

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, 2006

Comprehensive Annual Financial Report

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Utility Board of the City of Key West, Florida

Fiscal Year Ended December 31, 2006

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Letter of Transmittal

May 4, 2007

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, 2006, 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, is accurate in all material respects and is 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 Report of Independent Auditors - Cherry Bekaert & Holland, L.L.P.
- Management's Discussion and Analysis
- audited financial statements
- notes to financial statements
- required supplementary information
- other supplementary information

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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 thirteen members comprised of a cross-section of ten employees representing all sections, two retiree representatives, and the General Manager. Effective March 2006, the employee and retiree representatives will serve four year terms, which can be consecutive. Initial terms for positions expiring in 2006 and 2007 are being staggered at either three or four years to avoid the terms of trustees representing the same sections from expiring at the same time. Meetings are held every other month.

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 employee 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

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investment policy in accordance with the respective policy guidelines, but are to use full discretion within the policy and guidelines.

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. During 2006, the Plan continued to retain the investment consulting services of Smith Barney, Inc., and eight investment managers: Legg Mason Balanced (formerly known as Citigroup Asset Management – Balanced Fund), Brandes, Lord Abbett, PIMCO, MDT Advisers, Clearbridge Multi-Cap Growth, NWQ International and NFJ Dividend Value. A schedule of Investment Advisors and Fees is reported on page 52.

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 obligations through contributions that remain fairly consistent 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 63.

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 engaged the accounting firm of Cherry, Bekaert & Holland, L.L.P to perform the annual audits for 2005 and 2006. The Report of Independent Auditors is included in the Financial Section of this CAFR.

Professional Services

Outside professionals are appointed by the Board of Trustees and generally are 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, 2005. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards in government accounting and financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easy to read and efficiently organized comprehensive annual financial report, whose contents

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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 ten consecutive years (fiscal years 1996 – 2005). 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, Assistant Director of Finance, Cindy McVeigh, Accountant and Financial Analyst; Kim Free, Pension Plan Administrator; along with Rowana Flitan, Cherry, Bekaert & Holland, L.L.P.; Lawrence F. Wilson, A.S.A., actuary, Gabriel, Roeder, Smith & Company; and James S. Zisson, investment management consultant, 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

Assistant General Manager & 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, 2005

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



President

Executive Director

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

PENSION BOARD OF TRUSTEES

RETIREE'S REPRESENTATIVE – 2

Elected for a 4 year term by the Retirees

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

Vacant - Term Expires: 03/31/07

MANAGERS/IT/COMM/MGMT. SVCS. – 1

17 Staff Members – Includes GM Office,
Communications, IT & Mgmt. Svcs. Staff
Suzanne Greager - Term Expires 3/31/09

FINANCE DEPARTMENT – 1

16 Staff Members – Includes Dir. Office,
Accounting, Adm., Purchasing & Warehouse
Eric Balbuena - Term Expires 03/31/09

CUSTOMER SERVICES DEPT. – 2

33 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

28 Staff Members – Includes Dir. Office, Fleets,
Facilities, Generation & Maintenance Staff
Butch Carey - Term Expires 03/31/07
James Barry - Term Expires 03/31/09

ELECTRICAL OPERATIONS DEPARTMENT - 4

57 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
Don Paxson – Term Expires 03/31/07

REQUIRED MEMBER – 1
General Manager & CEO

Lynne Tejeda

Representative Departments & Trustee seats based on an employee count of 151 at December 31, 2006.

**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, Asst General Manager & CFO
Plan Secretary/Treasurer

Smith Barney Citigroup
Investment Consultants

Summary of the Plan and Benefits as of December 31, 2006

Benefit Factor	2.4%
Average Final Compensation	Highest 5 of the last 10 yrs of service
2006 Net Minimum Funding Payment	28.7% 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	147
Retirees and beneficiaries receiving benefits	149
Cost of living allowance	3% (January 1 st of each year)
Net assets held in trust for pension benefits	\$56,385,417

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, 2006. 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 which was updated in 2006. 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.

As of December 31, 2006, the Plan has eight investment managers, Legg Mason Balanced (formerly known as Citigroup Asset Management - Balanced Fund), PIMCO, Brandes, Lord Abbett, MDT Advisers, Clearbridge Multi-Cap Growth, NWQ International and NFJ Dividend Value. Their performance is compared to various industry specific benchmarks. The Plan's benchmark results for 2006 were as follows:

- o an overall return of 8.0%
- o a "balanced index" of 55% S&P 500/40% Lehman Gov/Corp Intermediate Bonds/5% 90 day Treasury Bills of 10.3%
- o Russell 1000 Value Index of 22.2%
- o Russell 3000 Value Index of 22.3%
- o Russell 3000 Equity Index of 15.7%
- o Lehman Aggregate Bond Index of 4.3%
- o a "balanced index" of 60% Russell 1000 Growth/40% LBG of 7.0%

During 2006, the total portfolio achieved a gross return of 10.94% (net return of 10.10%). The portfolio is structured with 40% allocated to fixed income funds and 60% allocated to equity funds. Please refer to the "Investment Section" for detailed information on each investment manager's results.

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 and we are currently in litigation against the Plan's former auditors.

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 19 years and look forward to 2007. 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, 2006 and 2005, 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, 2006 and 2005 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 May 4, 2007 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.

Cherny, Bekaert & Holland, L.L.P.

West Palm Beach, Florida
May 04, 2007

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, 2006 and 2005. 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, are described below:

The Statement 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 (Assets – Liabilities = Net Assets) represents the value of assets held in trust for pension benefits.

The Statement of Changes in Plan Net Assets displays the effect of pension fund transactions that occurred during the fiscal year, where Additions – Deductions = 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.

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.

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

Management's Discussion and Analysis

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

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

Financial highlights

The net assets held in trust for pension benefits were \$56,385,417 and \$51,991,417, at December 31, 2006 and 2005 respectively.

Net assets increased \$4,394,000, or 8.5% during 2006 due to the Employer contributions along with positive investment performance compared to an increase of \$719,901 or 1.4% during 2005.

The Plan's funding objective is to meet long-term benefit obligations. As of January 1, 2007, the date of the latest actuarial valuation, the Plan continues to have assets in excess of the value of vested accrued benefits resulting in a Vested Benefit Security Ratio of 106.2%, which is an increase from 103.3% as of January 1, 2006.

Total additions to plan net assets for the year ended December 31, 2006 were \$7,338,678, which include employer contributions of \$2,208,905 and net investment income of \$5,129,773. Total additions to plan net assets for the year ended December 31, 2005 were \$3,547,337, which included employer contributions of \$2,014,613 and net investment income of \$1,532,724.

Total deductions from plan net assets increased 4.1% from \$2,827,436 during 2005 to \$2,944,678 in 2006. The increase is due primarily to the annual increase in benefit payments to existing retirees.

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

Management's Discussion and Analysis

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. The financial market in 2006 continued to produce a positive return. Net assets held in trust for pension benefits were \$56,385,417 in 2006, \$51,991,417 in 2005, and \$51,271,516 in 2004.

Net Assets (Table 1.1)				
As of December 31, 2006 and 2005				
	<u>2006</u>	<u>2005</u>	Increase (Decrease) Amount	Increase (Decrease) %
Current and other assets	\$ 1,240,754	\$ 1,710,109	\$ (469,355)	(27.45)
Investments, at fair value	55,661,395	50,633,559	5,027,836	9.93
Total Assets	<u>56,902,149</u>	<u>52,343,668</u>	<u>4,558,481</u>	8.71
Total Liabilities	(516,732)	(352,251)	164,481	(46.69)
Net Assets	<u><u>\$ 56,385,417</u></u>	<u><u>\$ 51,991,417</u></u>	<u><u>\$ 4,394,000</u></u>	8.45

Net Assets (Table 1.2)				
As of December 31, 2005 and 2004				
	<u>2005</u>	<u>2004</u>	Increase (Decrease) Amount	Increase (Decrease) %
Current and other assets	\$ 1,710,109	\$ 2,390,124	\$ (680,015)	(28.45)
Investments, at fair value	50,633,559	49,692,611	940,948	1.89
Total Assets	<u>52,343,668</u>	<u>52,082,735</u>	<u>260,933</u>	0.50
Total Liabilities	(352,251)	(811,219)	(458,968)	56.58
Net Assets	<u><u>\$ 51,991,417</u></u>	<u><u>\$ 51,271,516</u></u>	<u><u>\$ 719,901</u></u>	1.40

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**

Management's Discussion and Analysis

During 2006, the Plan's investment portfolio returned net gains of approximately 10.1%. This is the fourth year in a row net gains are available to offset investment losses incurred in 2002 and 2001 and improve 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-year and 5-year net returns have been 6.07% and 4.08%, respectively.

