

Comprehensive Annual Financial Report



Utility Board of the City of Key West, Florida

For the Fiscal Year Ended September 30, 2007

COMPREHENSIVE ANNUAL FINANCIAL REPORT

UTILITY BOARD OF THE CITY OF
KEY WEST, FLORIDA

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

JACK WETZLER
ASSISTANT GENERAL MANAGER &
CHIEF FINANCIAL OFFICER

LYNNE TEJEDA
GENERAL MANAGER &
CHIEF EXECUTIVE OFFICER

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UTILITY BOARD OF THE CITY OF KEY WEST

January 15, 2008

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

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

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

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

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

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

Green Leaders

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

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

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

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

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

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

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

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

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

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

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

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

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

Reliably Powering Paradise

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

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

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

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

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

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

Reliability efforts include:

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

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

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

Entity Definition

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

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

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

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

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

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

Basis of Accounting

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

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

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

Internal Accounting Controls

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

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

Budgetary Control

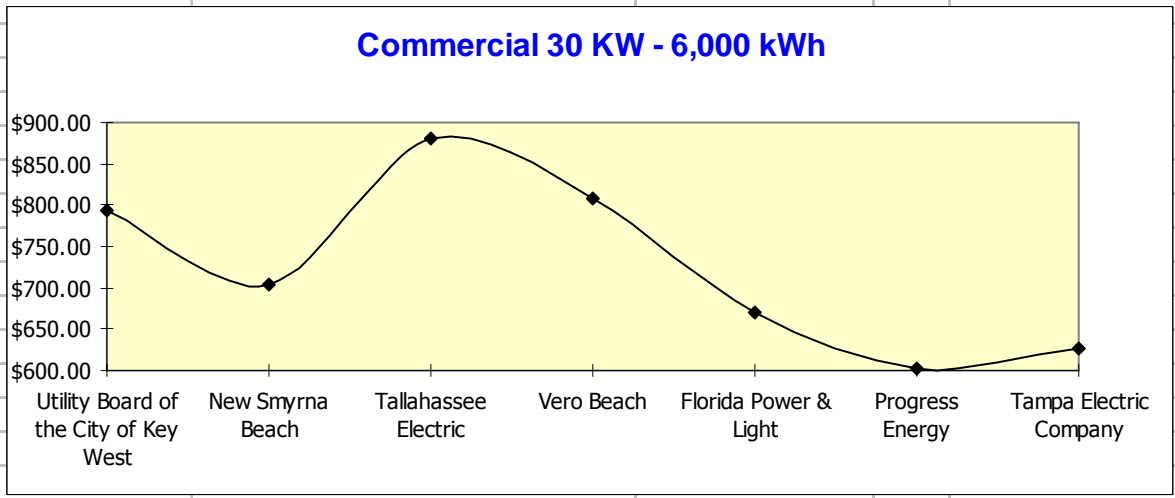
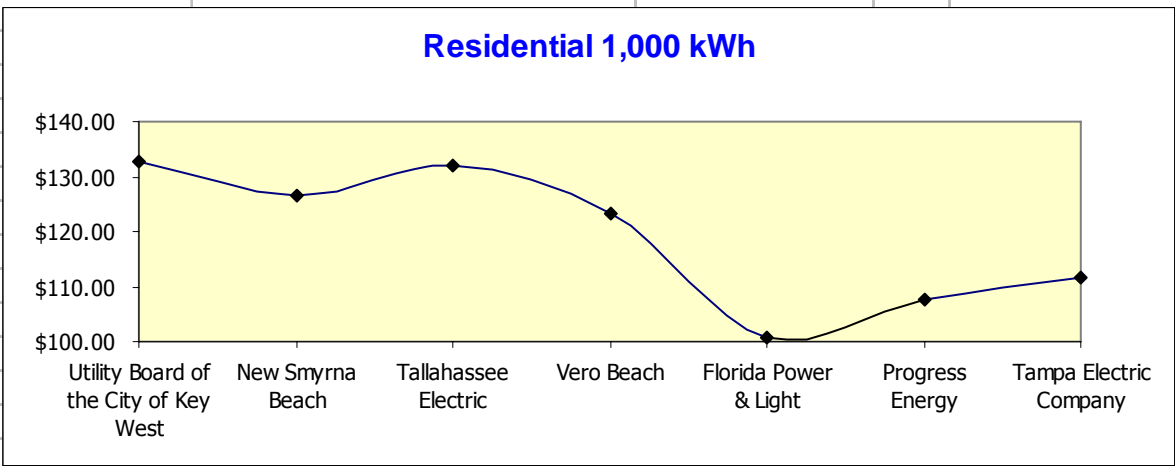
In accordance with the Enabling Legislation, the Utility Board holds public hearings and subsequently adopts an annual budget for operating expenses and capital outlay prior to October 1 of the fiscal year. Actual revenues and expenses are compared to the budget on a line item basis (which is the legal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

Rates for Service

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

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

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

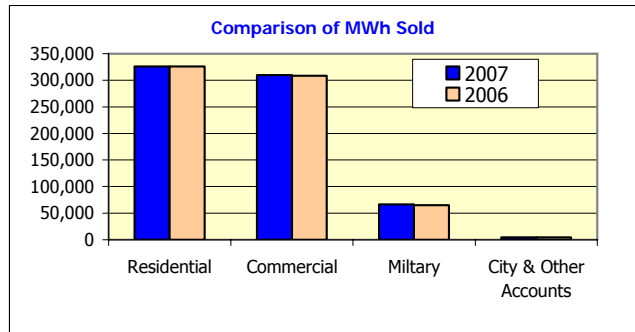
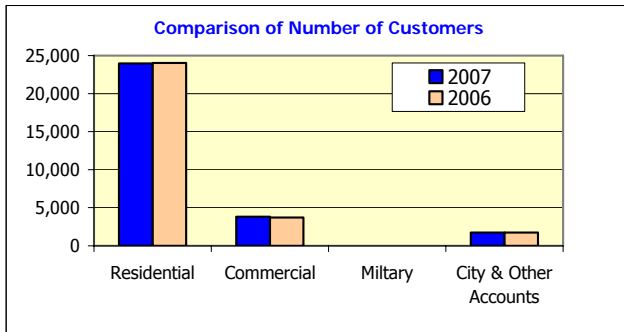


Customer Statistics

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

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

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



Cash Management

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

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

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

Purchased Power

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

Transmission Facilities

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

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

Distribution Facilities

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

Local Generation Facilities

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

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

Debt Administration

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

Long Term Financial Planning

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

Risk Management

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

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

Independent Audit

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

Certificate of Achievement

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

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

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

Acknowledgments

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

Respectfully submitted,



Jack Wetzler
Assistant General Manager &
Chief Financial Officer



Lynne Tejeda
General Manager &
Chief Executive Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Utility Board of the City of Key West, Florida

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

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



Charles S. Cox

President

Jeffrey R. Emer

Executive Director

Utility Board of the City of Key West, Florida



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

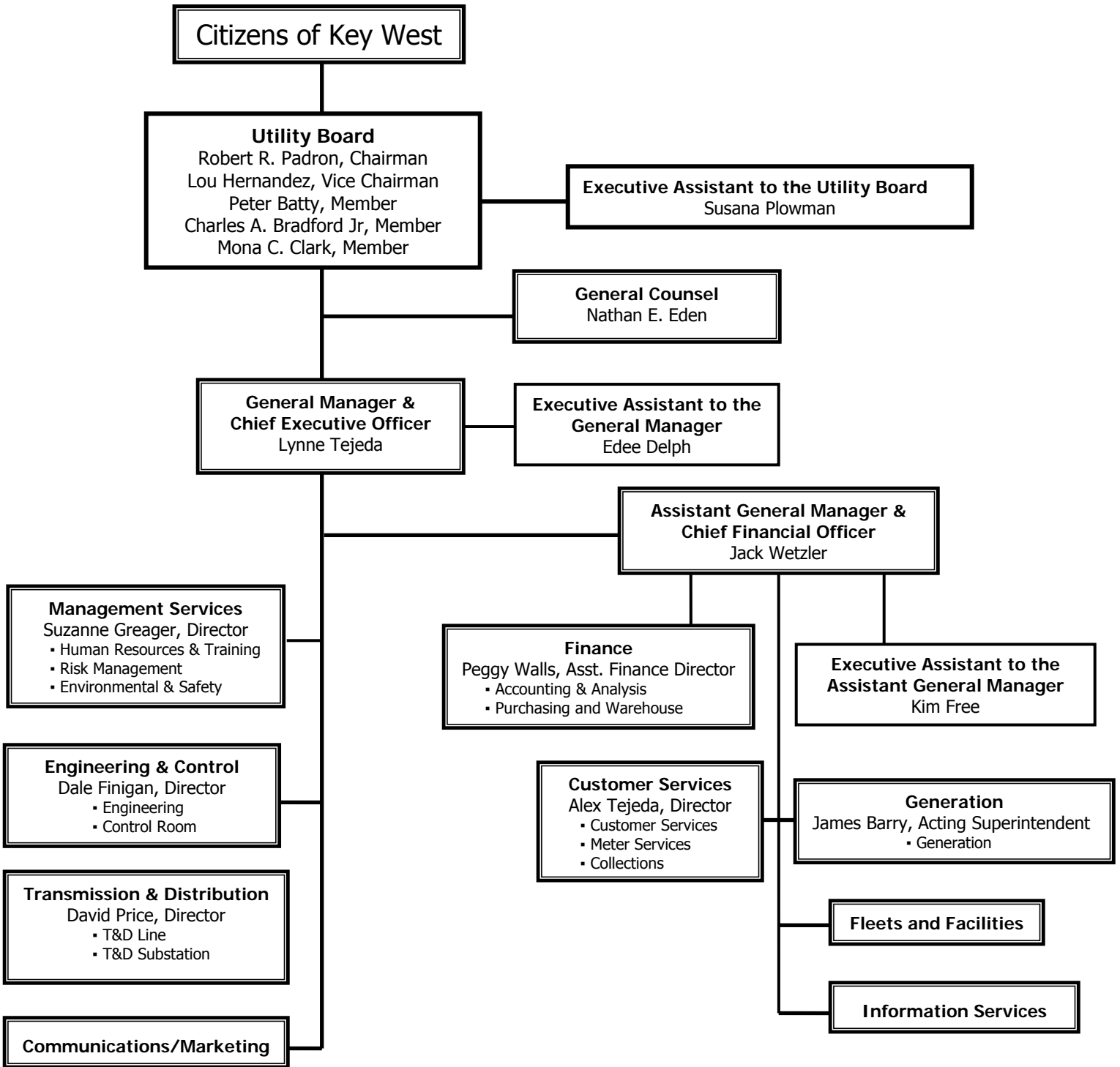
Vice Chairman Lou Hernandez has served on the Utility Board since 1997. He is the Executive Director of HELPLINE, Inc., a crisis intervention and information referral telephone hotline in Monroe County. Upon graduation from Texas A&M University, Mr. Hernandez was commissioned by the U.S. Army and served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

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

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

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

Organizational Chart Fiscal Year Ended September 30, 2007



Keys Energy Services Employees as of September 30, 2007

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

* Employee of the Quarter 2007

**Employee of the Year 2007



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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Utility Board of the City of Key West, Florida, d/b/a Keys Energy Services, ("KEYS") as of and for the years ended September 30, 2007 and 2006, which collectively comprise KEYS' basic financial statements as listed in the table of contents. These financial statements are the responsibility of KEYS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility Board of the City of Key West, Florida, Keys Energy Services as of September 30, 2007 and 2006, and the changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2008, on our consideration of KEYS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise KEYS' basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.


OROPEZA & PARKS
CERTIFIED PUBLIC ACCOUNTANTS

January 15, 2008

Management's Discussion and Analysis

As management of the Utility Board of the City of Key West, Florida, we offer readers of the Utility Board's financial statements this narrative overview and analysis of the financial activities of the Utility Board of the City of Key West for the fiscal year ended September 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our Letter of Transmittal.

Required Financial Statements

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

Balance Sheet

The Utility's Net Assets, which do not include the negative net pension obligation, increased in Fiscal 2007 by \$3.0 million, or 4.1%.

