

# 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, 2007

# 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, 2007

Prepared by: Finance Department  
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## Table of Contents

	Page No.
<b>Introductory Section</b>	
Letter of Transmittal	3
Certificate of Achievement-Fiscal year ended December 31, 2006	7
Pension Board of Trustees	8
Administrative Organization	9
Summary of Plan Benefits	9
<b>Financial Section</b>	
Report of Independent Auditors	11
Management's Discussion and Analysis	13
<b>Basic Financial Statements</b>	
Statement of Plan Net Assets	19
Statement of Changes in Plan Net Assets	20
Notes to Financial Statements	21
<b>Required Supplementary Information (Unaudited)</b>	
Schedule of Funding Progress	27
Schedule of Employer Contributions	27
Notes to Schedule of Funding Progress and Schedule of Employer Contributions	28
<b>Other Supplementary Information</b>	
Schedules of Administrative, Investment and Consultant Expenses	30
<b>Supplementary Auditors' Report</b>	
Report of Independent Auditors on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed In Accordance with Government Auditing Standards	31
<b>Investment Section</b>	
Report on Investment Activity	33
Investment Policy	35
Schedule of Investment Results	43
List of Largest Assets Held	44
Schedule of Advisors & Fees	45
Investment Summary	46
Glossary	47
<b>Actuarial Section</b>	
Actuary's Certification Letter	51
Summary Actuarial Assumptions and Methods	52
Schedule of Active and Retiree Valuation Data	56
Solvency Test & Analysis of Financial Experience	57
Summary of Plan Provisions and Changes	58
Changes Since Last Valuation	60
<b>Statistical Section</b>	
Schedule of Changes in Net Assets	61
Schedule of Additions by Source to Plan Assets	62
Schedule of Deductions from Plan Assets	62
Schedule of Benefit Expense by Type	63
Schedule of Retired Members by Type	63
Schedule of Average Benefit Payments	64



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UTILITY BOARD OF THE CITY OF KEY WEST

June 10, 2008

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, 2007, is submitted herewith, pursuant to Resolution No. 142 of the Utility Board, adopted December 15, 1953. The effective date was April 9, 1954, as amended and restated as of September 28, 1983, Article Eight, Section 8.07. The Utility Board is the sole participating employer. The Plan is a defined benefit pension plan covering all permanent employees and elected officials of the Utility Board, a governmental entity. The Plan does not cover any employees from any other government entity.

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

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

The Plan 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.

**Major Events and Initiatives**

During the fourth quarter of 2006, in fulfilling their fiduciary responsibility of protection of assets and reasonable consistency of return and expenses, the Board of Trustees issued a "Request for Proposal" for Investment Management Consulting Services. Citigroup – Smith

## **Letter of Transmittal**

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Barney had served the Plan since 1987. During November and December of 2006 the Board reviewed proposals from 11 investment consulting firms, including Smith-Barney.

On January 9, 2007, the Board of Trustees appointed Bogdahn Consulting Group, LLC as the independent investment management consultant to the Plan. During May 2007, the Plan began to execute the change of investment consultants. The transition of funds was completed in June 2007. Year to date net investment income of \$3,892,845 reflects activity in both the old Smith Barney accounts and the new investment managers. Due to the transition of funds, certain annualized data previously provided is not available for 2007. A detail breakdown by investment manager is shown on the Asset Allocation by Investment Manager on page 46.

The Retirement System for the General Employees of the Utility Board of the City of Key West, Florida was established in 1954 with approximately \$900,000 in assets. The Pension Board of Trustees consists of thirteen members comprised of a cross-section of ten employees representing all sections, two retiree representatives, and the General Manager. Effective March 2006, the employee and retiree representatives will serve four year terms, which can be consecutive.

### **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 7 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

## **Letter of Transmittal**

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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 Pension Investment Committee is comprised of four Trustees, the Auditors, the Plan Attorney and the Secretary/Treasurer. Members of the Investment Committee are charged with the responsibility of maintaining the investment policy and monitoring the performance of the Investment Managers.

