately \$3,000,000 to Pimco Fixed Income, in addition to Plan withdrawals used for retirement distributions.

Most significant development here is that CAM NA (formerly "Citigroup Asset Management") is no longer an affiliate of Citigroup as the deal announced last June by Legg Mason to acquire it was concluded December 1st. No change in Plan portfolio management team headed by Tom

Report on Investment Activity

Vandeventer. Large cap growth stocks outperformed for the last three quarters of the year. This Conservative Balanced portfolio should benefit from that trend, if it continues.

CES/Pimco Fixed Income Total Return bond portfolio returned 2.53% vs. 2.43% for Lehman Aggregate Bond index, which is more diversified and longer duration than the Lehman Gov/Corp. Intermediate benchmark CAM manages against. Pimco's 4.51% return since 8/31/02 doesn't sound tremendous; however it beats the 4.2% benchmark aggregate bond return since then, which is no small feat in the bond world. Their size as the world's largest total return bond manager has not proven to be a drawback. Their lead portfolio manager, Bill Gross, thinks interest rates are peaking and yields will be lower at end of year as economy starts to slowdown, due consumers being maxed out on borrowing and real estate prices pulling back somewhat.

In the "what-didn't-work-so-well" category last year was the FS/Lord Abbett Large Value; while it had a 2.46% positive 4th quarter vs. 1.26% for its' Russell 1000 Value index, it gained 3.72% for the year vs. 7.04% for its' benchmark which was an under-performance of 3.32% for this all-equity value portfolio. It contributed approximately \$205,148 in returns last year gross of fees and withdrawals. From its' August 2002 inception, its' average return has been 14.74% vs. 14.58% for its benchmark, lost some altitude at 16.15% over last 3 years vs. 17.48% for its' benchmark. Some concern here in that its' increased asset size has limited the number of mid-cap stocks it formerly held, plus it has been less benchmark oriented over the last two years. Portfolio yield is 2.15% and includes 66 positions.

In the "what-didn't-work-well" category last year FS/Brandes US Value portfolio, who finished the year with a very disappointing -2.69% return vs. 6.68% for their (very loosely correlated) Russell 3000 Value benchmark. This was a big miss of 9.3% worse than their benchmark for last year. Over time, since their August 2002 inception, they have averaged 14.56% (vs. 14.94% for their benchmark) falling just Lord Abbett's 14.74%. The last three years, still positive at 18.64% vs. 17.89%. Due to their "sea biscuit" return of around 44% in 2003, which when taken together, also gives them the Plan's highest annual standard deviation of 21.63% (meaning odds are they can be up or down more than 21% any one year) what is very frustrating here is that their biggest losses were with the most American of companies of GM, Ford, Delta, Delphi, Unisys which they continued to see value in on the way down. Portfolio has a 2.36% yield and 52 positions. Charles Brandes rotated off the large cap value investment committee earlier last year. As a "deep value" contrarian manager you'd expect their best numbers to be at the beginning of the economic recovery, which is what we've seen so far.

The reason to have two value managers using different styles (i.e. relative value/Lord Abbett and deep value/Brandes) is that it generally increases the odds that one of them will meet or exceed their benchmarks in any one year. It didn't happen last year, as it has in other years, and the magnitude of Brandes miss, in particular, is what caused us to miss one of our benchmarks last year. We knew going in that Brandes would most likely be the Plan's most volatile manager, despite their exceptional long term record, it hurt them for the first nine months since inception and the last 12 months. It's also why we hired two value managers.

What's up this year

Through February 9th, the Plan was up approximately 1% with FS/Brandes up 4.11%, FS/Lord Abbett up 3.22% (both ahead of their 3% Value fund benchmark), FS/MDT was up 1.95%, in-line,

Report on Investment Activity

Pimco bonds up .44%, ahead of benchmark, and the CAM NA Balanced is off -.91%, under benchmark, due to technology sector pullback since January 11th year highs that seem overdone. In other words, a different picture than what we saw at year-end. Elsewhere, international portfolios are up 4-6% and January saw 3% fund-of-fund returns; therefore, if we are going to make any changes, we should implement in order to put in place for rest of the year.

The majority of Wall Street analyst's are looking for stocks to gain 7-9% for the calendar year (based on est. 12-15% S&P500 earnings gains) and bonds to be flat at best, which if true, gives you a blended index return of around 4%-5%, which is why Plans are adding and revising their asset allocations in order to generate more return which usually comes with somewhat more risk. However, that's what we're looking at. This decade the US equity market has basically gone nowhere, where other markets outside the US have had significant gains. Last year, only China had worse stock returns than the U.S., doubtful we will repeat that. In other words, US stocks are way overdue to do better particularly if interest rates have peaked; in the meantime we need to reconsider allocating some of our funds to where market returns have been either somewhat higher or more consistent.

We will discuss further with you. As has been our past practice, we screen and look for prospective managers that have a proven long term record, from than \$500 million under management, and have the most thorough evaluations from the Consulting Group research team on both quantitative and qualitative aspects, and that we have also been able to negotiate Fiduciary Services agreement with on behalf of our clients, where they remain subject to the highest level of ongoing CG research and evaluation.

Otherwise, we found no significant over-weights or undue concentrations vs. your Plan policy investment guidelines either in its' holding or class weightings. Detailed monthly and year-end Smith Barney brokerage statements showing both net and gross time-weighted returns plus various additional investments information is on file with your office. Manager portfolio returns cited here vs. non-managed index composite benchmarks are gross unless cited otherwise.

As always, you should rely on your Smith Barney brokerage statements for actual valuations, which may vary slightly from Consulting Group performance monitoring due to differences in statement handling of accrued interest (which tends to be more inclusive on brokerage statements) and the use of different bond pricing services. Please feel free to reach me with any questions you may have.

Sincerely,



Jim Zisson
Smith Barney/Citigroup Global Markets
Director/Senior Investment Management Consultant
777 S. Flagler Drive, Suite 700 East Tower
West Palm Beach, FL 33401

**Retirement System for General Employees of the
Utility Board of the City of Key West
Investment Policy for 2005**

1. Scope

- A. The purpose of this document is to establish a clear understanding between the Pension Board of Trustees, the Investment Staff, and the Investment Committee Members, regarding investment policies and objectives for the Pension Plan for the General Employees of the Utility Board of the City of Key West, Florida.
- B. It is intended that these policies and objectives provide meaningful guidance in the management of the pension plan and that they are not overly restrictive given the changing economic, business and investment market conditions.
- C. This policy will be reviewed on an annual basis. Appropriate modifications will be made in order to keep the document clear and meaningful.

2. Investment Objectives

- A. To invest the assets of the pension plan for the sole interest and benefit of the Plan's participants.
- B. Investment objectives are primarily oriented toward the long-term:
 - 1. Achieve an absolute return of not less than 8% on a long-term basis (a 3 to 5 year time frame).
 - 2. Achieve a total rate of return that ranks in the top 40% of investment managers with the same average asset allocation. Average ranking over a period of years is the performance criteria, rather than the ranking achieved in any one specific year.
 - 3. Achieve superior long-term investment results. Investment performance will be judged primarily on a long-term basis (i.e., 3 to 5 year time frame, over the course of a market cycle, etc.) rather than on a short-term basis (i.e., one year or less).
- C. Short-term Investment Objective:
 - 4. Minimize the likelihood of protracted declines in overall asset value (more than 5-8%) in any 12-18 month trailing period relative to market declines.
 - 5. The possibility of a modest decline in asset value (5% or less) in any 12-18 month trailing period is a risk the Trustees accept in order to achieve superior long-term results.