	2005	2006	2007	2006 to 2007 Increase (Decrease)	
				Amount	Percent
Total Unrestricted Current Assets	\$25,045,203	\$25,176,463	\$25,433,245	\$256,782	1.0%
Total Restricted Current Assets	11,466,147	12,833,724	49,986,599	37,152,875	289.5%
Total Capital Assets	114,111,920	114,832,809	121,489,994	6,657,185	5.8%
Total Restricted Non-Current Assets	3,243,009	3,243,009	2,266,539	(976,470)	-30.1%
Total Unrestricted Non-Current Assets	8,678,118	8,746,958	9,094,311	347,353	4.0%
Total Assets	<u>\$162,544,397</u>	<u>\$164,832,963</u>	<u>\$208,270,688</u>	<u>\$43,437,725</u>	<u>26.4%</u>
Invested in Capital Assets, net of related debt	\$48,044,762	\$53,995,651	\$60,127,172	\$6,131,521	11.4%
Restricted for Working Capital	3,243,009	3,243,009	2,266,539	(976,470)	-30.1%
Unrestricted	15,830,949	15,934,969	13,775,810	(2,159,159)	-13.5%
Net Assets	<u>67,118,720</u>	<u>73,173,629</u>	<u>76,169,521</u>	<u>2,995,892</u>	<u>4.1%</u>
Long-Term Debt, Net of Current Portion	75,257,723	71,126,824	108,910,987	37,784,163	53.1%
Total Restricted Current Liabilities	11,200,080	11,998,052	13,223,134	1,225,082	10.2%
Total Unrestricted Current Liabilities	8,967,874	8,534,458	9,967,046	1,432,588	16.8%
Total Liabilities	<u>95,425,677</u>	<u>91,659,334</u>	<u>132,101,167</u>	<u>40,441,833</u>	<u>44.1%</u>
Total Net Assets and Liabilities	<u>\$162,544,397</u>	<u>\$164,832,963</u>	<u>\$208,270,688</u>	<u>\$43,437,725</u>	<u>26.4%</u>

The changes to Assets are listed as follows:

- Increase in Total Unrestricted Current Assets - \$256,782.
 - Decrease to Cash - \$2.2 million as a result of lower billings.
 - Increase to Customer Receivables - \$778,325 due to a change in billing cycles.
 - Increase to Other Receivables - \$214,456 additional billings to FMPA for repairs to generating units.
 - Decrease to Due from Other Governments - \$9,492 payments received from FEMA.
 - Increase to Inventory - \$700,623 inventory maximum levels were raised for the Storm Hardening Project and for hurricane season.
 - Increase Prepaid Expense - \$758,545 because of prepaying bond payments due on October 1st.
- Increase in Total Restricted Current Assets - \$37.1 million due to Series 2006 Bond Proceeds.
- Increase in Total Capital Assets - \$6.7 million.
 - Increase to Capital Assets – Net Utility Plant - \$11.5 million. The larger assets added to Utility Plant are as follows:

Distribution Improvements & Storm Hardening	\$ 2,220,000
Engineering Requests	\$ 1,300,000
Purchase Transformers	\$ 1,267,800
Purchase Meters	\$ 624,700
Replace Company Vehicles	\$ 502,200
Replace SI Sewer System	\$ 453,500
Daily Work Orders	\$ 432,800
 - Decrease to Capital Assets – Net Utility Plant - \$7.2 million. There were two major retirements during 2007. The two Cudjoe Key and the Big Pine Key peaking diesel units were retired at \$6.5 million.
 - Net Increase to Construction Work in Progress - \$2.4 million includes the following projects:

Distribution Improvement & Storm Hardening	\$ 522,297
Repairs to Synchronous Condenser	\$ 279,419
Replace 69KV Switches	\$ 276,135
Replace Transmission Oil Circuit Breakers	\$ 520,645
Upgrade Transmission Relay Panels	\$ 276,300
Replace & Upgrade SCADA System	\$ 147,858
Engineering Requests	\$ 115,000
- Decrease in Total Restricted Non-Current Assets - \$976,500 due to a return of working capital from FMPA.
- Increase in Total Unrestricted Non-Current Assets - \$347,353.
 - Increase in Other Accounts Receivable - \$179,400 (Long Term Receivable).
 - Increase in Bond Discount & Issue Costs - \$168,000 issuance costs associated with Series 2006 Bond.

The changes to Liabilities are listed as follows:

- Net Increase in Long Term Debt - \$37.8 million as a result of the annual fiscal year debt service payment and the Series 2006 Bond Issue.
- Increase in Current Liabilities - \$2.6 million due to higher accounts payable and increase in interest payable for Series 2006 bond.

Statement of Revenues, Expenses and Changes in Net Assets

Electric sales of 706.31 Gigawatt hours (GWh's) in Fiscal Year 2007 were higher than Fiscal Year 2006 sales of 704.1 GWh's, by 0.3%.

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2006 to 2007 Increase (Decrease)</u>	
				<u>Amount</u>	<u>Percent</u>
Electric Revenues	\$80,406,201	\$93,968,368	\$90,080,391	(\$3,887,977)	-4.1%
Other Electric Revenues	3,072,535	3,231,697	3,668,481	436,784	13.5%
Total Operating Revenues	83,478,736	97,200,065	93,748,872	(3,451,193)	-3.6%
Production Expense - Diesel	1,074,167	1,482,077	1,623,810	141,733	9.6%
Purchased Power	49,287,046	59,946,424	58,531,619	(1,414,805)	-2.4%
Transmission Expenses	3,646,679	3,539,845	3,857,363	317,518	9.0%
Distribution Expenses	3,017,736	3,366,439	3,984,022	617,583	18.3%
Customer Accounts and Collection Expenses	1,280,590	1,243,322	1,332,355	89,033	7.2%
Administrative and General Expenses	11,540,112	11,452,519	11,812,589	360,070	3.1%
Depreciation	6,391,999	6,182,488	6,340,313	157,825	2.6%
Taxes Other Income Taxes	2,127,074	2,467,955	2,390,686	(77,269)	-3.1%
Total Operating Expenses	78,365,403	89,681,069	89,872,757	191,688	0.2%
Interest Income	613,525	1,047,716	2,032,958	985,242	94.0%
Grant Revenue	119,367	-	-	-	0.0%
Miscellaneous Non-Operating Revenue	753,622	2,255,168	1,398,741	(856,427)	-38.0%
Payment to City of Key West	(340,548)	(343,341)	(341,279)	2,062	-0.6%
Interest on Debt	(4,811,456)	(4,670,672)	(4,435,260)	235,412	-5.0%
Interest on Customer Deposit	(109,429)	(194,367)	(197,964)	(3,597)	1.9%
Amortization of Bond Discount and Issue Costs	(104,508)	(104,508)	(113,096)	(8,588)	8.2%
Total Non-Operating Revenue and (Expenses)	(3,879,427)	(2,010,004)	(1,655,900)	354,104	-17.6%
Income Before Special Items	1,233,906	5,508,992	2,220,215	(3,288,777)	-59.7%
Hurricane-Grant Revenue	1,900,702	3,281,600	550,209	(2,731,391)	-83.2%
Hurricane-Expenses	(2,214,686)	(3,094,972)	-	3,094,972	-100.0%
Hurricane-Insurance Proceeds	-	273,306	-	(273,306)	-100.0%
Sale Steam Plant	4,568,719	-	-	-	0.0%
Total Special Items	4,254,735	459,934	550,209	90,275	19.6%
Income Before Capital Contributions	5,488,641	5,968,926	2,770,424	(3,198,502)	-53.6%
Capital Contributions	119,347	85,983	225,468	139,485	162.2%
Change in Net Assets	5,607,988	6,054,909	2,995,892	(3,059,017)	-50.5%
Net Assets, Beginning of Year	61,510,732	67,118,720	73,173,629	6,054,909	9.0%
Net Assets, End of Year	\$ 67,118,720	\$ 73,173,629	\$ 76,169,521	\$ 2,995,892	4.1%

The Change in Net Assets was \$3.0 million in 2007. This was primarily due to:

- Decrease in Total Operating Revenues – \$3.5 million
 - Net Decrease in Electric Revenue and Power Cost Adjustment (PCA) - \$3.5 million is primarily a result of lower PCA revenues.
- Increase in Total Operating Expenses - \$191,688.
 - Increase of Production expenses - \$141,733 primarily due to an aggressive schedule of preventive maintenance for all generating units.
 - Decrease of Purchased Power Costs - \$1.4 million primarily due to lower usage.
 - Increase in Transmission expenses - \$317,518 is a result of a helicopter inspection and repairs to overhead lines.
 - Increase in Distribution expenses - \$617,583 largely due to increases in tree trimming expenses, transformer repairs, transformer painting, and equipment repair.
 - Increase in all other Operating Expenses - \$514,884 is due to a general rise in operating costs.

- Increase in Total Non-Operating Revenue & Expenses - \$354,104
 - Increase in Interest Income - \$985,242 due to higher interest rates.
 - Decrease in Miscellaneous Non-Operating Revenue - \$856,427 thousand Fiscal Year 2006 included many one time items.
 - Increase in the other Non-Operating Revenue & Expenses - \$225,289 is primarily due to lower interest on debt.
- Increase in Total Special Items - \$90,275 thousand is due to an increase in the reimbursement percentage by Federal Emergency Management Agency.
- Increase in Capital Contribution
 - Increase in Interest Income - \$985,242 due to higher interest rates.
 - Decrease in Other Income - \$3.8 million in Fiscal Year 2006 included many one time items.

Statement of Cash Flows

The Utility's rate structure is designed to collect sufficient revenues to pay debt service and recover operating and maintenance expenses. The Utility successfully accomplished this objective during Fiscal Year 2007. The same situation held true for the prior fiscal year. Income before Capital Contributions decreased \$3.2 million primarily due a reduction in Hurricane Grant Revenue. The Utility increased net assets by \$3.0 million while paying down debt of \$6.5 million in principal and \$2.1 million in interest.

Restricted Assets

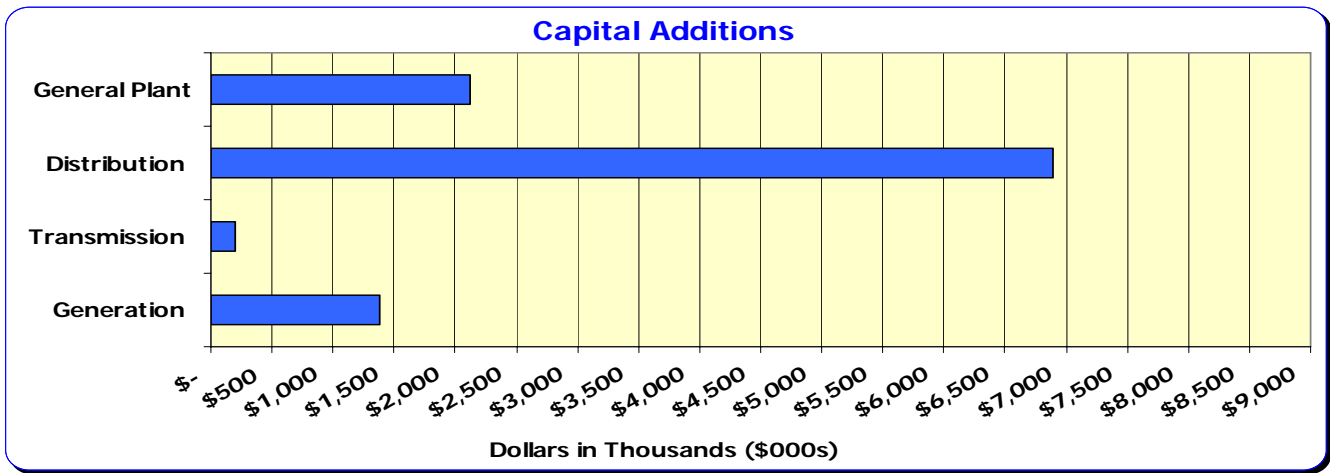
Total restricted assets were \$52.3 million at September 30, 2007, compared to \$16.0 million at September 30, 2006. The Utility's bond resolution specifies the manner in which monies on deposit in the various funds must be used. The Contribution in Aid of Construction Capital Fund is used for initial non-residential, commercial or large power service deposits related to transmission or distribution projects. The Customer Deposit Fund is used for residential and commercial deposits for basic electric service. The Emergency Reserve Fund is used to pay emergency repairs or replacements of capital assets which have been destroyed or damaged. The Rate Stabilization Fund is used to maintain flexibility with respect to future rate adjustments and to provide additional monies for anticipated capital improvements. The Renewal and Replacement Fund is used only for paying the cost of extensions, enlargements, replacements or additions to the capital assets of the Utility. The Sinking Fund is used only to pay principal and interest on Bonds as they mature and become due.

Significant Capital Assets

Net Property, Plant and Equipment totaled \$121.5 million at the end of Fiscal 2007 compared to \$114.8 million the prior year, an increase of \$6.7 million which includes \$663,500 in capitalized interest.

Significant projects placed in service were Distribution Improvements & Storm Hardening, Purchase of Transformers, Replacement of Company Vehicles, Repairs to Generating Units, Engineering Requests, Replacement of Stock Island Sewer System, Purchase of Meters, Replacement of SCADA System, and Computer Conversion, Repairs and Equipment. Please see Note 1 in Notes to Financial Statements for further information.

Capital additions are illustrated in the following graph:



Long Term Debt

The Utility’s trustee will pay to the bondholders a principal payment of \$5.8 million on October 1, 2007. In accordance with the Bond covenants, monthly transfers are made from the Revenue Fund to the Sinking Fund, which are reflected on the balance sheet as Other Property and Investments - “restricted assets.” The bondholders are paid annual principal payments on October 1 and semiannual interest payments on April 1st and October 1st of each year.

In anticipation of a Florida Public Service Commission ruling that will compel utilities to storm harden their infrastructure KEYS’ has taken steps to meet this requirement. On October 31, 2006, KEYS issued \$42.0 million of Electric System Refunding and Capital Improvement Revenue Bonds, Series 2006. The bonds refunded the FMPA loan of \$948,000 and will fund several capital projects, including a pole hardening program, transmission and distribution improvements, a new substation located in Stock Island, installation of new feeders at the Big Pine substation, replacement of certain substation transformers and installation of fin fan coolers at the Stock Island Generating Facilities. The issue is rated AAA by Standard & Poor’s (S&P) and Fitch and Aaa by Moody’s and is insured by the MBIA Insurance Company. In addition, KEYS obtained an underlying bond rating of A2 from Moody’s and A- from S&P. The Utility’s debt service payments have been structured to remain fairly constant at approximately \$8.5 million through 2014, \$9.3 million through 2018 and \$4.4 million from 2019 through 2031. Please see Note 5 in Notes to Financial Statements for further information.