### **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 Plan continues to remain strong as evidenced by the ratio of the actuarial value of assets to the actuarial accrued liabilities. The funded ratio increased from 86.8% at January 1, 2007 to 88.0% at January 1, 2008. 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 2006 and 2007. 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, 2006.

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

## Letter of Transmittal

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Achievement for the last eleven consecutive years (fiscal years 1996 – 2006). 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**

The preparation of this CAFR reflects the combined effort of many individuals including the Utility Board's Finance Staff, particularly Peggy Walls, Cindy McVeigh, Elizabeth Miller, and Kim Free; along with Rowana Flitan, Cherry, Bekaert & Holland, L.L.P.; Lawrence F. Wilson, A.S.A., actuary, Gabriel, Roeder, Smith & Company; and Dave West, investment management consultant, Bogdahn Consulting.

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, 2006

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



*Charles S. Cox*

President

*Jeffrey R. Egan*

Executive Director

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

**PENSION BOARD OF TRUSTEES**

**RETIREE'S REPRESENTATIVE – 2**  
**Elected for a 4 year term by the Retirees**

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

Larry Thompson - Term Expires: 03/31/10

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**COO/IT/COMM/MGMT. SVCS. – 1**

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

**FINANCE DEPARTMENT – 1**

*Includes Dir. Office,  
Accounting, IT Staff*  
Susan Ham - Term Expires 03/31/09

**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 03/31/10

**GENERATION DEPARTMENT – 2**

*Includes Dir. Office, Fleets,  
Facilities, Generation & Maintenance Staff*  
Ony Mendez - Term Expires 03/31/11  
Mike Griffin - Term Expires 03/31/09

**ELECTRICAL OPERATIONS DEPARTMENT - 4**

*Includes Dir. Office, Power  
System Control, Engineering, Substation & T&D Staff*  
Robert Barrios - Term Expires 03/31/11  
Tommy Grassi - Term Expires 03/31/10  
David Price - Term Expires 03/31/11  
Don Paxson – Term Expires 03/31/10

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**REQUIRED MEMBER – 1**

*General Manager & CEO*  
Lynne Tejeda

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Representative Departments & Trustee seats based on an employee count of 154 at December 31, 2007.

**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 the Plan Benefits as of December 31, 2007**

Benefit Factor	2.4%
Average Final Compensation	Highest 5 of the last 10 yrs of service
2007 Net Minimum Funding Payment	28.9% 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	153
Retirees and beneficiaries receiving benefits	150
Cost of living allowance	3% (January 1 <sup>st</sup> of each year)
Net assets held in trust for pension benefits	\$59,570,528

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**Cherry, Bekaert & Holland, L.L.P.**  
**The Firm of Choice.**

[www.cbh.com](http://www.cbh.com)

One Clearlake Centre  
250 South Australian Avenue – Suite 1201  
West Palm Beach, Florida 33401  
phone 561.835.8352  
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## Report of Independent Auditors

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

We have audited the accompanying statements of plan net assets of the Retirement System for General Employees of the Utility Board of the City of Key West (Plan) as of December 31, 2007 and 2006, 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, 2007 and 2005 and the changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2008 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.

*Chry, Bekart & Holland, L.L.P.*

West Palm Beach, Florida  
June 10, 2008

# 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, 2007 and 2006. 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 \$59,570,528 and \$56,385,417, at December 31, 2007 and 2006 respectively.

Net assets increased \$3,185,111, or 5.6% during 2007 due to the Employer contributions along with positive investment performance compared to an increase of \$4,394,000 or 8.5% during 2006.

The Plan's funding objective is to meet long-term benefit obligations. As of January 1, 2008, the date of the latest actuarial valuation, the Plan continues to have assets in excess of the value of vested accrued benefits resulting in a Vested Benefit Security Ratio of 104.9% compared to 106.2% as of January 1, 2007.

Total additions to plan net assets for the year ended December 31, 2007 were \$6,368,669, which include employer contributions of \$2,475,824 and net investment income of \$3,892,845. Total additions to plan net assets for the year ended December 31, 2006 were \$7,338,678, which included employer contributions of \$2,208,905 and net investment income of \$5,129,773.

