

Comprehensive Annual Financial Report



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

For the Fiscal Year Ended December 31, 2010

Comprehensive Annual Financial Report

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

Fiscal Year Ended December 31, 2010

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UTILITY BOARD OF THE CITY OF KEY WEST

April 21, 2011

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

The Comprehensive Annual Financial Report (CAFR) of the Retirement System for General Employees, Utility Board of the City of Key West (the Plan), for the fiscal year ended December 31, 2010, is submitted herewith, pursuant to Resolution No. 142 of the Utility Board, adopted December 15, 1953. The effective date was April 9, 1954, as amended and restated as of September 28, 1983, Article Eight, Section 8.07. The Utility Board is the sole participating employer. The Plan is a defined benefit pension plan covering all permanent employees and elected officials of the Utility Board, a governmental entity. The Plan does not cover any employees from any other government entity.

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

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

The Retirement System for the General Employees of the Utility Board of the City of Key West, Florida was established in 1954 with approximately \$900,000 in assets. The Pension Board of Trustees consists of thirteen members comprised of a cross-section of ten employees representing all sections, two retiree representatives, and the General Manager. The employee and retiree representatives serve four year terms, which can be consecutive.

Financial Highlights

The net assets held in trust for pension benefits were \$58,610,097 and \$53,418,717, at December 31, 2010 and 2009 respectively. Net assets increased \$5,191,380, or 9.7% during 2010 due to investment performance compared to an increase of \$7,925,086 or 17.4% during 2009.

Accounting Systems and Reports

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

Changes in Plan Net Assets

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

Deductions to Plan Net Assets

The sole purpose for which the Plan was created was to provide retirement annuities, survivor benefits, and total and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments as designated by the Plan, refunds of employee contributions to terminated employees, and costs of administering the Plan. Other postemployment benefits such as healthcare and life insurance, if applicable, are not administered through the Plan, they are provided by The Utility Board of the City of Key West, Florida. See note 8 in the Notes to Financial Statements.

Investments

The Plan has established an investment policy based upon certain investment criteria and allows for the delegation of investment authority to professional investment managers. The objective of the policy is to invest in a mix of high quality stocks and bonds which allows the Plan to participate in rising markets while moderating risk on the downside. The statement of investment policy outlines the responsibility for the investment of the fund and the degree of risk that is deemed appropriate for the Plan. Investment Managers are asked to execute the investment policy in accordance with the respective policy guidelines, but are to use full discretion within the policy and guidelines. The objective of the Plan is that the overall annual return will meet or exceed the actuarial assumption of 8%. The total fund net return for the year ending December 31, 2010 was 11.50% compared to 18.21% for the prior year.

Funding

The Plan's funding policy provides for employer contributions at rates that, expressed as a percentage of annual covered payroll, are sufficient to provide resources to pay benefits when due. A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. The Plan's funding objective is to meet long-term benefit obligations through contributions that remain fairly consistent as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. The funded ratio was 77.1% at January 1, 2010 compared to 75.2% at January 1, 2011. The Plan has been and continues to be funded on an actuarially sound basis.

Independent Audit

Article Eight, Trust and Trustees, Section 8.07, Final Audit, states that the Utility Board shall engage the services of a Certified Public Accountant to perform a certified audit of the fund each year. The cost of such audit shall be the responsibility of the Utility Board. The Utility Board engaged the accounting firm of Cherry, Bekaert & Holland, L.L.P to perform the annual audits for 2009 and 2010. The Report of Independent Auditors is included in the Financial Section of this CAFR.

Professional Services

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

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Retirement System for General Employees of the Utility Board of the City of Key West for its CAFR for the fiscal year ended December 31, 2009.

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

A Certificate of Achievement is valid for a period of one year only. The Retirement System for General Employees/Utility Board of the City of Key West has received a Certificate of Achievement for the last fourteen consecutive years (fiscal years 1996 – 2009). We believe our current CAFR continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

This CAFR was compiled by the Finance Department of The Utility Board of the City of Key West with the cooperation of the independent auditor, pension administrator, actuary, and investment consultant.

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

Respectfully submitted,



Jack Wetzler
Plan Secretary/Treasurer

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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

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

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2009

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



President

Executive Director

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

PENSION BOARD OF TRUSTEES

RETIREE'S REPRESENTATIVE – 2

Elected for a 4 year term by the Retirees

Harry Bethel, Sr. - Chairman - Term Expires: 03/31/11

Larry Thompson - Term Expires: 03/31/14

COMM/MGMT. SVCS. – 1

*Includes GM Office,
Communications, & Mgmt. Svcs. Staff*

Suzanne Greager - Term Expires 3/31/13
Vice-Chair

FINANCE DEPARTMENT – 1

*Includes Dir. Office,
Accounting, IT Staff*

Gricel Owen - Term Expires 03/31/13

CUSTOMER SERVICES DEPT. – 2

*Includes Dir. Office, BP
Branch, Cust. Svcs. & Meter Svcs. Staff*

Sylvia Adams - Term Expires 03/31/11
Catherine Nix - Term Expires 03/31/14

GENERATION DEPARTMENT – 2

*Includes Dir. Office, Fleets,
Facilities, Generation & Maintenance Staff*

Ony Mendez - Term Expires 03/31/11
Mike Griffin - Term Expires 03/31/13

T&D & ELECTRICAL DEPARTMENT – 2

Includes Dir. Office, Substation & T&D Staff

George Castellon – Term Expires 03/31/14
David Price - Term Expires 03/31/11

ENGINEERING & SYSTEM CONTROL – 2

*Includes Dir. Office, System Control,
& Engineering Staff*

Dan Sabino - Term Expires 03/31/14
Robert Barrios - Term Expires 03/31/11

REQUIRED MEMBER – 1

General Manager & CEO

Lynne Tejeda

Representative Departments & Trustee seats based on an employee count of 147 at December 31, 2010.

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

Administrative Organization

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

Ronald J. Cohen, P.A.
Plan Counsel

Gabriel, Roeder, Smith & Company
Actuaries

Kim Free
Plan Administrator

Jack Wetzler, Asst General Manager & CFO
Plan Secretary/Treasurer

Bogdahn Consulting, LLC
Investment Consultant

Bank of New York
Plan Custodian

Summary of Plan Benefits as of December 31, 2010

Employees hired on or before May 31, 2010:	
Benefit Factor	2.4%
Average Final Compensation	Highest 5 of the last 10 years of service
Employees hired on or after June 1, 2010:	
Benefit Factor	2.0%
Average Final Compensation	Career Average of Pensionable Wages – date of participation through termination of service
2010 Net Minimum Funding Payment	31.3% of payroll
Normal Retirement	30 years credited service (the max allowed)
Early Retirement	20 years credited service- any age, or 55 years of age with 10 years minimum credited service
Active plan members	151
Retirees and beneficiaries receiving benefits	154
Cost of living allowance	3% (January 1 st of each year)
Net assets held in trust for pension benefits	\$58,610,097

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Report of Independent Certified Public Accountants

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

We have audited the accompanying statements of plan net assets of the Retirement System for General Employees of the Utility Board of the City of Key West (Plan) as of December 31, 2010 and 2009, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's board of trustees and officers. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the Retirement System for General Employees of the Utility Board of the City of Key West's plan net assets as of December 31, 2010 and 2009 and the changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2011 on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and the required supplementary information listed on the table **of contents are not a required part of the basic financial statements but are supplementary information** required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section, other supplementary information, investment section, actuarial section and statistical section listed on the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied to the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cherry, Beckett & Holland, L.L.P.

Orlando, Florida
April 21, 2011

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

Management's Discussion and Analysis

As management of the Retirement System for General Employees of the Utility Board of the City of Key West (the "Plan"), we offer readers of the Plan's financial statements this narrative overview of the financial activities of the Plan for the years ended December 31, 2010 and 2009. This narrative is intended to supplement the Plan's financial statements, and we encourage readers to consider the information presented here in conjunction with these statements.

Overview of the financial statements

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

The financial statements, which are included in this report, are described below:

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

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

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

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

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

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

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

Management's Discussion and Analysis

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

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

Financial highlights

The net assets held in trust for pension benefits were \$58,610,097 and \$53,418,717, at December 31, 2010 and 2009 respectively.

Net assets increased \$5,191,380, or 9.7% during 2010 due to investment performance compared to an increase of \$7,925,086 or 17.4% during 2009.

The Plan's funding objective is to meet long-term benefit obligations. As of January 1, 2011, the date of the latest actuarial valuation, the present value of vested accrued benefits exceeds the market value of Plan assets. The Vested Benefit Security Ratio is 83.5% compared to 80.6% as of January 1, 2010.

Total additions to plan net assets for the year ended December 31, 2010 were \$8,863,113 which included employer contributions of \$3,103,795 and net investment income of \$5,759,318. Total additions to plan net assets for the year ended December 31, 2009 were \$11,393,513, which included employer contributions of \$3,318,721 and net investment income of \$8,074,792.

Total deductions from plan net assets increased 5.9% from \$3,468,427 during 2009 to \$3,671,733 in 2010. The increase is due primarily to additional benefits paid to new and existing retirees.

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

Management's Discussion and Analysis

Analysis of financial activities

The Plan's funding objective is to meet long-term benefit obligations through investment income and contributions. Accordingly, the collection of contributions and the income from investments provide the reserves needed to finance future retirement benefits. The financial market in 2010 produced a positive return. Net assets held in trust for pension benefits were \$58,610,097 in 2010, \$53,418,717 in 2009, and \$45,493,631 in 2008.

Net Assets (Table 1.1) As of December 31, 2010 and 2009				
	2010	2009	Increase (Decrease) Amount	Increase (Decrease) %
Current and other assets	\$ 844,342	\$ 1,183,431	\$ (339,089)	(28.65)
Investments, at fair value	57,934,178	54,361,100	3,573,078	6.57
Total Assets	58,778,520	55,544,531	3,233,989	5.82
Total Liabilities	168,423	2,125,814	(1,957,391)	(92.08)
Net Assets	\$ 58,610,097	\$ 53,418,717	\$ 5,191,380	9.72

Net Assets (Table 1.2) As of December 31, 2009 and 2008				
	2009	2008	Increase (Decrease) Amount	Increase (Decrease) %
Current and other assets	\$ 1,183,431	\$ 1,231,153	\$ (47,722)	(3.88)
Investments, at fair value	54,361,100	44,385,705	9,975,395	22.47
Total Assets	55,544,531	45,616,858	9,927,673	21.76
Total Liabilities	2,125,814	123,227	2,002,587	1,625.12
Net Assets	\$ 53,418,717	\$ 45,493,631	\$ 7,925,086	17.42

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

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

Management's Discussion and Analysis

During 2010, the Plan's investment portfolio returned a net gain of approximately 11.50%; however, due to the magnitude of the losses experienced in 2008, the Plan's 3-year and 5-year net returns are 0.32% and 3.47%, respectively. It is important to remember that a retirement Plan's funding is based on a long time horizon, where temporary ups and downs in the market are expected. The more critical factor is that the Plan be able to meet an expected earnings yield of 8.0% annual return on investments. During 2009, the Plan's investment portfolio returned a net gain of approximately 18.21%.

