

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

**Statements of Plan Net Assets**

	<b>December 31,</b>	
	<b>2004</b>	<b>2003</b>
<b>Assets</b>		
Cash	\$ 797,287	\$ 440,872
<b>Receivables</b>		
Interest	212,614	212,665
Pending trades	1,168,874	-
Miscellaneous	832	-
<b>Total Receivables</b>	1,382,320	212,665
<b>Prepaid Benefits</b>	210,517	200,191
<b>Investments at Fair Value</b>		
Money market mutual funds	722,317	1,000,316
Mutual funds	2,684,130	2,324,964
Common stock	30,852,823	30,508,657
Mortgage and asset backed securities	976,164	720,551
International bonds	544,416	287,872
Corporate bonds	5,329,577	6,508,185
U. S. Government securities	8,583,184	7,330,192
<b>Total Investments</b>	49,692,611	48,680,737
<b>Total Assets</b>	52,082,735	49,534,465
<b>Liabilities</b>		
Accounts payable	1,026	-
Pending trades payable	810,193	-
<b>Total Liabilities</b>	811,219	-
<b>Net Assets held in trust for pension benefits</b>	\$ 51,271,516	\$ 49,534,465

(A schedule of funding progress is presented on page 25.)

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

**Retirement System for General Employees of the**

**Utility Board of the City of Key West**

**Statements of Changes in Plan Assets**

	<u>Year Ended December 31,</u>	
	<u>2004</u>	<u>2003</u>
<b>Additions</b>		
Employer contributions	\$ 1,910,640	\$ 1,660,627
Net investment income		
Net appreciation in fair value of assets	1,341,707	7,078,070
Interest	776,786	756,495
Dividends	626,687	511,007
Capital gains distributions	84,389	38,596
	<u>2,829,569</u>	<u>8,384,168</u>
Less investment expenses	<u>(365,237)</u>	<u>(328,691)</u>
Total net investment income	<u>2,464,332</u>	<u>8,055,477</u>
<b>Total Additions</b>	<u>4,374,972</u>	<u>9,716,104</u>
<b>Deductions</b>		
Benefits	2,553,007	2,396,683
Administrative expenses	84,914	44,628
<b>Total Deductions</b>	<u>2,637,921</u>	<u>2,441,311</u>
	1,737,051	7,274,793
<b>Net assets held in trust for pension benefits</b>		
Beginning of Year	<u>49,534,465</u>	<u>42,259,672</u>
End of Year	<u>\$ 51,271,516</u>	<u>\$ 49,534,465</u>

The accompanying notes are an integral part of these financial statement

**Retirement System for General Employees of the  
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Notes to Financial Statements  
Years Ended December 31, 2004 and 2003**

**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

**NOTE 2- PLAN DESCRIPTION AND CONTRIBUTION INFORMATION**

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

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

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**NOTE 2- PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (Continued)**

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

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

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

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

	<b>2005</b>	<b>2004</b>
Retirees and beneficiaries currently receiving benefits	142	134
Terminated employees entitled to benefits but not yet receiving them	21	20
Current employees	<u>139</u>	<u>148</u>
<b>Total</b>	<b><u>302</u></b>	<b><u>302</u></b>

**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

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**NOTE 2- PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)**

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

**NOTE 3- DEPOSITS AND INVESTMENTS**

**Deposits-** At December 31, 2004 and 2003, the carrying amount and bank balance of the Plan's deposits with financial institutions was \$797,287 and 440,872, respectively. The bank balances were covered by federal depository insurance and, for the amount in excess of such federal depository insurance, by the State of Florida's Security of Public Deposits Act. Provisions of the Act require that public deposits may only be made at qualified public depositories. The Act requires each qualified public depository to deposit with the State Treasurer eligible collateral equal to or in excess of the required collateral as determined by the provisions of the Act. In the event of failure by a qualified public depository, losses in excess of federal depository insurance and proceeds from sale of securities pledged by the depository are assessed against the other qualified public depositories of the same type as the depository in default.