Total deductions from plan net assets increased 8.1% from \$2,944,678 during 2006 to \$3,183,558 in 2007. The increase is due primarily to the annual increase in benefit payments to existing retirees.

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

**Management's Discussion and Analysis**

**Analysis of financial activities**

The Plan's funding objective is to meet long-term benefit obligations through investment income and contributions. Accordingly, the collection of contributions and the income from investments provide the reserves needed to finance future retirement benefits. The financial market in 2007 continued to produce a positive return. Net assets held in trust for pension benefits were \$59,570,528 in 2007, \$56,385,417 in 2006, and \$51,991,417 in 2005.

<b>Net Assets (Table 1.1) As of December 31, 2007 and 2006</b>				
	<b>2007</b>	<b>2006</b>	<b>Increase (Decrease) Amount</b>	<b>Increase (Decrease) %</b>
Current and other assets	\$ 1,300,002	\$ 1,240,754	\$ 59,248	4.78
Investments, at fair value	58,359,691	55,661,395	2,698,296	4.85
<b>Total Assets</b>	<b>59,659,693</b>	<b>56,902,149</b>	<b>2,757,544</b>	<b>4.85</b>
Total Liabilities	(89,165)	(516,732)	(427,567)	82.74
<b>Net Assets</b>	<b>\$ 59,570,528</b>	<b>\$ 56,385,417</b>	<b>\$ 3,185,111</b>	<b>5.65</b>

<b>Net Assets (Table 1.2) As of December 31, 2006 and 2005</b>				
	<b>2006</b>	<b>2005</b>	<b>Increase (Decrease) Amount</b>	<b>Increase (Decrease) %</b>
Current and other assets	\$ 1,240,754	\$ 1,710,109	\$ (469,355)	(27.45)
Investments, at fair value	55,661,395	50,633,559	5,027,836	9.93
<b>Total Assets</b>	<b>56,902,149</b>	<b>52,343,668</b>	<b>4,558,481</b>	<b>8.71</b>
Total Liabilities	(516,732)	(352,251)	164,481	(46.69)
<b>Net Assets</b>	<b>\$ 56,385,417</b>	<b>\$ 51,991,417</b>	<b>\$ 4,394,000</b>	<b>8.45</b>

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 2007, the Plan's investment portfolio returned net gains of approximately 6.88%. This is the fifth year in a row net gains are available to improve the Plan's financial position and offset investment losses incurred in 2002 and 2001. It is important to remember that a retirement Plan's funding is based on a long time horizon, where temporary ups and downs in the market are expected. The more critical factor is that the Plan be able to meet an expected earnings yield of 8.0% annual return on investments. The Plan's 3-year and 5-year net returns have been 6.63% and 8.87%, respectively.

Based on our latest actuarial valuation as of January 1, 2008, the Plan's total actuarial accrued liability of \$68,109,057 exceeds its actuarial value of assets of \$59,924,147 by \$8,184,910, producing a funded ratio of 88.0%. 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. Although investment losses incurred in the previous years and recent benefit improvements caused a downward trend in the funded ratio in recent years, the funded ratio increased during the last twelve months.

**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 \$6,368,669 for the year ended December 31, 2007 compared to \$7,338,678 for the year ended December 31, 2006. The decrease was primarily due to higher investment earnings in 2006.

<b>Additions to Net Assets (Table 2.1) For the Years Ended December 31, 2007 and 2006</b>				
	<b>2007</b>	<b>2006</b>	<b>Increase (Decrease) Amount</b>	<b>Increase (Decrease) %</b>
Employer Contributions	\$ 2,475,824	\$ 2,208,905	\$ 266,919	12.08
Investment Income	4,253,113	5,537,701	(1,284,588)	(23.20)
Investment Expenses	<u>(360,268)</u>	<u>(407,928)</u>	<u>(47,660)</u>	(11.68)
Total Additions	<u>\$ 6,368,669</u>	<u>\$ 7,338,678</u>	<u>\$ (970,009)</u>	(13.22)

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

**Management's Discussion and Analysis**

The additions totaled \$7,338,678 for the year ended December 31, 2006. This represented an increase of \$3,791,341 from the prior year, primarily due to higher investment earnings in 2006.