Based on our latest actuarial valuation as of January 1, 2007, the Plan's total actuarial accrued liability of \$64,343,830 exceeds its actuarial value of assets of \$55,876,434 by \$8,467,396, producing a funded ratio of 86.8%. 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 \$7,338,678 for the year ended December 31, 2006 compared to \$3,547,337 for the year ended December 31, 2005. The increase was primarily due to higher investment earnings in 2006.

Additions to Net Assets (Table 2.1) For the Years Ended December 31, 2006 and 2005				
	2006	2005	Increase (Decrease) Amount	Increase (Decrease) %
Employer Contributions	\$ 2,208,905	\$ 2,014,613	\$ 194,292	9.64
Investment Income	5,537,701	1,901,070	3,636,631	191.29
Investment Expenses	<u>(407,928)</u>	<u>(368,346)</u>	<u>39,582</u>	(10.75)
Total Additions	<u>\$ 7,338,678</u>	<u>\$ 3,547,337</u>	<u>\$ 3,791,341</u>	106.88

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

Management's Discussion and Analysis

The additions totaled \$3,547,337 for the year ended December 31, 2005. This represented a decrease of \$827,635 from the prior year, primarily due to lower investment earnings in 2005.

Additions to Net Assets (Table 2.2) For the Years Ended December 31, 2005 and 2004				
	2005	2004	Increase (Decrease) Amount	Increase (Decrease) %
Employer Contributions	\$ 2,014,613	\$ 1,910,640	\$ 103,973	5.44
Investment Income	1,901,070	2,829,569	(928,499)	(32.81)
Investment Expenses	<u>(368,346)</u>	<u>(365,237)</u>	<u>3,109</u>	(0.85)
Total Additions	<u>\$ 3,547,337</u>	<u>\$ 4,374,972</u>	<u>\$ (827,635)</u>	(18.92)

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 to Net Assets (Table 3.1) For the Years Ended December 31, 2006 and 2005				
	2006	2005	Increase (Decrease) Amount	Increase (Decrease) %
Benefit Payments	\$ 2,875,615	\$ 2,705,806	\$ 169,809	6.28
Administrative expenses	<u>69,063</u>	<u>121,630</u>	<u>(52,567)</u>	(43.22)
Total Deductions	<u>\$ 2,944,678</u>	<u>\$ 2,827,436</u>	<u>\$ 117,242</u>	4.15

Expenses for the year ended December 31, 2006 totaled \$2,944,678 an increase of 4.1% from 2005. This increase was primarily due to additional benefit payments to new and existing retirees in 2006. Administrative expenses decreased due to lower professional fees incurred in connection with various legal matters. The difference in deductions of plan net assets of \$2,944,678 and additions to plan net assets of \$7,338,678 resulted in an overall increase of \$4,394,000 in net assets held in trust for pension benefits for the year ended December 31, 2006, compared to an increase of \$719,901 in the prior year.

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

Management's Discussion and Analysis

Deductions to Net Assets (Table 3.2) For the Years Ended December 31, 2005 and 2004				
	2005	2004	Increase (Decrease) Amount	Increase (Decrease) %
Benefit Payments	\$ 2,705,806	\$ 2,553,007	\$ 152,799	5.99
Administrative expenses	121,630	84,914	36,716	43.24
Total Deductions	\$ 2,827,436	\$ 2,637,921	\$ 189,515	7.18

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.

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**

**Statement of Plan Net Assets
Retirement System for General Employees of the
Utility Board of the City of Key West**

Statement of Plan Net Assets

	December 31,	
	2006	2005
Assets		
Cash	\$ 744,485	\$ 874,911
Receivables:		
Interest	211,935	223,728
Pending Trades	62,491	388,517
Miscellaneous	-	-
Total Receivables	274,426	612,245
Prepaid Benefits	221,843	222,953
Investments at Fair Value:		
Cash and Cash Equivalents	3,400,303	557,523
Mutual Funds	4,497,441	3,915,305
Common Stock	33,113,692	30,738,881
Mortgage and Asset Backed Securities	574,960	701,984
International Bonds	-	230,429
Corporate Bonds	2,624,068	3,629,523
Government Securities	11,303,538	10,859,914
Closed End Fund	147,393	-
Total Investments	55,661,395	50,633,559
Total Assets	56,902,149	52,343,668
Liabilities:		
Pending Trades Payable	516,732	352,251
Total Liabilities	516,732	352,251
Net Assets held in trust for pension benefits	\$ 56,385,417	\$ 51,991,417

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**

**Statement of Changes in Plan Assets
For the Twelve Months Ended December 31,**

	2006	2005
Additions:		
Employer Contributions	\$ 2,208,905	\$ 2,014,613
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	4,004,767	553,433
Interest	774,958	735,449
Dividends	715,312	612,188
Capital Gains Distributions	42,664	-
	5,537,701	1,901,070
Less Investment Expenses	(407,928)	(368,346)
Net Investment Income	5,129,773	1,532,724
Total Additions	7,338,678	3,547,337
Deductions:		
Benefits	2,875,615	2,705,806
Administrative Expenses	69,063	121,630
Total Deductions	2,944,678	2,827,436
Net Increase (Decrease)	4,394,000	719,901
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	51,991,417	51,271,516
End of Year	\$ 56,385,417	\$ 51,991,417

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, 2006 and 2005**

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 a thirteen member Board of Trustees consisting of the General Manager & CEO of Keys Energy Services, ten members elected by/from active members of the Utility Board and two retirees selected 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 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 vary 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 a 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, 2006 and 2005**

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 ten 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:

	January 1,	
	2007	2006
Retirees and beneficiaries currently receiving benefits	149	149
Terminated employees entitled to benefits not yet receiving them	22	23
Current employees	147	144
Total	318	316

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, 2006 and 2005**

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 the Plan.

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 cash equivalents, fixed income securities, equity securities, mutual funds and certain other assets. The policy prohibits investments in private placements, options, limited partnerships, venture capital investments and real estate.

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

**Notes to Financial Statements
Years Ended December 31, 2006 and 2005**

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

At December 31, 2006 the Plan's investments were categorized as follows:

	Credit Rating by Standard & Poors	Fair Value	Weighted Average Maturity (years)
Cash Equivalents	AAA	\$ 3,400,303	N/A
Mutual Funds	N/A	4,497,441	N/A
Common Stock	N/A	33,113,692	N/A
Mortgage and Asset Backed Securities	AAA	574,960	12.32
International Bonds	N/A	-	N/A
Corporate Bonds	AA2	2,624,068	4.39
Government Securities	N/A	11,303,538	4.02
Closed End Fund	N/A	<u>147,393</u>	N/A
 Total		 <u>\$ 55,661,395</u>	

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 the investment market environment. Debt portfolios are structured and managed to produce returns based on risks inherent in the selected benchmarks.

Custodial Credit Risk – This is the risk in the event of the failure of the counterparty, the Plan will not be able 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 requires Money Market Funds selected to contain securities whose credit rating are at least rated investment grade by Standard and Poors and Moody's. The Plan's investment policy limits investments in commercial paper to those rated A1 (or equivalent) or better. At least 80% of Plan fixed income assets are required to be invested in investment grade bonds rated BBB (or equivalent) or better. Fixed income maturities are limited to maximum maturity for any single security of 30 years and weighted average portfolio maturity may not exceed 10 years.