Summary

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

BALANCE SHEETS

SEPTEMBER 30, 2007 AND 2006

ASSETS

	<u>2007</u>	<u>2006</u>
Current Assets		
Cash and Cash Equivalents	\$ 4,878,731	\$ 7,064,406
Customer Accounts Receivable, net of Allowance for Bad Debts of \$237,910 and \$263,331 for FY 07 and FY 06 respectively	6,930,502	6,152,177
Other Accounts Receivable	709,585	495,129
Due From Other Governments	814,429	823,921
Plant Material and Operating Supplies Inventory	3,422,943	2,722,320
Prepaid Expenses	<u>8,677,055</u>	<u>7,918,510</u>
 Total Unrestricted Current Assets	 25,433,245	 25,176,463
 Cash and Cash Equivalents-Restricted	 49,983,884	 12,833,724
Interest Receivable	<u>2,715</u>	<u>-</u>
 Total Restricted Currents Assets	 49,986,599	 12,833,724
 Total Current Assets	 <u>75,419,844</u>	 <u>38,010,187</u>
 Non-Current Assets		
Capital Assets		
Utility Plant	198,055,864	196,142,287
Less Accumulated Depreciation	<u>80,123,937</u>	<u>82,465,916</u>
Net Utility Plant	117,931,927	113,676,371
Construction in Progress	<u>3,558,067</u>	<u>1,156,438</u>
 Total Capital Assets	 121,489,994	 114,832,809
 Restricted Non-Current Assets		
Deposits-Restricted	<u>2,266,539</u>	<u>3,243,009</u>
 Total Restricted Non-Current Assets	 2,266,539	 3,243,009
 Unrestricted Non-Current Assets		
Other Accounts Receivable	8,121,582	7,942,212
Bond Discount and Issue Costs, Net	<u>972,729</u>	<u>804,746</u>
 Total Unrestricted Non-Current Assets	 <u>9,094,311</u>	 <u>8,746,958</u>
 Total Non-Current Assets	 <u>132,850,844</u>	 <u>126,822,776</u>
 Total Assets	 <u>\$ 208,270,688</u>	 <u>\$ 164,832,963</u>

(Continued)

(Continued)

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

BALANCE SHEETS (CONTINUED)

SEPTEMBER 30, 2007 AND 2006

NET ASSETS AND LIABILITIES

	<u>2007</u>	<u>2006</u>
Current Liabilities		
Unrestricted Current Liabilities		
Accounts Payable	\$ 6,685,677	\$ 5,709,921
Accrued Expenses	3,149,004	2,508,409
Deferred Revenues	<u>132,365</u>	<u>316,128</u>
Total Unrestricted Current Liabilities	9,967,046	8,534,458
Restricted Current Liabilities		
Current Portion of Long-Term Debt	5,694,373	5,454,373
Accounts Payable	744,959	914,510
Accrued Interest	2,342,556	1,498,275
Accrued Costs FMPA	205,950	-
Security Deposits Payable	110,000	110,000
Due to Customers	<u>4,125,296</u>	<u>4,020,894</u>
Total Restricted Current Liabilities	<u>13,223,134</u>	<u>11,998,052</u>
Total Current Liabilities	23,190,180	20,532,510
Long-Term Debt, Net of Current Portion		
Revenue Bonds	92,091,536	55,032,256
Accrued Interest	16,819,451	15,146,568
Loan Payable	<u>-</u>	<u>948,000</u>
Total Long-Term Debt	108,910,987	71,126,824
Total Liabilities	<u>132,101,167</u>	<u>91,659,334</u>
Net Assets		
Invested in Capital Assets net of related debt	60,127,172	53,995,651
Restricted for Working Capital	2,266,539	3,243,009
Unrestricted	<u>13,775,810</u>	<u>15,934,969</u>
Total Net Assets	<u>76,169,521</u>	<u>73,173,629</u>
Total Net Assets and Liabilities	<u>\$ 208,270,688</u>	<u>\$ 164,832,963</u>

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Operating Revenues		
Sales & Charges for Service	\$ 91,046,879	\$ 94,831,374
Other Operating Revenues	2,701,993	2,368,691
Total Operating Revenues	<u>93,748,872</u>	<u>97,200,065</u>
Operating Expenses		
Production Expenses - Diesel	1,623,810	1,482,077
Purchased Power	58,531,619	59,946,424
Transmission Expenses	3,857,363	3,539,845
Distribution Expenses	3,984,022	3,366,439
Customer Accounts and Collection Expenses	1,332,355	1,243,322
Administrative and General Expenses	11,812,589	11,452,519
Depreciation	6,340,313	6,182,488
Taxes Other than Income Taxes	2,390,686	2,467,955
Total Operating Expenses	<u>89,872,757</u>	<u>89,681,069</u>
Operating Income	<u>3,876,115</u>	<u>7,518,996</u>
Non-Operating Revenue and (Expenses)		
Interest Income	2,032,958	1,047,716
Miscellaneous Non-Operating Revenue	1,398,741	2,255,168
Payment to City of Key West	(341,279)	(343,341)
Interest on Debt	(4,435,260)	(4,670,672)
Interest on Customer Deposit	(197,964)	(194,367)
Amortization of Bond Discount and Issue Costs	(113,096)	(104,508)
Total Non-Operating Revenue and (Expenses)	<u>(1,655,900)</u>	<u>(2,010,004)</u>
Income Before Special Items	<u>2,220,215</u>	<u>5,508,992</u>
Special Items		
Hurricane-Grant Revenue	550,209	3,281,600
Hurricane-Expenses	-	(3,094,972)
Hurricane - Insurance Proceeds	-	273,306
Total Special Items	<u>550,209</u>	<u>459,934</u>
Income Before Capital Contributions	<u>2,770,424</u>	<u>5,968,926</u>
Capital Contributions	<u>225,468</u>	<u>85,983</u>
Change in Net Assets	2,995,892	6,054,909
Net Assets, Beginning of Year	<u>73,173,629</u>	<u>67,118,720</u>
Net Assets, End of Period	<u>\$ 76,169,521</u>	<u>\$ 73,173,629</u>

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash Flows Provided (Used) by Operating Activities		
Cash Received from Customers	\$ 92,789,776	\$ 96,550,156
Cash Payments to Suppliers for Goods and services	(74,820,475)	(76,347,419)
Cash Payments for Restricted Working Capital Deposits	976,470	-
Cash Payments to Employees for Services	(8,561,891)	(8,142,697)
Cash Received for Deposits	1,112,001	871,306
Cash Deposits Refunded	(1,007,599)	(934,640)
Cash Received from Other Operating revenue	1,214,978	2,489,010
Cash Received for Hurricane	<u>559,701</u>	<u>1,263,409</u>
Net Cash Provided by Operating Sources	\$ 12,262,961	\$ 15,749,125
Cash Flows Provided (Used) by Non-Capital Financing Activities		
Cash Received from Insurance Proceeds	-	273,306
Cash Paid to City of Key West, Florida	<u>(341,279)</u>	<u>(343,341)</u>
Net Cash (Used) by Non-Capital Financing Activities	<u>(341,279)</u>	<u>(70,035)</u>
Cash Flows Provided (Used) by Capital and Related Financing Activities		
Bond Proceeds	42,753,654	-
Issues Costs	(281,079)	-
Principal Paid on Long-Term Debt	(6,463,000)	(5,467,000)
Interest Paid on Revenue Bond Maturities	(2,055,434)	(3,385,486)
Contributions in Aid of Construction	225,468	85,983
Acquisitions and Construction of Capital Assets	(13,168,414)	(6,303,685)
Proceeds (costs) from Disposal of Assets	<u>1,365</u>	<u>118,162</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>21,012,560</u>	<u>(14,952,026)</u>
Cash Flows Provided (Used) by Investing Activities		
Interest Received on Investments	<u>2,030,243</u>	<u>1,047,716</u>
Net Cash Provided by Investing Activities	<u>2,030,243</u>	<u>1,047,716</u>
Net Increase in Cash and Cash Equivalents	34,964,485	1,774,780
Cash and Cash Equivalents at Beginning of year	<u>19,898,130</u>	<u>18,123,350</u>
Cash and Cash Equivalents at End of Year	<u>\$ 54,862,615</u>	<u>\$ 19,898,130</u>

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Reconciliation of Operating Income to
Net Cash Provided by Operating Activities

	2007	2006
Operating Income	\$ 3,876,115	\$ 7,518,996
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	6,340,313	6,182,488
Provision for Uncollectible Accounts	196,117	238,648
Amortization of Deferred Revenue	(316,128)	(82,286)
Receipt of Deferred Revenue	132,365	316,128
Other Non-Operating Sources of Revenue	1,398,741	2,255,168
Hurricane Revenue	550,209	186,628
Changes in Assets and Liabilities		
(Increase) Decrease in Restricted Working Capital Deposit	976,470	-
(Increase) Decrease in Long Term Debt	-	-
(Increase) Decrease in Accounts Receivable	(1,368,268)	(836,954)
(Increase) Decrease in Plant Material & Inventory	(700,623)	(267,515)
(Increase) Decrease in Prepaid Expenses	(758,545)	(108,365)
(Increase) Decrease in Due from Other Governments	9,492	1,076,781
Increase (Decrease) in Accounts Payable	1,181,706	(1,041,855)
Increase (Decrease) in Accrued Expenses	640,595	374,597
Increase (Decrease) in Customer Deposits	104,402	(63,334)
Increase (Decrease) in Security Deposits	-	-
Total Adjustments	8,386,846	8,230,129
Net Cash Provided by Operating Activities	\$ 12,262,961	\$ 15,749,125

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

In 2007 and 2006, amortization of bond discount and issue costs were \$113,096 and \$104,508, respectively.

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Basis of Accounting - KEYS' financial statements are accounted for based on accounting required by the Federal Energy Regulatory Commission (FERC), which is an application of generally accepted accounting principles that is peculiar to utilities. Revenues are recognized in the period earned and expenses are recognized in the period incurred, regardless of the timing of the related cash flows.

Budget - In accordance with KEYS' enabling Legislation, the Utility Board holds public hearings and subsequently adopts an annual budget for operating expenses and capital outlay. Actual revenues and expenses are compared to the budget on a line item basis (which is the legal level of control) within cost centers and an analysis of variances report is prepared and submitted to the Utility Board each month as required by bond indentures. During the year, staff can make amendments within the operating budget or the capital budget that do not change the total budget for those categories. The Utility Board approves all other budget changes. Supplemental appropriations were necessary during FY07 and the Utility Board, in accordance with KEYS' policies, amended the budgetary data presented herein. Budget appropriations lapse at each fiscal year-end except for the Capital Budget. The budget is adopted on a basis consistent with KEYS' basis of accounting except for depreciation and amortization, debt service on revenue bonds and allocation of administrative costs to capital projects.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

The following is a summary of property, plant and equipment for the year ended September 30, 2007:

	Balance 2006	Additions	Deletions	Balance 2007
Utility Plant in Service:				
Generation Plant	\$ 50,683,391	\$ 1,382,251	\$ (5,991,011)	\$ 46,074,631
Transmission Plant	72,481,155	203,550	(21,059)	\$ 72,663,646
Distribution Plant	58,162,357	6,886,820	(1,253,707)	\$ 63,795,470
General Plant	14,595,120	2,124,613	(1,417,880)	\$ 15,301,853
Other	220,264	-	-	\$ 220,264
Total Utility Plant in Service	<u>196,142,287</u>	<u>10,597,234</u>	<u>(8,683,657)</u>	<u>198,055,864</u>
Accumulated Depreciation:				
Generation Plant	(27,727,274)	(1,723,752)	6,063,119	(23,387,907)
Transmission Plant	(28,147,536)	(1,775,688)	47,872	(29,875,352)
Distribution Plant	(20,083,103)	(1,885,283)	1,216,138	(20,752,248)
General Plant	(6,508,003)	(955,589)	1,355,162	(6,108,430)
Other	-	-	-	-
Total Accumulated Depreciation	<u>(82,465,916)</u>	<u>(6,340,312)</u>	<u>8,682,291</u>	<u>(80,123,937)</u>
Net Utility Plant in Service	<u>\$ 113,676,371</u>	<u>\$ 4,256,922</u>	<u>\$ (1,366)</u>	<u>\$ 117,931,927</u>
Construction Work in Progress	<u>\$ 1,156,438</u>	<u>\$ 12,998,863</u>	<u>\$(10,597,234)</u>	<u>\$ 3,558,067</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

KEYS' policy concerning capitalized interest costs is in accordance with Statement of Financial Accounting Standards No. 62, which requires the capitalization of interest costs of restricted tax-exempt borrowings less any interest earned on investment funds during the construction period. For the fiscal years ended September 30, 2007 and 2006, interest costs of \$663,505 thousand and \$0, respectively were capitalized as utility plant construction costs which is detailed below.

	<u>2007</u>	<u>2006</u>
Interest Expense	\$ 1,828,389	\$ -
Amortization of Issue Premium	<u>(23,754)</u>	<u>-</u>
	1,804,635	-
Interest Earnings	<u>(1,141,130)</u>	<u>-</u>
Net Interest Costs Capitalized	<u><u>\$ 663,505</u></u>	<u><u>\$ -</u></u>

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

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

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

Compensated Absences - KEYS records compensation for unused vacation and sick leave as an expense in the year in which the vacation and sick leave is earned in accordance with GASB Statement No. 16. At September 30, 2007, annual vacation leave earned but not taken is \$423,657 and sick leave accumulated but not taken is \$858,882. During the next year \$13,014 vacation leave and \$85,055 sick leave will be due based on notification received from employees who intend to retire within the next year.