<b>Additions to Net Assets (Table 2.2) For the Years Ended December 31, 2006 and 2005</b>				
	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease) Amount</u>	<u>Increase (Decrease) %</u>
Employer Contributions	\$ 2,208,905	\$ 2,014,613	\$ 194,292	9.64
Investment Income	5,537,701	1,901,070	3,636,631	191.29
Investment Expenses	<u>(407,928)</u>	<u>(368,346)</u>	<u>39,582</u>	(10.75)
Total Additions	<u>\$ 7,338,678</u>	<u>\$ 3,547,337</u>	<u>\$ 3,791,341</u>	106.88

**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.

<b>Deductions to Net Assets (Table 3.1) For the Years Ended December 31, 2007 and 2006</b>				
	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease) Amount</u>	<u>Increase (Decrease) %</u>
Benefit Payments	\$ 3,060,432	\$ 2,875,615	\$ 184,817	6.43
Administrative expenses	<u>123,126</u>	<u>69,063</u>	<u>54,063</u>	78.28
Total Deductions	<u>\$ 3,183,558</u>	<u>\$ 2,944,678</u>	<u>\$ 238,880</u>	8.11

Expenses for the year ended December 31, 2007 totaled \$3,183,558 an increase of 8.1% from 2006. This increase was primarily due to additional benefit payments to new and existing retirees in 2007. Administrative expenses increased due to professional fees incurred in connection with various legal matters. The difference in deductions of plan net assets of \$3,183,558 and additions to plan net assets of \$6,368,669 resulted in an overall increase of \$3,185,111 in net assets held in trust for pension benefits for the year ended December 31, 2007, compared to an increase of \$4,394,000 in the prior year.

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

**Management's Discussion and Analysis**

<b>Deductions to Net Assets (Table 3.2) For the Years Ended December 31, 2006 and 2005</b>				
	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease) Amount</u>	<u>Increase (Decrease) %</u>
Benefit Payments	\$ 2,875,615	\$ 2,705,806	\$ 169,809	6.28
Administrative expenses	69,063	121,630	(52,567)	(43.22)
Total Deductions	<u>\$ 2,944,678</u>	<u>\$ 2,827,436</u>	<u>\$ 117,242</u>	4.15

Expenses for the year ended December 31, 2006 totaled \$2,944,678, an increase of 4.2% from 2005. This increase was primarily due to additional benefit payments to new and existing retirees in 2006. Administrative expenses decreased due to lower professional fees incurred in connection with various legal matters. The net of deductions of plan net assets of \$2,944,678 and additions to plan net assets of \$7,338,678 resulted in an overall increase of \$4,394,000 in net assets held in trust for pension benefits for the year ended December 31, 2006.

**Fiduciary responsibilities**

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

**Requests for information**

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

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

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

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

	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
Cash	\$ 610,680	\$ 744,485
Receivables:		
Interest	430,535	211,935
Pending Trades	-	62,491
Total Receivables	430,535	274,426
Prepaid Benefits	258,787	221,843
Investments at Fair Value:		
Cash and Cash Equivalents	4,328,718	3,400,303
Mutual Funds	-	4,497,441
Common Stock	22,642,131	33,113,692
Mortgage and Asset Backed Securities	-	574,960
International Index fund	7,355,450	-
Corporate Bonds	7,480,976	2,624,068
Government Bonds	14,677,916	11,303,538
State & Local Bonds	1,874,500	-
Closed End Fund	-	147,393
Total Investments	58,359,691	55,661,395
Total Assets	59,659,693	56,902,149
<b>Liabilities:</b>		
Accrued Expenses	89,165	
Pending Trades Payable		516,732
Total Liabilities	89,165	516,732
<b>Net Assets held in trust for pension benefits</b>	<b>\$ 59,570,528</b>	<b>\$ 56,385,417</b>