Based on our latest actuarial valuation as of January 1, 2011, the Plan's total actuarial accrued liability of \$81,598,657 exceeds its actuarial value of assets of \$61,382,808 by \$20,215,849, producing a funded ratio of 75.2% compared to 77.1% at January 1, 2010. The funded ratio is a key indication of financial strength of a retirement Fund and analyzing this percentage over time indicates whether the Plan is becoming stronger or weaker.

Net assets

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

Additions to plan net assets

As noted above, the net assets needed to finance retirement benefits are accumulated through the collection of contributions and through investment earnings (net of investment expenses.) The additions totaled \$8,863,113 for the year ended December 31, 2010 compared to \$11,393,513 for the year ended December 31, 2009.

Additions to Net Assets (Table 2.1) For the Years Ended December 31, 2010 and 2009				
	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease) Amount</u>	<u>Increase (Decrease) %</u>
Employer Contributions	\$ 3,103,795	\$ 3,318,721	\$ (214,926)	(6.48)
Investment Income/(Loss)	6,109,271	8,341,793	(2,232,522)	(26.76)
Investment Expenses	<u>(349,953)</u>	<u>(267,001)</u>	<u>(82,952)</u>	(31.07)
Total Additions/(Loss)	<u>\$ 8,863,113</u>	<u>\$ 11,393,513</u>	<u>\$ (2,530,400)</u>	(22.21)

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

Management's Discussion and Analysis

The additions totaled \$11,393,513 for the year ended December 31, 2009. This represented an increase of \$22,071,984 from the prior year, due to investment losses in 2008.

Additions to Net Assets (Table 2.2) For the Years Ended December 31, 2009 and 2008				
	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease) Amount</u>	<u>Increase (Decrease) %</u>
Employer Contributions	\$ 3,318,721	\$ 2,537,303	\$ 781,418	30.80
Investment Income/(Loss)	8,341,793	(13,427,983)	21,769,776	162.12
Proceeds from Legal Settlement	-	500,000	(500,000)	(100.00)
Investment Expenses	<u>(267,001)</u>	<u>(287,791)</u>	<u>20,790</u>	7.22
Total Additions/(Loss)	<u>\$ 11,393,513</u>	<u>\$ (10,678,471)</u>	<u>\$ 22,071,984</u>	206.70

Deductions from Plan Net Assets

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

Deductions to Net Assets (Table 3.1) For the Years Ended December 31, 2010 and 2009				
	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease) Amount</u>	<u>Increase (Decrease) %</u>
Benefit Payments	\$ 3,604,105	\$ 3,384,425	\$ 219,680	6.49
Administrative expenses	<u>67,628</u>	<u>84,002</u>	<u>(16,374)</u>	(19.49)
Total Deductions	<u>\$ 3,671,733</u>	<u>\$ 3,468,427</u>	<u>\$ 203,306</u>	5.86

Expenses for the year ended December 31, 2010 totaled \$3,671,733 an increase of 5.9% from 2009. This increase was primarily due to additional benefit payments to new and existing retirees in 2010. The net in deductions of plan net assets of \$3,671,733 and additions to plan net assets of \$8,863,113 resulted in an overall increase of \$5,191,380 in net assets held in trust for pension benefits for the year ended December 31, 2010, compared to an increase of \$7,925,086 in the prior year.

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

Management's Discussion and Analysis

Deductions to Net Assets (Table 3.2) For the Years Ended December 31, 2009 and 2008				
	2009	2008	Increase (Decrease) Amount	Increase (Decrease) %
Benefit Payments	\$ 3,384,425	\$ 3,223,598	\$ 160,827	4.99
Administrative expenses	84,002	174,828	(90,826)	(51.95)
Total Deductions	\$ 3,468,427	\$ 3,398,426	\$ 70,001	2.06

Expenses for the year ended December 31, 2009 totaled \$3,468,427, an increase of 2.1% from 2008. This increase was primarily due to additional benefit payments to new and existing retirees in 2009. Administrative expenses decreased due to professional fees incurred in connection with various legal matters in 2008. The difference of deductions of plan net assets of \$3,468,427 and additions to plan net assets of \$11,393,513 resulted in an overall increase of \$7,925,086 in net assets held in trust for pension benefits for the year ended December 31, 2009.

Fiduciary responsibilities

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

Requests for information

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

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

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

**Statements of Plan Net Assets
December 31,**

	2010	2009
Assets		
Cash	\$ 287,137	\$ 720,588
Receivables:		
Interest	165,257	170,908
Pending Trades	90,596	5,407
Total Receivables	255,853	176,315
Prepaid Expenses & Benefits	301,352	286,528
Investments at Fair Value:		
Cash and Cash Equivalents	1,588,376	3,394,414
Common Stock	28,711,420	25,102,342
International Equities	8,404,396	7,285,723
Corporate Bonds	5,918,862	6,213,566
Government Bonds	9,533,914	11,138,044
State & Local Bonds	1,174,301	1,227,011
Real Estate Bonds	40,380	-
Other Bonds	46,009	-
Real Estate Investment	2,516,520	-
Total Investments	57,934,178	54,361,100
Total Assets	58,778,520	55,544,531
Liabilities:		
Accrued Expenses & Benefits	106,030	87,082
Pending Trades Payable	62,393	2,038,732
Total Liabilities	168,423	2,125,814
Net Assets held in trust for pension benefits	\$ 58,610,097	\$ 53,418,717

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

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

**Statements of Changes in Plan Assets
For the Year Ended December 31,**

	<u>2010</u>	<u>2009</u>
Additions:		
Employer Contributions	<u>\$ 3,103,795</u>	<u>\$ 3,318,721</u>
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	4,597,957	6,888,570
Interest	742,942	943,119
Dividends	645,084	502,047
Real Estate	123,288	-
Miscellaneous	<u>-</u>	<u>8,057</u>
	6,109,271	8,341,793
Less Investment Expenses	<u>(349,953)</u>	<u>(267,001)</u>
Net Investment Income	<u>5,759,318</u>	<u>8,074,792</u>
Total Additions	<u>8,863,113</u>	<u>11,393,513</u>
Deductions:		
Benefits	3,604,105	3,384,425
Administrative Expenses	<u>67,628</u>	<u>84,002</u>
Total Deductions	<u>3,671,733</u>	<u>3,468,427</u>
Net Increase	5,191,380	7,925,086
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	<u>53,418,717</u>	<u>45,493,631</u>
End of Period	<u>\$ 58,610,097</u>	<u>\$ 53,418,717</u>

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

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

**Notes to Financial Statements
Years Ended December 31, 2010 and 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Method used to value investments - Investments are reported at fair value. Money market funds are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price or exchange rate. Net appreciation/(depreciation) in fair value of investments includes the difference between cost and fair value of investments held as well as the net realized gains and losses for securities sold. Interest and dividend income is recognized on the accrual basis when earned. Purchases and sales of investments are recorded on a trade date basis.

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

NOTE 2- PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

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

For employees hired on or before May 31, 2010, the annual retirement benefit shall equal 2.4% of average final salary (AFS) times years of credited service, where AFS equals the highest annual basic compensation received during a period of the five highest years out of the ten years of service immediately preceding retirement. For employees hired on or after June 1, 2010, the annual retirement benefit shall equal 2.0% of career average compensation times years of credited service, where career average compensation equals the average of the pensionable earnings received by a member from date of participation to termination of service.

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

**Notes to Financial Statements
Years Ended December 31, 2010 and 2009**

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (Continued)

Plan members on or before November 13, 2008 who have attained the earlier of age 60 or completion of 30 years of service with the Utility Board are entitled to retirement benefits. Plan members after November 13, 2008 who have attained the earlier of age 60 with 10 years of service or completion of 30 years of service with the Utility Board are entitled to retirement benefits.

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

For a service or non-service incurred disability, for employees hired before June 1, 2010, the disability benefit is calculated as for normal retirement based on credited service and average basic compensation during the three years immediately preceding disability, minimum benefit of 20% of final three year average basic compensation at date of disability. For employees hired after May 31, 2010, the disability benefit is calculated as for normal retirement benefit based on credited service and career average compensation as of date of disability, minimum benefit of 20% of career average compensation at date of disability. These benefits will be decreased on an actuarial basis to reflect any workers' compensation or similar injury payments made, which may be required by law.

In the case of death of a member while currently employed, the spouse/domestic partner, or children under the age of 21 (25 years of age provided the child is a full-time student in college or disabled under Social Security) if no spouse/domestic partner shall receive either (1) 75% of the amount of the retirement benefit which said employee would have received had the employee continued employment until the employee's normal retirement date at the current rate of pay for the life of the spouse/domestic partner or (2) 100% of the amount of the retirement benefit which said employee would have received had the employee continued employment until the employee's normal retirement date at the current rate of pay until the youngest child is 21 years of age (25 years of age provided the child is a full-time student in college or disabled under Social Security) and 60% of the amount of the retirement benefit which said employee would have received had the employee continued employment until the employee's normal retirement date at the current rate of pay thereafter, as elected by the Member.

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

**Notes to Financial Statements
Years Ended December 31, 2010 and 2009**

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (Continued)

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

	January 1,	
	2011	2010
Retirees and beneficiaries currently receiving benefits	156	153
Terminated employees entitled to benefits not yet receiving them	25	27
Current employees	149	156
Total	330	336

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

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

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk – Florida Statutes require the Plan to maintain its deposits with financial institutions which have been designated as a Qualified Public Depository by the Treasurer of the State of Florida. The Plan's accounts maintained in qualified public depositories are covered by federal depository insurance for an amount equal to the aggregate of each participant's ascertainable, non-contingent interest in the Plan (up to \$250,000 per participant). Amounts in excess of federal depository insurance are secured by the Public Depository Trust Fund (Trust Fund) maintained by the Treasurer of the State of Florida. The Trust Fund is a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a member fails.

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

**Notes to Financial Statements
Years Ended December 31, 2010 and 2009**

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Investments

Authorized Investments – The Plan’s investment practices are governed by Chapter 280 (Florida Security for Public Deposits Act) and 218 (Local Government Investment Policies), Florida Statutes, and the Plan’s adopted investment policy. Florida Statutes and the Plan’s investment policy authorize the Board of Trustees to invest in cash equivalents, fixed income securities, equity securities, mutual funds and certain other assets. The policy prohibits investments in options, limited partnerships, and venture capital investments.

At December 31, 2010 the Plan’s investments were categorized as follows:

Investment Type	Investment Fair Value	Interest Receivable	Pending Receivable/(Payable)	Total
Cash and Cash Equivalents	\$ 1,588,376	\$ 165,257	28,203	\$ 1,781,836
Common Stock	28,711,420			28,711,420
International Index Fund	8,404,396			8,404,396
Corporate Bonds	5,918,862			5,918,862
Government Bonds	9,533,914			9,533,914
State and Local Bonds	1,174,301			1,174,301
Real Estate Bonds	40,380			40,380
Other Bonds	46,009			46,009
Real Estate	2,516,520			2,516,520
Total	\$ 57,934,178	\$ 165,257	\$ 28,203	\$ 58,127,638

Interest Rate Risk – This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses resulting from rising interest rates, the Plan’s investment policy establishes benchmarks based on credit quality and duration. The benchmarks are monitored and changed when warranted by the investment market environment. Debt portfolios are structured and managed to produce returns based on risks inherent in the selected benchmarks. The Plan provides guidelines for investment professionals to manage interest rate risk in the fixed income portfolio using maturity and duration limitations as defined by the Statement of Investment Policy. Interest rate risk has the greatest impact on the fixed income portion of the investment portfolio. Interest rate risk is measured by duration. Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. The bigger the duration number, the greater the interest-rate risk or reward for bond prices. The Statement of Investment policy has the following limitation for portfolio duration, “The effective duration of the portfolio shall be kept within +/- 15% of the duration of the Barclays Intermediate Aggregate.”