3. Performance Measurements

- A. The Investment Manager's performance results will be measured on a quarterly basis.
- B. The equity and fixed income segments, as well as total fund, will be measured against commonly accepted "benchmark" indices.
- C. Total fund performance will be measured against a corresponding balanced index weighted to match the asset allocation of the fund itself.
- D. The total fund will be compared to the CDA Balanced Universe or similar universe with percentage of equity similar to the asset allocation of the fund itself.

4. Investment and Fiduciary Standards

- A. All investments are to be made for the benefit of the plan participants, and to defray the reasonable expenses of the Plan, in a prudent manner deemed acceptable for a defined benefit plan.

Retirement System for General Employees

Utility Board of the City of Key West

- B.** It is expected that the plan's Investment Managers will manage the assets so that the results over time will meet the goals and objectives as set forth in this statement.
- C.** This statement is intended to be used as a guideline rather than a rigid statement of policy from which there can be no deviation. However, it is anticipated that any important deviations and the reasons thereof, will be brought to the attention of the Trustees for their review on a timely basis.
- D.** Investment Managers will not invest in commodities, private placements, letter stock and real estate, or engage in short sales or margin.
- E.** Putting new funds to work, the Trustees, via the Pension Board Chairman and the Secretary/Treasurer, will allocate new plan assets and idle cash, as available, in a proportionate manner to existing and prospective managers on a quarterly basis, in order to achieve asset allocations and investment objectives of the plan, so that the plan is not sitting on excess funds as such funds become available to the plan.
- F.** The board, in performing its investment duties, shall comply with the fiduciary standards set forth in the Employee Retirement Income Security Act of 1974 at 29 U.S.C. s. 1104 (a)(1)(A)-(C). In case of conflict with other provisions of law authorizing investments, the investment and fiduciary standards set forth in this section shall prevail.

5. Authorized Investments

A. Common Stock Investments

- 1.** The Plan's investments in common stock may range from a minimum of 20% to a maximum of 60% of the total assets of the Plan valued at market.
- 2.** Common stock investments should be made in good quality companies. Stocks may be purchased from the New York and American Stock Exchanges as well as over-the-counter market with the requirement that such stocks have adequate market liquidity relative to the size of the investment made.
- 3.** Common stock investments should reflect moderate levels of diversification.
 - a.** At the time of purchase, no individual common stock should exceed 5% of any portfolio's total assets.
 - b.** In no event should the investment in any one company exceed 7.5% of any portfolio's total assets on a market value basis.
 - c.** No more than 20% of the Plan's assets should be invested in any one industry.

B. Fixed Income Investments

- 1. Certificates of Deposit**
 - a.** Must be issued by a major depository which has capital and surplus of \$25 million or more.
 - b.** Investment in any one issuer not to exceed 5% of total Plan assets.
 - c.** Maturity of one year or less.
 - d.** Federally insured by either FDIC or FSLIC.
- 2. Commercial Paper**
 - a.** Must have a Moody's rating of Prime 1.
 - b.** Investment in any one issuer not to exceed 5% of total Plan assets.
 - c.** Maturity of one year or less.
- 3.** No limitations on U.S. Government guaranteed obligations (including fully guaranteed Federal agencies).
- 4.** Guaranteed Insurance Contracts

Retirement System for General Employees

Utility Board of the City of Key West

- a. Insurance company must have a Standard & Poor's debt rating of "A" or better at the time of purchase.
 - b. No purchase should be made which would cause holdings of any one issuer to exceed 5% of total Plan assets.
5. Other Long-term Debt Securities
 - a. Generally, fixed income securities that are classified in the top three ratings by either Standard & Poor's ("A" or better) and/or Moody's ("A" or better) shall be purchased. However, each portfolio manager can have a maximum of not more than 15% of the fixed income portfolio rated investment grade ("BBB").
 - b. No purchase should be made which would cause holdings of any one issuer to exceed 5% of the total Plan assets except for U.S. Treasury and Federal agency securities.
 - c. The total portfolio of fixed income securities should not exceed an average maturity of longer than 7 to 12 years.
6. Preferred Stocks
 - a. Must be rated "BAA" or better by Moody's and Standard & Poor's at the time of purchase.
 - b. No purchase should be made which would cause holdings of any one issuer to exceed 5% of any portfolio's assets.
7. In the event that the Plan has investments that either exceed the applicable limit or do not satisfy the applicable investment standard, such excess or investment not in compliance with the policy may be continued until such time as it is economically feasible to dispose of such investment. However, no additional investment may be made in the investment category which exceeds the applicable limit, unless authorized by law or ordinance.

6. Maturity and Liquidity Requirements

Investments in fixed income securities (i.e., securities with a maturity exceeding one year) may range from a minimum of 35% to a maximum of 80% of the total Plan assets valued at market. The investment portfolio shall be structured in such a manner as to provide sufficient liquidity to pay obligations as they come due. To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash-flow requirements.

7. Portfolio Composition

- A. The Investment Managers will have substantial discretion to shift the asset mix between equities and cash equivalents, initially, and various fixed income securities over time, with additional proportionate funding, in order to increase investment returns and/or reduce risks.
- B. Where appropriate, aggressive shifts in asset mix should be implemented.
- C. The Investment Manager should notify the Trustees of major asset shifts on a timely basis.

8. Risk and Diversification

- A. As of July 1, 1992, the plan's current investment strategy, as per the Board of Trustees' instructions, is to allocate its investment assets to balanced managers, whose investment styles complement each other and who will not invest not more than 60% of the plan's assets (at fair market value) in equities and not less than 35% (at fair market

Retirement System for General Employees

Utility Board of the City of Key West

value) in fixed income securities, that are rated at least "A" or better by leading rating services.

- B.** The respective Investment Managers will utilize their best business judgment and resources in determining how best to manage, within the above allocation parameters.

9. Expected Annual Rate of Return

The Pension Board has determined the total average annual rate of return at 8% for the current year and for the long term thereafter. This determination shall be filed with the Department of Management Services, the Plan Sponsor and the Actuary. The Department shall use this determination only to notify the Board, the Plan Sponsor and the Actuary of material differences between the total expected annual rate of return and the actuarial assumed rate of return.

10. Third-party Custodial Agreements

Securities shall be held with a third party, and all securities purchased by and all collateral obtained by the Board should be properly designated as an asset of the Board. No withdrawal of securities, in whole or in part, shall be made from safekeeping except by an authorized member of the Board or the Board's designee. Securities transactions between a broker-dealer and the Custodian involving purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis if applicable, to ensure that the custodian will have the security or money as appropriate, in hand at the conclusion of the transaction.

11. Master Repurchase Agreement

All approved institutions and dealers transacting repurchase agreements are required to execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions shall adhere to the requirements of the Master Repurchase Agreement.

12. Bid Requirement

The Investment Consultant is required to advise and assist the Board in determining the approximate maturity date based on cash-flow needs and market conditions, analyze and select one or more optimal types of investment, and competitively bid the security in question when feasible and appropriate. Except as otherwise required by law, the most economically advantageous bid must be selected.