Foreign Currency Risk - The risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The investment policy limits foreign investment to 20% of the total Plan's assets at cost. As of December 31, 2006 and December 31, 2005, the Plan had exposure to foreign currency risk with 8.9% or \$4,949,672 and .5% or \$230,429 of assets invested internationally, respectively.

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

**Notes to Financial Statements
Years Ended December 31, 2006 and 2005**

Concentration of Credit Risk – The Plan's investment policy limits common stock investments and fixed income securities to 65% and 80%, respectively, of the total market value of the Plan's assets. Alternative investments and cash equivalents are limited to 5% and 15%, respectively, 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 more than 20% of the Plan's assets may be invested in any one industry. Foreign equity investments are limited to 20% of the total Plan's assets (at cost). For liquidity purposes, the Plan requires a minimum of 2% of Plan assets be held in cash or cash equivalents.

At December 31, 2006 or 2005, no investments in any one issuer represented 5% or more of the Plan's 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.

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 auditors in an attempt to recover its losses. 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 from the affected retirees. The effect of the recovery, if any, of the overpayments resulting from the litigation 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 2006, the Utility Board passed resolutions amending the Plan. The effects of the resolutions were to:

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

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.

Resolution No. 71- Amended section 1 of Resolution 70 allowing certain employees to sign checks and make internet transfers on-line. Effective date: February 13, 2006.

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

**Notes to Financial Statements
Years Ended December 31, 2006 and 2005**

NOTE 6 – PLAN AMENDMENTS (Continued)

Resolution No. 72- Amended appointment of trustees, terms of office and rules and decisions. Effective date: March 6, 2006.

Resolution No. 73- Amended article four of the Plan document, "Retirement Benefits" changing eligibility for disability retirement from five years of credited service to ten years of credited service and establishes procedures for application and annual recertification. Effective date: May 15, 2006

NOTE 7 – SUBSEQUENT EVENTS

During the fourth quarter of 2006, in fulfilling their fiduciary responsibility of protection of assets and reasonable consistency of return and expenses, the Board of Trustees issued a "Request for Proposal" for Investment Management Consulting Services. The current consultant, Citigroup – Smith Barney, has served the Plan since 1987. During November and December the Board reviewed proposals from 11 investment consulting firms, including the current provider.

On January 9, 2007, the Board of Trustees appointed Bogdahn Consulting Group, LLC as the independent investment management consultant to the Plan. As of May 4, 2007, all funds were still in the custody of Citigroup-Smith Barney as the Plan finalizes agreements with the new investment management consultant, custodian, and investment managers. The transfer of assets to the new custodian is expected in May 2007.

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)
01/01/02	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%
01/01/07	55,876	64,344	8,468	86.8%	8,344	101.5%

Dollar amounts in thousands

**Schedule of Employer Contributions
(Unaudited)**

Annual Year Ended December 31,	Required Contributions	Percentage Contributed
2001	\$ 1,245,998	100
2002	1,673,299	102
2003	1,643,987	101
2004	1,910,640	100
2005	1,979,201	102
2006	2,208,905	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, 2007
Actuarial Cost Method	Entry Age
Amortization Method	Level payment, closed
Remaining amortization period	30 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

2006 changes in Plan provisions and actuarial methods since prior actuarial valuation-

The eligibility for disability retirement benefits was changed from five years of credited service to ten years of credited service.

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

**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)

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

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

Other Supplementary
Information

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

**Schedules of Administrative, Investment
and Consultant Expenses**

	Years Ended December 31,	
	2006	2005
Administrative Expenses		
Administrative fees	\$ -	\$ 8,251
Legal and Accounting fees	41,533	48,761
Actuarial services	27,317	61,934
Medical review	-	1,912
Miscellaneous	213	772
	\$ 69,063	\$ 121,630

Investment Expenses

Investment manager fees		
Legg Mason (formerly Citigroup)	\$ 161,606	\$ 210,346
Brandes	37,509	44,449
Lord Abbett	37,450	42,908
PIMCO	71,073	41,851
MDT Advisers	42,927	28,696
NWQ International	27,389	-
NFJ Value	631	-
Clearbridge Multi-Cap	15,776	-
Total investment manager fees	394,361	368,250
Other investment expenses		
Foreign tax paid	13,567	96
	\$ 407,928	\$ 368,346

Consultant Expenses

Included with investment manager fees

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, 2006, and have issued our report thereon, dated May 04, 2007. 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.

Cheney, Bekart & Holland, L.L.P.

West Palm Beach, Florida
May 04, 2007

Report on Investment Activity

Capital Markets Overview

U.S. and international equity markets posted strong gains in the fourth quarter of 2006, closing out a year that yielded surprisingly good results for investors despite high energy prices, an economic slowdown and continued violence in the Middle East.

Bond market returns were also generally positive for the fourth quarter and the year, although uncertainty about the direction of Federal Reserve policy and periodic inflation worries limited those gains and left bond yields moderately higher than when the year began.

Continued strong corporate profit growth and relatively attractive valuations on most major equity benchmarks supported stock prices. A weaker U.S. dollar also tended to boost returns on overseas assets for U.S. based investors.

Overall financial conditions were favorable through most of 2006. Bond yields, while rising, remained historically low in real terms. Credit was both plentiful and relatively easy to obtain. Ample liquidity helped to fuel a boom in mergers, acquisitions, and private equity deals, increasing the demand for equities.

One dark lining to the economic silver cloud: Housing markets slumped in many U.S. regions in 2006, pushing home prices lower and threatening to curb consumer spending. However, by year's end analysts were pointing to emerging signs of stability in some regional real estate markets, and consumer demand still appeared healthy.

Annual Performance - Pension Plan

Net Assets held in trust for pension benefits were \$56,385,417, at December 31, 2006, compared to \$51,991,417 at December 31, 2005.

Year to date net investment return was 10.1% for the twelve months ending December 31, 2006 compared to 3.1% for the same period of 2005.

Year to date net returns by fund manager were:

Lord Abbett	17.83%	
Brandes	29.38%	
PIMCO	4.34%	
Legg Mason	5.03%	formerly known as Citigroup Asset Mgmt
MDT	13.13%	
NWQ International	10.47%	new fund March 2006
NFJ Value	16.84%	new fund March 2006
Clearbridge Multi-Fund	11.07%	new fund June 2006

The Plan was invested 49% US Equities, 11% International Equities, 35% Fixed Income, and 5% cash equivalents at year end. No sector or stock overweighed the investment

Report on Investment Activity

policy as of year end and the above allocations were within our current investment policy guidelines.

In 2006 there were net withdrawals and expenses of approximately \$595,000 and gains and income of approximately \$5,100,000.

The Plan's trailing three year net return is 6.07%, the trailing five year net return is 4.08% and since inception net return is 7.51%, compared to our benchmark of an overall 8.0% annual return.

For the first quarter of 2007 results show an increase of 1.11% with a portfolio balance of \$55,850,502 as of 3/31/2007.

Respectfully submitted,



Jack Wetzler
Plan Secretary/Treasurer

Assistant General Manager & CFO
Utility Board of the City of Key West

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

Investment Policy Statement

1. PURPOSE OF INVESTMENT POLICY STATEMENT

The Retirement System for the General Employees of the Utility Board of the City of Key West, Florida, Board of Trustees, hereinafter, the "Trustees", maintains that an important determinant of future investment returns is the expression and periodic review of the Plan's investment objectives. To that end, the Trustees have adopted this Investment Policy Statement.

In fulfilling their fiduciary responsibility, the Trustees recognize that the retirement system is an essential vehicle for providing income benefits to retired participants or their beneficiaries. The Trustees also recognize the obligations of the Plan are long-term, and the investment policy should be made with a view toward performance and return over a number of years. The general investment objective, then, is to obtain a reasonable total rate of return - defined as interest and dividend income plus realized and unrealized capital gains and/or losses - which exceed the actuarial interest rate assumption on an annual basis year after year.