	Balance 2006	Increases	Decreases	Balance 2007
Vacation Leave	\$ 413,346	\$ 58,664	\$ (48,353)	\$ 423,657
Sick Leave	769,156	203,035	(113,309)	858,882
Total	<u><u>\$ 1,182,502</u></u>	<u><u>\$ 261,699</u></u>	<u><u>\$ (161,662)</u></u>	<u><u>\$ 1,282,539</u></u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Interest - Interest for the years ended September 30, 2007 and 2006 is summarized as follows:

	<u>2007</u>	<u>2006</u>
Electric Refunding Revenue Bonds, Series 1991	\$ 1,672,883	\$ 1,560,475
Electric Forward Refunding Revenue Bonds, Series 2000	2,370,238	2,635,599
Electric Forward Refunding Revenue Bonds, Series 2001	326,300	360,950
Revenue Bonds, Series 1980c	5,213	-
Series 2001 Loss on Refunding	60,626	60,627
Interest on Customer Deposits	197,964	194,367
FMPA Pooled Loan	-	53,021
Total Interest Expense	<u>\$ 4,633,224</u>	<u>\$ 4,865,039</u>

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

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

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

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

Unrestricted – All other net assets that do not meet the definition of “restricted for debt service” or “invested in capital assets, net of related debt.” For the years ended September 30, 2007 and 2006, the board has designated \$1.6 million and \$1.2 million respectively, for certain future repair and replacement costs.

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

NOTE 2 – OTHER PROPERTY AND INVESTMENTS

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

KEYS' Restricted Assets as of September 30, 2007 and 2006, respectively consist of the following:

	<u>2007</u>	<u>2006</u>
Emergency Reserve Fund	\$ 2,000,000	\$ 2,000,000
Contributions in Aid of Construction Fund	321,457	215,922
Renewal and Replacement Fund	140,242	2,606,517
Rate Stabilization Fund	4,602,882	3,925,074
Customer Deposits Fund	4,188,597	4,086,211
Construction Fund	37,730,701	-
Sinking Fund	5	-
Operating Reserve Fund	1,000,000	-
Total	<u>\$ 49,983,884</u>	<u>\$ 12,833,724</u>

Restricted Deposits- Florida Municipal Power Agency (FMPA) has required a working capital contribution. As of September 30, 2007 and 2006, the deposit balance was at \$2,266,539 and \$3,243,009 respectively. FMPA returned \$976,470 during the fiscal year.

NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

KEYS' cash and cash equivalents as of September 30, 2007 and 2006, respectively consist of the following:

	<u>2007</u>	<u>2006</u>
Cash	\$ 37,871,085	\$ 9,060,491
Cash Equivalents		
Repurchase agreements	4,884,522	10,837,639
Local Government Surplus Fund	12,107,008	-
Total cash and cash equivalents	<u>\$ 54,862,615</u>	<u>\$ 19,898,130</u>

All cash and cash equivalents are fully liquid. The Local Government Surplus Fund, created by Section 218.405, Florida Statutes, is an investment pool operated by the Florida State Board of Administration. It is administered by the State Board of Administration, under the regulatory oversight of the State of Florida, Chapter 19-7 of the Florida Administrative Code. In November 2007 it was determined that all deposits with the Florida State Board of Administration be closed and the funds transferred to a local institution. Please see Note 17 for further information.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

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

State Statutes govern KEYS' investment policies. In addition, KEYS has its own investment practices. Monies must be deposited in banks designated as qualified public depositories by the State of Florida, Department of Insurance and Treasurer. Permissible investments include the obligations of the U.S. Treasury and U.S. agencies, certificates of deposit, commercial paper, repurchase agreements, and other securities meeting KEYS' criteria for risk and return.

Collateral is provided for demand deposits and certificates of deposit through the Florida Security for Public Deposits Act. This Act established guidelines for qualification and participation by banks and savings associations, procedures for the administration of the collateral requirements and characteristics of eligible collateral. Under the Act, the qualified public depository must pledge at least 50% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance.

Additional collateral, up to a maximum of 125%, may be required if deemed necessary under the conditions set forth in the Act. Eligible collateral consists of obligations of the United States and its agencies and obligations of states and their political subdivisions, and unaffiliated corporations.

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

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

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

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

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

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

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, KEYS deposits may not be returned. KEYS’ does not have a deposit policy for custodial risk. As of September 30, 2007 and 2006, the bank balances were \$55,422,756 and \$20,076,767 respectively. The bank balances were covered by federal depository insurance and for the amount in excess of such federal depository insurance, by the State of Florida’s Security of Public Deposits Act. The Act requires each qualified public depository to deposit with the State Treasurer eligible collateral equal to or in excess of the required collateral as determined by the provisions of the Act. In the event of a failure by a qualified public depository, losses in excess of federal depository insurance and proceeds from the sale of securities pledged by the depository are assessed against the other qualified public depositories of the same type as the depository in default.

NOTE 4 – NON-CURRENT ASSETS

Other Receivable – The Key West Steam Plant was decommissioned in 1991. In Fiscal Year 2005 the developer received all the permitting and financing to begin construction to redevelop the Steam Plant site. The Utility Board executed two 99-year lease agreements in 2005: one with Steam Plant Condominiums, LLC for 19 luxury condominiums, and one with Old Town Key West Development, LLC for 38 affordable housing units. Due to four hurricanes in 2005, the completion date has been extended to 2008 for both housing projects.

The four long-term lease receivables totaling \$8,121,582 are as follows:

- 1) The base rent of the luxury units for \$6,444,290 payments begin at the end of construction.
- 2) The initial rent of \$500,000 due 42 months after execution of lease.
- 3) The percentage rent of luxury units of \$1,177,205 with a percentage due after sale and/or occupancy of unit.
- 4) The affordable rent of \$87 due at the end of construction.

Summary of Lease Receivable is as follows:

<u>Year</u>	<u>Receivable</u>		
2008	\$ 1,968,697		
2009	94,670		
2010	93,700		
2011	92,740	Lease Receivable - Current	-
2012	91,790		
2013-2104	5,779,985	Lease Receivable - Long Term	8,121,582
	<u>\$ 8,121,582</u>	Total Lease Receivable	<u><u>\$ 8,121,582</u></u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

NOTE 5 – LONG-TERM DEBT

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

Summary of Debt Service Funding Requirements to Maturity

<u>Payment 12 mos ending October 1,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 6,005,000	\$ 4,370,488	\$ 10,375,488
2009	\$ 6,340,000	\$ 4,040,881	10,380,881
2010	\$ 6,695,000	\$ 3,678,069	10,373,069
2011	\$ 7,090,000	\$ 3,293,431	10,383,431
2012	\$ 7,495,000	\$ 2,885,906	10,380,906
2013 - 2017	\$ 14,611,543	\$ 40,795,463	55,407,006
2018- 2022	\$ 11,796,242	\$ 17,156,796	28,953,038
2023- 2027	\$ 15,915,000	\$ 6,192,388	22,107,388
2028- 2031	\$ 15,680,000	\$ 2,007,500	17,687,500
Total	<u>\$ 91,627,785</u>	<u>\$ 84,420,922</u>	<u>\$ 176,048,707</u>
2007	<u>5,755,000</u>		
	<u>\$ 97,382,785</u>		
Deferred Loss, series 2001	(350,530)		
Premium, series 2006	753,654		
Total	<u>\$ 97,785,909</u>		

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

Changes in Long-Term Debt during Fiscal Year 2007 are as follows:

	<u>September 30, 2006</u>	<u>Additions</u>	<u>Retired</u>	<u>September 30, 2007</u>
Series 1991	\$ 8,077,785	\$ -	\$ -	\$ 8,077,785
Series 2000	44,530,000	-	4,615,000	39,915,000
Series 2001, net	7,878,844	-	839,374	7,039,470
Series 2006, net	-	42,777,408	23,754	42,753,654
FMPA	948,000	-	948,000	-
Total	<u>\$ 61,434,629</u>	<u>\$ 42,777,408</u>	<u>\$ 6,426,128</u>	<u>\$ 97,785,909</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

NOTE 5 – LONG-TERM DEBT (Continued)

Revenue Bonds:

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

	<u>2007</u>	<u>2006</u>
	\$ 8,077,785	\$ 8,077,785

Electric System Refunding Revenue Bonds, Series 2000, collateralized by Net Revenues and certain Reserve Funds, payable October 1, 2007 to October 1, 2013 in installments of various amounts, bearing interest at rates from 5.75% to 6.00%.

	39,915,000	44,530,000
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Electric System Refunding Revenue Bonds, Series 2001, collateralized by Net Revenues and certain Reserve Funds, payable October 1, 2007 to October 1, 2013 in installments of various amounts, bearing interest at rates from 3.70% to 4.62%.

	7,390,000	8,290,000
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Deferred Loss on Refunding-net, amortized on the straight line basis over the term of the Series 2001 Revenue Bonds

	(350,530)	(411,156)
--	-----------	-----------

Series 2001, net

	<u>7,039,470</u>	<u>7,878,844</u>
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Electric System Refunding and Capital Improvement Revenue Bonds, Series 2006, collateralized by Net Revenues and certain Reserve Funds, payable October 1, 2019 to October 1, 2031 in installments of various amounts, bearing interest at rates from 4.0% to 5.0%

	42,000,000	-
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Net Original Premium, amortized on the straight line basis over the term of the Series 2006 Refunding and Capital Improvement Bonds

	753,654	
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Series 2006, net

	<u>42,753,654</u>	<u>-</u>
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Loan Payable:

Loan from the Florida Municipal Power Agency, collateralized by a lien upon and pledge of the Net Revenues of KEYS subordinate to the claims of KEYS' bonds on the Net

	-	948,000
--	---	---------

Total Long-Term Debt

	97,785,909	61,434,629
--	-------------------	-------------------

Less Current Portion

	5,694,373	5,454,373
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Net Long-Term Debt

	<u>\$ 92,091,536</u>	<u>\$ 55,980,256</u>
--	-----------------------------	-----------------------------

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

NOTE 6 – PRIOR YEAR DEFEASANCE OF DEBT

During 1986, 1987, 1991, 1995, 2000 and 2001, KEYS defeased certain revenue bonds by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in KEYS' financial statements. At September 30, 2007, \$26,107,269 of bonds outstanding relative to the 1980C, 1983, 1984 and 1980D issues, \$15,043,706 relative to the 1985 issue, \$9,888,868 relative to the 1987 issue, \$14,516,919 relative to the 1988 issue, and \$6,610,000 relative to the 1991 issue are considered defeased.

NOTE 7 – RATE COVENANT

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

NOTE 8 – PENSION PLAN

Plan Description - The Retirement System for General Employees (the Plan) is a single-employer defined benefit pension plan administered by the Board of Trustees of the Plan. The Plan provides retirement, disability and death benefits to plan members and beneficiaries. Cost of living adjustments are automatically provided to members and beneficiaries. Commencing January 1, 2001, and every year thereafter, the rate was increased from 2% to 3%. The Plan was created by resolution of the Utility Board, which the Plan by resolution assigns the authority to establish and amend its provisions to the Utility Board. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Retirement System for General Employees, P.O. Drawer 6100, Key West, FL 33041-6100.

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

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

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

NOTE 8 – PENSION PLAN (Continued)

Pension Overpayment- During Fiscal Year 2004, KEYS identified benefit calculation errors resulting in overpayment of benefits over several years for a group of retirees. KEYS is currently examining the effects of these miscalculations and determining a plan of action to remedy the overpayments. Effective October 1, 2004, KEYS corrected the benefit calculations to preclude subsequent overpayments.

Schedule of Funding Progress – KEYS’ annual contribution for the calendar year 2007 of \$2,408,066 (28.9%) was determined as part of the January 1, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return and (b) projected salary increases of 5.5% per year. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of the Plan assets is the fair value of assets as reported in the Plan financial statements. The unfunded actuarial accrued liability is being amortized as a level payment on a closed basis. The remaining amortization period at January 1, 2007 was 30 years. KEYS had an unfunded actuarial accrued liability of \$8,467,396 and \$6,737,730 as of January 1, 2007 and 2006 respectively. The net pension obligation was \$(76,895) at December 31, 2006.

(1) Actuarial Valuation Date <u>January 1,</u>	(2) Entry Age Actuarial Value of <u>Assets</u>	(3) Actuarial Accrued Liability <u>(AAL)</u>	(4) Unfunded AAL <u>(UAAL)</u>	(5) Funded Ratio	(6) Covered Payroll	(7) UAAL as a Percentage of Covered Payroll
2002	\$ 49,513	\$ 50,730	\$ 1,217	97.6%	\$ 6,764	18.0%
2003	\$ 50,459	\$ 52,434	\$ 1,975	96.2%	\$ 6,845	28.9%
2004	\$ 51,439	\$ 55,408	\$ 3,969	92.8%	\$ 6,898	57.5%
2005	\$ 53,036	\$ 57,511	\$ 4,475	92.2%	\$ 6,934	64.5%
2006	\$ 54,266	\$ 61,004	\$ 6,738	89.0%	\$ 7,644	88.1%
2007	\$ 55,876	\$ 64,344	\$ 8,468	86.8%	\$ 8,344	101.5%

Calendar <u>Year</u>	Annul Pension Cost (APC)	Percentage APC Contributed	Net Pension Obligation
2001	\$ 1,245,998	100%	\$ -
2002	\$ 1,673,299	102%	\$ (26,551)
2003	\$ 1,644,221	101%	\$ (42,957)
2004	\$ 1,911,019	100%	\$ (42,578)
2005	\$ 1,979,611	102%	\$ (77,580)
2006	\$ 2,209,590	100%	\$ (76,895)

	<u>2006</u>	<u>2007</u>
Annual Required Contribution (ARC)	\$ 2,208,905	\$ 2,422,512
Interest on NPO	(6,206)	(6,152)
Adjustment to ARC	6,891	5,146
APC	<u>\$ 2,209,590</u>	<u>\$ 2,421,506</u>
Utility Board Contribution	(2,208,905)	
Increase (Decrease) in NPO	685	
NPO (beginning of year)	(77,580)	
NPO (end of year)	<u>(76,895)</u>	

Note: Fiscal Year 2006 ARC has changed to actual. The previously reported ARC was based on the actuarial's estimate.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

NOTE 9 – LEASES

Rent expense under cancelable operating leases related to copiers, mailing equipment and time clocks was \$209,554 and \$179,882 in 2007 and 2006.