13. Internal Controls

The Investment Policy shall provide for a system of internal controls and operational procedures. The Board has established a system of internal controls (which is attached). This policy shall provide for review of such controls by independent certified public accountants as part of any financial audit periodically required of the Board's unit of local government. The internal controls are designed to prevent losses of funds which might arise from fraud, error, misrepresentation by third parties, or imprudent actions by the Board or employees of the unit of local government.

14. Continuing Education

The Pension Board shall provide for the continuing education of the Trustees in matters relating to investments and the Board's responsibilities. All service providers are expected to educate the Board of Trustees about duties, responsibilities and significant trends and developments in their area of expertise.

Retirement System for General Employees

Utility Board of the City of Key West

15. Reporting

- A.** The investment policy shall provide for appropriate annual or more frequent reporting of investment activities. To that end, the Board shall prepare periodic reports for submission to the governing body of the unit of local government which shall include investments in the portfolio by class or type, book value, income earned, and market value as of the report date. Such reports shall be available to the public.
- B.** Once a year, the Board shall cause the financial statements of the plan to be audited by an independent accountant. Such financial statements shall contain a complete report of the plan. The auditor shall also provide quarterly financial statements to the Board.
- C.** Investment Manager and Investment Manager Consultant Communications with the Trustees.
 - 1.** Provide quarterly written portfolio performance evaluations, review and current outlook.
 - 2.** Meet annually with the Board of Trustees to facilitate achievement of the plan's investment goals and objectives. Annual report to the Trustees shall include the following:
 - a.** Review past investment performance, evaluate the current investment outlook and discuss investment strategy.
 - b.** Provide information concerning any major changes in investment policy that may result in major investment strategy changes.
 - c.** Review any significant changes in management, research, personnel or ownership with the investment manager firm.

16. Filing of Investment Policy

Upon adoption by the Board, the Investment Policy shall be promptly filed with the Division of Retirement, the Plan Sponsor and the Actuary. The effective date of the Investment Policy, and any amendment thereto, shall be the 31st calendar day following the filing date with the Plan Sponsor.

17. Valuation of Illiquid Investments

This policy provides for the valuation of illiquid investments for which a generally recognized market is not available or for which there is no consistent or generally accepted pricing mechanism. If those investments are utilized, the investment policy must include the criteria set forth in s.215.47 (6), except that submission to the Investment Advisory Council is not required. For each actuarial valuation, the Board must verify the determination of the fair market value for those investments and ascertain that the determination complies with all applicable State and Federal requirements. The Board shall disclose to the Department of Management Services and the Plan's sponsor each such investment for which the fair market value is not provided.

Retirement System for General Employees
Utility Board of the City of Key West
Schedule of Investment Results ⁽¹⁾
For the Year Ended December 31, 2005

	1 Year	3 Years	5 Years
	<u>2005</u>	<u>2003 - 2005</u>	<u>2001 - 2005</u>
Total Portfolio			
Retirement System	3.8%	9.8%	2.1%
Primary Objective	8.0%	8.0%	8.0%
Consumer Price Index	3.4%	2.8%	2.5%
60% R1000G/40% LBGC	4.9%	9.5%	7.0%
Fixed Income Portfolio			
Citigroup Asset Management	1.9%	2.3%	4.9%
PIMCO Total Return	2.6%	4.1%	N/A
LB Inter Govt/Corp Bond Index	1.5%	2.3%	4.7%
LB Aggregate Bond Index	2.4%	3.6%	3.8%
Equities Portfolio			
Citigroup Asset Management	7.0%	13.7%	1.6%
Brandes US Value Equity	-2.6%	18.6%	N/A
Lord Abbett Large Cap Value	3.7%	16.1%	N/A
MDT All Cap Cove	12.5%	N/A	N/A
S & P 500 Index	4.8%	14.3%	50.0%
Russell 1000 Growth Index	5.2%	13.2%	-3.5%
Russell 1000 Value Index	7.0%	17.4%	5.2%
Note:			
⁽¹⁾ The calculations were prepared using the time-weighted rate of return gross of fees.			

Retirement System for General Employees

Utility Board of the City of Key West

Schedule of Investment Results

For the Years Ended December 31,

Description	2005	2004	2003	2002	2001
Total Investment Fund	\$ 50,841,263	\$ 49,692,611	\$ 48,680,737	\$ 41,739,607	\$ 49,227,765
Investment Return (Gross)	3.8%	6.0%	20.4%	-13.7%	-3.0%
Citigroup Asset Management	4.9%	3.2%	18.2%	-12.0%	-5.5%
PIMCO Total Return	2.6%	4.7%	4.9%	2.6%	
Brandes US Value Equity	-2.7%	16.4%	47.4%	-5.8%	
Lord Abbett Large Cap Value	14.4%	14.4%	32.0%	0.9%	
MDT All Cap Core	12.5%				
Oppenheimer Capital					-1.0%
Primary Objective	8.0%	8.0%	8.0%	8.0%	8.0%
Consumer Price Index	3.4%	3.4%	1.9%	2.4%	1.5%
Lipper Balanced Index	5.2%	7.5%	19.9%	-10.7%	-3.2%
Fixed Income Portfolio, net	\$ 19,903,568	\$ 18,928,762	\$ 17,810,847	\$ 18,626,311	\$ 20,877,964
Percent Allocation	39.2%	37.8%	36.6%	44.6%	42.4%
Citigroup Asset Management	1.9%	2.8%	4.0%	11.1%	9.2%
PIMCO Total Return	2.7%	4.7%	4.9%	2.6%	
Oppenheimer Capital					9.1%
LB Inter Govt/ Corp Bond Index	1.6%	3.0%	4.3%	10.0%	9.0%
Equities Portfolio, net	\$ 30,937,695	\$ 31,127,506	\$ 30,869,890	\$ 23,113,296	\$ 28,349,801
Percent Allocation	60.8%	62.2%	63.4%	55.4%	57.6%
Citigroup Asset Management	7.1%	3.6%	28.7%	-26.2%	-14.3%
Brandes US Value Equity	-2.7%	16.4%	47.4%	-5.8%	
Lord Abbett Large Value Cap	3.7%	14.4%	32.0%	0.9%	
MDT All Cap Core	12.5%				
Oppenheimer Capital					-5.7%
S & P Index	4.9%	10.9%	28.7%	-22.6%	-11.9%
Russell 1000 Growth Index	5.2%	6.3%	29.8%	-28.6%	-5.6%
Russell 1000 Value Index	7.0%	16.5%	30.0%	-2.9%	

Note: Calculation prepared using time-weighted rate of return on the market rate of return.