The Trustees, investment manager(s), and investment management consultant shall comply with the following fiduciary standard:

1. A fiduciary shall discharge its duties with respect to the Plan solely in the interest of the participants and beneficiaries and –
 - a. for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the Plan;
 - b. with the care, skill, prudence, and diligence under the circumstance then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aim;
 - c. by diversifying the investments of the Plan so as to minimize the risk of large loss, unless under the circumstances it is clearly prudent not to do so.

Reasonable consistency of return and protection of assets against the inroads of inflation are paramount. However, the volatility of interest rates and securities markets make it necessary to judge results within the context of several years rather than over short periods of one or two years.

This investment policy is designed to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives for Plan assets.
3. Offer guidance and limitations to all Investment Managers regarding the investment of Plan assets.

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

Investment Policy Statement

4. Establish a basis for evaluating investment results.
5. Ensure that Plan assets are managed in accordance with applicable laws.
6. Establish the relevant investment horizon for which Plan assets will be managed.

2. DELEGATION OF AUTHORITY

In carrying out its fiduciary duties, the Trustees are authorized to retain experts in various fields. These include, but are not limited to:

1. **INVESTMENT MANAGEMENT CONSULTANT.** The consultant, who may also be referred to as the Investment Management Monitor, will assist the Trustees in establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; determining an asset allocation; measuring and evaluating investment performance; and other tasks as deemed appropriate.
2. **INVESTMENT MANAGER.** The investment manager(s) has discretion to purchase, sell, or hold the specific securities that will be used to meet the Plan's investment objectives.
3. **CUSTODIAN.** The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Plan, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Plan accounts.

Investment Managers will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper investment managers, each manager should request modifications which they deem appropriate.

3. DEFINITIONS

1. "Investment Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this Plan is 30 years.
2. "Investment Management Consultant" shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.
3. "Investment Manager" shall mean any individual, or group of individuals, employed to manage the investments of all or part of the Plan assets.
4. "Plan" shall mean the Retirement System for the General Employees of the Utility Board of the City of Key West, Florida.

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

Investment Policy Statement

5. "Securities" shall refer to the marketable investment securities which are defined as acceptable in this statement.
6. "Trustees" shall refer to the governing board established to administer the Plan as specified by applicable resolutions.

4. ASSIGNMENT OF RESPONSIBILITY

Responsibility of the Investment Management Consultant(s)

Investment advice concerning the investment of Plan assets will be offered by the Investment Consultant, and will be consistent with the investment guidelines, objectives and goals as established in this statement. Specific responsibilities of the Investment Management Consultant include:

1. Assisting in the development and periodic review of investment policy.
2. Conducting investment manager searches when requested by the Trustees.
3. Providing "due diligence", or research, on the Investment Manager(s).
4. Monitoring the performance of the Investment Manager(s) to provide the Trustees with the ability to determine the progress toward the investment objectives.
5. Communicating matters of policy, manager research and manager performance to the Trustees.
6. Reviewing Plan investment history, historical market performance and the contents of this investment policy statement to any newly appointed Trustees.
7. Providing asset allocation reports and advice.

Responsibility of the Investment Manager(s)

Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all guidelines, objectives and goals as outlined in this statement. Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation.
2. Reporting quarterly investment performance results within sixty (60) days of the quarter's end.

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3. Communicating any major change to economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objective progress of the Plan's portfolios they are managing.
4. Informing the Trustees regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, change in key personnel, etc.
5. Voting proxies on behalf of the Trustees on a timely basis (unless this responsibility is reserved by the Trustees).

Responsibility of the Custodian

The Trustees have retained and will continue to retain a third party to be custodian of the Plan's assets.

1. To designate all securities as an asset of the Plan, and insure no withdrawal of securities-in whole or part-are made from safekeeping except by an authorized member of the Trustees or their designee.
2. To verify all security transactions between a broker dealer and a custodian involving the purchase or sale of securities by transfer of money or securities are made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the money or security, as appropriate, in hand at the conclusion of the transaction.

5. INVESTMENT PERFORMANCE OBJECTIVES

The below listed performance measures will be used as objective criteria for evaluating effectiveness of the money manager:

A. Total Plan Performance

1. The performance of the total Plan will be measured for rolling three and five year periods. These periods are considered sufficient to accommodate the market cycles experienced with investments.
2. On a relative basis, it is expected that the money manager's performance with regard to the total return of combined equity, fixed income and cash portfolio, will be in the top half of an appropriate *balanced* universe over three to five-year periods.
3. On an absolute basis, it is expected that the total return of the combined equity, fixed income and cash portfolio, will equal or exceed the actuarial earnings assumption rate. For each actuarial valuation, the Trustees will determine the total expected annual rate of return for the current year, for each of the next several

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years, and for the long term thereafter.

4. The total fund will also be compared to a "*balanced index*", or broad market benchmark of 55% S&P500/40% Lehman Gov/Corp Intermediate Bonds /5% 90 day T-bills.
5. While measured quarterly and annually, the Plan seeks similar performance to benchmarks, over time (i.e. 3-5 year intermediate and 7-10 year long-term time frames). In order to achieve Plan's long-term rate-of-return objectives, it is expected there will be periods of short-term (1-3 year) and possible intermediate-term underperformance due to its emphasis on capital preservation.

B. Investment Managers will be benchmarked against their respective investment indices.

- 1) Large Cap Value (Russell 1000 Value)
- 2) All-Cap Value (Russell 3000 Value)
- 3) All-Cap Core (Russell 3000)
- 4) Large Cap Growth Balanced (60% Russell 1000Growth/40% LBGC)
- 5) Fixed Income Total Return (Lehman Aggregate Bond Index)
- 6) Intermediate Fixed Income (Lehman Gov/Corp Intermediate Index)
- 7) International Equities (EAFE Index)
- 8) Hedge Fund-of-Funds (HFRI Fund of Fund Diversified Index)
- 9) Multi-Cap Growth (Russell 3000 Growth)
- 10) Large Cap Growth (Russell 1000 Growth)
- 11) R.E.I.T.'s (NAREIT Index)
- 12) Cash (90 Day T-Bills)

6. INVESTMENT STANDARDS AND GUIDELINES

A. Authorized Investments:

1. Cash Equivalents
 - a) Treasury Bills
 - b) Money Market Funds
 - c) STIF Funds
 - d) Commercial Paper
 - e) Banker's Acceptances

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- f) Repurchase Agreements
- g) Certificates of Deposit

- 2. Fixed Income Securities
 - a) U.S. Government and Agency Securities
 - b) Corporate Notes and Bonds
 - c) Mortgage Backed Bonds
 - d) Preferred Stock
 - e) Fixed Income Securities of Foreign Governments and Corporations
 - f) Planned Amortization Class Collateralized Mortgage Obligations (PAC CMOs) or other "early tranche" CMO's

- 3. Equity Securities
 - a) Common Stocks
 - b) Convertible Notes and Bonds
 - c) Convertible Preferred Stocks
 - d) American Depository Receipts (ADRs) of Non-U.S. Companies
 - e) Stocks of Non-U.S. Companies (Ordinary Shares)
 - f) Exchange-Traded Funds (i.e. "ETF"s, "iShares)
 - g) Real Estate Investment Trusts (R.E.I.T.'s)

- 4. Mutual Funds
 - a) Mutual Funds which invest in securities as allowed in this statement

- 5. Other assets including certain Alternative Investments
 - a) GIC's
 - b) HFOF's (Hedge "Fund of Funds")
 - c) Principal Guaranteed and Structured Notes
 - d) Commodities and Futures Contracts (i.e. commodity classes, including: energy, currencies, interest rate futures, agricultural products and metals)

B. Prohibited Assets:

Prohibited investments include, (except when managed within an alternative investment) but not limited to the following:

- 1. Private Placements
- 2. Options
- 3. Limited Partnerships
- 4. Venture-Capital Investments
- 5. Real Estate Properties
- 6. Interest-Only (IO), Principal-Only (PO), and Residual Tranche CMOs

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C. Prohibited Transactions

Prohibited transactions include, (except when managed within an alternative investment) but not limited to the following:

1. Short Selling
2. Margin Transactions

D. Asset Allocation Guidelines

Investment management of the assets of the Plan shall be in accordance with the following asset allocation guidelines:

1. Aggregate Plan Asset Allocation Guidelines (at market value)

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Preferred</u>
Equities	35%	65%	60%
Fixed Income	25%	80%	33%
Alternative Inv.	0%	5%	5%
Cash and Equivalents	2%	15%	2%

2. The Trustees may employ investment managers whose investment disciplines require investment outside the established asset allocation guidelines. However, taken as a component of the aggregate Plan, such disciplines must fit within the overall asset allocation guidelines established in this statement. Such investment managers will receive written direction from the Trustees regarding specific objectives and guidelines.
3. In the event that the above aggregate asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the Investment Consultant will instruct the Investment Manager(s) to bring the portfolio(s) into compliance with these guidelines as promptly and prudently as possible. In the event that any individual Investment Manager's portfolio is in violation with its specific guidelines, for reasons including but not limited to market price fluctuations, the Trustees expect that the Investment Manager will bring the portfolio into compliance with these guidelines as promptly and prudently as possible without instruction from the Trustees, and report to the Investment Management Consultant in each instance that it is not in compliance, and what actions it has taken or will take to come into compliance.

E. Limitations

1. No more than 20% of the total fund should be invested in any one sector.

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2. Not more than 5% of the total Plan's assets at cost shall be invested in the common stock or capital stock of any one issuing company, nor shall the aggregate investment in any one issuing company exceed five percent (5%) of the outstanding capital stock of the company.
3. Not more than 5% of the Plan's fixed income portfolio (at cost) shall be invested in the securities of any single corporate issuer. *NOTE: This excludes issues of any U.S. government agency.*
4. Foreign equity investments are limited to 20% of the total Plan's assets (at cost).

F. Specific Investment Goal

Over the long-term (7-10 years) investment horizon established in the statement, it is the goal of the aggregate Plan investment assets investment performance to target:

An absolute rate of return of 8%

The investment goal above is the objective of the aggregate Plan, and is not meant to be imposed on each investment account (if more than one account is used). The goal of each investment manager, over the investment horizon, shall be to:

1. Perform comparably to the market indices, or blended market index, selected and agreed upon by the Trustees that most closely correspond to the style of investment management or trade-off benchmark performance for a lessening of "downside" risk or volatility.
2. Display an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.

G. Additional Guidelines for Fixed Income Investments and Cash Equivalents

1. At least 80% of Plan fixed income assets to be invested in investment grade bonds rated BBB (or equivalent) or better.
2. Plan assets may be invested only in commercial paper rated A1 (or equivalent) or better.
3. Fixed income maturity restrictions are as follows:
 - Maximum maturity for any single security is 30 years.
 - Weighted average portfolio maturity may not exceed 10 years.
4. Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poors, and Moody's.

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7. LIQUIDITY REQUIREMENTS

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Trustees will periodically provide the investment management consultant with an estimate of expected net cash flow. The Trustees will notify the investment management consultant in a timely manner, to allow sufficient time to build up necessary liquid reserves.

To maintain the ability to deal with unplanned cash requirements that might arise, the Trustees require a minimum of 2% of Plan assets shall be maintained in cash or cash equivalents, including money market funds or short-term U.S. Treasury bills.

8. RISK AND DIVERSIFICATION

Understanding that risk is present in all types of securities and investment styles, the trustees recognize that some risk is necessary to produce long-term investment results that are sufficient to meet the Plan's objectives. However, the investment managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.

The investments held by the Plan shall be diversified to the extent practical to control the risk of loss resulting from over-concentration of assets in a specific maturity, issuer, instrument, dealer, or bank which financial instruments are bought and sold.

9. COMMUNICATIONS

- A. The custodian shall apprise the Trustees of all transactions and shall forward all proxies to the manager within ten calendar days. On a monthly basis, the custodian shall supply an accounting statement that will include a summary of all receipts and disbursements and the cost and the market value of all assets. On a quarterly basis, the manager shall provide a written report affirming compliance with the security restrictions of Section 6 above and a summary of common stock diversification and attendant schedules. In addition, the manager shall deliver each quarter a report detailing the Plan's performance, adherence to the investment policy, forecast of the market and economy, portfolio analysis and current assets of the Trust. Written reports and personal presentations shall be delivered to the Trustees within 60 days of the end of the quarter. The manager will provide immediate written and telephone notice to the Trustees of any significant market related or non-market related event, specifically including, but not limited to, any deviation from the standards set forth in Section 6 above.

- B. The manager will disclose any securities that are not in compliance with Section 6 in each quarterly report.

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- C. If the Plan owns securities, which complied with Section 6 at time of purchase, which are subsequently down graded while held, the manager will dispose of such securities when it is economically feasible.
- D. The manager's quarterly report will list separately any security whose value has diminished 15% from purchase price.
- E. The Trustees shall retain a monitoring service to evaluate and report on a quarterly basis the rate of return and relative performance of the Plan.
- F. The Trustees will meet quarterly with the monitoring service's representative to review the Performance Report. The Trustees will meet with the investment manager and appropriate outside consultants to discuss performance results, economic outlook, investment strategy and tactics and other pertinent matters affecting the Plan on a quarterly basis.
- G. The equity manager shall report to the Trustees on an annual basis with respect to proxies, the issues, votes and dates, and if not voted, a written explanation.

10. CRITERIA FOR INVESTMENT MANAGER REVIEW

The Trustees wish to adopt standards by which judgments of the ongoing performance of a portfolio manager may be made. If, at any time, any one of the following is breached, the portfolio manager will be warned of the Trustees' serious concern for the Plan's continued safety and performance.

- A. Four consecutive quarters of the investment manager's performance below the 40 percentile in manager performance rankings.
- B. Standard deviation for the Plan in excess of 120% of the market.
- C. Any change in basic investment philosophy by the manager.
- D. Failure to observe the security quality restrictions in Section 6.
- E. Failure to adhere to the investment management styles for which they were hired.

Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Pension Board intends to evaluate the portfolio(s) over at least a three year period, but reserves the right to terminate a manager for any reason including the following:

- A. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
- B. Failure to adhere to any aspect of this investment policy statement, including communication and reporting requirements.

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- C. Significant qualitative changes to the investment management organization.
- D. Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

11. REVIEW AND AMENDMENTS

It is the Trustees' intention to review this document at least annually and to amend this statement to reflect any changes in guidelines, objectives or goals. In this regard, the money manager's interest in consistency in these matters is recognized and will be taken into account when changes are being considered. If at any time any portfolio manager feels that the specific objectives defined herein cannot be met, or the guidelines constrict performance, the Trustees should be notified in writing. By initial and continuing acceptance of this Investment Policy Statement, the money manager concurs with the provisions of this document.

12. THIRD-PARTY CUSTODIAL AGREEMENTS

Securities shall be held with a third party, and all securities purchased by and all collateral obtained by the Trustees should be properly designated as an asset of the Trustees. No withdrawal of securities, in whole or in part, shall be made from safekeeping except by an authorized member of the Trustees or the Trustees' 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.

13. MASTER REPURCHASE AGREEMENT

All repurchase agreement transactions shall adhere to the requirements of the Master Repurchase Agreement.

14. BID REQUIREMENT

The Investment Management Consultant is required to advise and assist the Trustees 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.

**Retirement System for General Employees of the
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15. INTERNAL CONTROLS

The Plan shall be governed by a set of written internal controls and operational procedures, which shall be periodically reviewed by the Plan's certified public accountant (CPA). At the time of every financial audit, the CPA shall review the controls that should be designed to prevent loss of funds that might arise from fraud, error, or misrepresentation by third parties or imprudent actions by the Trustees or the employees of the Utility Board of the City of Key West, Florida.