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

**Notes to Financial Statements
Years Ended December 31, 2010 and 2009**

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

At December 31, 2010 the Plan's Fixed Income Portfolio was characterized as follows:

	<u>Bond Portfolio</u>	<u>Portfolio Benchmark*</u>
Weighted Average Quality	AA+	AA+
Weighted Average Maturity	4.45 years	5.05 years
Yield to Maturity	2.97%	2.71%
Effective Duration	3.67 years	4.00 years

* Barclays Capital Intermediate Aggregate Index

	<u>TIPS Portfolio</u>	<u>Portfolio Benchmark**</u>
Weighted Average Quality	AAA	AAA
Weighted Average Maturity	5.07 years	5.02 years
Yield to Maturity	2.14%	2.08%
Effective Duration	4.07 years	4.04 years

** Barclays Capital TIPS 1-10 year Index

At December 31, 2010 the Effective Duration of the Plan's Fixed Income Portfolio was characterized as follow:

Bond Portfolio

<u>Security Type</u>	<u>Market Value</u>	<u>Effective Duration(years)</u>
Cash and Cash Equivalents	\$ 527,313	0.00
U.S. Treasury	\$ 737,292	8.48
U.S. Agency	\$ 158,189	5.05
U.S. Treasury TIPS	\$ 648,575	6.17
Other U.S. Government - SBA	\$ 847,920	3.09
Other U.S. Government - DUS	\$ 719,415	2.90
Govt Obligation Taxable Municipal	\$ 823,452	3.53
Municipal Revenue Bonds	\$ 91,539	2.81
Corporate Bonds - Utility	\$ 715,707	3.19
Corporate Bonds - Financial	\$ 1,095,475	4.66
Corporate Bonds - Industrial	\$ 1,545,196	3.84
Non Corporate University	\$ 415,113	4.29
Asset Backed Education Loan	\$ 158,148	1.53
Asset Backed Auto Loan	\$ 152,882	0.43
Asset Backed Home Equity	\$ 109,258	0.08
Mortgage Backed Pass Through	\$ 2,537,091	3.61
Collateralized Mortgage Obligation	\$ 1,520,980	3.37
Commercial Mortgage Backed Securities	\$ 1,211,431	2.61
Adjustable Rate Mortgages	\$ 592,546	1.73
Municipal HFA	\$ 250,902	1.65
Total Bond Portfolio	\$ 14,858,424	3.67

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

**Notes to Financial Statements
Years Ended December 31, 2010 and 2009**

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

TIPS Portfolio

<u>Security Type</u>	<u>Market Value</u>	<u>Effective Duration(years)</u>
Cash and Cash Equivalents	\$ 27,217	0.00
TIPS	\$ 2,382,355	4.77
Total TIPS Portfolio	\$ 2,409,572	4.07

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

Credit Risk – This is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. This risk is generally measured by the assignment of a rating by a nationally recognized statistical rating organization. The Plan requires Money Market Funds and cash equivalents contain securities whose credit rating are at least rated A1 or P1 by Standard and Poor's and Moody's. All securities will be investment grade at time of purchase. The weighted average quality of the portfolio will be "AA" or better.

At December 31, 2010 the portfolio had the following credit risk allocation:

Rating	<u>US Government</u>		<u>Municipal Bonds</u>		<u>Corporate Bonds</u>		<u>Total Bond Portfolio</u>	
	<u>Mkt Value</u>	<u>%</u>	<u>Mkt Value</u>	<u>%</u>	<u>Mkt Value</u>	<u>%</u>	<u>Mkt Value</u>	<u>%</u>
AAA	\$ 10,081,328	100%	\$ 604,155	51.8%	\$ 1,917,367	35.1%	\$ 12,602,851	75.4%
AA			496,411	42.6%	513,755	9.4%	1,010,166	6.0%
A			65,327	5.6%	1,834,865	33.6%	1,900,192	11.4%
BBB					1,164,733	20.4%	1,164,733	7.0%
BB								
B					35,525	0.6%	35,525	0.2%
Total	\$ 10,081,328	100%	\$ 1,165,893	100%	\$ 5,466,244	99%	\$ 16,713,466 *	100%

* Mortgaged Back bonds are categorized as US Government, Municipal, or Corporate based on bond issuer

Foreign Currency Risk - The risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The investment policy limits foreign investment to 20% of the total Plan's assets at cost. As of December 31, 2010 and December 31, 2009, the Plan had exposure to foreign currency risk with 14.5% or \$8,404,396 and 13.4% or \$7,285,723 of assets invested internationally, respectively.

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

**Notes to Financial Statements
Years Ended December 31, 2010 and 2009**

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Foreign Currency Risk (Continued)

Foreign Currency Exposure
December 31, 2010

The Wentworth, Hauser and Violich International Growth Equities portfolio is invested in a combination of American Depository Receipts (ADRs) and U.S. Dollar denominated equity securities, however these investments have currency exposure based on the domicile of the underlying company.

<u>Currency</u>	<u>Maturity</u>	<u>Market Value</u>
Brazilian Real	N/A	\$79,511
Canadian Dollar	N/A	\$484,004
Danish Krone	N/A	\$33,771
Euro	N/A	\$631,074
South African Rand	N/A	\$49,448
South Korean Won	N/A	\$18,846
Swiss Franc	N/A	\$774,304
British Pound	N/A	<u>\$770,521</u>
Total		\$2,841,479

The Plan also has holdings in IShares MSCI an international Index Fund, and as such, customized currency denomination is not available.

Concentration of Credit Risk – Per the Investment Policy Statement, investments in corporate common stock and convertible bonds shall not exceed 75% of the market value of the Plan Assets. The foreign securities shall not exceed 25% of the market value of the Plan Assets. Of the fixed income investments, 80% shall have a minimum rating of investment grade or higher as reported by a major credit rating service. The value of bonds issued by any single corporation shall not exceed 3% of the total fund. Money market investments must have a minimum rating of A1/P1, or its equivalent, by a major credit rating service. Not more than 5% of the Fund's assets, at the time of purchase, shall be invested in the common stock, capital stock or convertible stock of any one issuing company, nor shall the aggregate investment in any one issuing company exceed 5% of the outstanding capital stock of the company.

At December 31, 2010 or 2009, no investments in any one issuer represented 5% or more of the Plan's investments.

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

**Notes to Financial Statements
Years Ended December 31, 2010 and 2009**

NOTE 4 – FUNDING STATUS AND FUNDING PROGRESS

The Fund was established by resolution of the Utility Board of the City of Key West, a governmental entity created by an Act of the Florida Legislature. The Plan is a defined benefit pension plan covering all permanent employees and elected officials of the Utility Board. For the fiscal year ended December 31, 2010 the January 1, 2010 valuation suggested a contribution of 31.3% of covered payroll.

The funded status of the Plan as of January 1, 2011, the most recent actuarial valuation date, was as follows (dollar amounts in thousands):

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
61,383	81,599	20,216	75.2%	10,005	202.1%

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALS for benefits.

Additional information as of latest actuarial valuation follows:

Valuation date	January 1, 2011
Actuarial Cost Method	Entry Age
Amortization Method	Level % of pay, closed
Remaining amortization period	30 years
Asset valuation method	Five year smoothed market
Actuarial assumptions:	
Investment rate of return *	8.0%
Projected salary increases *	6.0% - 10.0%
Cost of living adjustments	3.0%

*Includes adjustment for inflation 3.0%

NOTE 5 – INCOME TAX STATUS

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

**Retirement System for General Employees of the
Utility Board of the City of Key West
Notes to Financial Statements
Years Ended December 31, 2010 and 2009**

NOTE 6 – PLAN AMENDMENTS

During the years ended December 31, 2009 and 2010, the Utility Board passed resolutions amending the Plan. The effects of the resolutions were to:

Resolution No. 769- Amended career average compensation and retirement benefits. Effective date: March 10, 2010.

Resolution No. 76- Amended retirement benefits and death benefits. Effective date: January 13, 2009.

NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS

GASB Statement No. 43, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*, established standards to provide accounting and financial reporting standards for postemployment benefit plans that are similar to those for defined benefit plans (GASB 25). The Plan does not provide postemployment benefits. Any applicable postemployment benefits are provided by the Utility Board of the City of Key West, Florida.

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

Required Supplementary Information

**Schedule of Funding Progress
(Unaudited)**

Dollar amounts in thousands

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/06	54,266	61,004	6,738	89.0%	7,644	88.1%
01/01/07	55,876	64,344	8,468	86.8%	8,344	101.5%
01/01/08	59,924	68,109	8,185	88.0%	9,203	88.9%
01/01/09	54,593	74,212	19,619	73.6%	9,782	200.6%
01/01/10	60,033	77,840	17,807	77.1%	10,025	177.6%
01/01/11	61,383	81,599	20,216	75.2%	10,005	202.1%

**Schedule of Employer Contributions
(Unaudited)**

Annual Year Ended December 31,	Required Contributions	Percentage Contributed
2005	\$ 1,979,201	102
2006	2,208,905	100
2007	2,462,847 ⁽¹⁾	100
2008	2,537,303	100
2009	3,318,721	100
2010	3,045,252	102

(1) Includes \$12,977 adjustment for Medicare premium included in benefit expense per Financial Statements

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

**Notes to Schedule of Funding Progress
and Schedule of Employer Contributions**

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

Valuation date	January 1, 2011
Actuarial Cost Method	Entry Age
Amortization Method	Level % of pay, closed
Remaining amortization period	30 years
Asset valuation method	Five year smoothed market
Actuarial assumptions:	
Investment rate of return *	8.0%
Projected salary increases *	6.0% - 10.0%
Cost of living adjustments	3.0%

*Includes adjustment for inflation 3.0%

Significant factors affecting trends in actuarial information

2010 changes in Plan provisions since prior actuarial valuation-

- The benefit formula for employees hired on or after June 1, 2010 is defined as 2.0% of Career Average Compensation times years of credited service.
- Career Average Compensation is defined as the average of the pensionable earnings received by a member from date of participation to termination of service.
- Since no current members are affected, these changes have no financial effect on the January 1, 2011 Actuarial Valuation.

2009 changes in Plan provisions and actuarial methods since prior actuarial valuation-

- Permitted members to choose among certain designated choices of benefits in the event of pre-retirement death, changed the age for a dependent child to receive benefits under the pre-retirement survivor benefit to age twenty-five (25) provided the child is a full-time student in an accredited college or is disabled under Social Security, and allowed a member to elect an actuarially equivalent joint and survivor with pop-up optional form of payment.

2008 changes in Plan provisions and actuarial methods since prior actuarial valuation-

- Assumed mortality rates, retirement rates, withdrawal rates, eligibility for children's benefits under pre-retirement death benefit and salary increase rates have been updated
- Normal retirement eligibility was updated to the earlier attainment of age 60 and completion of 10 years of credited service, attainment of age 60 if a Plan Member on or before November 13, 2008 or completion of 30 years of credited service.