NOTE 10 – JOINT INVESTMENT

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

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

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

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

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

NOTE 10 – JOINT INVESTMENT (Continued)

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

NOTE 11 - PURCHASED POWER COMMITMENTS

All Requirements Power Supply Project – In July 1997, KEYS agreed to become a member of the Florida Municipal Power Agency (FMPA) All-Requirements Power Supply Project (the "All-Requirements Project") and began operations as a project participant effective April 1, 1998. Under the contractual arrangement with FMPA, KEYS has assigned all of its generating and firm purchased power resources to FMPA, and FMPA will serve all of KEYS' requirements (net of up to 2 MW of non-firm capacity when available from the local resource recovery facility). Further, in the event that power cannot be delivered to the KEYS' service area over the tie line to the mainland, KEYS established a policy to have island generation capability equal to at least 60% of KEYS' peak load. KEYS and FMPA have agreed to meet these criteria through a combination of KEYS' 43.4 MW of existing generating resources and three combustion turbine units that are owned by FMPA, which currently total 79.7 MW. As part of the All-Requirements Project contract, the Florida Municipal Power Agency is required to maintain generation assets within KEYS' Service Area equal to or above 60 percent of the KEYS' load. Florida Municipal Power Agency purchased a General Electric LM 6000 (CT #4) capable of producing 43 MW which went on line in 2006, allowing KEYS to retire the Big Pine and Cudjoe High Speed Diesels (7 MW). The FMPA All-Requirements Project, the related assignment of resources by KEYS to FMPA, and other matters pertaining to KEYS' power supply are discussed in the paragraphs following.

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

Other power purchase and sale arrangements include KEYS' purchases from a small resource recovery unit located on Stock Island, sale of power to FKEC, and interchange service agreements with other Florida utilities and with power marketers.

KEYS appoints one representative to FMPA's Board of Directors, which governs the Agency's activities. The governance of rates charged to members includes the All-Requirements Project Committee (KEYS has one vote) and the FMPA Board of Directors (KEYS' vote is weighted based on KEYS' net energy for load).

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

NOTE 11 - PURCHASED POWER COMMITMENTS (Continued)

Based upon the unit's high dispatch rating of 425 MW, the Tri-City Project consists of a 22 MW undivided ownership and KEYS' power entitlement share is approximately 12 MW at the plant bus bar.

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

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Risk Management - KEYS is exposed to various risks of loss related to torts, damage, theft or destruction of assets, errors or omissions, injuries to employees, and natural disasters. KEYS purchases commercial insurance policies from a commercial insurance carrier and other insurance carriers to minimize its risk of loss in these areas. KEYS' has not experienced an insurance settlement in excess of insurance coverage during the past four fiscal years. KEYS' bears the risk of loss up to the deductible amounts, which are disclosed in the accompanying statistical tables.

NOTE 13 – NAVY CONTRACT

The United States Navy is the largest customer of KEYS and accounted for approximately 9.4% and 9.2% of kilowatt hours sold in Fiscal Years 2007 and 2006, respectively. KEYS' contract with the Navy is for a term of ten years with a provision which requires the parties to commence negotiations for a new contract at least two years prior to the end of the current contract. The contract also contains provisions for minimum billing, service reduction and exclusive service provisions. Pursuant to this contract, KEYS has agreed to provide a maximum of 15 megawatts of power at multiple locations.

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

NOTE 14 – REGULATION

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

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

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

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

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

NOTE 15 – POST EMPLOYMENT HEALTH CARE BENEFITS

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

KEYS employees hired before June 9, 1999 are eligible for these benefits if they qualify for retirement status while working for KEYS. At September 30, 2007, 120 retirees were eligible for and were receiving these benefits. These and similar benefits for active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. KEYS recognizes the cost of providing these benefits on a pay-as-you-go basis by expensing the insurance premiums for retirees, which were \$985,075 and \$953,344 for 2007 and 2006, respectively.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

NOTE 16 – PAYMENT TO THE CITY OF KEY WEST

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

Paragraph (11) of Section 3.03 (B) of the Original Resolution 532 was amended on September 8, 1999 by Resolution 678 to be effective for the amount paid in 2001. The Board will pay to the City a sum equal to the greater of (a) \$200,000 (adjusted annually for changes in the Consumer Price index or (b) one percent (1%) of the Gross Revenues derived from sales of electricity at retail (exclusive of Power Cost Revenues which are defined as (i) revenues determined by reference to the power cost component of base rates, plus or minus (ii) power cost adjustment charges or credits.) The annual payments were \$341,279 and \$343,341 for 2007 and 2006, respectively.

NOTE 17 – SUBSEQUENT EVENT

In November 2007, the Utility Board transferred all funds that were held at Florida State Board of Administration Pooled Investment Fund. This was in response to a notification received from KEYS investment counselor suggesting the funds would be more accessible at a local institution. KEYS' was able to close out all accounts and secure the funds locally.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
SCHEDULE OF REVENUES EARNED
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Operating Revenues:		
Electric Revenues	\$ 90,392,760	\$ 59,750,375
Power Cost Adjustment	(312,369)	34,217,993
Service Charges	248,140	134,068
Penalty Charges	601,588	470,133
Reserve Capacity	1,931,766	1,804,033
Other	168,639	94,525
Charges for New Service	<u>718,348</u>	<u>728,938</u>
Total	<u>93,748,872</u>	<u>97,200,065</u>
Other Income:		
Interest	2,032,958	1,047,716
Hurricane-Grant Revenue	550,209	3,281,600
Hurricane-Insurance Proceeds	-	273,306
CT#1 Insurance Proceeds	-	781,813
Pole Attachment	375,474	368,669
FKEC Audit Revenue	-	231,637
DOE Crude Oil Refund	-	145,416
Generating Unit Expense Reimbursement	499,609	189,742
Tree Trimming	110,550	92,565
KW Steam Plant Rental Income	179,369	173,348
Miscellaneous Non-Operating Revenue	<u>233,739</u>	<u>271,978</u>
Total Other Income	<u>3,981,908</u>	<u>6,857,790</u>
Total Revenues	<u>\$ 97,730,780</u>	<u>\$ 104,057,855</u>

UTILITY BOARD OF THE CITY OF KEY WEST
SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET TO ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Annual Budget		Year to Date Actual	Variance- Favorable (Unfavorable)
	Original	Current		
Revenues				
Operating Revenues	\$ 99,235,998	\$ 99,235,998	\$ 90,080,391	\$ (9,155,607)
Other Operating Revenues	2,453,243	2,453,243	3,668,481	1,215,238
Interest Income	1,113,283	2,682,385	2,032,958	(649,427)
Hurricane - Grant Revenue	-	-	550,209	550,209
Non-Operating Revenues	<u>2,171,507</u>	<u>1,018,394</u>	<u>1,398,741</u>	<u>380,347</u>
Total Budget Revenue	<u>104,974,031</u>	<u>105,390,020</u>	<u>97,730,780</u>	<u>(7,659,240)</u>
Expenditures				
Production Expenses - Diesel	1,157,112	1,346,446	1,623,810	(277,364)
Purchased Power	63,913,044	63,913,044	58,531,619	5,381,425
Transmission Expenses	3,847,608	4,217,444	3,857,363	360,081
Distribution Expenses	4,017,991	4,071,520	3,984,022	87,498
Customer Accounts and Collection Expenses	1,306,431	1,307,438	1,332,355	(24,917)
Customer Deposit Interest	157,752	157,752	197,964	(40,212)
Administrative and General Expenses	14,756,550	12,279,831	16,306,904	(4,027,073)
Senior Lien Debt Service	8,386,900	8,386,900	8,451,537	(64,637)
Junior Lien Debt Service	976,440	976,440	948,000	28,440
Dividend to City of Key West	<u>377,762</u>	<u>377,762</u>	<u>341,279</u>	<u>36,483</u>
Total Expenditures	<u>98,897,590</u>	<u>97,034,577</u>	<u>95,574,853</u>	<u>1,459,724</u>
Excess of Revenues Over Expenditures	<u>\$ 6,076,441</u>	<u>\$ 8,355,443</u>	<u>2,155,927</u>	<u>\$ 6,199,516</u>
Adjustments				
Depreciation			(6,340,313)	
Principal Portion of Budgeted Debt Service			6,703,000	
Capitalized Overhead			2,103,629	
Interest Accrued but Unfunded			(1,672,883)	
Amortization of Issuance Costs			(113,096)	
Capital Contributions			225,468	
Interest on 1980C Series			(5,213)	
Amortization of Loss on Refunding			<u>(60,627)</u>	
Change in Net Assets, GAAP Basis			<u>\$ 2,995,892</u>	



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

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

We have audited the financial statements of the Utility Board of the City of Key West, Florida, d/b/a Keys Energy Services, ("KEYS") as of and for the year ended September 30, 2007, which comprise KEYS' basic financial statements and have issued our report thereon dated January 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects KEYS' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of KEYS' financial statements that is more than inconsequential will not be prevented or detected by KEYS' internal control.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of KEYS, in a separate letter dated January 15, 2008.

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



OROPEZA & PARKS
CERTIFIED PUBLIC ACCOUNTANTS

January 15, 2008

UTILITY BOARD OF THE CITY OF KEY WEST

STATISTICAL SECTION DESCRIPTION

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

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

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

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

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

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CONDENSED BALANCE SHEETS

FISCAL YEARS 2007 - 1998

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
ASSETS										
Current Assets										
Cash and Investments	\$ 4,878,731	\$ 7,064,406	\$ 6,657,203	\$ 5,950,771	\$ 5,897,131	\$ 6,094,567	\$ 1,764,083	\$ 2,297,708	\$ 3,650,143	\$ 499,288
Accounts Receivable, net	6,930,502	6,152,177	5,729,570	5,252,346	4,317,862	4,514,931	6,723,727	5,890,221	5,573,281	6,529,459
Plant Material and Operating Supplies Inventory	3,422,943	2,722,320	2,454,805	2,659,814	2,496,248	3,408,455	3,282,355	2,938,287	2,470,040	1,846,655
Other Current Assets	<u>10,201,069</u>	<u>9,237,560</u>	<u>10,203,625</u>	<u>1,483,817</u>	<u>1,159,438</u>	<u>809,915</u>	<u>355,942</u>	<u>545,171</u>	<u>529,614</u>	<u>565,305</u>
Total Unrestricted Current Assets	25,433,245	25,176,463	25,045,203	15,346,748	13,870,679	14,827,868	12,126,107	11,671,387	12,223,078	9,440,707
Cash and Investments-Restricted	49,983,884	12,833,724	11,466,147	19,538,828	19,329,440	22,871,985	26,276,639	31,743,510	34,143,717	29,035,302
Interest Receivable	<u>2,715</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,320</u>	<u>368,358</u>	<u>287,446</u>	<u>358,881</u>
Total Restricted Current Assets	49,986,599	12,833,724	11,466,147	19,538,828	19,329,440	22,871,985	26,319,959	32,111,868	34,431,163	29,394,183
Total Current Assets	<u>75,419,844</u>	<u>38,010,187</u>	<u>36,511,350</u>	<u>34,885,576</u>	<u>33,200,119</u>	<u>37,699,853</u>	<u>38,446,066</u>	<u>43,783,255</u>	<u>46,654,241</u>	<u>38,834,890</u>
Non Current Assets										
Capital Assets										
Net Utility Plant	\$ 117,931,927	\$ 113,676,371	\$ 111,804,113	\$ 111,753,669	\$ 110,314,331	\$ 110,624,848	\$ 110,529,716	\$ 100,127,962	\$ 99,348,305	\$ 100,200,302
Construction in Progress	<u>3,558,067</u>	<u>1,156,438</u>	<u>2,307,807</u>	<u>3,278,081</u>	<u>5,021,562</u>	<u>2,336,476</u>	<u>2,158,024</u>	<u>5,994,178</u>	<u>4,116,931</u>	<u>8,645,799</u>
Total Net Capital Assets	121,489,994	114,832,809	114,111,920	115,031,750	115,335,893	112,961,324	112,687,740	106,122,140	103,465,236	108,846,101
Other Property										
Net Non-Utility Plant	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>
Total Other Property	-	-	-	3,009,773	3,009,773	3,009,773	3,009,773	3,009,773	3,009,773	3,009,773
Restricted Non-Current Assets										
Deposits-Restricted	<u>2,266,539</u>	<u>3,243,009</u>	<u>3,243,009</u>	<u>3,243,009</u>	<u>1,621,505</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Restricted Non-Current Assets	2,266,539	3,243,009	3,243,009	3,243,009	1,621,505	-	-	-	-	-
Unrestricted Non-Current Assets										
Investments	-	-	-	44,075	554,913	1,035,667	4,506,094	3,929,257	-	-
Other Accounts Receivable	8,121,582	7,942,212	7,768,864	-	-	-	-	-	-	-
Deferred Charges	<u>972,729</u>	<u>804,746</u>	<u>909,254</u>	<u>1,013,762</u>	<u>1,118,270</u>	<u>1,222,778</u>	<u>1,481,546</u>	<u>1,796,124</u>	<u>2,300,242</u>	<u>2,489,749</u>
Total Unrestricted Non-Current Assets	9,094,311	8,746,958	8,678,118	1,057,837	1,673,183	2,258,445	5,987,640	5,725,381	2,300,242	2,489,749
Total Non-Current Assets	<u>132,850,844</u>	<u>126,822,776</u>	<u>126,033,047</u>	<u>122,342,369</u>	<u>121,640,354</u>	<u>118,229,542</u>	<u>121,685,153</u>	<u>114,857,294</u>	<u>108,775,251</u>	<u>114,345,623</u>
Total Assets	<u>\$ 208,270,688</u>	<u>\$ 164,832,963</u>	<u>\$ 162,544,397</u>	<u>\$ 157,227,945</u>	<u>\$ 154,840,473</u>	<u>\$ 155,929,395</u>	<u>\$ 160,131,219</u>	<u>\$ 158,640,549</u>	<u>\$ 155,429,492</u>	<u>\$ 153,180,513</u>