Retirement System for General Employees
Utility Board of the City of Key West
Schedule of Investment Results
Annual Since Inception at December 31,

Description	2005	2004	2003	2002	2001
Total Investment Fund	\$ 50,841,263	\$ 49,692,611	\$ 48,680,737	\$ 41,739,607	\$ 49,227,765
Investment Return (Net)	8.0%	7.7%	7.9%	6.8%	9.4%
Citigroup Asset Management	8.5% ⁽¹⁾	8.1%	9.4%	8.6%	10.3%
PIMCO Total Return	4.5% ⁽²⁾	4.7%	5.6%	2.6%	
Brandes US Value Equity	13.2% ⁽²⁾	22.0%	24.3%	-9.1%	
Lord Abbett Large Cap Value	13.9% ⁽²⁾	19.8%	21.8%	-1.2%	
MDT All Cap Core	12.5% ⁽³⁾				
Oppenheimer Capital					3.5%
Primary Objective	8.0%	8.0%	8.0%	8.0%	8.0%
Consumer Price Index	2.5%	2.5%	1.9%	2.5%	2.6%
Lipper Balanced Index	8.5%	9.1%	8.8%	7.8%	9.9%
Fixed Income Portfolio, net	\$ 19,903,568	\$ 18,928,762	\$ 17,810,847	\$ 18,626,311	\$ 20,877,964
Percent Allocation	39.2%	37.8%	36.6%	44.6%	42.4%
Citigroup Asset Management	6.2%	6.6%	6.9%	7.2%	6.8%
PIMCO Total Return	4.5%	5.3%	5.6%	2.6%	
Oppenheimer Capital					8.2%
LB Inter Govt/ Corp Bond Index	6.2%	6.6%	6.9%	7.0%	6.8%
Equities Portfolio, net	\$ 30,937,695	\$ 31,127,506	\$ 30,869,890	\$ 23,113,296	\$ 28,349,801
Percent Allocation	60.8%	62.2%	55.4%	57.6%	59.2%
Citigroup Asset Management	10.1%	10.4%	11.3%	9.4%	0.1%
Brandes US Value Equity	13.2%	22.9%	24.3%	-9.1%	
Lord Abbett Large Value Cap	13.9%	19.8%	21.8%	-1.2%	
MDT All Cap Core	12.5%				
Oppenheimer Capital					-5.0%
S & P Index	10.7%	14.8%	11.3%	9.7%	13.8%
Russell 1000 Growth Index	8.7%	9.0%	9.3%	7.5%	-0.4%
Russell 1000 Value Index	14.5%	18.0%	19.1%	-2.9%	

⁽¹⁾ Inception 6/30/92

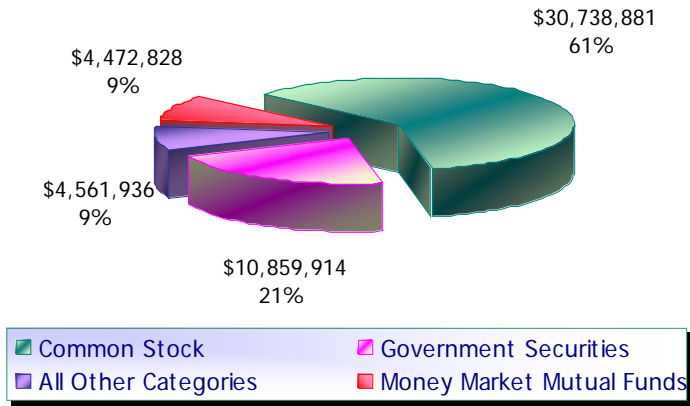
⁽²⁾ Inception 8/30/02

⁽³⁾ Inception 3/28/05

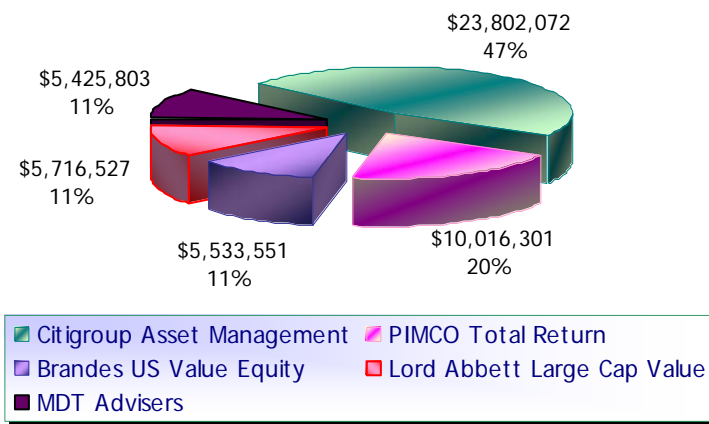
Note: Calculation prepared using time-weighted rate of return on the market rate of return.

Retirement System for General Employees
Utility Board of the City of Key West
Asset Allocations
For the Calendar Year Ended December 31, 2005

Asset Allocation by Investment Type



Asset Allocation by Investment Manager



Retirement System for General Employees

Utility Board of the City of Key West

List of Largest Assets Held

For the Calendar Year Ended December 31, 2005

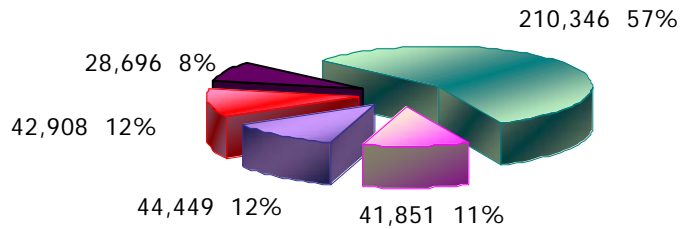
Largest Equity Holding (By Fair Value)			
	<u>Shares</u>	<u>Stock</u>	<u>Market Value</u>
1)	14,038	Proctor & Gamble Co.	812,519
2)	26,362	Microsoft Corp.	689,366
3)	18,300	Google Inc	641,415
4)	6,673	Genentech Inc.	617,253
5)	14,167	Qualcomm LTD	610,314
6)	18,836	Texas Instruments Inc.	604,071
7)	10,738	Exxon Mobil Corp	603,153
8)	4,946	General Electric Co	600,644
9)	12,136	Wal-Mart Stores Inc	569,965
10)	8,453	Unitedhealth Group	525,269
Largest Debt Holdings (By Fair Value)			
	<u>Par</u>	<u>Bonds and Other Debt Securities</u>	<u>Market Value</u>
1)	174,745	Fixed Income Shares Series M	1,967,628
2)	168,630	Fixed Income Shares Series C	1,947,677
3)	1,970,000	US Treasury Notes Ser M-2009 Coupon 3.375% Mature 9/15/09	1,904,202
4)	1,090,000	US Treasury Notes Ser D-2006 Coupon 6.125% Mature 8/15/07	1,118,863
5)	1,060,000	US Treasury Notes Ser P-2005 Coupon 3.75% Mature 3/31/07	1,050,969
6)	1,048,000	Federal Natl Mtg Assn Global Coupon 5.5% Mature 2/15/06	1,048,985
7)	466,000	US Treasury Bonds of 2015 10.625% Mature 8/15/15	689,372
8)	534,000	US Treasury Inflation Index NTS C 3.0% Mature 7/15/12	625,457
9)	565,000	US Treasury Notes Ser D-2006 Coupon 6.5% Mature 10/15/06	573,588
10)	477,000	US Treasury Inflation Index NTS C 3.375% Mature 1/15/07	604,052
A complete list of portfolio holdings is available upon request			

Retirement System for General Employees
Utility Board of the City of Key West
Schedule of Advisors and Fees
For the Year Ended December 31, 2005

<u>Investment Managers</u>	<u>Fund</u>	<u>2005 Yr End Account Value</u>	<u>Investment Manager Fee</u>	
			<u>Annual Fee</u>	<u>Average Percent</u>
Citigroup Asset Management	Balanced	\$ 23,802,072	\$ 210,346	0.88%
PIMCO Total Return	Fixed	10,016,301	41,851	0.42%
Brandes US Value Equity	Equities	5,533,551	44,449	0.80%
Lord Abbett Large Cap Value	Equities	5,716,527	42,908	0.75%
MDT Advisers	CAP MGD	5,425,803	28,696	0.53%
Total		\$ 50,494,254	\$ 368,250	0.73%

Note: The Pension Plan switched to a more cost-effective fee-based consulting arrangement during 1998. In addition, consolidation and standardization of manager reporting was achieved.