16. CONTINUING EDUCATION

The Plan acknowledges the importance of continuing education for the Trustees. Education will be provided on an ongoing basis by the Plan's actuary, attorney, custodian, investment manager(s), consultant, and administrator. In addition, the Trustees are encouraged to attend educational conferences in connection with their duties and responsibilities as Trustees. All Trustees are authorized to attend two schools or conferences in the State of Florida each year. Attendance at seminars out of state is not prohibited, but requires prior approval by the Board. All service providers are expected to educate the Board of Trustees about duties, responsibilities and significant trends and developments in their area of expertise.

17. REPORTING

The Trustees 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.

Once a year, the Trustees 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 Trustees.

The Investment Manager and Investment Manager Consultant will:

- A. Provide quarterly written portfolio performance evaluations, review and current outlook for the Plan.
- B. Meet annually with the Trustees to facilitate achievement of the Plan's investment goals and objectives. Annual report to the Trustees shall include the following:
 - 1. Review past performance, evaluate the current investment outlook and discuss investment strategy.
 - 2. Provide information concerning any major changes in investment policy that may result in major investment strategy changes.
 - 3. Review any significant changes in management, research, personnel or ownership with the investment manager firm.

**Retirement System for General Employees of the
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18. FILING OF INVESTMENT POLICY

Once the Trustees have adopted the investment policy, the investment policy shall be promptly filed with the Department of Management Services, the plan sponsor, and the consulting actuary. The effective date of the Investment Policy Statement and any amendment thereto, shall be the 31st calendar day following the filing date with the plan sponsor.

19. 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 these 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 Trustees 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 Trustees 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.

Policy adopted September 11, 2006

**Retirement System for General Employees of the
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Schedule of Investment Results ⁽¹⁾

For the Year Ended December 31, 2006

Manager/Fund	Inception Date	1 Year 2006	3 Years 2004 - 2006	5 Years 2002 - 2006	Since Inception
Market Index					
Total Portfolio		10.9%	6.9%	4.9%	8.3%
Primary Objective		8.0%	8.0%	8.0%	8.0%
Consumer Price Index		2.6%	3.1%	2.7%	N/A
55%S&P500/40%LBGC/5% 90 Day TBill		10.3%	7.3%	5.9%	N/A
Large Cap Value					
Lord Abbett	08/26/02	18.7%	12.1%	N/A	15.0%
NFJ - Dividend Value	03/17/06	N/A	N/A	N/A	17.3%
<i>Russell 1000 Value Index</i>		<i>22.2%</i>	<i>15.1%</i>	<i>N/A</i>	<i>16.3%</i>
All Cap Value					
Brandes	08/26/02	30.4%	13.9%	N/A	17.0%
<i>Russell 3000 Value</i>		<i>22.3%</i>	<i>15.2%</i>	<i>N/A</i>	<i>16.6%</i>
All Cap Core					
MDT Advisers	03/29/05	14.0%	N/A	N/A	15.2%
<i>Russell 3000 Equity Index</i>		<i>15.7%</i>	<i>N/A</i>	<i>N/A</i>	<i>13.9%</i>
Fixed Income Total Return					
Pimco	08/26/02	5.1%	4.1%	N/A	4.6%
<i>Lehman Aggregate Bond Index</i>		<i>4.3%</i>	<i>3.7%</i>	<i>N/A</i>	<i>4.3%</i>
Large Cap Growth Balanced					
Legg Mason (formerly Citigroup Asset Mgmt)	06/30/92	5.8%	4.7%	3.6%	8.4%
<i>60% Russell 1000 Growth/40% LBGC</i>		<i>7.0%</i>	<i>5.6%</i>	<i>4.0%</i>	<i>8.3%</i>
International Equities					
NWQ Investment - International Value	03/17/06	N/A	N/A	N/A	11.9%
<i>MSCI EAFE Index (Europe, Australia, Far East)</i>		<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>15.5%</i>
Multi-Cap Growth					
ClearBridge Multi Cap	06/05/06	N/A	N/A	N/A	10.6%
<i>Russell 3000 Growth</i>		<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>9.8%</i>
Note:					
⁽¹⁾ The calculations were prepared using the time-weighted rate of return gross of fees and presented before the deduction of management fees.					

**Retirement System for General Employees of the
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**Schedule of Investment Results ⁽¹⁾
For the Years Ended December 31,**

	2006	2005	2004	2003	2002
Total Investment Fund (1)	\$ 55,346,342	\$ 50,841,263	\$ 50,214,205	\$ 48,810,951	\$ 41,739,607
Investment Return (Gross)	10.9%	3.8%	6.0%	20.4%	-13.7%
Time-Weighted Rate of Return					
Legg Mason (formerly Citigroup)	5.8%	4.9%	3.2%	18.2%	-11.9%
PIMCO Total Return	5.1%	2.6%	4.7%	4.9%	2.2%
Brandes US Value Equity	30.4%	-2.7%	16.4%	47.4%	-5.8%
Lord Abbett Large Cap Value	18.7%	3.7%	14.4%	32.0%	0.9%
MDT All Cap Core	14.0%	12.6%	N/A	N/A	N/A
NFJ Dividend Value	17.3%	N/A	N/A	N/A	N/A
NWQ International	11.9%	N/A	N/A	N/A	N/A
ClearBridge MultiCap	10.6%	N/A	N/A	N/A	N/A
Primary Objective	8.0%	8.0%	8.0%	8.0%	8.0%
Consumer Price Index	2.6%	3.4%	3.4%	1.8%	2.4%
Balanced Index 55% S&P/40%LBGC/5%TBill	10.3%	3.9%	7.8%	17.3%	-8.3%
Lipper Balanced Index	11.6%	5.2%	8.9%	19.9%	-10.7%
Investment fund by Manager					
Large Cap Value (Lord Abbett & NFJ)	4,541,540	5,723,103	5,664,663	5,103,831	4,164,964
Percent of total	8.2%	11.2%	11.3%	10.4%	10.0%
All Cap Value (Brandes)	4,540,236	5,677,863	5,987,068	5,299,604	3,857,046
Percent of total	8.2%	11.2%	11.9%	10.9%	9.2%
All Cap Core (MDT)	5,476,875	5,431,970	0	0	0
Percent of total	9.9%	10.7%	0.0%	0.0%	0.0%
Fixed Income (PIMCO)	11,542,672	10,105,980	6,906,745	5,992,009	5,449,693
Percent of total	20.9%	19.9%	13.8%	12.3%	13.1%
Large Cap Growth Balanced (Legg Mason)	20,483,233	23,902,347	31,655,729	32,415,507	28,267,904
Percent of total	37.0%	47.0%	63.0%	66.4%	67.7%
International Equities (NWQ)	4,949,672	0	0	0	0
Percent of total	8.9%	0.0%	0.0%	0.0%	0.0%
Multi-Cap Growth (ClearBridge)	3,812,114	0	0	0	0
Percent of total	6.9%	0.0%	0.0%	0.0%	0.0%
Total Portfolio	55,346,342	50,841,263	50,214,205	48,810,951	41,739,607
Total Percent	100%	100%	100%	100%	100%
Market Index results					
Russell 1000 Value Index	22.2%	7.0%	16.5%	30.0%	-2.9%
Russell 3000 Value	22.3%	6.8%	16.9%	31.1%	-2.9%
Russell 3000 Equity	15.7%	8.5%	N/A	N/A	N/A
Lehman Aggregate Bond Index	4.3%	2.4%	4.3%	4.1%	1.6%
60% Russell 1000/40% LBGC	7.0%	4.2%	N/A	N/A	N/A
Russell 1000 Growth	N/A	N/A	6.3%	29.8%	N/A
50% S&P 500/50% LBGC	N/A	N/A	N/A	N/A	-6.2%

Note: Calculation prepared using time-weighted rate of return on the market rate of return and are presented before the deduction of management fees.

