

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, 2004

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Letter of Transmittal

March 4, 2005

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, 2004, is submitted herewith, pursuant to Resolution No. 142 of the Utility Board, adopted December 15, 1953. The effective date was April 9, 1954, as amended and restated as of September 28, 1983, Article Eight, Section 8.07. The Utility Board is the sole participating employer. The Plan is a defined benefit pension plan covering all permanent employees and elected officials of the Utility Board, a governmental entity. The Plan does not cover any employees from any other government entity.

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

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

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

The **Introductory Section** includes:

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

The **Financial Section** is composed of:

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

Letter of Transmittal

The **Investment Section** contains:

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

The **Actuarial Section** includes:

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

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

Major Events and Initiatives

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

Accounting Systems and Reports

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

Changes in Plan Net Assets

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

Deductions to Plan Net Assets

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

Investments

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

Letter of Transmittal

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

Funding

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. The Plan's funding objective is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. For more information regarding the funding status of the plan, please see the Schedule of Funding Progress on page 25, and for detail of the Plan's progress toward achieving funding goals, please see the Solvency Test and Analysis of Financial Experience schedules presented on page 55.

Independent Audit

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

Professional Services

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

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Retirement System for General Employees of the Utility Board of the City of Key West for its CAFR for the fiscal year ended December 31, 2003. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

A Certificate of Achievement is valid for a period of one year only. The Retirement System for General Employees/Utility Board of the City of Key West has received a Certificate of Achievement for the last eight consecutive years (fiscal years 1996 – 2003). We believe our

Letter of Transmittal

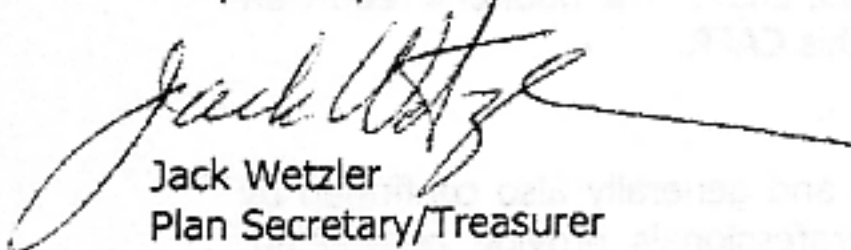
current CAFR continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Acknowledgments

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

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

Respectfully submitted,



Jack Wetzer
Plan Secretary/Treasurer

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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

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

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2003

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.



Nancy L. Zjelle

President

Jeffrey R. Emer

Executive Director

Pension Board of Trustees

Required Members- 6

Utility Board Members and General Manager
& Chief Executive Officer

Otha Cox Robert Padron
Lou Hernandez Gayle Swofford

Leonard Knowles – Vice Chairman
Carl R. Jansen – General Manager & CEO

Customer Services – 2

31 Staff Members- Customers Services &
Meter Services

Sylvia Adams Catherine Nix
Term Exp: 03/31/05 Term Exp: 3/31/05

Finance Department- 1

13 Staff Members- Accounting & Analysis and
Purchasing Employees

Kim Free
Term Exp 3/31/06

Generation & Plant- 2

28 Staff Members- Generation, Fleets
and Facilities

Butch Carey Randy Roberts
Term Exp 3/31/05 Term Exp 3/31/06

Retiree's Representative – 1

Elected for a 2 yr term by the Retirees

Harry L. Bethel, Sr.- Chairman
Term Exp 3/31/05

Engineering and Control Center – 2

21 Staff Members- Engineering and
Control Center

Robert Barrios David Price
Term Exp 3/31/05 Term Exp 3/31/05

Administration- 1

18 Staff Members- General Manager's Office,
Information Technologies, Management
Services & Communications

Suzanne Greager
Term Exp 3/31/06

Transmission & Distribution- 3

42 Staff Members- Transmission &
Distribution and Warehouse

Bobby Burchett Tommy Grassi
Term Exp 3/31/05 Term Exp 3/31/05

Russell Free
Term Exp 3/31/05

Representative Departments and Trustee Seats based on an employee count of 153
@ January 1, 2004 (per the organizational chart issued by the Management Services Director)

Retirement System for General Employees of the

Utility Board of the City of Key West

Professional Services Provided by

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

Ronald J. Cohen, P.A.
Plan Counsel

Gabriel, Roeder, Smith & Company
Actuaries

Susy Pita, CPPT
Plan Administrator

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

Smith Barney Citigroup
Investment Consultants

Investment Committee Members

Harry L. Bethel, Sr., Chairman, Pension Board
Leonard Knowles, Vice-Chairman, Pension Board
Ronald J. Cohen, PA
Cherry, Bekaert & Holland, LLP
Robert Padron, Chairman, Utility Board
Carl R. Jansen, General Manager & CEO, Utility Board
Jack Wetzler, Director of Finance & CFO, Utility Board

Summary of the Plan and Benefits as of December 31, 2004

Benefit Factor-	2.4%
Average Final Compensation-	Highest 5 of the last 10 yrs of service
2004 Net Minimum Funding Payment-	27.4% of payroll
Normal Retirement-	30 yrs credited service (the max allowed)
Early Retirement-	20 yrs credited service- any age, or 55 yrs of age with 10 years minimum credited service
Active plan members-	139
Retirees and beneficiaries receiving benefits-	163
Cost of living allowance-	3% (January 1 st of each year)
Net assets held in trust for pension benefits	\$51,271,516

Report of the Chairperson of the Board of Trustees

To all members of the Retirement System for General Employees,

As Chairperson of the Board of Trustees of the Retirement System for General Employees, Utility Board of the City of Key West, Florida (the Plan), I am pleased to present to you, the membership, our Comprehensive Annual Financial Report for the fiscal year ended December 31, 2004. This report is a representation of the Plan's financial position, plan activities, funding status, and investment plan results.

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

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

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

During 2004, on a net basis, Citigroup Asset Management achieved a return of 3.2%, a fixed income return of 2.8%, and an equity return of 3.6%. PIMCO Total Return produced an overall fixed return of 4.7%. Brandes results were an equity value return of 16.4%, and Lord Abbett had a large cap equity value return of 14.4%. (See the "Investment Section" for more information).

As you are all aware, there was an error in the calculation of the monthly pension benefit for a group of retirees, for a number of years. This occurred when the benefit multiplier was increased from 2.2% to 2.4%. Effective October 2004, the monthly benefits were corrected. It is the Plan's belief that the overpayment should be reimbursed by Watson Wyatt & Co., the actuarial firm responsible for the error. The Plan's attorney has been engaged to resolve this issue.

Your Board of Trustees is aware of their responsibility to protect all members and retirees of the Plan. We take this responsibility very seriously and are committed to maintaining the very best retirement program possible. I am honored to have served as your Chairperson for the past 17 years and look forward to 2005. Special thanks go to the administrative staff, professionals, and investment managers for their dedication and hard work. Thanks also to my fellow Board members for their commitment. Most of all, thanks to you for your continued interest and support.

Sincerely,



Harry L. Bethel, Sr., Chairperson