Fees by Investment Manager



■ Citigroup Asset Management	■ PIMCO Total Return
■ Brandes US Value Equity	■ Lord Abbett Large Cap Value
■ MDT Advisers	

Retirement System for General Employees
Utility Board of the City of Key West
Investment Summary
For the Year Ended December 31, 2005

	Fair Value	% of Total Fair Value
Fixed Income		
Mortgage and Asset Backed Securities	\$ 701,984	1.39%
International Bonds	230,429	0.46%
Corporate Bonds	3,629,523	7.17%
U.S. Government Securities	<u>10,859,914</u>	<u>21.45%</u>
Total Fixed Income	<u>15,421,850</u>	<u>30.5%</u>
Common Stock	<u>30,738,881</u>	<u>60.71%</u>
Mutual Funds	<u>3,915,305</u>	<u>7.73%</u>
Short Term- Short Term Investment Funds	<u>557,523</u>	<u>1.10%</u>
Total Investments	<u><u>\$ 50,633,559</u></u>	<u><u>100.00%</u></u>

Glossary

Actuarial Accrued Liability – The pension plan liability recognized to date, as determined by the actuarial method used.

Actuarial Valuation Report – A study performed annually by an actuary to examine whether the contributions made to a defined benefit plan are likely to be adequate, given the benefits offered, the mortality and other demographic factors of the participants, participant terminations and turnover, and pension plan investment performance.

Annualized Return – The average annual rate of return achieved by the account or index. This return should not be used for periods of less than one year.

Asset Allocation – The proportion (in percentage terms) of the total portfolio value allocated to each portfolio segment (equities, fixed income, and cash equivalents) as of period-end.

Beginning Portfolio Value – The total market value of the total portfolio as of the beginning of the period indicated. Calculated on a trade date basis and includes accruals.

Bonds – A debt-related investment security, representing a loan of money in return for an enforceable promise by the debtor to repay the principal amount of the loan and interest on the unpaid principal balance at a stated percentage rate on or before a stated date.

CGAM- Citigroup Asset Management

Consumer Price Index, U.S. – A measure of the average change in prices over time as determined by the movement in cost for a fixed basket of goods and services.

Defined Benefit Plan – Under a defined benefit plan, the eventual pension benefit is defined, or determinable, by formulas.

Ending Portfolio Value – The total market value of the total portfolio as of the end of the period indicated. Calculated on a trade date basis and includes accruals.

Equities – Investment securities that represent an ownership interest in the entity issuing the security, that are expected to produce income in the form of shared profits, typically in the form of dividends, and to produce appreciation in value, typically referred to as capital appreciation or capital gain.

Gross-of Fees Rate of Return – The rate of return before the fees charged to the account have been deducted. Calculated on a trade date basis and includes accruals

Inflation – Measures for all urban consumers the change in the prices of goods and services purchased by all urban consumers.

Investment Objective – The expressed measurable goal of the investor or investment manager. This may be broadly stated (“capital appreciation”) or narrowly defined (“exceeds the consumer price index by at least 3% annually”).

Glossary

Investment Performance – The measurement of net gain or loss produced by an investment portfolio.

Investment Strategy – The plan of an investment portfolio for purchasing various types of investment securities, attempting to take advantage of the earnings potential of the various types of investment securities, to emphasize safety from risk through diversification, and to accommodate future liquidity and cash flow needs.

Lehman Brothers Government/Corporate Intermediate Bond Index – A measure of both government and corporate issued bonds with maturities between one and 9.99 years.

Net-of Fees Rate of Return – The rate of return after the fees charged to the account have been deducted. Calculated on a trade date basis and includes accruals.

Realized Investment Income – The proceeds obtained from investment securities derived from interest paid on bonds, dividends paid on stocks and net realized gains or losses on the sale of investments.

Realized Gains or Losses – The positive or negative difference between the cost (purchase price) of an investment security and the sale price of that security.

Return – A measure of total investment performance resulting from both realized and unrealized gains and losses and the reinvestment of dividend and interest income.

Russell 1000 Growth Index – The Russell 1000 Growth Index is constructed to provide a comprehensive and unbiased barometer of the large cap growth market.

Russell 1000 Value Index – The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer of the large cap value market.

Russell 3000 Value Index – The Russell 3000 Value Index is constructed to provide a comprehensive and unbiased barometer of the broad value market.

S&P 500 Index – A measure of the market capitalization of 500 industrial, transportation and financial companies of the U.S. Markets; consists of mostly large companies.

Stocks – The equity or ownership interest in a corporation, issued by the corporation in the form of shares, and traded on an exchange or otherwise.

Time-Weighted Rate of Return – A measure of the investment performance of the investment manager, independent of the timing and magnitude of contributions to, or withdrawals from, the portfolio. This method allows the evaluation of the investment manager based solely on his/her performance since it eliminates the effect of factors that are not under the manager's control (that is, cash flow). This figure can be used to compare the account performance to comparative indices and other investment managers.

Unfunded Actuarial Accrued Liability – Any amount of pension plan accrued liability in excess of the current assets (the actuarial value of the assets) of the pension plan.

Glossary

Unrealized Gain or Loss – The positive or negative difference between the cost (purchase price) of an investment security and the current fair market value of that security, which would be obtainable in the event of sale, but without actually selling the security.

Vested Benefit Security Ratio – A ratio which indicates the extent to which a defined benefit pension plan is able to cover the total actuarial present value of vested accrued benefits by the market value of assets, also called the vested benefits index.

Volatility – A measure of the degree that a security's or portfolio's value fluctuates from its historical average value.



GABRIEL, ROEDER, SMITH & COMPANY

Consultants & Actuaries

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April 20, 2006

Board of Trustees
Retirement System for General Employees of
The Utility Board of the City of Key West
Key West, Florida 33040

The fundamental financial objective of the Retirement System for General Employees of the Utility Board of the City of Key West is to provide benefits that are properly funded. An actuarial valuation is prepared annually to determine the Utility Board minimum contribution under the requirements of Florida State law. The contribution rate is developed using the entry age normal actuarial cost method as a level percentage of payroll, plus operating expenses. Gains and losses are reflected in unfunded actuarial accrued liabilities and amortized as level dollar amounts.

The information being provided is compiled from annual actuarial valuations, including the most recent as of January 1, 2006. In performing these valuations, the Utility Board staff provides certain data and the plan auditor submits financial statements. We rely on the accuracy of this information.

The data being provided includes the following:

- Summary of actuarial assumptions and methods
- Schedule of active and retired member data
- Solvency tests
- Analysis of financial experience
- Summary of plan provisions and changes
- Schedule of funding progress and employer contributions
- Schedule of benefit expenses by type
- Schedule of retired members by type of benefit
- Schedule of average benefit payments

We compiled all of the above information.

To the best of our knowledge, the assumptions and methods being utilized conform to the Government Accounting Standards Board (GASB) Statements No. 25 and No. 27.

On the basis of the January 1, 2006 Actuarial Valuation, it is our opinion that the Retirement System for General Employees of the Utility Board of the City of Key West continues in sound financial condition under generally accepted actuarial principles.