(Continued)

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CONDENSED BALANCE SHEETS (CONTINUED)

FISCAL YEARS 2007 - 1998

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	Restated <u>2003</u>	Restated <u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
NET ASSETS AND LIABILITIES										
Current Liabilities										
Unrestricted Current Liabilities										
Accounts Payable	\$ 6,685,677	\$ 5,709,921	\$ 6,751,776	\$ 5,135,018	\$ 4,657,297	\$ 3,864,900	\$ 3,917,568	\$ 3,477,950	\$ 3,608,804	\$ 3,821,680
Accrued Expenses	3,149,004	2,508,409	2,133,812	1,697,905	1,457,832	1,250,345	1,190,933	1,066,370	1,028,575	1,310,498
Deferred Revenues	<u>132,365</u>	<u>316,128</u>	<u>82,286</u>	<u>108,397</u>	<u>64,835</u>	<u>112,201</u>	<u>274,301</u>	<u>82,520</u>	<u>219,338</u>	<u>330,703</u>
Total Unrestricted Current Liabilities	9,967,046	8,534,458	8,967,874	6,941,320	6,179,964	5,227,446	5,382,802	4,626,840	4,856,717	5,462,881
Restricted Current Liabilities										
Current Portion of Long-Term Debt	5,694,373	5,454,373	5,169,373	4,909,373	5,009,373	4,790,611	4,240,611	8,844,404	8,040,014	7,747,728
Accounts Payable	744,959	914,510	196,656	298,888	518,400	424,638	268,384	1,075,805	1,073,974	148,466
Accrued Interest	2,342,556	1,498,275	1,639,823	1,768,198	1,889,160	1,998,717	2,069,870	1,572,960	816,126	948,718
Due to Customers	4,125,296	4,020,894	4,084,228	4,012,967	3,924,232	4,001,563	4,058,346	4,390,789	4,401,941	4,312,816
Due to Other Governments	-	-	-	-	-	224,018	-	-	-	-
Accrued Expenses	205,950	-	-	-	-	-	-	-	-	-
Security Deposits Payable	<u>110,000</u>	<u>110,000</u>	<u>110,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Restricted Current Liabilities	13,223,134	11,998,052	11,200,080	10,989,426	11,341,165	11,439,547	10,637,211	15,883,958	14,332,055	13,157,728
Total Current Liabilities	23,190,180	20,532,510	20,167,954	17,930,746	17,521,129	16,666,993	16,020,013	20,510,798	19,188,772	18,620,609
Long-Term Debt										
Revenue Bonds	92,091,536	55,032,256	60,486,629	65,656,003	70,565,376	75,233,511	83,636,135	87,528,888	55,470,092	61,502,481
Accrued Interest	16,819,451	15,146,568	13,586,094	12,130,463	10,772,630	9,506,029	8,992,072	7,817,871	43,806,585	40,238,624
Loan Payable	<u>-</u>	<u>948,000</u>	<u>1,185,000</u>	<u>-</u>	<u>-</u>	<u>340,000</u>	<u>680,000</u>	<u>182,409</u>	<u>-</u>	<u>-</u>
Total Long-Term Debt	108,910,987	71,126,824	75,257,723	77,786,466	81,338,006	85,079,540	93,308,207	95,529,168	99,276,677	101,741,105
Total Liabilities	<u>132,101,167</u>	<u>91,659,334</u>	<u>95,425,677</u>	<u>95,717,212</u>	<u>98,859,135</u>	<u>101,746,533</u>	<u>109,328,220</u>	<u>116,039,966</u>	<u>118,465,449</u>	<u>120,361,714</u>
Net Assets	<u>76,169,521</u>	<u>73,173,629</u>	<u>67,118,720</u>	<u>61,510,733</u>	<u>55,981,338</u>	<u>54,182,862</u>	<u>50,802,999</u>	<u>42,600,583</u>	<u>36,964,043</u>	<u>32,818,799</u>
Total Net Assets and Liabilities	<u>\$ 208,270,688</u>	<u>\$ 164,832,963</u>	<u>\$ 162,544,397</u>	<u>\$ 157,227,945</u>	<u>\$ 154,840,473</u>	<u>\$ 155,929,395</u>	<u>\$ 160,131,219</u>	<u>\$ 158,640,549</u>	<u>\$ 155,429,492</u>	<u>\$ 153,180,513</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CHANGES IN NET ASSETS

FISCAL YEARS 2007 - 1998

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Revenues										
Utility Activities:										
Charges for Electric:										
Customer Charge	2,182,999	2,097,779	2,106,597	2,076,473	2,062,558	2,046,854	2,027,916	1,919,513	1,552,443	1,556,088
Energy	81,175,294	50,721,562	52,074,914	52,842,391	51,946,140	50,539,343	49,849,743	48,867,233	39,521,839	39,614,633
Demand	4,786,021	4,586,551	4,767,462	4,741,167	4,774,887	4,636,591	4,480,583	4,464,433	3,610,631	3,619,107
Power Cost Adjustment	(312,369)	34,217,993	19,451,323	16,695,062	9,892,463	5,624,742	9,751,318	857,080	14,089,541	16,605,847
Gross Receipts	2,248,446	2,344,483	2,005,905	1,929,535	1,782,729	1,607,900	1,691,395	1,432,430	593,394	622,321
Sales for Resale	-	-	-	-	-	-	-	-	-	480,181
Total Charges for Electric	90,080,391	93,968,368	80,406,201	78,284,628	70,458,777	64,455,430	67,800,955	57,540,689	59,367,848	62,498,177
Charges for Service:										
Penalty Charge	601,588	470,133	482,655	523,623	457,717	387,600	515,682	354,867	392,166	454,953
Service Charge	248,140	134,068	141,677	132,024	159,050	116,349	118,541	121,100	114,665	108,720
Initial Permanent Service	217,610	31,400	57,800	57,625	35,050	37,575	41,750	61,377	43,253	30,789
Line Extension	500,738	697,538	69,354	195,370	108,115	135,202	4,575	2,465	1,800	6,291
Contributions in Aid of Construction	225,468	85,983	119,347	81,417	146,587	127,323	185,059	287,541	621,384	160,911
Total Charges for Service	1,793,544	1,419,122	870,833	990,059	906,519	804,049	865,607	827,350	1,173,268	761,664
Charges for Other Services:										
Green Power	5,374	3,547	3,601	1,985	-	-	-	-	-	-
Capacity Credits	1,931,766	1,804,033	2,029,173	1,909,808	1,883,557	1,598,265	1,471,961	1,368,859	1,243,512	444,960
Other	163,265	90,978	288,275	234,374	34,979	99,870	80,883	59,306	82,131	40,653
Total Charges for Other Services	2,100,405	1,898,558	2,321,049	2,146,167	1,918,536	1,698,135	1,552,844	1,428,165	1,325,643	485,613
Total Utility Activities	93,974,340	97,286,048	83,598,083	81,420,854	73,283,832	66,957,614	70,219,406	59,796,204	61,866,759	63,745,454
Non-Utility Activities:										
Rental Income	644,179	633,419	402,898	316,060	266,547	247,632	224,991	222,391	248,955	190,526
Miscellaneous	644,012	1,529,184	269,151	129,512	11,032	657,534	854,732	1,656,063	118,110	140,511
Tree Trimming	110,550	92,565	81,573	181,774	175,290	188,974	-	236,691	236,691	216,967
Investment Earnings	2,032,958	1,047,716	613,525	301,862	396,649	655,969	1,815,338	1,862,118	1,260,837	1,219,430
Special Item-Hurricane	550,209	3,281,600	1,900,702	-	-	-	-	331,832	4,439,834	1,215,691
Special Item-Insurance Proceeds	-	273,306	-	-	-	-	-	-	-	-
Special Item-SO2 Credits	-	-	-	-	-	-	-	-	4,285,700	-
Grant Revenue	-	-	119,367	110,937	3,022	6,500	193,019	5,000	-	5,000
Gain on Disposition of Property	-	-	4,568,719	-	-	-	-	-	-	-
Total Non-Utility Activities	3,981,908	6,857,790	7,955,935	1,040,145	852,540	1,756,609	3,088,080	4,314,095	10,590,127	2,988,125
Total Revenues	\$ 97,956,248	\$ 104,143,838	\$ 91,554,018	\$ 82,460,999	\$ 74,136,372	\$ 68,714,223	\$ 73,307,486	\$ 64,110,299	\$ 72,456,886	\$ 66,733,579

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CHANGES IN NET ASSETS (Continued)

FISCAL YEARS 2007 - 1998

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Expenses										
Utility Activities:										
Operating Expenses										
Production - Steam	-	-	-	-	-	-	-	-	-	166,385
Production - Diesel	1,623,810	1,482,077	1,074,167	887,371	916,557	779,761	816,946	681,671	841,671	1,036,565
Purchased Power	58,531,619	59,946,424	49,287,046	44,523,179	41,311,655	34,230,472	36,742,561	29,133,085	26,253,614	31,891,585
Transmission	3,857,363	3,539,845	3,646,679	3,298,491	3,711,111	3,485,983	3,589,637	3,673,226	3,575,771	760,025
Distribution	3,984,022	3,366,439	3,017,736	3,250,018	2,832,211	3,075,612	2,985,558	3,167,390	3,295,190	3,252,971
Customer Service	1,332,355	1,243,322	1,280,590	1,085,522	1,015,116	985,698	1,033,617	1,035,576	1,062,064	1,015,357
Administrative & General	11,812,589	11,452,519	11,540,112	10,004,675	8,757,455	8,460,644	5,977,699	5,601,023	5,881,170	5,928,275
Depreciation	6,340,313	6,182,488	6,391,999	6,441,587	6,367,595	6,500,687	5,680,618	5,488,771	5,783,556	5,402,133
Gross Receipts Tax	2,252,740	2,348,479	2,010,155	1,932,116	1,786,472	1,611,989	1,695,508	1,432,385	1,533,057	1,515,708
Employer Payroll Tax	137,946	119,476	116,919	89,107	68,831	65,945	63,034	60,557	55,116	52,260
Total Utility Activities	<u>89,872,757</u>	<u>89,681,069</u>	<u>78,365,403</u>	<u>71,512,066</u>	<u>66,767,003</u>	<u>59,196,791</u>	<u>58,585,178</u>	<u>50,273,684</u>	<u>48,281,209</u>	<u>51,021,264</u>
Non-Utility Activities										
Debt Expenses										
Interest on Debt	4,435,260	4,670,672	4,811,456	4,959,686	5,116,455	5,468,680	5,788,814	7,107,912	7,424,554	7,517,011
Interest Customer Deposit	197,964	194,367	109,429	29,345	31,538	74,701	279,513	252,913	198,347	212,472
Amortization of Bond Discount	113,096	104,508	104,508	104,508	104,508	259,703	127,714	187,707	189,507	190,550
Payment to City of Key West	341,279	343,341	340,548	325,998	318,394	334,485	323,851	317,146	249,644	230,708
Special Item - Hurricane	-	3,094,972	2,214,686	-	-	-	-	334,397	5,074,097	1,232,965
Retirement of Steam Plant	-	-	-	-	-	-	-	-	6,894,284	-
Total Non-Utility Activities	<u>5,087,599</u>	<u>8,407,860</u>	<u>7,580,627</u>	<u>5,419,537</u>	<u>5,570,895</u>	<u>6,137,569</u>	<u>6,519,892</u>	<u>8,200,075</u>	<u>20,030,433</u>	<u>9,383,706</u>
Total Expenses	<u>\$ 94,960,356</u>	<u>\$ 98,088,929</u>	<u>\$ 85,946,030</u>	<u>\$ 76,931,603</u>	<u>\$ 72,337,898</u>	<u>\$ 65,334,360</u>	<u>\$ 65,105,070</u>	<u>\$ 58,473,759</u>	<u>\$ 68,311,642</u>	<u>\$ 60,404,970</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CHANGES IN NET ASSETS (Continued)