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

**Notes to Schedule of Funding Progress
and Schedule of Employer Contributions**

2007 changes in Plan provisions and actuarial methods since prior actuarial valuation-

- None

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

- The eligibility for disability retirement benefits was changed from five year of credited service to ten years of credited service and an increasing payroll assumption was added.

2005 changes in Plan provisions and actuarial methods since prior actuarial valuation-

- None

2004 changes in Plan provisions and actuarial methods since prior actuarial valuation-

- The definition of pensionable earnings was changed to use the member's base hourly rate each pay period, multiplied by 80 hours, less any hours that are considered leave without pay

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

Other Supplementary Information

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

	Years Ended December 31,	
	2010	2009
Administrative Expenses		
Legal and Accounting fees	\$ 28,948	\$ 38,268
Actuarial services	37,256	44,734
Miscellaneous	1,424	1,000
	\$ 67,628	\$ 84,002
 Investment Expenses		
Investment manager fees		
Lateef Capital Management	\$ 58,856	\$ 47,234
Sawgrass Capital Management	35,650	29,371
Galliard Core Fixed Income	39,004	44,927
Galliard TIPS	3,589	3,306
Moodys Aldrich	55,264	33,333
Snow Capital Management	-	4,339
Dana Investment	34,738	19,111
Wentworth, Hauser & Violich	39,223	29,151
Intercontinental	20,117	
Total investment manager fees	286,441	210,772
Other investment expenses		
BONY Custodian Fee	19,189	19,224
Bogdahn Consulting Fee	47,500	45,000
LJR Recapture Fees	(3,177)	(7,995)
	\$ 349,953	\$ 267,001

Supplementary Auditors' Report



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

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

We have audited the financial statements of Retirement System for General Employees of the Utility Board of the City of Key West (Plan) as of and for the year ended December 31, 2010, and have issued our report thereon, dated April 21, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Plan's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 described above.

Compliance and Other Matters

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

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

Cherry, Bechant & Holland, L.L.P.

Orlando, Florida
April 21, 2010



simplifying your investment and fiduciary decisions

Annual Investment Review December 31, 2010

For the year ended December 31, 2010, the total market value of the Plan for the Retirement System for the General Employees of the Utility Board of Key West, Florida increased from \$52,498,683 to \$58,127,638. The Plan earned a total return, net of fees, of 11.50% slightly underperforming the blended benchmark which returned 12.11% for the year. The total return of 11.50% ranked in the 72nd percentile among other public funds across the U.S. in the peer group sample. At year end, the asset allocation of the Plan was comprised as follows: 49.4% domestic equity, 14.4% international equity, 28.7% fixed income, 4.4% real estate, and 3.1% cash equivalents and is in compliance with the guidelines of the statement of investment policy.

The U.S. stock market performance for 2010 was strong as evidenced by a 15.1% increase in the S&P 500 Index and a 16.9% increase in the Russell 3000 Index for the year. The total domestic equity return of the Plan was 15.01% vs. 16.93% for the benchmark, and ranked in the top 45th percentile of the domestic equity peer universe for the year. The domestic equity portfolio is diversified among growth and value domestic equity styles and across several money managers with the goal of reducing portfolio risk. The individual domestic equity managers 2010 returns are as follows: Lateef(growth) 15.97%; Sawgrass(growth) 10.81%; Dana(value) 15.25%; Moody Aldrich(value) 20.46%.

International stocks continued to perform well during the year as the U.S. dollar experienced continued weakness. The total international equity return of the Plan was 11.96% vs. 8.21% for the benchmark, and ranked in the top 45th percentile of the international equity peer universe for the year. The Plan maintains investments in the MSCI EAFE Index, a low cost passive strategy, and invests with WHV International, an active manager with the goal of generating alpha.

The Barclay's Aggregate Bond Index increased 6.5% for the year, in spite of the rising yield environment placing downward pressure on diversified bond portfolios in the last quarter of 2010. The total fixed income return of the Plan was 7.13% vs. 5.90% for the benchmark, and ranked in the 56th percentile of the fixed income peer universe for the year. In April of 2010, the Board of Trustees approved a transfer of a portion of the bond assets to a commercial real estate fund to reduce exposure to the U.S. bond market. The Plan approved a 5% allocation to Intercontinental Commercial Real Estate Fund, attempting to reduce correlation to bond investments and seeking to achieve a target income return of 6% to 8% annually.

The prospects for the global economic climate, while anemic, continue on an improving trajectory. The Plan currently has a target actuarial assumption of 8.00% net investment return. The Plan exceeded that target for the fiscal year ended December 31, 2010 with an 11.5% net return. Although the investment environment in 4th quarter 2008 and most of 2009 was the worst since the great depression; the Plan has achieved greater than 8.00% return net of fees three out of the last five fiscal years:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Plan Return (net)	11.50%	18.21%	-23.40%	6.71%	10.09%

Prepared by: Tim Nash

Report on Investment Activity

DATE: February 25, 2011

Annual Performance - Pension Plan

Net Assets held in trust for pension benefits were \$58,610,097, at December 31, 2010, compared to \$53,418,717 at December 31, 2009. The change in total net assets was 9.7% for the twelve months ending December 31, 2010 compared to 17.4% for the same period of 2009.

Quarterly gross returns by fund manager were:

	Gross Time Weighted Return 2010				
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>2010</u>
Lateef Capital Management	5.35%	-12.31%	14.14%	9.98%	15.97%
Sawgrass Capital Management	3.96%	-9.59%	9.69%	7.48%	10.81%
Galliard Core Fixed Income	2.27%	2.83%	2.80%	-0.60%	7.46%
Galliard TIPS	0.70%	2.28%	1.89%	0.02%	4.97%
Moodys Aldrich	7.78%	-11.76%	11.49%	13.60%	20.46%
Dana Investment	5.97%	-10.29%	10.05%	10.16%	15.25%
iShares Large Cap Core	4.57%	-12.09%	10.60%	10.48%	12.32%
iShares International Equity	0.74%	-13.86%	16.34%	6.50%	7.52%
Wentworth, Hauser and Violich	0.69%	-15.24%	18.98%	14.20%	15.96%
Intercontinental Real Estate	N/A*	1.60%	-1.64%	4.85%	N/A*

* First Quarter data not available due to Funds transferred to Intercontinental in the Second Quarter.

The Plan was invested 49.4% US Equities, 14.4% International Equities, 28.7% Fixed Income, 4.4% Real Estate and 3.1% cash equivalents at year end. No sector or stock overweighed the investment policy as of year end and the above allocations were within our current investment policy guidelines. In 2010 there were withdrawals of approximately \$400,000 from investments to meet Plan obligations.

The Plan produced a net gain of 11.50% in 2010; however, due to the magnitude of the losses experienced in 2008, the Plan's trailing three year net return is 0.32% and the trailing five year net return is 3.47%, compared to our goal of an overall 8.0% annual return.

During 2009, the Plan produced a net gain of 18.21%. At December 2009, the Plan's 3-year and 5-year net returns were -1.14% and 1.85%, respectively; and at December 2008, the Plan's 3-year and 5-year net returns were -3.45% and -0.50%, respectively

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

Investment Policy Statement

I. PURPOSE OF INVESTMENT POLICY STATEMENT

The Pension Board of Trustees (the Board) maintains that an important determinant of future investment returns is the expression and periodic review of the Retirement System for General Employees of the Utility Board of the City of Key West, Florida (the Plan) investment objectives. To that end, the Board has adopted this statement of Investment Policy and directs that it apply to all assets under their control.

In fulfilling their fiduciary responsibility, the Board recognizes that the Plan is an essential vehicle for providing income benefits to retired participants or their beneficiaries. The Board also recognizes that the obligations of the Plan are long-term and that an investment policy should be made with a view toward performance and return over a number of years. The general investment objective is to obtain a reasonable total rate of return - defined as interest and dividend income plus realized and unrealized capital gains or losses - commensurate with the Prudent Investor Rule and any other applicable ordinances and statutes.

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

The Board will employ investment professionals to oversee and invest the assets of the Plan. Within the parameters allowed in this document and their agreements with the Board, the investment management professionals shall have investment discretion over their mandates, including security selection, sector weightings and investment style.

The Board, in performing their investment duties shall comply with the fiduciary standards set forth in Employee Retirement Income Security Act of 1974 (ERISA) at 29 U.S.C. s. 1104(a) (1) (A) – (C). In case of conflict with other provisions of law authorizing investments, the investment and fiduciary standards set forth in this section shall prevail.

II. TARGET ALLOCATIONS

In order to provide for a diversified portfolio, the Board has engaged investment professional(s) to manage and administer the fund. The Investment Managers are responsible for the assets and allocation of their mandate only and may be provided an addendum to this policy with their specific performance objectives and investment criteria. The Board has established the following asset allocation targets for the total fund.

Asset Class	Target	Range	Benchmark Index
Domestic Equity	45%	40% - 65%	Russell 3000
International Equity	15%	5% - 20%	MSCI-ACW ex US
Broad Market Fixed Income	25%	20% - 40%	Barclays Intermediate Aggregate
TIPS*	5%	0% - 10%	Barclays TIPS
Real Estate*	10%	0% - 15%	NCREIF NFI-ODCE

*Benchmark will default to "broad market fixed income" if these portfolios are not funded. Targets and ranges above are based on market value of total Plan assets.

**Retirement System for General Employees of the
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The Investment Consultant will monitor the aggregate asset allocation of the portfolio, and will rebalance to the target asset allocation based on market conditions. If at the end of any calendar quarter, the allocation of an asset class falls outside of its allowable range, barring extenuating circumstances such as pending cash flows or allocation levels viewed as temporary, the asset allocation will be rebalanced into the allowable range. To the extent possible, contributions and withdrawals from the portfolio will be executed proportionally based on the most current market values available and with reasonable notice provided to the Investment Managers. The Board does not intend to exercise short-term changes to the target allocations.

III. INVESTMENT PERFORMANCE OBJECTIVES

The following performance measures will be used as objective criteria for evaluating effectiveness of the Investment Managers.

A. Total Portfolio Performance

1. The performance of the total portfolio will be measured for rolling three (3) and five (5) year periods. The performance of the portfolio will be compared to the return of the policy indexes comprised of 45% Russell 3000 Index, 15% MSCI-All Country World x U.S. Index, 25% Barclays Capital U.S. Intermediate Aggregate Bond Index, 5% Barclays TIPS Index and 10% NCREIF Fund Index-Open End Diversified Core Equity (NFI-ODCE) Index.
2. On a relative basis, it is expected that the total fund performance will be in the top 40th percentile of the appropriate peer universe over three (3) to five (5) year periods.
3. On an absolute basis, the objective is that the return of the total portfolio will equal or exceed the actuarial earnings assumptions (8%), and provide inflation protection by meeting Consumer Price Index plus 3%. This absolute return objective will be evaluated in the context of the prevailing market conditions.