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

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

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

	<u>2007</u>	<u>2006</u>
Additions:		
Employer Contributions	\$ 2,475,824	\$ 2,208,905
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	1,915,597	4,120,063
Gain/(Loss) on Sale of Investments	432,805	(115,296)
Interest	1,080,657	774,958
Dividends	824,054	715,312
Capital Gains Distributions	-	42,664
	<u>4,253,113</u>	<u>5,537,701</u>
Less Investment Expenses	<u>(360,268)</u>	<u>(407,928)</u>
Net Investment Income	<u>3,892,845</u>	<u>5,129,773</u>
Total Additions	<u>6,368,669</u>	<u>7,338,678</u>
Deductions:		
Benefits	3,060,432	2,875,615
Administrative Expenses	<u>123,126</u>	<u>69,063</u>
Total Deductions	<u>3,183,558</u>	<u>2,944,678</u>
Net Increase	3,185,111	4,394,000
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	<u>56,385,417</u>	<u>51,991,417</u>
End of Period	<u>\$ 59,570,528</u>	<u>\$ 56,385,417</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, 2007 and 2006**

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

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

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

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

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

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

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

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

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

**Notes to Financial Statements  
Years Ended December 31, 2007 and 2006**

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

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

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

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

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

	January 1,	
	2008	2007
Retirees and beneficiaries currently receiving benefits	150	149
Terminated employees entitled to benefits not yet receiving them	24	22
Current employees	153	147
Total	327	318

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

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

**Notes to Financial Statements  
Years Ended December 31, 2007 and 2006**

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

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

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**Deposits**

Custodial Credit Risk – Florida Statutes require the Plan to maintain its deposits with financial institutions in a qualified public depository by the Treasurer of the State of Florida. The Plan's accounts maintained in qualified public depositories are covered by federal depository insurance for an amount equal to the aggregate of each participant's ascertainable, non-contingent interest in the Plan (up to \$100,000 per participant). Amounts in excess of federal depository insurance are secured by the Public Depository Trust Fund (Trust Fund) maintained by the Treasurer. The Trust Fund is a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a member fails.

**Investments**

Authorized Investments – The Plan's 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 authorized the Board of Trustees to invest in cash equivalents, fixed income securities, equity securities, mutual funds and certain other assets. The policy prohibits investments in options, limited partnerships, and venture capital investments.

At December 31, 2007 the Plan's investments were categorized as follows:

	Fair Value
Cash and Cash Equivalents	\$ 4,328,718
Common Stock	22,642,131
International Index Fund	7,355,450
Corporate Bonds	7,480,976
Government Bonds	14,677,916
State and Local Bonds	<u>1,874,500</u>
Total	<u>\$ 58,359,691</u>

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

**Notes to Financial Statements  
Years Ended December 31, 2007 and 2006**

**NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)**

At December 31, 2007 the Plan's Fixed Income Portfolio was characterized as follows:

	<u><b>Bond Portfolio</b></u>	<u><b>Treasury Insurance Protection Portfolio</b></u>
Weighted Average Quality	AA+	AAA
Weighted Average Maturity	4.69 years	5.36 years
Yield to Maturity	4.88%	4.07%
Effective Duration	3.50 years	3.94 years

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.

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 Poors 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.

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, 2007 and December 31, 2006, the Plan had exposure to foreign currency risk with 12.6% or \$7,355,450 and 8.9% or \$4,949,672 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, 2007 and 2006**

**NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)**

Concentration of Credit Risk – Investments in corporate common stock and convertible bonds shall not exceed 70% of the fund assets at market. The foreign equity allocation shall not exceed 20% at cost of the fund assets. No more than 5% of the portfolio will be held in any one credit or issue rated AA- or higher, excluding securities of the U.S. Government and its agencies. No more than 2% of the portfolio will be held in any one credit or issue rated below AA-, excluding securities of the U.S. Government and its agencies. No more than 20% may be invested in direct obligations of any one privately owned government agency. No more than 15% may be invested in any single asset backed or non-government mortgage backed issuer. Not more than 5% of the Fund's assets 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, 2007 or 2006, no investments in any one issuer represented 5% or more of the Plan's investments.