FISCAL YEARS 2007 - 1998

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<u>Change in Net Assets</u>										
Utility Activities										
Total Utility Revenues	93,974,340	97,286,048	83,598,083	81,420,854	73,283,832	66,957,614	70,219,406	59,796,204	61,866,759	63,745,454
Total Utility Expenses	<u>89,872,757</u>	<u>89,681,069</u>	<u>78,365,403</u>	<u>71,512,066</u>	<u>66,767,003</u>	<u>59,196,791</u>	<u>58,585,178</u>	<u>50,273,684</u>	<u>48,281,209</u>	<u>51,021,264</u>
Utility Change in Net Assets	4,101,583	7,604,979	5,232,680	9,908,788	6,516,829	7,760,823	11,634,228	9,522,520	13,585,550	12,724,190
Non-Utility Activities										
Total Non-Utility Revenues	3,981,908	6,857,790	7,955,935	1,040,145	852,540	1,756,609	3,088,080	4,314,095	10,590,127	2,988,125
Total Non-Utility Expenses	<u>5,087,599</u>	<u>8,407,860</u>	<u>7,580,627</u>	<u>5,419,537</u>	<u>5,570,895</u>	<u>6,137,569</u>	<u>6,519,892</u>	<u>8,200,075</u>	<u>20,030,433</u>	<u>9,383,706</u>
Non-Utility Change in Net Assets	(1,105,691)	(1,550,070)	375,308	(4,379,392)	(4,718,355)	(4,380,960)	(3,431,812)	(3,885,980)	(9,440,306)	(6,395,581)
Change in Net Assets	<u>\$ 2,995,892</u>	<u>\$ 6,054,909</u>	<u>\$ 5,607,988</u>	<u>\$ 5,529,396</u>	<u>\$ 1,798,474</u>	<u>\$ 3,379,863</u>	<u>\$ 8,202,416</u>	<u>\$ 5,636,540</u>	<u>\$ 4,145,244</u>	<u>\$ 6,328,609</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

NET ASSETS BY COMPONENT

FISCAL YEARS 2007 - 1998

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Utility Activities										
Invested in capital assets, net of related debt	\$ 60,127,172	\$ 53,995,651	\$ 48,044,762	\$ 47,004,365	\$ 42,238,508	\$ 34,953,312	\$ 26,426,478	\$ 12,568,467	\$ 36,964,043	\$ 32,818,797
Restricted for Working Capital	2,266,539	3,243,009	3,243,009	3,243,009	1,621,505	-	-	-	-	-
Unrestricted	13,775,810	15,934,969	15,830,949	11,263,359	12,121,325	17,915,179	24,376,521	30,032,116	-	-
Total Net Assets	\$ 76,169,521	\$ 73,173,629	\$ 67,118,720	\$ 61,510,733	\$ 55,981,338	\$ 52,868,491	\$ 50,802,999	\$ 42,600,583	\$ 36,964,043	\$ 32,818,797

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

REVENUES BY TYPE OF CUSTOMER

FISCAL YEARS 2007 - 1998

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Residential	\$ 42,438,131	\$ 44,302,430	\$ 37,767,031	\$ 36,658,912	\$ 33,526,793	\$ 29,945,374	\$ 30,573,275	\$ 25,901,263	\$ 25,063,159	\$ 26,316,989
Senior Citizen	428,097	452,712	369,301	314,552	229,184	195,524	207,605	149,109	157,444	148,971
Small Commercial	9,595,506	9,861,649	8,386,852	8,170,521	7,209,746	6,980,914	7,723,758	6,325,532	6,709,550	6,922,672
Large Commercial	27,432,935	28,882,226	24,131,212	23,690,538	20,955,224	18,998,550	20,122,328	17,229,071	18,900,932	19,573,180
Large Commercial-Primary	1,653,887	1,783,289	1,503,875	1,516,123	1,382,608	1,431,486	1,666,483	1,373,286	1,406,978	1,548,294
Industrial	-	-	-	-	7,313	46,533	25,134	17,809	19,348	-
Metro	-	-	-	-	-	-	-	-	22,474	-
Military	7,797,799	7,986,754	7,618,487	7,296,000	6,561,783	6,285,413	6,848,174	5,938,793	6,475,052	6,832,240
Churches	96,087	103,375	87,974	94,843	81,599	73,457	77,890	67,855	75,787	84,084
Recreating Lighting	30,242	28,274	28,956	25,102	23,384	22,505	23,827	21,221	19,770	44,606
Street Lighting	382,452	397,735	339,410	327,408	302,405	289,625	345,077	336,963	357,487	355,615
Area Lights	225,255	169,924	173,103	190,629	178,738	186,049	187,404	179,787	159,867	191,345
Resale Sales	-	-	-	-	-	-	-	-	-	480,181
Total Electric Revenues	\$ 90,080,391	\$ 93,968,368	\$ 80,406,201	\$ 78,284,628	\$ 70,458,777	\$ 64,455,430	\$ 67,800,955	\$ 57,540,689	\$ 59,367,848	\$ 62,498,177

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

ACTUAL NUMBER OF CUSTOMERS BILLED

(Month of September)

FISCAL YEARS 2007 - 1998

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Residential	23,602	23,626	23,722	23,485	23,430	23,244	23,002	22,945	22,347	22,119
Senior Citizen	365	385	359	328	273	227	266	209	243	215
Small Commercial	3,135	3,083	3,003	2,981	2,867	2,847	2,885	2,855	2,709	2,642
Large Commercial	666	641	689	682	676	663	611	632	662	653
Large Commercial-Primary	5	5	5	5	6	6	9	8	9	7
Military	1	1	1	1	1	1	1	1	1	1
Churches	15	14	14	14	16	14	15	15	15	16
Recreating Lighting	3	4	4	4	4	4	4	4	4	4
Street Lighting	5	5	5	5	5	5	5	4	4	4
Area Lights	1,743	1,743	1,743	1,743	1,743	1,743	1,743	1,545	1,536	1,536
Total Customers	29,540	29,507	29,545	29,248	29,021	28,754	28,541	28,218	27,530	27,197

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

kWh SALES BY TYPE OF CUSTOMER

FISCAL YEARS 2007 - 1998

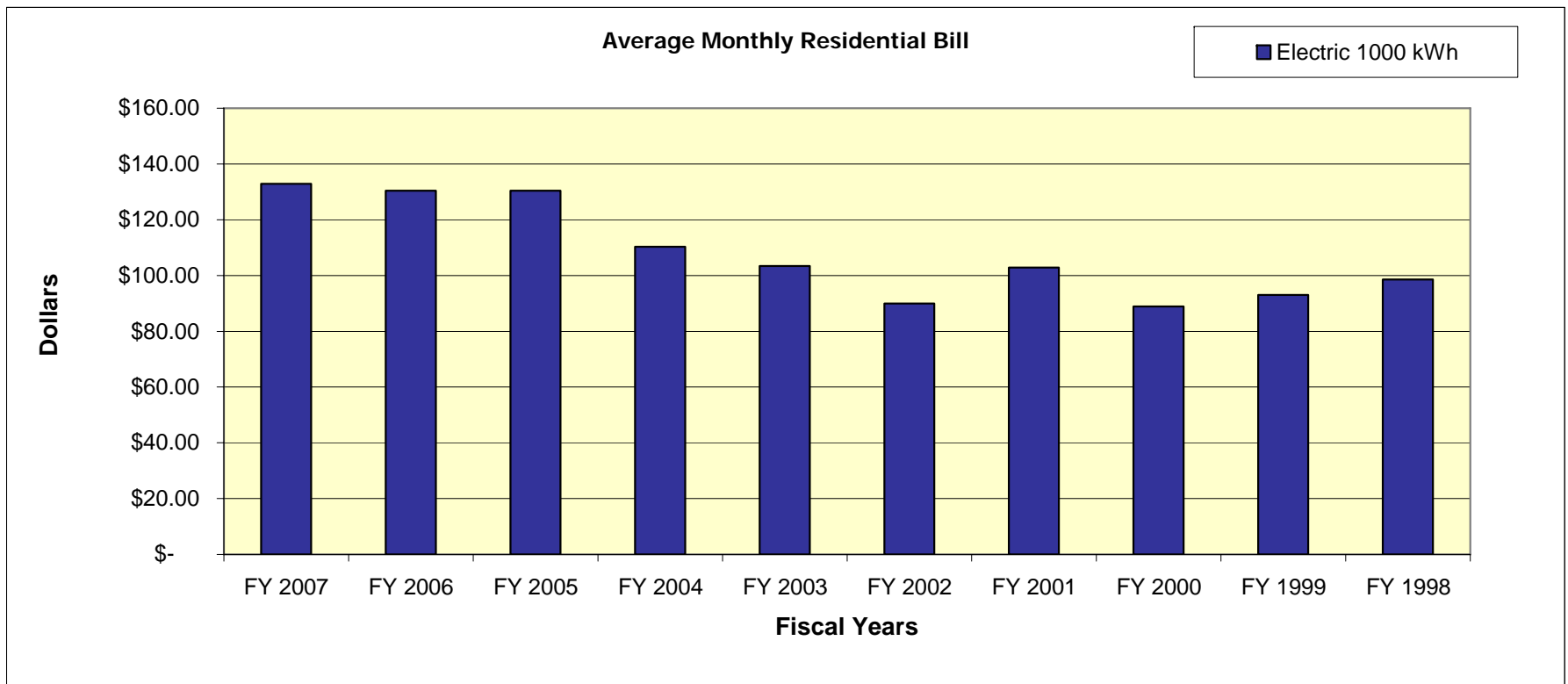
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Residential	322,694,803	322,821,261	328,463,571	331,255,087	336,527,072	313,373,473	297,876,406	291,705,894	280,380,410	279,848,803
Senior Citizen	3,390,179	3,433,442	3,367,914	2,990,238	2,421,557	2,162,669	2,132,083	1,800,705	1,930,306	1,694,143
Small Commercial	71,492,573	70,301,646	71,315,388	72,215,876	70,546,836	71,191,876	69,505,253	64,739,573	59,229,157	58,898,327
Large Commercial	223,211,328	223,397,382	225,840,948	232,357,842	229,252,417	217,523,554	204,191,750	201,076,612	193,964,088	194,184,681
Large Commercial-Primary	14,028,201	14,390,129	14,745,675	15,445,343	15,697,282	17,088,655	17,725,220	16,600,701	15,850,316	17,324,352
Industrial	-	-	-	-	71,760	472,400	250,800	147,120	140,640	-
Metro	-	-	-	-	-	-	-	-	169,147	233,050
Military	66,557,591	64,737,435	75,332,040	75,596,527	76,739,131	76,916,836	73,989,067	75,165,609	72,940,692	73,901,898
Churches	648,111	671,840	669,595	757,371	743,337	649,482	605,706	590,667	579,606	576,638
Recreating Lighting	194,740	175,760	210,460	188,060	191,100	188,600	188,620	189,900	168,740	182,520
Street Lighting	2,750,949	2,817,954	2,654,569	2,651,128	2,652,752	2,655,220	2,955,277	3,199,842	3,201,830	3,317,222
Area Lights	1,377,516	1,377,516	1,377,516	1,377,516	1,377,516	1,410,415	1,443,168	1,443,168	1,443,168	1,443,164
Total kWh	706,345,991	704,124,365	723,977,676	734,834,988	736,220,760	703,633,180	670,863,350	656,659,791	629,998,100	631,604,798

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

AVERAGE MONTHLY BILL

FISCAL YEARS 2007 - 1998



UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

RESIDENTIAL RATE ANALYSIS

(Month of September)

FISCAL YEARS 2007 - 1998

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Customer Charge	\$ 6.24	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00
Rate Per kWh	0.1231	0.0799	0.0799	0.0799	0.0799	0.0799	0.0799	0.0799	0.0799	0.0799
PCA Per kWh	0.0035	0.0450	0.0328	0.0244	0.0175	0.0041	0.0170	0.0030	0.0200	0.0280

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

RATE INCREASES

FISCAL YEARS 2007 - 1998

FISCAL YEAR	RATE INCREASES	RATE DECREASES	
FY 2007	4.5%	0.0%	
FY 2006	0.0%	0.0%	
FY 2005	0.0%	0.0%	
FY 2004	0.0%	0.0%	
FY 2003	0.0%	0.0%	
FY 2002	0.0%	0.0%	
FY 2001	0.0%	0.0%	
FY 2000	0.0%	14.0%	***
FY 1999	0.0%	0.0%	
FY 1998	0.0%	0.0%	

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

DEBT CAPACITY

FISCAL YEARS 2007 - 1998

COMPUTATION OF DEBT SERVICE COVERAGE

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Operating Revenue	\$ 93,748,872	\$ 97,200,065	\$ 83,478,736	\$ 81,339,438	\$ 73,137,245	\$ 66,830,291	\$ 69,988,022	\$ 59,444,821	\$ 61,245,375	\$ 63,584,543
Other Income	3,431,699	3,302,844	1,486,514	1,040,145	849,518	1,750,109	3,134,405	4,043,540	6,150,293	2,343,314
Rate Stabilization Transfers	(677,808)	(1,000,535)	235,272	(1,020)	(617,148)	2,330,599	(2,082,435)	6,335,703	(4,334,726)	(787,431)
Bond Amortization Fund Interest				-	-	-	(120,475)	(120,475)	(120,475)	(120,475)
Total Revenues Available	<u>96,502,763</u>	<u>99,502,374</u>	<u>85,200,522</u>	<u>82,378,563</u>	<u>73,369,615</u>	<u>70,910,999</u>	<u>70,919,517</u>	<u>69,703,589</u>	<u>62,940,467</u>	<u>65,019,951</u>
Total Operating Expenses	<u>83,730,408</u>	<u>83,692,856</u>	<u>72,085,736</u>	<u>65,099,824</u>	<u>60,430,945</u>	<u>54,085,176</u>	<u>53,184,073</u>	<u>45,037,826</u>	<u>42,696,000</u>	<u>46,266,447</u>
Net Revenues Available for Coverage	<u>\$ 12,772,355</u>	<u>\$ 15,809,518</u>	<u>\$ 13,114,786</u>	<u>\$ 17,278,739</u>	<u>\$ 12,938,670</u>	<u>\$ 16,825,823</u>	<u>\$ 17,735,444</u>	<u>\$ 24,665,763</u>	<u>\$ 20,244,467</u>	<u>\$ 18,753,504</u>
Annual Debt Service	<u>\$ 8,451,538</u>	<u>\$ 8,511,550</u>	<u>\$ 8,509,645</u>	<u>\$ 8,506,395</u>	<u>\$ 8,508,320</u>	<u>\$ 8,493,242</u>	<u>\$ 9,293,376</u>	<u>\$ 9,730,135</u>	<u>\$ 9,726,777</u>	<u>\$ 9,726,960</u>
Debt Service Coverage Ratio	<u>1.51</u>	<u>1.86</u>	<u>1.54</u>	<u>2.03</u>	<u>1.52</u>	<u>1.98</u>	<u>1.91</u>	<u>2.53</u>	<u>2.08</u>	<u>1.93</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