B. Equity Performance

The combined equity portion of the portfolio, defined as common stocks and convertible bonds, is expected to perform at a rate at least equal to the 75% Russell 3000 Index and 25% MSCI-All Country World x U.S. Index. Individual components of the equity portfolio will be compared to the specific benchmarks defined in each Investment Manager addendum. All portfolios are expected to rank in the top 40th percentile of the appropriate peer universe over three (3) and five (5) year time periods.

C. Fixed Income Performance

The overall objective of the fixed income portion of the portfolio is to add stability and liquidity to the total portfolio. The fixed income portion of the portfolio is expected to perform at a rate at least equal to the Barclays Capital U.S. Intermediate Aggregate Bond Index. All portfolios are expected to rank in the top 40th percentile of the appropriate peer universe over three (3) and five (5) year time periods.

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

Investment Policy Statement

D. Treasury Inflation Protection Securities (TIPS) Performance

The overall objective of the TIPS portfolio, if utilized, is to provide inflation protection while adding stability to the total portfolio. If TIPS are utilized the strategy is expected to approximate the structure and performance of the Barclays Capital U.S. Treasury TIPS Index.

E. Real Estate Performance

The overall objective of the real estate portion of the portfolio, if utilized, is to add diversification and another stable income stream to the total fund. The real estate portion of the portfolio, defined as core, open ended private real estate, is expected to perform at a rate at least equal to the NCREIF NFI-ODCE Index and rank in the top 40th percentile of the appropriate peer universe over three (3) and five (5) year time periods.

F. Alternatives and Other Asset Performance

The overall objective of the alternative and/or "other asset" portion of the portfolio, if utilized, is to reduce the overall volatility to the portfolio and enhance returns. This portion of the portfolio is will be measured against an appropriate benchmark, which will be outlined in the Investment Manager addendum at the time of investment.

IV. INVESTMENT GUIDELINES

A. Authorized Investments

The fund shall be invested and reinvested in such securities or real or personal property, wherever situated and of whatsoever kind, as may be approved by the Trustees, including but not limited to stocks, common or preferred, bonds and mortgages (including those of the Utility Board of the City of Key West, Florida) and other evidences of indebtedness or ownership, although the same may not be of the character permitted for investment by fiduciaries under the laws of the State of Florida. The Trustees, through their agents or otherwise, may retain in cash and keep unproductive of income such amount of the fund as they may deem advisable, having due regard for the cash requirements of the System. In makings investments and reinvestments, as authorized by the provisions of the System, the Trustees or such person, persons, agency or entity acting pursuant to authority granted by the Trustee shall exercise the judgment and care under the circumstances then prevailing which men or ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their own funds, considering the probable income there from as well as the probable safety of their capital, subject to the following guidelines and limitations:

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

Investment Policy Statement

1. Equities:
 - a. Must be traded on a national exchange or electronic network; and
 - b. Not more than 5% of the Plan's assets, at the time of purchase, shall be invested in the common stock, capital stock or convertible stock of any one issuing company, nor shall the aggregate investment in any one issuing company exceed 5% of the outstanding capital stock of the company; and
2. Fixed Income:
 - a. Eighty (80%) percent of the fixed income investments shall have a minimum rating of investment grade or higher as reported by a major credit rating service; and
 - b. The value of bonds issued by any single corporation shall not exceed 3% of the total fund, and
3. Money Market
 - a. The money market fund of STIF options provided by the Plan's Custodian; and
 - b. Have a minimum rating of A1/P1, or its equivalent, by a major credit rating service.
4. Pooled Funds:

Investments made by the Board may include pooled funds. For purposes of this policy pooled funds may include, but are not limited to, mutual funds, commingled funds, exchange-traded funds, limited partnerships and private equity. Pooled funds may be governed by separate documents which may include investments not expressly permitted in the Investment Policy Statement. In the event of investment by the Plan into a pooled fund, the prospectus or governing policy of that pooled fund, as updated from time to time, shall be treated as an addendum to this Investment Policy Statement. The Investment Consultant shall periodically review the Board any material changes in the prospectus or governing policy of a pooled fund.

B. Trading Parameters

When feasible and appropriate, all securities shall be competitively bid. Except as otherwise required by law, the most economically advantageous bid shall be selected. Commissions paid for purchase of securities must meet the prevailing best-execution rates. The responsibility of monitoring best price and execution of trades placed by each Investment Manager on behalf of the Plan will be governed by the Portfolio Management Agreement between the Plan and the Investment Managers.

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

Investment Policy Statement

C. Limitations

1. Investments in corporate common stock and convertible bonds shall not exceed seventy-five percent (75%) of the market value of the Plan assets.
2. Foreign securities (regardless of asset class) shall not exceed twenty-five (25%) of the market value of Plan assets. For the purposes of this Investment Policy Statement, foreign securities are defined as bonds, stocks, or other evidences of indebtedness issued or guaranteed by a company that is not organized under the laws of the United States, any state or organized territory of the United States, or the District of Columbia.
3. All equity and fixed income securities must be readily marketable. Commingled funds must be independently appraised at least annually.

D. Absolute Restrictions

No investments shall be permitted in;

1. Any investment not specifically allowed as part of this policy.
2. Illiquid investments, as described in Chapter 215.47, Florida Statutes.

V. COMMUNICATIONS

- A. On a monthly basis, the Custodian shall supply an accounting statement that will include a summary of all receipts and disbursements and the cost and the market value of all assets.
- B. On a quarterly basis, the Investment Managers shall provide a written report affirming compliance with the security restrictions of Section IV (as well as any provisions outlined in the Investment Manager's addendum). In addition, the Investment Managers shall deliver a report each quarter detailing the Plan's performance, forecast of the market and economy, portfolio analysis and current assets of the Plan. Written reports shall be delivered to the Board within 30 days of the end of the quarter. A copy of the written report shall be submitted to the person designated by the City, and shall be available for public inspection. The Investment Managers will provide immediate written and telephone notice to the Board of any significant market related or non-market related event, specifically including, but not limited to, any deviation, but not limited to, any deviation from the standards set forth in Section IV or their Investment Manger addendum.
- C. If an Investment Manager owns investments, that complied with section IV at the time of purchase, which subsequently exceed the applicable limit or do not satisfy the applicable investment standard, such excess or noncompliant investments may be continued until it is economically feasible to dispose of such investment in accordance with prudent man standard of care, but no additional investment any be made unless authorized by law or ordinance. In addition, an action plan outlining the investment 'hold or sell' strategy shall be provided to the Board immediately.
- D. The Investment Consultant shall evaluate and report on a quarterly basis the rate of return net of investment fees and relative performance of the Plan.

**Retirement System for General Employees of the
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Investment Policy Statement

- E. The Board will meet periodically to review the Investment Consultant performance report. The Board will meet with the Investment Manager and appropriate outside consultants to discuss performance results, economic outlook, investment strategy and tactics and other pertinent matters affecting the Plan on a periodic basis.
- F. At least annually, the Board shall provide the Investment Managers with projected disbursement needs of the Plan so that the investment portfolio can be structured in such manner as to provide sufficient liquidity to pay obligations as they come due. To this end, the Investment Managers should, to the extent possible, attempt to match investment maturities with known cash needs and anticipated cash-flow requirements.

VI. COMPLIANCE

- A. It is the direction of the Board that the plan assets are held by a third party Custodian, and that all securities purchased by, and all collateral obtained by the plan shall be properly designated as Plan assets. No withdrawal of assets, in whole or in part, shall be made from safekeeping except by an authorized member of the Board or their designee. Securities transactions between a broker-dealer and the Custodian involving purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis to insure that the Custodian will have the security or money in hand at conclusion of the transaction.
- B. The investment policy shall require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions shall adhere to the requirements of the Master Repurchase Agreement.
- C. At the direction of the Board operations of the Plan shall be reviewed by independent certified public accountants as part of any financial audit periodically required. Compliance with the Board's internal control shall be verified. These controls have been designed to prevent losses of assets that might arise from fraud, error, or misrepresentation by third parties or imprudent actions by the Board or employees of the Plan sponsor, to the extent possible.
- D. Each member of the Board shall participate in a continuing education program relating to investments and the Board's responsibilities to the Plan. It is suggested that this education process begin during each Board member's first term.
- E. With each actuarial valuation, the Board shall determine the total expected annual rate of return for the current year, for each of the next several years and for the long term thereafter. This determination shall be filed promptly with the Department of Management Services, the Plan's sponsor and the consulting actuary.
- F. The proxy votes must be exercised for the exclusive benefit of the participants of the Plan. Each Investment Manager shall provide the Board with a copy of their proxy voting policy for approval. On a regular basis, at least annually, each manager shall report a record of their proxy vote.

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

Investment Policy Statement

VII. CRITERIA FOR INVESTMENT REVIEW

The Board wishes to adopt standards by which judgments of the ongoing performance of an Investment Manager may be made. If, at any time, any three (3) of the following is breached, the Investment Manager will be warned of the Board's serious concern for the Plan's continued safety and performance. If any five (5) of these are violated the Investment Consultant may recommend an Investment Manager evaluation for that mandate.

- Four (4) consecutive quarters of relative under-performance versus the benchmark.
- Three (3) year trailing return below the top 40th percentile within the appropriate peer group and under performance versus the benchmark.
- Five (5) year trailing return below the top 40th percentile and under performance versus the benchmark.
- Three (3) year downside volatility greater than the index (greater than 100), as measured by down market capture ratio.
- Five (5) year downside volatility greater than the index (greater than 100), as measured by down market capture ratio.
- Style and consistency or purity drift from the mandate.
- Management turnover in portfolio team or senior management.
- Investment process change, including varying the index or benchmark
- Failure to adhere to the Investment Policy Statement, Investment Manager Addendum or other compliance issues.
- Investigation of the firm by the Securities and Exchange Commission (SEC) or other regulatory agency.
- Significant asset flows into or out of the company or strategy.
- Merger or sale of firm.
- Fee increases outside the competitive range.
- Servicing issues – key personnel stop servicing the account without proper notification.
- Failure to attain a 60% vote of confidence by the Board.

Nothing in this section shall limit or diminish the Board's right to terminate the Investment Manager at any time for any reason.

VIII. APPLICABLE CITY ORDINANCES

If, at any time this document is found to be in conflict with the City Ordinances or applicable Florida Statutes, the Ordinances and Statutes shall prevail.

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

Investment Policy Statement

IX. REVIEW AND AMMENDMENTS

It is the Board's intention to review this document at least annually subsequent to the actuarial report and to amend this statement to reflect any changes in philosophy, objectives, or guidelines. In this regard, the Investment manager's interest in consistency in these matters is recognized and will be taken into account when changes are being considered. If, at any time, the Investment Manager feels that the specific objectives defined herein cannot be met, or the guidelines constrict performance, the Board should be notified in writing. By initialing and continuing acceptance of this Investment Policy Statement, the Investment Managers concur with the provisions of this document. By signing the document, the Chairman attests that this policy has been recommended by the Investment Consultant, reviewed by the Plan's legal counsel for compliance with applicable law, and approved by the Board.

X. FILING OF THE INVESTMENT POLICY

Upon adoption by the Board, the Investment Policy Statement shall be promptly filed with the Florida Department of Management Services, the City, and the Plan's actuary. The effective date of the Investment Policy Statement shall be 31 day following the filing date with the City.