Sincerest regards,

A handwritten signature in black ink that reads "L. F. Wilson".

Lawrence F. Wilson, A.S.A.
Senior Consultant and Actuary

Summary of Actuarial Assumptions and Methods

- A. **Mortality**- The 1983 Group Annuity Table was used with separate rates for males and females.
- B. **Investment Return**- 8.0% compounded annually.
- C. **Allowances for Expenses or Contingencies**- Estimated annual expenses based upon prior year's experience.
- D. **Employee Withdrawal Rates**- Withdrawal rates were used in accordance with tables per the following illustrative example:

Withdrawal Rates Per 100 Employees		
<u>Age</u>	<u>Males</u>	<u>Females</u>
20	19.9	29.9
25	11.9	19.9
30	5.9	11.9
35	1.9	5.9
40	0	1.9
45	0	0
50	0	0
55	0	0
60 & Over	0	0

- E. **Disability Benefits**- Class (01) Inter-Company modified disability rates for males were used. Rates for females were doubled. No Workers' Compensation benefits are assumed to be payable.
- F. **Salary Increase Factors**- Current salary was assumed to increase at a rate equal to 5.5% per year, including 3.5% for inflation. Prior to January 1, 2003, current salary was assumed to increase at a rate equal to 6.0% per year.
- G. **Assumed Retirement Age**-

<u>Age</u>	<u>Rate of Retirement</u>
55	10%
56	20%
57	40%
58	60%
59	80%
60	100%

Summary of Actuarial Assumptions and Methods (Continued)

Employees who attain age 60 or age 50 with 30 years of service after the valuation date are assumed to retire no later than age 60 or age 50 with 30 years of service. Employees who have reached age 60 or age 50 with 30 years of service as of the valuation date are assumed to remain employed for an additional year.

H. **Death Benefits-**

- 1) The assumed incidence of deaths is 90% service incurred and 10% as non- service incurred.
- 2) There are no children assumed eligible for future children's benefits.
- 3) 90% of participants are assumed to be married.
- 4) No remarriage assumed.

I. **Assumption for Valuing Disability Benefits-** No Workers' Compensation benefits are payable.

J. **Valuation of Assets-** The method used for determining the actuarial value of assets phases in the deviation between the expected and actual return on assets at the rate of one-fifth per year. The actuarial value of assets will be further adjusted to the extent necessary to fall within the corridor whose lower limit is 80% of the fair market value of plan assets and whose upper limit is 120% of the fair market value of plan assets. Prior to January 1, 2003, the actuarial value of assets was market value.

K. **Cost Methods-** Normal Retirement Benefit, Termination, Disability and Death Benefit: Entry-Age-Actuarial Cost Method. Under this method the normal cost for each active employee is the amount that is calculated to be a level percentage of pay that would be required annually from his age at hire to his assumed retirement age to fund his estimated benefits, assuming the Plan had always been in effect. The normal cost for the Plan is the sum of such amounts for all employees. The actuarial accrued liability as of any valuation date for each active employee or inactive employee who is eligible to receive benefits under the Plan is in excess of the actuarial present value of estimated current and future normal costs. The unfunded actuarial accrued liability as of any valuation date is the excess of the actuarial accrued liability over the actuarial value of the assets of the plan.

L. **Treatment of Actuarial Gains and Losses-** Gains and losses are amortized over a period of 30 years.

M. **Changes Since Pervious Valuation-** None.

N. **Choice of Assumptions and Methods-** The actuarial assumptions and methods are recommended by the actuary and adopted by the Board of Trustees at various times. Unless otherwise indicated (above) the actuarial assumptions were adopted prior to 1998. The recommendations are based on a review of actual plan experience, although no formal experience study has been performed.

Resolutions Passed (Beginning 1998)

Resolution No. 56 – Amending the Benefit Factor from 2.2% to 2.4%. Passed by the Board of Trustees May 18, 1998

Resolution No. 57 – Extending pre-retirement survivor benefits to domestic partners. Passed by the Board of Trustees May 18, 1998

Resolution No. 58 – Reducing Maximum Credited Service from 35 Years to 30 Years. Passed by the Board of Trustees November 20, 1998

Resolution No. 60 – Increasing the Cost of Living Adjustment from 2% to 3% per year. Passed by the Board of Trustees September 28, 2000

Resolution No. 62 – Increasing the Non-Service Death Benefit from 60% to 75% of the anticipated normal retirement benefit. Passed by the Board of Trustees August 14, 2002

Resolution No. 63 – Providing for Plan amendment and termination rights. Passed by the Board of Trustees February 13, 2003

Resolution No. 64 – Creating a probationary period prior to membership for employees hired after October 1, 2003. Passed by the Board of Trustees February 17, 2004

Resolution No. 65 – Eliminating an optional payment method for receiving benefit payments (any other payment form requested by member agreeable to Board of Trustees.) Passed by the Board of Trustees February 17, 2004

Resolution No. 66 – Amending the definition of pensionable earnings to use the member's base hourly rate each pay period, multiplied by 80 hours, less any hours that are considered leave without pay. Passed by the Board of Trustees on May 18, 2004

Resolution No. 67 – Allowing certain employees to sign checks and make internet transfers on-online. Passed by the Board of Trustees November 16, 2004

Resolution No. 68 – Amending the definition of actuarial equivalence. Passed by the Board of Trustees November 16, 2004

Resolution No. 69 – Amending the appointment of Trustees, the terms of office and the number of Trustees required to constitute a quorum. Passed by the Board of Trustees May 16, 2005

Resolution No. 70 – Allowing certain employees to sign checks and make internet transfers on-line. Passed by the Board of Trustees November 14, 2005

Schedule of Active and Retiree Valuation Data

Active Members					
Valuation Date	Number	Annual Payroll	Average Pay	% Increase	Inflation Increase % (CPI)
01/01/1997	164	5,865,524	35,765	2.0%	2.9%
01/01/1998	164	6,037,925	36,817	2.9%	2.3%
01/01/1999	160	6,126,555	38,291	4.0%	1.6%
01/01/2000	157	6,167,798	39,285	2.6%	2.2%
01/01/2001	155	6,397,560	41,275	5.1%	3.4%
01/01/2002	155	6,763,524	43,636	5.7%	1.6%
01/01/2003	154	6,845,370	44,450	1.9%	2.4%
01/01/2004	148	6,897,648	46,606	4.9%	1.9%
01/01/2005	139	6,933,885	49,884	7.0%	3.3%
01/01/2006	144	7,644,008	53,083	6.4%	3.4%

Retirant and Beneficiary Data				Annual Allowances						Retiree Lives as Portion of Active Members	
Valuation Date	Number Added	Number Removed	Number	Added to Roll*	Removed from Roll*	COLA*	Benefit Adjustment	Total	% Increase in Annual Allowances	Number of Lives	Allowances/Active Pays
01/01/1997	7	6	127	N/A	N/A	N/A	N/A	1,524,282	4.8%	77.4%	26.0%
01/01/1998	10	10	129	N/A	N/A	N/A	N/A	1,582,819	3.8%	78.7%	26.2%
01/01/1999	11	2	138	N/A	N/A	N/A	N/A	1,901,222	20.1%	87.9%	31.3%
01/01/2000	10	10	138	N/A	N/A	N/A	N/A	2,037,032	7.1%	87.9%	33.0%
01/01/2001	6	2	142	N/A	N/A	N/A	N/A	2,164,009	6.2%	91.6%	33.8%
01/01/2002	7	6	143	153,528	98,067	64,463	N/A	2,283,933	5.5%	92.3%	33.8%
01/01/2003	9	3	149	157,841	66,021	67,505	N/A	2,443,258	7.0%	96.8%	35.7%
01/01/2004	10	5	154	163,562	62,107	74,317	N/A	2,619,030	7.2%	104.1%	38.0%
01/01/2005	11	2	163	222,305	15,047	78,209	(110,784)	2,793,713	6.7%	117.3%	40.3%
01/01/2006	13	4	172	210,095	65,652	83,719	N/A	3,021,875	8.2%	119.4%	39.5%