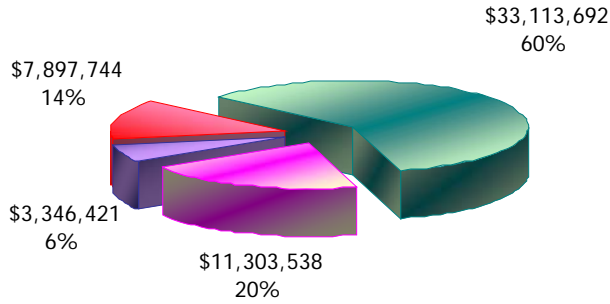
(1) Prepared from Consulting Group Monitoring reports which may vary slightly from brokerage statement actual valuations due to differences in handling of accrued interest and use of different bond pricing services.

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

Asset Allocations

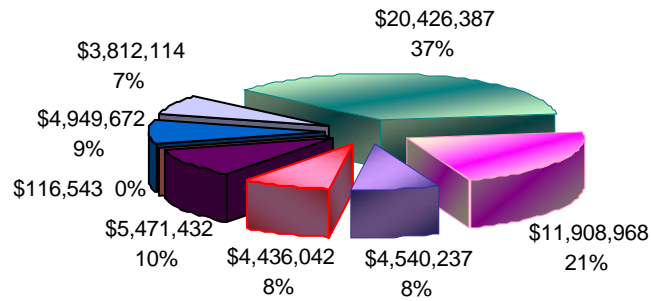
For the Calendar Year Ended December 31, 2006

Asset Allocation by Investment Type



Common Stock	Government Securities
All Other Categories	Money Market Mutual Funds

Asset Allocation by Investment Manager



Legg Mason (formerly Citigroup)	PIMCO
Brandes US Value Equity	Lord Abbett Large Cap Value
MDT Advisers	NFJ Dividend Value
NWQ Int'l	ClearBridge

**Retirement System for General Employees of the
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**List of Largest Assets Held
As of December 31, 2006**

Largest Equity Holding (By Fair Value)

	<u>Shares</u>	<u>Stock</u>	<u>Market Value</u>
1)	13,125	Proctor & Gamble	\$ 843,544
2)	11,940	United Health Group	641,536
3)	16,746	General Electric	623,119
4)	11,245	Comcast	472,609
5)	5,336	Apple	452,706
6)	13,745	Microsoft	410,426
7)	5,400	Schlumberger	341,064
8)	7,843	Coach	336,935
9)	4,523	American Int'l Group	324,118
10)	3,525	Boeing	313,161

Largest Debt Holdings (By Fair Value)

	<u>Quantity</u>	<u>Bonds and Other Debt Securities</u>	<u>Market Value</u>
1)	198,045	Fixed Income Shares Series M	\$ 2,249,791
2)	196,130	Fixed Income Shares Series C	2,247,650
3)	1,168,977	Dreyfus Liquid Assets Class 2	1,168,977
4)	919,000	US Treasury Inflation Index NTS C 3.625% Mature 1/15/08	1,160,782
5)	1,060,000	US Treasury Notes Ser P-2005 Coupon 3.75% Mature 3/31/07	1,056,523
6)	491,000	US Treasury Bonds of 2015 10.625% Mature 8/15/15	694,534
7)	534,000	US Treasury Inflation Index NTS C 3.000% Mature 7/15/12	617,105
8)	477,000	US Treasury Inflation Index NTS C 3.375% Mature 1/15/07	606,834
9)	500,000	Federal Home Loan Mortgage Corp 5.125% Mature 10/15/08	500,625
10)	475,000	Federal National Mortgage Assn 6.625% Mature 10/15/07	479,897

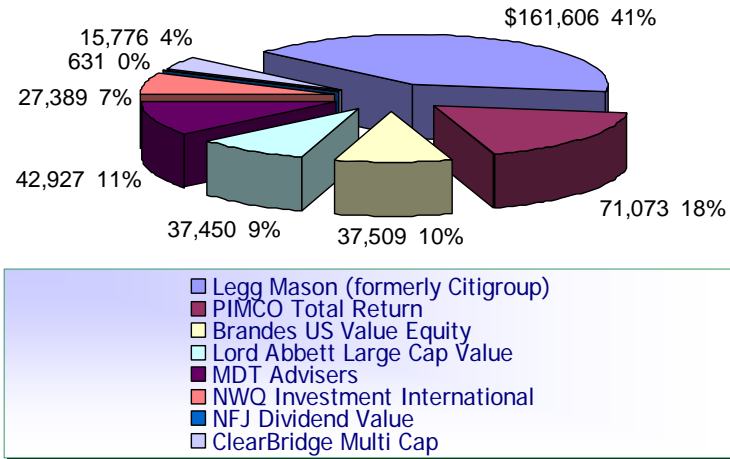
A complete list of portfolio holdings is available upon request

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

Schedule of Advisors and Fees For the Year Ended December 31, 2006

<u>Investment Managers</u>	<u>Type</u>	<u>2006 Year End Account Value</u>	<u>Investment Manager Fee</u>	
			<u>Annual Fee</u>	<u>Average Percent</u>
Legg Mason (formerly Citigroup)	Large Cap Growth	\$ 20,426,387	\$ 161,606	0.79%
PIMCO Total Return	Fixed Income	11,908,968	71,073	0.60%
Brandes US Value Equity	All Cap Value	4,540,237	37,509	0.83%
Lord Abbett Large Cap Value	Large Cap Value	4,436,042	37,450	0.84%
MDT Advisers	All Cap Core	5,471,432	42,927	0.78%
NWQ Investment International	International	4,949,672	27,389	0.55%
NFJ Dividend Value	Large Cap Value	116,543	631	0.54%
ClearBridge Multi Cap	Multi-Cap Growth	3,812,114	15,776	0.41%
Total		\$ 55,661,395	\$ 394,361	0.71%

Fees by Investment Manager



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

**Investment Summary
For the Year Ended December 31, 2006**

	Fair Value	% of Total Fair Value
Fixed Income		
Mortgage and Asset Backed Securities	\$ 574,960	1.03%
International Bonds	-	0.00%
Corporate Bonds	2,624,068	4.71%
U.S. Government Securities	<u>11,303,538</u>	<u>20.31%</u>
Total Fixed Income	<u>14,502,566</u>	<u>26.1%</u>
Common Stock	<u>33,113,692</u>	<u>59.49%</u>
Mutual Funds	<u>4,497,441</u>	<u>8.08%</u>
Closed End Funds	<u>147,393</u>	<u>0.26%</u>
Short Term		
Cash and Cash Equivalents	<u>3,400,303</u>	<u>6.11%</u>
Total Investments	<u><u>\$ 55,661,395</u></u>	<u><u>100.00%</u></u>

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

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.

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”).

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

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.

LB Aggregate Index – Composed of securities including government/corporate bonds, mortgage backed securities and asset backed securities. Total return comprises price appreciation/depreciation and income as a percentage of the original investment and are rebalanced monthly by market capitalization.

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

Lipper Balanced Index - Index containing the top 30 funds whose primary objective is to conserve principal by maintaining at all times a balanced portfolio of both stocks and bonds. Typically, the stock/bond ratio ranges around 60%/40%.

MSCI EAFE (net) – Index (Europe, Australia, Far East) is a free float adjusted market capitalization index that is designed to measure developed market equity performance excluding the US & Canada.

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 Equity Index – Measures the performance of the 3,000 largest US companies based on total market capitalization, which represents approximately 98% of the investable US equity market.

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

Glossary

Russell 3000 Growth Index - Measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. The stocks in this index are also members of either the Russell 1000 Growth or the Russell 2000 Growth index.

Russell 3000 Value Index – Measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values. The stocks in this index are also members of either the Russell 1000 Value or the Russell 2000 Value index.

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.

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.

March 21, 2007

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, 2007. 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, 2007 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,



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

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

Actuarial Section

Summary 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.

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

Actuarial Section

G. Assumed Retirement Age

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

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. 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.