Policy adopted November 8, 2010

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

**Schedule of Investment Results
For the Year Ended December 31, 2010**

Manager/Fund Market Index	Q1	Q2	Q3	Q4	1 year	3 years
Total Portfolio (Net) ⁽¹⁾	3.56%	-6.84%	8.43%	6.61%	11.50%	0.32%
Total Portfolio (Gross)	3.62%	-6.83%	8.57%	6.63%	11.77%	0.65%
<i>45%Russell 3000/15%MSCI EAFE/30%Barclays Int. Aggregate/ 5%Barclays TIPS /5% US Treasury T-Bill (2)</i>	3.47%	-6.25%	8.43%	6.59%	12.11%	0.95%
Domestic Equity Composite	5.55%	-11.17%	11.21%	10.31%	15.01%	-3.02%
<i>Domestic Equity Policy</i>	5.94%	-11.32%	11.53%	11.59%	16.93%	-2.01%
Moodys Aldrich Focused Value	7.78%	-11.76%	11.49%	13.60%	20.46%	-1.18%
Dana Equity	5.97%	-10.29%	10.05%	10.16%	15.25%	N/A ⁽³⁾
<i>Russell 3000 Value</i>	7.05%	-11.09%	10.10%	10.92%	16.23%	-3.91%
iShares Large Cap Core	4.57%	-12.09%	10.60%	10.48%	12.32%	-3.93%
<i>S&P 100</i>	4.61%	-12.10%	10.68%	10.55%	12.51%	-3.81%
Lateef Capital Management	5.35%	-12.31%	14.14%	9.98%	15.97%	-0.38%
Sawgrass Capital Management	3.96%	-9.59%	9.69%	7.48%	10.81%	-3.66%
<i>Russell 1000 Growth</i>	4.65%	-11.75%	13.00%	11.83%	16.71%	-0.47%
International Composite	1.01%	-15.26%	18.31%	10.57%	11.96%	-4.21%
Wentworth, Hauser, & Violich International	0.69%	-15.24%	18.98%	14.20%	15.96%	N/A ⁽⁴⁾
iShares International Equity	0.74%	-13.86%	16.34%	6.50%	7.52%	-7.04%
<i>MSCI EAFE</i>	0.94%	-13.75%	16.53%	6.65%	8.21%	-6.55%
Total Fixed Portfolio	2.08%	2.74%	2.67%	-0.52%	7.13%	6.46%
<i>Total Fixed Policy</i>	1.66%	2.83%	2.05%	-0.73%	5.90%	5.65%
Galliard Core Fixed Income	2.27%	2.83%	2.80%	-0.60%	7.46%	6.69%
<i>Barclays Capital Intermediate Aggregate</i>	1.81%	2.92%	2.07%	-0.75%	6.15%	5.82%
Galliard TIPS	0.70%	2.28%	1.89%	0.02%	4.97%	4.73%
<i>Barclays Capital U.S. Treasury Inflation Notes: 1-10 Year</i>	0.85%	2.29%	1.92%	0.06%	5.22%	4.77%
Intercontinental Real Estate	N/A ⁽⁵⁾	1.60%	-1.64%	4.85%	N/A	N/A ⁽⁵⁾
<i>NCREIF OEDC Proxy Index</i>	0.75%	4.32%	5.45%	5.06%	16.44%	-9.71%

Note:
⁽¹⁾ The net calculations were prepared using the time-weighted rate of return net of fees management fees
⁽²⁾ The difference in the Investment Policy Statement (IPS) benchmark and the current benchmark is a result of a change to the IPS in May 2007 to allow for real estate investments. The effective date of the new fund benchmark is October 2010. The new fund policy is *45%Russell 3000 Index/15%MSCI ACW ex US/25%Barclays Capital US Intermediate Aggregate/5%Barclays TIPS/10%NCREIF Fund Index-Open End Diversified Core Equity (EW)*. The new fund policy and benchmark applies to the fourth quarter results.
⁽³⁾ Inception date in March 2009
⁽⁴⁾ Inception date in April 2008
⁽⁵⁾ Inception date in April 2010

At December 31 2010, the Plan's 5-year net return was 3.47% and the Plan's 5-year gross return was 3.90%. The Benchmark return was 4.41%. Due to the change in the Plan Investment Consultant in June 2007, and the resulting change in Fund Managers, investment results by Manager/Fund for the 5-year period are not available.

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

As of December 31, 2010

Largest Holdings (By Fair Value)

	<u>Shares</u>	<u>Asset Description</u>	<u>Market Value</u>
1)	85,362	iShares S&P 100 Index Fund	\$ 4,837,465
2)	68,562	iShares MSCI EAFE Index Fund	3,991,680
3)	1,985,000	Federal National Mortgage Association 5.5% Mature 2/1/34	761,537
4)	11,052	Qualcomm Inc.	546,963
5)	451,000	US Treasury Inflation Index 2.38% Mature 1/15/17	545,046
6)	418,000	US Treasury Inflation Index 2% Mature 1/15/14	531,164
7)	527,313	Federated Prime Obligations Fund 10	527,313
8)	475,000	US Treasury Inflation Index 1.38% Mature 7/15/18	507,676
9)	8,860	AFLAC Inc.	499,970
10)	10,083	Accenture PLC	488,925

A complete list of portfolio holdings is available upon request

**Schedule of Asset Allocation and Fees
For the Year Ended December 31, 2010**

<u>Investment Managers</u>	<u>Type</u>	<u>2010 Year End Account Value</u>	<u>% of Total Fair Value</u>	<u>2010 Investment Manager Fee</u>
Lateef Capital Management	Large Cap Growth	\$ 6,513,758	11.21%	\$ 58,856
Sawgrass Capital Management	Large Cap Growth	5,902,664	10.15%	35,650
Galliard Core Fixed Income	Fixed Income	14,978,606	25.77%	39,004
Galliard TIPS	High Quality Bond	2,428,632	4.18%	3,589
Moodys Aldrich	Large Cap Value	6,206,808	10.68%	55,264
Dana Investment	Large Cap Value	6,011,314	10.34%	34,738
I Shares Large Cap Core	Large Cap Core	4,948,997	8.51%	-
I Shares International Equity	International	4,111,951	7.07%	-
Wentworth, Hauser & Violich	International	4,508,388	7.76%	39,223
Intercontinental	Real Estate	2,516,520	4.33%	20,117
Total Fund Balance		<u>\$ 58,127,638</u> *	<u>100.00%</u>	<u>\$ 286,441</u>

* Total Fund Balance includes interest receivable and pending trades

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

Investment Summary

**Asset Allocation by Investment Type
For the Year Ended December 31, 2010**

	Fair Value	% of Total Fair Value
Fixed Income		
Corporate Bonds	\$ 5,918,862	10.22%
Government Bonds	9,533,914	16.46%
State and Local Bonds	1,174,301	2.03%
Real Estate Bonds	40,380	0.07%
Other Bonds	<u>46,009</u>	<u>0.08%</u>
Total Fixed Income	<u>16,713,466</u>	<u>28.85%</u>
Real Estate	<u>2,516,520</u>	<u>4.34%</u>
Common Stock	<u>37,115,816</u>	<u>64.07%</u>
Cash and Cash Equivalents	<u>1,588,376</u>	<u>2.74%</u>
Total Investments	<u><u>\$ 57,934,178</u></u>	<u><u>100.00%</u></u>

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

Glossary

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

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

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

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

Barclays Capital Intermediate Aggregate Index - An unmanaged index that consists of 1-10 year Governments, 1-10 year Corporates, all Mortgages, and all Asset-Backed securities within the Aggregate Index (i.e. The Aggregate Index less the Long Government/Corporate Index).

Barclays Capital US Treasury Inflation Protected Securities (TIPS) Index – Represents securities that protect against adverse inflation and provide a minimum level of real return. To be included in this index, bonds must have cash flows linked to an inflation index, be sovereign issues denominated in US currency, and have more than one year to maturity, and, as a portion of the index, total minimum amount outstanding of 100 million US dollars.

Barclays Capital US Treasury: U.S. TIPS – Index includes all publicly issued U.S. Treasury inflation-protected securities that have at least 1 year remaining to maturity, are rated investment grade and have \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible. The Index is market capitalization weighted and the securities in the Index are updated on the last calendar day of each month.

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

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

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

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

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

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

Glossary

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

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

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

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

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

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

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

LB U.S. TIPS Index - Consists of all U.S. Treasury inflation protected securities rated investment grade or better, having at least one year to final maturity and at least \$250 million par amount outstanding.

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

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

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

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

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MSCI ACW ex US – Index (All Country) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The index consists of 45 country indices comprising 24 developed and 21 emerging market country indices excluding the US.

NCREIF Fund Index Open-End Diversified Core Equity – Index of investment returns reporting on both a historical and current basis the results of 26 open-end commingled funds pursuing a core investment strategy, some of which have performance histories dating back to the 1970s.

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

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

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

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

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

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

Russell 3000 Equity Index – Measures the performance of the 3,000 largest US companies based on total market capitalization, which represents approximately 98% of the investable US equity market.

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

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

S&P 100 Index - Measures the stock market performance of large U.S. companies. The 100 Index is a weighted index of 100 blue-chip stocks across diverse industry sectors.

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

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

Glossary

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

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

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

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

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

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

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March 8, 2011

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

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

The information is compiled from annual actuarial valuations, including the most recent as of January 1, 2011. In performing these valuations, the Utility Board staff provides certain data and the plan auditor submits financial statements. We rely on the accuracy of this information.

The data being provided includes the following:

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

We compiled all of the above information.

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

On the basis of the January 1, 2011 Actuarial Valuation, it is our opinion that the Retirement System for General Employees of the Utility Board of the City of Key West continues in sound financial condition under generally accepted actuarial principles.

Sincerest regards,



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

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

Actuarial Section

Summary Actuarial Assumptions and Methods

A. Mortality

For healthy participants, the RP 2000 Mortality Table was used, with separate rates for males and females and for annuitants and non-annuitants, projected with full generational mortality improvements.

For disabled participants, the RP 2000 Disabled Mortality Table was used, with separate rates for males and females, projected with full generational mortality improvements.

B. Investment Return

8.0%, compounded annually.

C. Allowances for Expenses or Contingencies

Estimated annual expenses based upon prior year's experience.

D. Employee Withdrawal Rates

Withdrawal rates were used in accordance with tables per the following illustrative example:

Withdrawal Rates Per 100 Employees		
<u>Age</u>	<u>Males</u>	<u>Females</u>
20	7.0	9.0
25	8.0	9.0
30	14.5	13.0
35	8.0	10.0
40	4.6	6.5
45	4.0	3.5
50	0.0	0.0
55	0.0	0.0
60 & Over	0.0	0.0

E. Disability Benefits

Class (01) Inter-Company modified disability rates for males were used. Rates for females were doubled. No Workers' Compensation benefits are assumed to be payable.

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

Actuarial Section

Summary Actuarial Assumptions and Methods

F. Salary Increase Factors

Current salary was assumed to increase according to the following table.

<u>Salary Increase Factors</u>			
<u>Age</u>	<u>Assumed Wage Inflation</u>	<u>Promotion & Seniority</u>	<u>Total Current Rates</u>
< 25	3.50%	6.50%	10.00%
25 - 34	3.50%	5.50%	9.00%
35 - 44	3.50%	4.00%	7.50%
45 - 54	3.50%	3.00%	6.50%
55 & After	3.50%	2.50%	6.00%

G. Assumed Retirement Age

Employees are assumed to retire at the rates shown in the following table.