*Information prior to January 1, 2002 not available

Solvency Test

Valuation Date	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer Financed Portion)	Actuarial Value of Assets	Portion of Accrued Liability Covered by Assets		
					(1)	(2)	(3)
01/01/1997	410,404	17,018,884	16,045,678	34,435,674	100.0%	100.0%	100.0%
01/01/1998	368,911	17,508,360	16,948,875	40,932,860	100.0%	100.0%	100.0%
01/01/1999	333,959	20,600,759	19,360,253	48,031,711	100.0%	100.0%	100.0%
01/01/2000	273,780	21,915,406	19,586,431	53,398,335	100.0%	100.0%	100.0%
01/01/2001	239,334	25,057,879	23,349,127	52,329,142	100.0%	100.0%	100.0%
01/01/2002	216,625	26,641,717	23,861,847	49,513,555	100.0%	100.0%	94.9%
01/01/2003	175,931	28,516,151	23,741,406	50,458,881	100.0%	100.0%	91.7%
01/01/2004	152,915	30,734,020	24,521,288	51,439,056	100.0%	100.0%	83.8%
01/01/2005	117,921	32,683,883	24,709,690	53,036,477	100.0%	100.0%	81.9%
01/01/2006	105,952	34,747,993	26,149,556	54,265,771	100.0%	100.0%	74.2%

Analysis of Financial Experience

Year	Gain (or Loss) During Year From Financial Experience	Gain (or Loss) During Year Due To Liabilities	Composite Gain (or Loss) During Year
1996	2,279,174	430,526	2,709,700
1997	4,284,414	585,177	4,869,591
1998	4,597,385	434,063	5,031,448
1999	2,576,082	676,288	3,252,370
2000	(3,842,311)	(107,604)	(3,949,915)
2001	(5,700,919)	856,995	(4,843,924)
2002	(10,249,011)	752,571	(9,196,440)
2003	(1,694,583)	(291,507)	(1,986,090)
2004	(1,381,687)	(445,053)	(1,826,740)
2005	(1,785,209)	538,117	(2,323,326)

Summary of Plan Provisions and Changes

- A. **Effective Date** – April 9, 1954, as amended and restated as of September 28, 1983, and further amended through Resolution No. 67 effective November 16, 2004.
- B. **Eligibility Requirements** – All regular and permanent employees of the Utility Board shall become members of the System immediately upon completion of the probationary period. All regular and permanent employees of the Utility Board prior to October 2, 2003, became members of the System immediately upon employment.
- C. **Member Contributions** – Eliminated effective October 1, 1985 (October 1, 1983 for management members.)
- D. **Utility Board Contributions** – The Utility Board shall contribute an amount that will be determined annually by decision of the Utility Board.
- E. **Credited Service** – Credited Service is service performed subject to a maximum of 30 years. However, any member with more than 30 years of credited service as of November 20, 1998 will be *grandfathered* under the prior 35-year cap.
- F. **Average Final Compensation** – Average Final Compensation (AFC) equals the average annual pensionable earnings received during a period of the five highest years out of the last ten years of service immediately preceding retirement. Pensionable earnings are calculated using the member's base hourly rate each pay period, multiplied by 80 hours, less any hours that are considered *leave without pay*.
- G. **Normal retirement** -
 - 1. Eligibility – Earliest of
 - a) Attainment of Age 60.
 - b) Completion of 30 years of credited service.With approval of the Utility Board, a member may remain in active employment beyond his normal retirement date.
 - 2. Benefit- 2.4% times AFC times years of credited service.
- H. **Early Retirement**
 - 1. Eligibility
 - a) Attainment of age 55 with completion of 10 years of credited service.
 - b) Completion of 20 years of credited service.
 - 2. Benefit- Benefit as calculated for normal retirement based on credited service and AFC as of early retirement date. The member may elect to defer receipt of the benefit until the normal retirement date or alternatively, may elect a benefit reduced 5% for each year the benefit commencement date precedes normal retirement date.
- I. **Disability Benefit**
 - 1. Eligibility – Totally and permanently disabled as defined under the Plan and completion of five years of credited service as of our date of disability.

Summary of Plan Provisions and Changes (Continued)

2. Benefit – Benefit as calculated for normal retirement based on credited service and average basic compensation during the three years immediately preceding disability, minimum benefit of 20% of final three-year average basic compensation at date of disability. These benefits will be offset by any benefits payable under Workers' Compensation or similar injury or disability benefit payments.

J. Pre-Retirement Death Benefit – In the case of death of a member while currently employed, the spouse or domestic partner, or children under the age of 21 if no spouse, shall receive 75% of the projected benefit which such member would have received had the member continued employment until normal retirement date at the current rate of pay. Within 90 days from the date of death, a spouse or domestic partner with children under 21 years of age may elect to continue this benefit for life of the spouse or domestic partner, or alternatively, may elect to receive 100% of the projected retirement benefit such member would have received until the youngest child is 21 years of age. Upon attainment of age 21 by the youngest child, the benefits payable to an eligible surviving spouse or domestic partner shall be reduced to 60% of the projected retirement benefit.

K. Termination Benefit – Upon termination prior to normal or early retirement date a participant shall be entitled to choose (1) or (2) below, where:

(1) is a refund of member contributions plus 1% if termination with 5 years or less of service, or 3% if termination after 5 years of service; and,

(2) is (a) x (b), where (a) is the benefit as calculated for normal retirement, based on AFC and credited service at date of termination, and (b) is a percentage as shown on the following table:

Years of Credited Service	Percentage
Less than 5	0%
5	25%
6	30%
7	40%
8	60%
9	80%
10	100%

Actuarial Section

If this option is selected, unreduced vested benefits commence as of the terminated employee's normal retirement date. Alternatively, the member may elect to commence receiving a reduced vested benefit any time after early retirement eligibility requirements are met. Such benefit is reduced 5% for each year that commencement of benefits precedes the date that the member would have been eligible for normal retirement.

- L. Normal Form of Payment** – Monthly life annuity with final payment due in month in which death occurs. Effective January 1, 1986, the monthly benefit is increased annually by 2%. The increase was changed to 3% per annum, effective January 1, 2001.