J. Increase in Covered Payroll

3.0% per year, limited to average annual increase over most recent ten years (3.6%).

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

Actuarial Section

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 the 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 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 Previous Actuarial Impact Statement

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 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 Cost of Living Adjustment from 2% to 3% per year.

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

Actuarial Section

Passed by the Board of Trustees September 28, 2000

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

Resolution No. 63 – Providing for Plan amendment and Plan 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 definition of Pensionable Earnings to use member's base hourly rate each pay period, multiplied by 80 hours, less any hours considered leave without pay. Passed by the Board of Trustees May 18, 2004

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

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

Resolution No. 69 – Amending appointment of Trustees, Trustee terms of office and 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 to make transfers on-line. Passed by the Board of Trustees November 14, 2005

Resolution No. 71 – Allowing certain employees to sign checks and to make transfers on-line. Passed by the Board of Trustees February 13, 2006

Resolution No. 72 – Amending terms of office for Trustees. Passed by the Board of Trustees March 6, 2006

Resolution No. 73 – Amending eligibility for Disability Benefits, definition of total and permanent injury and disability application process. Passed by the Board of Trustees May 15, 2006

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

Actuarial Section

Schedule of Active and Retiree Valuation Data

Active Members					
Valuation Date	Number	Annual Payroll	Average Pay	% Increase	Inflation Increase % (CPI)
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%
01/01/2007	147	8,343,673	56,760	6.9%	2.5%

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	Average Annual Allowances	% Increase in Annual Allowances	Number of Lives	Allowances/Active Pays
01/01/1998	N/A	N/A	112	N/A	N/A	N/A	N/A	\$ 1,538,954	\$ 13,741	3.2%	68.3%	25.5%
01/01/1999	N/A	N/A	119	N/A	N/A	N/A	N/A	1,847,548	15,526	20.1%	74.4%	30.2%
01/01/2000	N/A	N/A	119	N/A	N/A	N/A	N/A	1,977,918	16,621	7.1%	75.8%	32.1%
01/01/2001	N/A	N/A	121	N/A	N/A	N/A	N/A	2,096,399	17,326	6.0%	78.1%	32.8%
01/01/2002	7	5	123	\$ 153,528	\$ 97,005	\$ 64,463	N/A	2,217,385	18,028	5.8%	79.4%	32.8%
01/01/2003	9	3	129	151,719	66,021	67,505	N/A	2,370,588	18,377	6.9%	83.8%	34.6%
01/01/2004	10	5	134	161,309	62,107	74,317	N/A	2,544,107	18,986	7.3%	90.5%	36.9%
01/01/2005	10	2	142	188,866	15,047	78,209	\$ (110,784)	2,685,351	18,911	5.6%	102.2%	38.7%
01/01/2006	11	4	149	177,235	65,652	83,719	N/A	2,880,653	19,333	7.3%	103.5%	37.7%
01/01/2007	7	7	149	152,323	90,793	88,268	N/A	3,030,451	20,339	5.2%	101.4%	36.3%

*Information prior to January 1, 2002 not available

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

Actuarial Section

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)
01/01/1998	\$ 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%
01/01/2007	80,737	36,188,970	28,074,123	55,876,434	100.0%	100.0%	69.8%

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
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	(9,496,440)
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)
2006	(1,541,149)	(50,836)	(1,591,985)

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

Actuarial Section

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. 73 effective May 15, 2006.
- 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 - Earliest of:
 - (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.

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

Actuarial Section

I. Disability Benefit

1. Eligibility - Totally and permanently disabled as defined under the Plan and completion of ten years of credited service as of date of disability.

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.

Notwithstanding the above, the minimum death benefit paid shall not be less than the accumulated employee contributions, if any, as of date of death.

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%

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

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 by 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 Actuarial Impact Statement

Eligibility for disability was totally and permanently disabled as defined under the Plan and completion of five years of credited service as of date of disability.

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

Statistical Section

Schedule of Changes in Net Assets

Calendar Year	Net Assets, Beginning of Year	Additions	Deductions	Increase (Decrease) in Net Assets	Net Assets, End of Year
2006	\$ 51,991,417	\$ 7,338,678	\$ 2,944,678	\$ 4,394,000	\$ 56,385,417
2005	51,271,516	3,547,337	2,827,436	719,901	51,991,417
2004	49,534,465	4,374,972	2,637,921	1,737,051	51,271,516
2003	42,259,672	9,716,104	2,441,311	7,274,793	49,534,465
2002	49,513,555	(4,966,565)	2,287,318	(7,253,883)	42,259,672
2001	52,329,142	(701,307)	2,114,280	(2,815,587)	49,513,555
2000	53,398,335	988,958	2,058,151	(1,069,193)	52,329,142
1999	48,059,186	7,295,930	1,956,781	5,339,149	53,398,335
1998	40,932,859	8,866,499	1,740,172	7,126,327	48,059,186
1997	34,435,674	8,052,679	1,555,494	6,497,185	40,932,859

**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
2006	\$ -	\$ 2,208,905	26.50%	\$ 5,129,773	\$ 7,338,678
2005	-	2,014,613	26.40%	1,532,724	3,547,337
2004	-	1,910,640	27.60%	2,464,332	4,374,972
2003	-	1,660,627	24.10%	8,055,477	9,716,104
2002	-	1,699,850	24.80%	(6,666,415)	(4,966,565)
2001	-	1,246,673	18.40%	(1,947,980)	(701,307)
2000	-	1,028,541	16.10%	(39,583)	988,958
1999	8,094	1,326,320	21.30%	5,961,516	7,295,930
1998	-	1,318,547	21.50%	7,547,952	8,866,499
1997	271	1,286,178	19.00%	6,766,230	8,052,679

Schedule of Deductions from Plan Assets

Calendar Year	Benefits	Expenses	Refunds	Total
2006	\$ 2,875,615	\$ 69,063	\$ -	\$ 2,944,678
2005	2,705,806	121,630	-	2,827,436
2004	2,553,007	84,914	-	2,637,921
2003	2,396,683	44,628	-	2,441,311
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

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

Statistical Section

Schedule of Benefit Expense by Type

Year	Age & Service Benefits		Death in Service Benefits	Disability Benefits		Refunds		Total
	Retirants	Survivors		Retirants	Survivors	Death	Separation	
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
2006	2,349,373	192,075	76,858	257,309	-	-	-	2,875,615

Schedule of Retired Members by Type – January 1, 2007

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	22	0	0	0	0	0	22	22	0	0	0
\$1 - 250	6	5	1	0	0	0	0	4	2	0	0
251 - 500	6	2	3	1	0	0	0	4	2	0	0
501 - 750	19	4	6	5	2	2	0	14	2	1	2
751 - 1,000	17	4	8	3	0	2	0	14	3	0	0
1,001 - 1,250	18	3	9	1	1	4	0	8	10	0	0
1,251 - 1,500	11	2	4	2	1	2	0	9	2	0	0
1,501 - 1,750	18	6	7	3	0	2	0	9	8	1	0
1,751 - 2,000	6	2	2	0	0	2	0	5	1	0	0
Over 2,000	<u>48</u>	<u>31</u>	<u>14</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>26</u>	<u>22</u>	<u>0</u>	<u>0</u>
Totals	171	59	54	16	5	15	22	115	52	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

Schedules 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+
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	-	1	4	3	1	1	-
2006							
Average Monthly Benefit	\$ -	\$ -	\$ -	\$ -	\$ 1,867	\$ 2,507	\$ -
Average Final Average Salary	-	-	-	-	4,548	4,049	-
Number of Active Retirants	-	-	-	-	2	3	-
From January 1, 1997 through through December 31, 2006							
Average Monthly Benefit	\$ -	\$ 155	\$ 1,406	\$ 1,357	\$ 1,262	\$ 2,706	\$ 3,122
Average Final Average Salary	-	2,004	3,684	3,459	3,438	3,802	4,273
Number of Active Retirants	-	6	14	11	22	11	9

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