<u>Age</u>	<u>Rate of Retirement</u>
<55	8%
55 - 56	10%
57	20%
58	35%
59	45%
60	30%
61 - 62	20%
63 - 69	10%
70	100%

Employees who attain age 50 or age 50 with 30 years of service after the valuation date are assumed to retire no later age 50 with 30 years of service. Employees who have reached age 70 or age 50 with 30 years of service as of the valuation date are assumed to remain employed for an additional year.

H. Death Benefits

- (1) 10% of participants are assumed to designate a child as beneficiary eligible for future children's benefits.
- (2) 90% of participants are assumed to be married.

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

Actuarial Section

Summary Actuarial Assumptions and Methods

I. Valuation of Assets

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

J. Increase in Covered Payroll

3.0% per year, limited to average annual increase over most recent ten years (4.6%).

K. Cost Methods

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

L. Treatment of Actuarial Gains and Losses

Gains and losses are amortized over a period of 30 years.

M. Changes since Previous Valuation

None.

N. Choice of Assumptions and Methods

The actuarial assumptions and methods are recommended by the actuary and adopted by the Board of Trustees at various times. Unless otherwise indicated (above) the actuarial assumptions were adopted prior to 1998. The recommendations are based on a review of actual plan experience, including the results of an Experience Study for the period January 1, 2003 through December 31, 2007.

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

Actuarial Section

Resolutions Passed (Beginning 1998):

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

Resolution No. 57 – Extending Pre-retirement Survivor Benefits to domestic partners. Passed by the Board of Trustees May 18, 1998

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

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

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

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

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

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

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

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

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

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

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

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

Actuarial Section

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

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

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

Resolution No. 74 – Amending terms of office for Trustees. Passed by the Board of Trustees March 13, 2007

Resolution No. 75 – Amending eligibility for Normal Retirement and Deferred Vested Benefits. Passed by the Board of Trustees November 13, 2008.

Resolution No. 76 – Amending Death Benefit to allow for member designation of beneficiary payments and adding an Optional Payment Method for receiving benefit payments (joint and survivor with pop-up). Passed by the Board of Trustees January 13, 2009.

Resolution No. 769 – Amending the accrued benefit for members hired after May 31, 2010 to 2.0% of career average compensation. Passed by the Utility Board March 10, 2010.

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

Actuarial Section

Schedule of Active and Retiree Valuation Data

Active Members					
Valuation Date	Number	Annual Payroll	Average Pay	% Increase	Inflation Increase % (CPI)
01/01/2002	155	\$ 6,763,524	\$ 43,636	5.7%	1.6%
01/01/2003	154	6,845,370	44,450	1.9%	2.4%
01/01/2004	148	6,897,648	46,606	4.9%	1.9%
01/01/2005	139	6,933,885	49,884	7.0%	3.3%
01/01/2006	144	7,644,008	53,083	6.4%	3.4%
01/01/2007	147	8,342,673	56,760	6.9%	2.5%
01/01/2008	153	9,202,549	60,147	6.0%	4.1%
01/01/2009	153	9,782,010	63,935	6.3%	0.1%
01/01/2010	156	10,024,867	64,262	0.5%	2.7%
01/01/2011	149	10,005,398	67,150	4.5%	1.5%

Retirees												
Retirant and Beneficiary Data				Annual Allowances						Retiree Lives as Portion of Active Members		
Valuation Date	Number Added	Number Removed	Number	Added to Roll*	Removed from Roll*	COLA*	Benefit Adjust-ment	Total	Average Annual Allowances	% Increase in Annual Allowances	Number of Lives	Allowances/Active Pays
01/01/2002	7	5	123	153528	97005	64463	N/A	\$ 2,217,385	\$ 18,028	5.8%	79.4%	32.8%
01/01/2003	9	3	129	\$ 151,719	\$ 66,021	\$ 67,505	N/A	\$ 2,370,588	\$ 18,377	6.9%	83.8%	34.6%
01/01/2004	10	5	134	\$ 161,309	\$ 62,107	\$ 74,317	N/A	\$ 2,544,107	\$ 18,986	7.3%	90.5%	36.9%
01/01/2005	10	2	142	\$ 188,866	\$ 15,047	\$ 78,209	-110784	\$ 2,685,351	\$ 18,911	5.6%	102.2%	38.7%
01/01/2006	11	4	149	\$ 177,235	\$ 65,652	\$ 83,719	N/A	\$ 2,880,653	\$ 19,333	7.3%	103.5%	37.7%
01/01/2007	7	7	149	\$ 152,323	\$ 90,793	\$ 88,268	N/A	\$ 3,030,451	\$ 20,339	5.2%	101.4%	36.3%
01/01/2008	8	7	150	\$ 181,911	\$ 88,078	\$ 93,736	N/A	\$ 3,218,020	\$ 21,453	6.2%	98.0%	35.0%
01/01/2009	5	4	151	\$ 96,516	\$ 30,482	\$ 98,499	N/A	\$ 3,382,553	\$ 22,401	5.1%	98.7%	34.6%
01/01/2010	7	4	154	\$ 175,728	\$ 69,221	\$ 104,673	N/A	\$ 3,593,733	\$ 23,336	6.2%	98.7%	35.8%
01/01/2011	8	6	156	\$ 193,887	\$ 108,330	\$ 110,401	N/A	\$ 3,789,691	\$ 24,293	5.5%	104.7%	37.9%

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

Actuarial Section

Solvency Test

Valuation Date	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer Financed Portion)	Actuarial Value of Assets	Portion of Accrued Liability Covered by Assets		
					(1)	(2)	(3)
01/01/2002	\$ 216,625	\$ 26,641,717	\$ 23,861,847	\$ 49,513,555	100.0%	100.0%	94.9%
01/01/2003	\$ 175,931	\$ 28,516,151	\$ 23,741,406	\$ 50,458,881	100.0%	100.0%	91.7%
01/01/2004	\$ 152,915	\$ 30,734,020	\$ 24,521,288	\$ 51,439,056	100.0%	100.0%	83.8%
01/01/2005	\$ 117,921	\$ 32,683,883	\$ 24,709,690	\$ 53,036,477	100.0%	100.0%	81.9%
01/01/2006	\$ 105,952	\$ 34,747,993	\$ 26,149,556	\$ 54,265,771	100.0%	100.0%	74.2%
01/01/2007	\$ 80,737	\$ 36,188,970	\$ 28,074,123	\$ 55,876,434	100.0%	100.0%	69.8%
01/01/2008	\$ 61,282	\$ 38,866,974	\$ 29,180,801	\$ 59,924,147	100.0%	100.0%	72.0%
01/01/2009	\$ 53,375	\$ 41,647,499	\$ 32,510,920	\$ 54,592,357	100.0%	100.0%	39.7%
01/01/2010	\$ 39,940	\$ 43,757,930	\$ 34,041,806	\$ 60,033,682	100.0%	100.0%	47.7%
01/01/2011	\$ 26,315	\$ 45,831,100	\$ 35,741,242	\$ 61,382,808	100.0%	100.0%	43.4%

Analysis of Financial Experience

Year	Gain (or Loss) During Year From Financial Experience	Gain (or Loss) During Year Due To Liabilities	Composite Gain (or Loss) During Year
2001	\$ (5,700,919)	\$ 856,995	\$ (4,843,924)
2002	\$ (10,249,011)	\$ 752,571	\$ (9,496,440)
2003	\$ (1,694,583)	\$ (291,507)	\$ (1,986,090)
2004	\$ (1,381,687)	\$ (445,053)	\$ (1,826,740)
2005	\$ (1,785,209)	\$ (538,117)	\$ (2,323,326)
2006	\$ (1,541,149)	\$ (50,836)	\$ (1,591,985)
2007	\$ 688,320	\$ (332,075)	\$ 356,245
2008	\$ (8,930,851)	\$ (571,050)	\$ (9,501,901)
2009	\$ 1,506,774	\$ 573,411	\$ 2,080,185
2010	\$ (2,498,590)	\$ 354,186	\$ (2,144,404)

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

Actuarial Section

Summary of Plan Provisions and Changes

- A. Effective Date** - April 9, 1954, as amended and restated as of September 28, 1983, and further amended through Resolution No. 769 effective March 10, 2010.
- B. Eligibility Requirements** - All regular and permanent employees of the Utility Board shall become members of the System immediately upon completion of the probationary period. All regular and permanent employees of the Utility Board prior to October 2, 2003 became members of the System immediately upon employment. Elected Utility Board officials become member of the Plan immediately upon election.
- C. Member Contributions** - Eliminated effective October 1, 1985 (October 1, 1983 for management members).
- D. Utility Board Contributions** - The Utility Board shall contribute an amount that will be determined annually by decision of the Utility Board.
- E. Credited Service** - Credited service is service performed subject to a maximum of 30 years.
- F. Average Final Compensation** - Average final compensation (AFC) equals the average annual pensionable earnings received during a period of the five highest years out of the last ten years of service immediately preceding retirement. Pensionable earnings are calculated using the member's base hourly rate each pay period, multiplied by 80 hours, less any hours that are considered *leave without pay*.
- G. Career Average Compensation** – Career average compensation (CAC) means the average of the pensionable earnings received by a member from the date of participation to termination of service. Pensionable earnings are calculated using the member's base hourly rate each pay period, multiplied by 80 hours, less any hours that are considered *leave without pay*.
- H. Normal Retirement**
1. Eligibility - Earlier of:
 - (a) Attainment of age 60 and completion of 10 years of credited service, attainment of age 60 if a Plan Member on or before November 13, 2008
 - (b) Completion of 30 years of credited service.
 2. Benefit – For employees hired before June 1, 2010, 2.4% times AFC times years of credited service. For employees hired after May 31, 2010, 2.0% times CAC times years of credited service.

If you work beyond your normal retirement date, benefit calculated for normal retirement based on credited service and AFC as of your late retirement date.

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

Actuarial Section

Summary of Plan Provisions and Changes

I. Early Retirement

1. Eligibility - Earlier of:
 - (a) Attainment of age 55 with completion of 10 years of credited service.
 - (b) Completion of 20 years of credited service.
2. Benefit - Benefit as calculated for normal retirement based on credited service and AFC or CAC as of early retirement date. The member may elect to defer receipt of the benefit until the normal retirement date or alternatively, may elect a benefit reduced 5% for each year the benefit commencement date precedes normal retirement date.

J. Disability Benefit

1. Eligibility - Totally and permanently disabled as defined under the Plan and completion of ten years of credited service as of date of disability.
2. Benefit – For employees hired before June 1, 2010, benefit as calculated for normal retirement based on credited service and average basic compensation during the three years immediately preceding disability, minimum benefit of 20% of final three-year average basic compensation at date of disability. For employees hired after May 31, 2010, benefit as calculated for normal retirement based on credited service and CAC as of date of disability, minimum benefit of 20% of CAC at date of disability. These benefits will be offset by any benefits payable under Workers' Compensation or similar injury or disability benefit payments.