- M. Changes Since Last Valuation** – None

**Retirement System for General Employees of the
Utility Board of the City of Key West
Statistical Section**

Schedule of Additions by Source to Plan Assets

Calendar Year	Miscellaneous	Employer Contributions	Employer Contributions as a Percentage of Covered Payroll	Net Investment Income	Total
2005	\$ -	\$ 2,014,613	26.4%	\$ 1,532,724	\$ 3,547,337
2004	-	\$ 1,910,640	27.6%	\$ 2,464,332	\$ 4,374,972
2003	-	1,660,627	24.1%	8,055,480	9,716,107
2002	-	1,699,850	24.8%	(666,415)	(4,966,565)
2001	-	1,246,673	18.4%	(1,947,980)	(701,307)
2000	-	1,028,541	16.1%	(39,583)	988,958
1999	8,094	1,326,320	21.3%	5,961,516	7,295,930
1998	-	1,318,547	21.5%	7,547,952	8,866,499
1997	262	1,286,178	19.0%	6,766,230	8,052,670
1996	-	1,286,619	21.9%	4,457,314	5,743,933

Schedule of Deductions from Plan Assets

Calendar Year	Benefits	Expenses	Refunds	Total
2005	\$ 2,705,806	\$ 121,630	\$ -	\$ 2,827,436
2004	2,553,007	84,914	-	2,637,921
2003	2,396,684	44,631	-	2,441,315
2002	2,246,363	40,955	-	2,287,318
2001	2,085,070	29,210	-	2,114,280
2000	2,013,723	44,428	-	2,058,151
1999	1,918,152	38,629	-	1,956,781
1998	1,702,552	37,620	-	1,740,172
1997	1,528,090	27,404	-	1,555,494
1996	1,425,536	25,927	-	1,451,463

**Retirement System for General Employees of the
Utility Board of the City of Key West
Statistical Section
Schedule of Benefit Expenses by Type**

Year	Age & Service Benefits		Death in Service Benefits	Disability Benefits		Refunds		Total
	Retirants	Survivors		Retirants	Survivors	Death	Separation	
1996	1,185,097	45,917	87,389	107,133	-	-	-	1,425,536
1997	1,243,771	61,253	108,393	114,673	-	-	-	1,528,090
1998	1,385,817	73,466	105,128	138,141	-	-	-	1,702,552
1999	1,581,568	89,119	103,482	143,983	-	-	-	1,918,152
2000	1,676,028	96,203	99,794	141,698	-	-	-	2,013,723
2001	1,720,062	136,727	86,805	141,476	-	-	-	2,085,070
2002	1,876,444	160,469	63,601	145,849	-	-	-	2,246,363
2003	1,986,482	169,525	54,093	186,584	-	-	-	2,396,684
2004	2,073,700	185,146	64,017	230,144	-	-	-	2,553,007
2005	2,224,259	168,741	74,619	238,187	-	-	-	2,705,806

Based upon information reported by the Company as compiled by the Actuary.

Schedule of Retired Members by Type, January 1, 2006

Amount of Monthly Benefit	Number of Retirants	Type of Retirement						Option Selected #			
		1	2	3	4	5	6	Life	Opt. 1	Opt. 2	Opt. 3
Deferred	23	0	0	0	0	0	23	23	0	0	0
\$1 - 250	6	5	1	0	0	0	0	4	2	0	0
251 - 500	9	2	4	3	0	0	0	7	2	0	0
501 - 750	18	4	5	5	2	2	0	13	2	1	2
751 - 1,000	19	6	10	1	0	2	0	14	5	0	0
1,001 - 1,250	17	3	8	1	1	4	0	8	9	0	0
1,251 - 1,500	16	3	6	3	1	3	0	11	4	1	0
1,501 - 1,750	15	6	5	2	0	2	0	10	5	0	0
1,751 - 2,000	7	4	1	0	0	2	0	3	4	0	0
Over 2,000	<u>42</u>	<u>29</u>	<u>10</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>22</u>	<u>20</u>	<u>0</u>	<u>0</u>
Totals	172	62	50	16	5	16	23	115	53	2	2

** Type of Retirement
1 - Normal retirement for age & service
2 - Early retirement
3 - Survivor payment- normal or early retirement
4 - Survivor payment- death in service
5 - Disability retirement
6 - Former member with deferred future benefit

Option Selected
Life- Normal form
Opt. 1- Joint & Survivor
Opt. 2- 10 years certain & life
Opt. 3- Years certain only

Based upon information reported by the Company as compiled by the Actuary.

**Retirement System for General Employees of the
Utility Board of the City of Key West
Statistical Section**

Schedule of Average Benefit Payments

Retirement Effective Dates For the Fiscal Years ended December 31	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
1996							
Average Monthly Benefit	\$ -	\$ -	\$ -	\$ -	\$ 802	\$ 1,252	\$ 4,678
Average Final Salary	-	-	-	-	2,754	2,606	6,270
Number of Active Retirants	-	-	-	-	2	1	1
1997							
Average Monthly Benefit	\$ -	\$ 104	\$ 860	\$ -	\$ 1,208	\$ 1,172	\$ 1,940
Average Final Average Salary	-	600	2,970	-	3,000	2,421	2,921
Number of Active Retirants	-	1	1	-	2	1	2
1998							
Average Monthly Benefit	\$ -	\$ 402	\$ 2,344	\$ 734	\$ -	\$ 3,872	\$ -
Average Final Average Salary	-	2,066	3,176	3,121	-	3,000	-
Number of Active Retirants	-	1	3	1	-	2	-
1999							
Average Monthly Benefit	\$ -	\$ 118	\$ 1,079	\$ 1,131	\$ 914	\$ 2,766	\$ 6,141
Average Final Average Salary	-	2,358	3,967	3,011	2,634	3,918	7,311
Number of Active Retirants	-	1	1	2	2	1	1
2000							
Average Monthly Benefit	\$ -	\$ -	\$ 1,016	\$ -	\$ 716	\$ -	\$ 2,908
Average Final Average Salary	-	-	4,199	-	1,854	-	4,089
Number of Active Retirants	-	-	1	-	1	-	2
2001							
Average Monthly Benefit	\$ -	\$ -	\$ 931	\$ -	\$ 1,271	\$ 2,171	\$ 5,516
Average Final Average Salary	-	-	3,846	-	2,615	3,350	7,661
Number of Active Retirants	-	-	1	-	1	1	1
2002							
Average Monthly Benefit	\$ -	\$ -	\$ 585	\$ 1,570	\$ 866	\$ -	\$ 2,311
Average Final Average Salary	-	-	2,565	3,822	3,047	-	3,302
Number of Active Retirants	-	-	1	3	3	-	2
2003							
Average Monthly Benefit	\$ -	\$ -	\$ 1,097	\$ 1,393	\$ 1,280	\$ -	\$ 2,123
Average Final Average Salary	-	-	4,063	3,213	3,543	-	2,863
Number of Active Retirants	-	-	1	2	5	-	1
2004							
Average Monthly Benefit	\$ -	\$ 104	\$ 2,537	\$ -	\$ 1,484	\$ 3,024	\$ -
Average Final Average Salary	-	3,183	3,947	-	4,106	5,066	-
Number of Active Retirants	-	2	1	-	5	2	-
2005							
Average Monthly Benefit	\$ -	\$ 100	\$ 1,137	\$ 1,478	\$ 1,390	\$ 2,347	\$ -
Average Final Average Salary	-	636	4,123	3,672	3,412	3,851	-
Number of Active Retirants	-	6	14	11	22	9	-
From January 1, 1996 through through December 31, 2005							
Average Monthly Benefit	\$ -	\$ 155	\$ 1,406	\$ 1,357	\$ 1,166	\$ 2,611	\$ 3,278
Average Final Average Salary	-	2,004	3,684	3,459	3,275	3,586	4,473
Number of Active Retirants	-	6	14	11	22	9	10

Based upon information reported by the Company as compiled by Actuary.