**NOTE 4 – INCOME TAX STATUS**

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

**NOTE 5 – CONTINGENCIES**

In 2004, the Plan identified errors in the benefit calculations of a group of retirees, resulting in overpayments for a period of years. The Board of Trustees has examined the effects of the miscalculations, and the Board of Trustees has filed suit for damages against its former auditors in an attempt to recover its losses. Effective October 1, 2004, the monthly payments of the affected members were adjusted to the amounts determined to reflect the benefit provisions of the Plan. The Board of Trustees has not acted to recover the overpayments from the affected retirees. The effect of the recovery, if any, of the overpayments resulting from the litigation and/or adjustments to future benefits amounts, if any, is not reflected in the Plan's basic financial statements, as the amount cannot be readily determined at this time. As of December 31, 2007 the litigation was still in process.

**NOTE 6 – PLAN AMENDMENTS**

During the years ended December 31, 2006 and 2007, the Utility Board passed resolutions amending the Plan. The effects of the resolutions were to:

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

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

**Retirement System for General Employees of the  
Utility Board of the City of Key West**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

**NOTE 6 – PLAN AMENDMENTS (Continued)**

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

**Resolution No. 74-** Amended appointment of trustees, terms of office and rules and decisions. Effective date: March 13, 2007.

**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 any 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)
01/01/03	50,459	52,434	1,975	96.2%	6,845	28.9%
01/01/04	51,439	55,408	3,969	92.8%	6,898	57.5%
01/01/05	53,036	57,511	4,475	92.2%	6,934	64.5%
01/01/06	54,266	61,004	6,738	89.0%	7,644	88.1%
01/01/07	55,876	64,344	8,468	86.8%	8,344	101.5%
01/01/08	59,924	68,109	8,185	88.0%	9,203	88.9%

**Schedule of Employer Contributions  
(Unaudited)**

Annual Year Ended December 31,	Required Contributions	Percentage Contributed
2002	\$ 1,673,299	102
2003	1,643,987	101
2004	1,910,640	100
2005	1,979,201	102
2006	2,208,905	100
2007	2,462,847	100

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

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

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

Valuation date	January 1, 2008
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 *	5.5%
Cost of living adjustments	3.0%

\*Includes adjustment for inflation 3.0%

**Significant factors affecting trends in actuarial information**

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 years of credited service to ten years of credited service.

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

- None

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

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

2003 changes in Plan provisions and actuarial methods since prior actuarial valuation-

- Eligibility for employees hired after October 1, 2003 was changed to begin after the employee's probationary period is completed

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

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

**Significant factors affecting trends in actuarial information (Continued)**

2002 changes in Plan provisions and actuarial methods since prior actuarial valuation-

- Non service connected death benefits was changed to the same percentage as service connected death benefits
- The age of surviving children eligible to receive death benefits changed from age 19 to age 21
- Assumed rate of projected salary increases was lowered from 6.0% to 5.5%
- Asset valuation method was changed from market value to five year smoothed market

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

**Other Supplementary Information**

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

	<b>Years Ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Administrative Expenses</b>		
Legal and Accounting fees	\$ 82,527	\$ 41,533
Actuarial services	39,605	27,317
Miscellaneous	994	213
	\$ 123,126	\$ 69,063
<b>Investment Expenses</b>		
Investment manager fees		
Legg Mason (formerly Citigroup)	\$ 29,140	\$ 161,606
Brandes	14,205	37,509
Lord Abbett	13,820	37,450
PIMCO	28,046	71,073
MDT Advisers	17,166	42,927
NWQ International	17,119	27,389
NFJ Value	498	631
Clearbridge Multi-Cap	11,885	15,776
Tocqueville	34,960	-
BONY	236	-
Lateef Capital Management	31,464	-
Sawgrass Capital Management	15,797	-
Galliard Core Fixed Income	30,228	-
Galliard TIPS	3,278	-
Moodys Aldrich	28,406	-
Snow Capital Management	20,713	-
	296,961	394,361
Other investment expenses		
* BONY Custodian Fee	\$ 12,745	\$ -
* Bogdahn Consulting Fee	45,000	-
Foreign tax paid	7,614	13,567
LJR Recapture Fees	(2,052)	-
	\$ 360,268	\$ 407,928

**Consultant Expenses**

\* 2006 Included with investment manager fees



**Cherry, Bekaert & Holland, L.L.P.**  
**The Firm of Choice.**

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### **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, 2007, and have issued our report thereon, dated June 10, 2008. 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affect the Plan's generally accepted accounting principles such that there is more than a remote likelihood that misstatement of the Plan's financial statements that is more than inconsequential will not be prevented or detected by the Plan's internal control.