K. Pre-Retirement Death Benefit

In the case of death of a member while currently employed, the amount of the projected benefit which such member would have received had the member continued employment until normal retirement date at the current rate of pay shall be determined. Each Plan Member may elect survivor payment under Option 1 or Option 2, however, Option 2 is only available if the Plan Member has children under 21 years of age (25 years of age provided the child is a full-time student in college or disabled under Social Security).

Option 1, 75% of the benefit calculated above payable during the remaining lifetime of the spouse or domestic partner.

Option 2, 100% of the benefit calculated above payable until the youngest child is 21 years of age (25 years of age provided the child is a full-time student in college or disabled under Social Security). Upon attainment of age 21 (25 years of age provided the child is a full-time student in college or disabled under Social Security) by the youngest child, 60% of the benefit calculated above payable during the remaining lifetime of the surviving spouse or domestic partner.

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

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

Actuarial Section

Summary of Plan Provisions and Changes

L. Termination Benefit

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

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

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

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

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

M. Normal Form of Payment

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

N. Changes since Last Actuarial Valuation

Career Average Compensation (CAC) was not previously used.

Normal retirement benefit was previously 2.4% times AFC times years of credited service.

Disability retirement benefit was previously calculated as for normal retirement based on credited service and averaged basic compensation during the three years immediately preceding disability, minimum benefit of 20% of final three year average basic compensation at date of disability.

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

Statistical Section

OVERVIEW

The statistical section presents additional information to provide financial statement users with added historical perspective, context and detail to assist in using the information in the financial statements, notes to the financial statements and required supplementary information to understand and assess the System's financial condition.

Financial Trends

The schedules presented on pages 66 and 67 contain trend information to help the reader understand how the System's financial position has changed over time.

Operating Information

The schedules presented on pages 68 and 69 contain benefits, service and employer data to help the reader understand how the System's financial report relates to the services of the System and the activities it performs.

SCHEDULE OF CHANGES IN NET ASSETS

Calendar Year	Total Additions to System Net Assets	Total Deductions from System Nets Assets	Changes in System Net Assets
2010	\$ 8,863,113	\$ 3,671,733	\$ 5,191,380
2009	\$ 11,393,513	\$ 3,468,427	\$ 7,925,086
2008	\$ (10,678,471)	\$ 3,398,426	\$ (14,076,897)
2007	\$ 6,355,692 ¹	\$ 3,170,581 ¹	\$ 3,185,111
2006	\$ 7,338,678	\$ 2,944,678	\$ 4,394,000
2005	\$ 3,547,337	\$ 2,827,436	\$ 719,901
2004	\$ 4,374,972	\$ 2,637,921	\$ 1,737,051
2003	\$ 9,716,107	\$ 2,441,315	\$ 7,274,792
2002	\$ (4,966,565)	\$ 2,287,318	\$ (7,253,883)
2001	\$ (701,307)	\$ 2,114,280	\$ (2,815,587)

1 Includes \$12,977 adjustment for Medicare premium included in benefit expense per Financial Statements

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

Statistical Section

Schedule of Additions by Source to Plan Assets

Calendar Year	Miscellaneous	Employer Contributions	Employer Contributions as a Percentage of Covered Payroll	Net Investment Income/(Loss)	Total
2010	\$ -	\$ 3,103,795	31.90%	\$ 5,759,318	\$ 8,863,113
2009	\$ -	\$ 3,318,721	33.10%	\$ 8,074,792	11,393,513
2008	\$ 500,000	\$ 2,537,303	25.90%	\$ (13,715,774)	(10,678,471)
2007	\$ -	\$ 2,462,847	26.80%	\$ 3,892,845	6,355,692 ¹
2006	\$ -	\$ 2,208,905	26.50%	\$ 5,129,773	7,338,678
2005	\$ -	\$ 2,014,613	26.40%	\$ 1,532,724	3,547,337
2004	\$ -	\$ 1,910,640	27.60%	\$ 2,464,332	4,374,972
2003	\$ -	\$ 1,660,627	24.10%	\$ 8,055,480	9,716,107
2002	\$ -	\$ 1,699,850	24.80%	\$ (6,666,415)	(4,966,565)
2001	\$ -	\$ 1,246,673	18.40%	\$ (1,947,980)	(701,307)

Schedule of Deductions by Type of Plan Assets

Calendar Year	Benefits	Expenses	Refunds	Total
2010	\$ 3,604,105	\$ 67,628	\$ -	\$ 3,671,733
2009	\$ 3,384,425	\$ 84,002	\$ -	\$ 3,468,427
2008	\$ 3,223,598	\$ 174,828	\$ -	\$ 3,398,426
2007	\$ 3,047,455	\$ 123,126	\$ -	\$ 3,170,581 ¹
2006	\$ 2,875,615	\$ 69,063	\$ -	\$ 2,944,678
2004	\$ 2,553,007	\$ 84,914	\$ -	\$ 2,637,921
2004	\$ 2,553,007	\$ 84,914	\$ -	\$ 2,637,921
2003	\$ 2,396,684	\$ 44,631	\$ -	\$ 2,441,315
2002	\$ 2,246,363	\$ 40,955	\$ -	\$ 2,287,318
2001	\$ 2,085,070	\$ 29,210	\$ -	\$ 2,114,280

¹ Includes \$12,977 adjustment for Medicare premium included in benefit expense per Financial Statements

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

Statistical Section

Schedule of Benefit Expense by Type

Year	Age & Service Benefits		Death in Service Benefits	Disability Benefits		Refunds		Total
	Retirants	Survivors		Retirants	Survivors	Death	Separation	
2001	\$ 1,720,062	\$ 136,727	\$ 86,805	\$ 141,476	-	-	-	\$ 2,085,070
2002	\$ 1,876,444	\$ 160,469	\$ 63,601	\$ 145,849	-	-	-	\$ 2,246,363
2003	\$ 1,986,482	\$ 169,525	\$ 54,093	\$ 186,584	-	-	-	\$ 2,396,684
2004	\$ 2,073,700	\$ 185,146	\$ 64,017	\$ 230,144	-	-	-	\$ 2,553,007
2005	\$ 2,224,259	\$ 168,741	\$ 74,619	\$ 238,187	-	-	-	\$ 2,705,806
2006	\$ 2,349,373	\$ 192,075	\$ 76,858	\$ 257,309	-	-	-	\$ 2,875,615
2007	\$ 2,538,181	\$ 198,993	\$ 79,164	\$ 231,117	-	-	-	\$ 3,047,455
2008	\$ 2,736,830	\$ 175,801	\$ 81,539	\$ 224,900	4,528	-	-	\$ 3,223,598
2009	\$ 2,885,418	\$ 181,074	\$ 83,985	\$ 219,955	13,993	-	-	\$ 3,384,425
2010	\$ 3,080,370	\$ 209,892	\$ 86,504	\$ 200,102	27,237	-	-	\$ 3,604,105

Schedule of Retired Members by Type – January 1, 2011

Amount of Monthly Benefit	Number of Retirants	Type of Retirement						Option Selected #			
		1	2	3	4	5	6	Life	Opt. 1	Opt. 2	Opt. 3
Deferred	25	0	0	0	0	0	25	25	0	0	0
\$1 - 250	6	5	1	0	0	0	0	4	2	0	0
251 - 500	3	2	1	0	0	0	0	2	1	0	0
501 - 750	13	3	6	3	0	1	0	10	3	0	0
751 - 1,000	10	3	5	2	0	0	0	9	0	1	0
1,001 - 1,250	17	1	9	6	0	1	0	12	5	0	0
1,251 - 1,500	13	4	4	1	2	2	0	8	5	0	0
1,501 - 1,750	17	5	6	2	1	3	0	12	3	1	1
1,751 - 2,000	16	7	6	2	0	1	0	10	6	0	0
Over 2,000	<u>61</u>	<u>37</u>	<u>20</u>	<u>1</u>	<u>1</u>	<u>2</u>	<u>0</u>	<u>34</u>	<u>27</u>	<u>0</u>	<u>0</u>
Totals	181	67	58	17	4	10	25	126	52	2	1

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

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

Schedules based upon information reported by the Company as compiled by the Actuary.

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

Statistical Section

Schedule of Average Benefit Payments

Retirement Effective Dates For the Fiscal Years ended December 31	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
2001							
Average Monthly Benefit	\$ -	\$ -	\$ 931	\$ -	\$ 1,271	\$ 2,171	\$ 5,516
Average Final Average Salary	-	-	3,846	-	2,615	3,350	7,661
Number of Active Retirants	-	-	1	-	1	1	1
2002							
Average Monthly Benefit	\$ -	\$ -	\$ 585	\$ 1,570	\$ 866	\$ -	\$ 2,311
Average Final Average Salary	-	-	2,565	3,822	3,047	-	3,302
Number of Active Retirants	-	-	1	3	3	-	2
2003							
Average Monthly Benefit	\$ -	\$ -	\$ 1,097	\$ 1,393	\$ 1,280	\$ -	\$ 2,123
Average Final Average Salary	-	-	4,063	3,213	3,543	-	2,863
Number of Active Retirants	-	-	1	2	5	-	1
2004							
Average Monthly Benefit	\$ -	\$ 104	\$ 2,537	\$ -	\$ 1,484	\$ 3,024	\$ -
Average Final Average Salary	-	3,183	3,947	-	4,106	5,066	-
Number of Active Retirants	-	2	1	-	5	2	-
2005							
Average Monthly Benefit	\$ -	\$ 100	\$ 1,137	\$ 1,478	\$ 1,390	\$ 2,347	\$ -
Average Final Average Salary	-	636	4,123	3,672	3,412	3,851	-
Number of Active Retirants	-	1	4	3	1	1	-
2006							
Average Monthly Benefit	\$ -	\$ -	\$ -	\$ -	\$ 1,867	\$ 2,507	\$ -
Average Final Average Salary	-	-	-	-	4,548	4,049	-
Number of Active Retirants	-	-	-	-	2	3	-
2007							
Average Monthly Benefit	\$ -	\$ -	\$ 610	\$ -	\$ 1,779	\$ 3,260	\$ -
Average Final Average Salary	-	-	2,467	-	4,360	5,532	-
Number of Active Retirants	-	-	1	-	4	2	-
2008							
Average Monthly Benefit	\$ -	\$ 52	\$ -	\$ -	\$ 2,009	\$ 3,047	\$ -
Average Final Average Salary	-	2,040	-	-	4,577	4,551	-
Number of Active Retirants	-	1	-	-	2	1	-
2009							
Average Monthly Benefit	\$ 481	\$ -	\$ 1,266	\$ 1,364	\$ -	\$ 2,953	\$ 4,998
Average Final Average Salary	4,245	-	3,865	3,530	-	4,430	6,740
Number of Active Retirants	1	-	1	1	-	2	1
2010							
Average Monthly Benefit	\$ -	\$ -	\$ 1,421	\$ 1,666	\$ -	\$ 2,505	\$ 3,929
Average Final Average Salary	-	-	4,387	4,044	-	4,020	5,456
Number of Active Retirants	-	-	1	-	-	2	1
From January 1, 2001 through through December 31, 2010							
Average Monthly Benefit	\$ 481	\$ 90	\$ 1,181	\$ 1,496	\$ 1,476	\$ 2,755	\$ 3,531
Average Final Average Salary	4,245	2,261	3,785	3,648	3,874	4,428	4,887
Number of Active Retirants	1	4	11	10	23	14	6

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