DEBT CAPACITY

PRINCIPAL PAYMENTS PAYABLE FOR ALL DEBT ISSUES THROUGH 2031

Payments Due for FY	Total for all Debt Issues	1991 Series Bond Issue	2000 Series Bond Issue	2001 Series Bond Issue	2006 Series Bond Issue
2008	\$ 5,755,000	\$ -	\$ 4,825,000	\$ 930,000	\$ -
2009	6,005,000	-	5,040,000	965,000	-
2010	6,340,000	-	5,335,000	1,005,000	-
2011	6,695,000	-	5,645,000	1,050,000	-
2012	7,090,000	-	5,990,000	1,100,000	-
2013	7,495,000	-	6,350,000	1,145,000	-
2014	9,784,840	1,859,840	6,730,000	1,195,000	-
2015	1,735,344	1,735,344	-	-	-
2016	1,599,539	1,599,539	-	-	-
2017	1,491,821	1,491,821	-	-	-
2018	1,391,241	1,391,241	-	-	-
2019	2,435,000	-	-	-	2,435,000
2020	2,530,000	-	-	-	2,530,000
2021	2,660,000	-	-	-	2,660,000
2022	2,780,000	-	-	-	2,780,000
2023	2,900,000	-	-	-	2,900,000
2024	3,045,000	-	-	-	3,045,000
2025	3,185,000	-	-	-	3,185,000
2026	3,320,000	-	-	-	3,320,000
2027	3,465,000	-	-	-	3,465,000
2028	3,640,000	-	-	-	3,640,000
2029	3,820,000	-	-	-	3,820,000
2030	4,010,000	-	-	-	4,010,000
2031	4,210,000	-	-	-	4,210,000
	<u>\$ 97,382,785</u>	<u>\$ 8,077,785</u>	<u>\$ 39,915,000</u>	<u>\$ 7,390,000</u>	<u>\$ 42,000,000</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

DEMOGRAPHIC AND ECONOMIC INFORMATION

FISCAL YEARS 2007 - 1998

Year	Key West Population ⁽¹⁾	Monroe County Per Capita Income ⁽²⁾	Monroe County Median Age ⁽¹⁾	Monroe County Unemployment Rate ⁽²⁾
2007	(3)	(3)	(3)	2.8%
2006	23,262	\$ 36,983	53	3.3%
2005	27,000	\$ 35,612	(3)	3.0%
2004	25,811	\$ 35,423	(3)	2.3%
2003	25,811	\$ 35,423	43	3.1%
2002	25,853	\$ 33,549	43	2.6%
2001	25,735	\$ 38,309	43	2.6%
2000	25,478	\$ 37,421	40	2.0%
1999	27,698	\$ 34,456	40	2.0%
1998	27,522	\$ 28,959	37	2.2%

⁽¹⁾ Key West Chamber of Commerce

⁽²⁾ US Department of Labor Bureau of Labor Statistics

⁽³⁾ Data not available

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

OPERATING EXPENSES

FISCAL YEARS 2007 - 1998

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	Restated <u>2003</u>	Restated <u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Electric Operating Expenses										
Production - Steam	-	-	-	-	-	-	-	-	-	166,385
Production - Diesel	1,623,810	1,482,077	1,074,167	887,371	916,557	779,761	816,946	681,671	841,671	1,036,565
Purchased Power	58,531,619	59,946,424	49,287,046	44,523,179	41,311,655	34,230,472	36,585,038	29,133,085	26,253,614	30,324,745
Transmission	3,857,363	3,539,845	3,646,679	3,298,491	3,711,111	3,485,983	3,589,637	3,673,226	3,575,771	2,326,865
Distribution	3,984,022	3,366,439	3,017,736	3,250,018	2,832,211	3,075,612	3,143,081	3,167,390	3,295,190	3,252,971
Customer Accounts, Collection and Services	1,332,355	1,243,322	1,280,590	1,085,522	1,015,116	985,698	1,033,617	1,035,576	1,062,064	1,015,357
Administrative and General	11,812,589	11,452,519	11,540,112	10,004,675	8,757,455	8,460,644	5,977,699	5,601,023	5,881,170	5,928,275
Depreciation	6,340,313	6,182,488	6,391,999	6,441,587	6,367,595	6,500,687	5,680,618	5,488,771	5,783,556	5,402,133
Taxes Other Than Income Tax	<u>2,390,686</u>	<u>2,467,955</u>	<u>2,127,074</u>	<u>2,021,223</u>	<u>1,855,303</u>	<u>1,677,934</u>	<u>1,758,542</u>	<u>1,492,942</u>	<u>1,588,173</u>	<u>1,567,968</u>
Total Electric Operating Expenses	<u>89,872,757</u>	<u>89,681,069</u>	<u>78,365,403</u>	<u>71,512,066</u>	<u>66,767,003</u>	<u>59,196,791</u>	<u>58,585,178</u>	<u>50,273,684</u>	<u>48,281,209</u>	<u>51,021,264</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

ENERGY SOURCES

FISCAL YEARS 2007 - 1998

<u>Description</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<u>Gross Generation in MW:</u>										
Diesel and Combustion Turbine	15,066	20,338	26,067	20,836	29,708	26,229	19,656	26,632	14,580	5,899
Less: Station Auxiliaries	<u>4,073</u>	<u>3,566</u>	<u>3,463</u>	<u>3,372</u>	<u>3,310</u>	<u>3,232</u>	<u>3,063</u>	<u>3,085</u>	<u>3,271</u>	<u>1,687</u>
Net Generation	10,993	16,772	22,604	17,464	26,398	22,997	16,593	23,547	11,309	4,212
Sales To Other Distributors										(18,058)
Net Delivered Purchased Power and Stanton Generation	<u>755,185</u>	<u>738,938</u>	<u>758,537</u>	<u>763,799</u>	<u>767,542</u>	<u>734,541</u>	<u>704,034</u>	<u>683,454</u>	<u>681,454</u>	<u>695,287</u>
Net Energy for Load	766,178	755,710	781,141	781,263	793,940	757,538	720,627	707,001	692,763	681,441
Less: Losses	<u>(59,832)</u>	<u>(51,586)</u>	<u>(57,163)</u>	<u>(46,428)</u>	<u>(57,719)</u>	<u>(53,905)</u>	<u>(49,763)</u>	<u>(50,341)</u>	<u>(62,765)</u>	<u>(49,836)</u>
Retail Energy Sales	<u>706,346</u>	<u>704,124</u>	<u>723,978</u>	<u>734,835</u>	<u>736,221</u>	<u>703,633</u>	<u>670,864</u>	<u>656,660</u>	<u>629,998</u>	<u>631,605</u>
Losses	7.8%	6.8%	7.3%	5.9%	7.3%	7.1%	6.9%	7.1%	9.1%	7.3%
Generation Capacity (kW) - Name Plate Rating (1)	123,100	123,100	87,100	87,100	87,100	87,100	87,100	87,100	87,100	87,100
KEYS 60 Minute Net Peak Demand	142,000	135,511	145,500	139,700	138,900	133,800	129,900	131,300	125,400	127,000
Percentage of On Island Resources for Net Peak Demand (2)	86.7%	90.8%	59.9%	62.3%	62.7%	65.1%	67.1%	66.3%	69.5%	68.6%
Load Factor	61.6%	63.7%	61.3%	63.8%	65.3%	64.6%	63.3%	61.5%	63.1%	61.3%
<u>Delivered Purchased Power and Stanton Resources (kW):</u>										
FP&L Long - Term Power	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000
FMPA Tri-City Project (Stanton 1)	12,289	12,289	12,367	12,289	12,289	12,289	11,633	11,633	12,289	12,289
FMPA Stanton 2 Project	9,862	9,770	9,708	9,862	9,862	9,862	9,243	9,243	9,862	9,862
Other Short Term Firm	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Purchased	<u>67,151</u>	<u>67,059</u>	<u>67,075</u>	<u>67,151</u>	<u>67,151</u>	<u>67,151</u>	<u>65,876</u>	<u>65,876</u>	<u>67,151</u>	<u>67,151</u>
Total Generating and Purchased Capability	<u>190,251</u>	<u>190,159</u>	<u>154,175</u>	<u>154,251</u>	<u>154,251</u>	<u>154,251</u>	<u>152,976</u>	<u>152,976</u>	<u>154,251</u>	<u>154,251</u>
Net Reserve Margin Including Purchased Power (3)	34.0%	40.3%	6.0%	10.4%	11.1%	15.3%	17.8%	16.5%	23.0%	21.5%

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

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

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

GENERATING CAPACITY

FISCAL YEARS 2007 - 1998

<u>Generating Units</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Name Plate	<u>M e g a w a t t s (M W)</u>									
Combustion Turbine #1	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Combustion Turbine #2	18.6	18.6	18.6	18.6	18.6	18.6	18.6	18.6	18.6	18.6
Combustion Turbine #3	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1
Combustion Turbine #4	43.0	43.0	-	-	-	-	-	-	-	-
Medium Speed Diesels #1	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7
Medium Speed Diesels #2	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7
Stock Island Peaking High Speed Diesel #1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Stock Island Peaking High Speed Diesel #2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Stock Island Peaking High Speed Diesel #3	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Cudjoe Key Peaking High Speed Diesel #1	-	-	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Cudjoe Key Peaking High Speed Diesel #2	-	-	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Big Pine Key Peaking High Speed Diesel #1	-	-	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Total Name Plate	<u>123.1</u>	<u>123.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>
Islanded										
Combustion Turbine #1	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6
Combustion Turbine #2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2
Combustion Turbine #3	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Combustion Turbine #4	43.0	43.0	-	-	-	-	-	-	-	-
Medium Speed Diesels #1	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Medium Speed Diesels #2	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Stock Island Peaking High Speed Diesel #1	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #2	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #3	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Cudjoe Key Peaking High Speed Diesel #1	-	-	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Cudjoe Key Peaking High Speed Diesel #2	-	-	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Big Pine Key Peaking High Speed Diesel #1	-	-	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Total Islanded	<u>113.3</u>	<u>113.3</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>
Synchronized										
Combustion Turbine #1	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
Combustion Turbine #2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2
Combustion Turbine #3	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Combustion Turbine #4	43.0	43.0	-	-	-	-	-	-	-	-
Medium Speed Diesels #1	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Medium Speed Diesels #2	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Stock Island Peaking High Speed Diesel #1	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #2	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #3	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Cudjoe Key Peaking High Speed Diesel #1	-	-	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Cudjoe Key Peaking High Speed Diesel #2	-	-	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Big Pine Key Peaking High Speed Diesel #1	-	-	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Total Synchronized	<u>118.7</u>	<u>118.7</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>

Nameplate - Capacity provided by the manufacturer.

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

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

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

EMPLOYEE INFORMATION

FISCAL YEARS 2007 - 1998

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
General Manager's Department	10	17	18	17	17	16	11	11	11	10
Engineering & Control	22	20	19	19	19	20	20	20	20	24
Customer Services	33	32	32	30	31	33	32	31	30	30
Finance	17	10	10	15	13	13	21	21	22	22
Transmission & Distribution	36	36	34	35	38	42	39	39	38	38
General Plant	17	0	0	8	9	9	11	14	12	12
Generation	<u>23</u>	<u>38</u>	<u>39</u>	<u>22</u>	<u>21</u>	<u>18</u>	<u>20</u>	<u>18</u>	<u>24</u>	<u>26</u>
Total	<u>158</u>	<u>153</u>	<u>152</u>	<u>146</u>	<u>148</u>	<u>151</u>	<u>154</u>	<u>154</u>	<u>157</u>	<u>162</u>

Notes:

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

The approved budgets were used for years 2001 - 1997.

Commencing 2002, actual employee head count is used.

The following departmental movements were made during Fiscal Year 2007:

Information Technologies has been moved from General Manager's Department to General Plant.

Fleets and Facilities have been moved from Generation to General Plant.

Purchasing and Warehouse have been moved from Generation to Finance.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

TEN HIGHEST CONSUMPTION LOCATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

Ranking	Customer Account	Demand KW	Energy kWh	Dollars
1	U.S. Navy	12,659.5	66,224,823	\$ 7,857,190
2	City of Key West	11,004.3	13,359,504	\$ 1,703,457
3	Monroe County School Board	4,506.8	11,378,367	\$ 1,522,195
4	Winn Dixie Stores, Inc	1,070.9	7,099,696	\$ 892,547
5	Key West HMA Inc.	1,161.0	7,028,925	\$ 892,105
6	US Coast Guard	2,214.0	7,120,800	\$ 876,267
7	Monroe County Detention Center	1,155.0	7,227,150	\$ 837,873
8	Tannex Development	1,019.2	5,850,360	\$ 770,249
9	Wyndham Casa Marina Hotel	838.5	4,374,232	\$ 563,449
10	Pier House Joint Venture	703.5	3,813,600	\$ 484,911

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