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

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



## Supplementary Auditors' Report

### **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, Bekart & Hollard, L.L.P.*

West Palm Beach, Florida  
June 10, 2008



### Investment Summary-Fiscal Year 2007

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Investor sentiment shifted dramatically in 2007 as the extent of weakness in mortgage lending and housing markets became more widely known. In a sharp reversal to what had been an extended period of easy money lending conditions, the credit markets came to a grinding halt as fear and uncertainty spread. The cost of credit defined by the market became economically prohibitive. With diminished prospects for economic growth and corporate earnings, broad market indexes generally finished lower during the final quarter. Stocks with an orientation to finance and smaller capitalizations fared the worst. Using the broad based Russell 3000 Index as the proxy, the average stock finished down 8% for the year.

The Utility Plan performance was positively impacted by an emphasis on equities in the first half of the year. While manager performance was lacking, the program, with a significant exposure to equities, was supported by favorable equity market conditions. For the latter part of the year, the program benefited significantly from a change in the approach to the allocation structure and investment management assignments. This was a result of a change in the program consultant. A lesser dependence on equity, a shift to all-cap equity investment management assignments, and broader plan diversification provided the basis for better absolute return results that might have been experienced under the former structure. Manager relative performance improved dramatically as did program peer group universe comparisons. Despite poor market conditions, performance for the December quarter was positive 0.07%, net of investment management fees. Netting all program changes results for the year, while below the actuarial rate of return target, were positive with the program earning 6.88% net of all investment management fees. This tracked slightly below the established benchmark return of 7.07% and actuarial goal of 8.0%.

Program result trends are positive. Relative risk as measured by standard deviation of returns is favorable with active management decisions and program allocation structure resulting in significantly less risk than the established benchmark. Recent performance has resulted in positively trending total program peer group performance.

Prepared by: David West, CFA  
DATE: May 13, 2008

## Report on Investment Activity

### Annual Performance - Pension Plan

Net Assets held in trust for pension benefits were \$59,570,528, at December 31, 2007, compared to \$56,385,417 at December 31, 2006. Year to date net investment return was 6.88% for the twelve months ending December 31, 2007 compared to 10.1% for the same period of 2006.

Quarterly net returns by fund manager were:

	Net Time Weighted Return 2007			
	<u>Q1</u>	<u>Q2*</u>	<u>Q3</u>	<u>Q4</u>
Legg Mason (formerly CitiGroup)	1.82%			
Brandes	0.53%			
Lord Abbett	0.09%			
PIMCO	1.61%			
MDT Advisers	0.58%			
NWQ International	0.78%			
NFJ Value	1.86%			
Clearbridge Multi-Cap	-0.38%			
Tocqueville**	-1.03%	**		
Lateef Capital Management			2.45%	-1.44%
Sawgrass Capital Management			5.88%	-0.65%
Galliard Core Fixed Income			3.41%	2.79%
Galliard TIPS			3.72%	4.96%
Moodys Aldrich			-2.27%	2.23%
Snow Capital Management			-4.47%	-7.06%
iShares Large Cap Core			3.38%	-2.72%
iShares International Equity			2.05%	-2.02%

\* Second Quarter data not available due to transition from Smith Barney to Bank of New York

\*\* Represents less than one full quarter of performance

Annualized returns are not available for individual funds due to the change in investment consultants which resulted in the current investment period of less than one year.

The Plan was invested 38.6% US Equities, 12.8% International Equities, 40.9% Fixed Income, and 7.7% 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 2007 there were withdrawals of approximately \$700,000 from investments to meet Plan obligations.

The Plan's trailing three year net return is 6.63% and the trailing five year net return is 8.87%, compared to our goal of an overall 8.0% annual return.