**Investments-** The Plan's assets are invested in accordance with Florida Statutes and the investment policies adopted by the Board of Trustees. Investments that are represented by specific, identifiable investment securities are categorized below to give an indication of the level of credit risk assumed by the Plan at year-end. Category 1 includes securities that are insured or registered or registered or are held by the Plan or its agent in the Plan's name. Category 2 includes uninsured and unregistered securities that are held by the counterparty's trust department or agent in the Plan's name. Category 3 includes uninsured or unregistered securities that are held by the counterparty, or by its trust department, but not in the Plan's name.

At December 31, 2004 the Plan's investments were categorized as follows:

	<u>Category</u>			Market value
	1	2	3	(Carrying amount)
U. S. Government securities	\$ 8,583,184	-	-	\$ 8,583,184
Mortgage backed securities	976,164	-	-	976,164
Mutual funds	2,684,130	-	-	2,684,130
International bonds	544,416	-	-	544,416
Corporate bonds	5,329,577	-	-	5,329,577
Corporate stocks	30,852,823	-	-	30,852,823
	<u>\$ 48,970,294</u>	<u>-</u>	<u>-</u>	<u>48,970,294</u>
Money market mutual funds				722,317
Total investments				<u>\$ 49,692,611</u>

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**NOTE 3- DEPOSITS AND INVESTMENTS (CONTINUED)**

At December 31, 2003 the Plan's investments were categorized as follows:

	<u>Category</u>			Market value
	1	2	3	(Carrying amount)
U. S. Government securities	\$ 7,330,192	-	-	\$ 7,330,192
Mortgage backed securities	720,551	-	-	720,551
Mutual funds	2,324,964	-	-	2,324,964
International bonds	287,872	-	-	287,872
Corporate bonds	6,508,185	-	-	6,508,185
Corporate stocks	30,508,657	-	-	30,508,657
	<u>\$ 47,680,421</u>	<u>-</u>	<u>-</u>	<u>47,680,421</u>
Money market mutual funds				1,000,316
Total investments				<u>\$ 48,680,737</u>

No investments (other than U. S. government obligations) individually represent 5% or more of the Plan's net assets available for benefits listed at market value as of December 31, 2004 and 2003.

**NOTE 4- INCOME TAX STATUS**

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

**NOTE 5- CONTINGENCIES**

In 2004, the Plan identified errors in the benefit calculations of a group of retirees, resulting in overpayments for a period of years. The Board of Trustees has examined the effects of the miscalculations, and the Board of Trustees has filed suit for damages against its former actuarial firm in an attempt to recover its losses. The Board of Trustees is actively investigating whether to bring suit against any other parties. The suit against the former actuarial firm is in its early stages.

The Plan provides, that in certain circumstances, the Board of Trustees can correct errors to benefit payments upon discovery and, as far as practical, to adjust future payments in such a manner that the actuarial equivalent of the benefit to which the member or beneficiary was correctly entitled is paid. Whether that provision is applicable to this situation has not been definitively determined. Effective October 1, 2004, the monthly payments of the affected members were adjusted to the amounts determined to reflect the benefit provisions of the Plan. The Board of Trustees has not acted to adjust the benefits of the affected members to the actuarial equivalent of the entitled amounts. The effect of the recovery, if any, of the overpayments resulting from the litigation with the former actuarial firm or others and/or adjustments to future benefits amounts, if any, is not reflected in the Plan's basic financial statements, as the amount cannot be readily determined at this time.

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**NOTE 6- PLAN AMENDMENTS**

During the years ended December 31, 2004 and 2003, the Utility Board passed resolutions amending the Plan. The effects of the resolutions were to:

**Resolution No. 63** - Limit definition of average final compensation and maximum pension benefit to comply with provisions of the Internal Revenue Code, allow the Plan to accept rollover contributions, provide for rollover distributions. Effective date: February 13, 2003.

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

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

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

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