For the first quarter of 2008 results show a net decrease of 4.01% with a portfolio balance of \$55,806,123 as of 3/31/2008.

**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 maintains that an important determinant of future investment returns is the expression and periodic review of the Fund's investment objectives. To that end, the Trustees have adopted this statement of Investment Policy.

In fulfilling their fiduciary responsibility, the Trustees recognize that the retirement system is an essential vehicle for providing income benefits to retired participants or their beneficiaries. The Board also recognizes that the obligations of the Fund 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, then, 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 statute.

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

The Pension Board of Trustees will employ professional Investment Management firms to invest the assets of the fund. Within the parameters allowed in this IPS, the Investment Managers have full discretion, including security selection, sector weightings and investment style.

The Trustees, 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 several Investment Management firms, with target investment allocations as provided for on Schedule A, attached hereto. The manager's are solely responsible for the assets and allocation of their mandate only and shall abide by any subordinate investment policy assigned to the manager attached with each addendum. The Investment Consultant shall coordinate the overall asset allocation and affect rebalancing of the portfolio when necessary.

**III. INVESTMENT PERFORMANCE OBJECTIVES**

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

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

**Investment Policy Statement**

A. Total Fund Performance

1. The performance of the total Fund will be measured for rolling three and five year periods. These periods are considered sufficient to accommodate the market cycles experienced with investments. The performance of this portfolio will be compared to the return of a portfolio comprised of 45% Russell 3000, 15% MSCI EAFE, 25% Lehman Brothers Intermediate Aggregate Bond Index, 5% Lehman Brothers Intermediate TIPS Index, 5% NCREIF, and 5% Lehman Brothers 90 day Treasury Bill Index.
2. On a relative basis, it is expected that the total fund performance will be in the top 40% of the appropriate peer universe over three to five-year periods.
3. On an absolute basis, it is expected that total return of the combined equity, fixed income, and cash portfolio, will equal or exceed the actuarial earnings assumption (8.0%), and equal or exceed the Consumer Price Index plus 3% over three to five year periods.

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 (85%) Russell 3000 Index, (15%) MSCI EAFE Index. Individual components of the equity portfolio will be compared as outlined in Schedule A.

All portfolios are expected to perform in the top 40% of an appropriate peer universe.

C. Fixed Income Performance

The overall objective of the fixed income portion of the portfolio is to add stability, consistency and safety to the total fund. The fixed income portion of the portfolio, defined as fixed income is expected to perform at a rate at least equal to the Lehman Brothers Intermediate High Quality Aggregate Bond Index, and in the top 40% of the appropriate peer universe.

D. Treasury Inflation Protection Securities (TIPS)

The overall objective of the TIPS portfolio is to provide inflation protection while adding stability to the total fund. The TIPS portfolio is expected to approximate the structure and performance of the Lehman Brothers Intermediate TIPS Bond Index.

- E. Alternatives: The overall objective of the alternative portion of the portfolio is to provide an attractive level of income with minimal volatility to the fund. This portion of the fund is expected to provide an absolute rate of return, and as benchmarked in Schedule A attached hereto.

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

**Investment Policy Statement**

**IV. INVESTMENT GUIDELINES**

**A. Authorized Investments**

1. Pursuant to Fla.Stat.Section 112, the Board may invest the assets of the plan in any lawful investment, real or personal, as provided in Fla.Stat. Section 215.47, except as otherwise limited by law or subject to specific restrictions of this Investment Policy Statement. The Fund may be invested and reinvested in such securities, investment vehicles or property wherever situated and of whatever kind, as shall be approved by the Board, including but not limited to common or preferred stocks, bonds, and other evidences of indebtedness or ownership. In no event, however, shall more than ten percent of the assets of the Fund be invested in foreign securities, unless Chapters 112, Florida Statutes, is amended to remove or change this mandatory restriction.
2. In addition, the Fund may make investments in group trusts meeting the requirements of Internal Revenue Service Revenue Ruling 81-100 or successor rulings or guidance of similar import, and while any portion of the assets of the Fund are invested in such a group trust, such group trust is itself adopted as a part of the System or plan.

**B. Quality and Limitations**

The securities shall meet the following quality criteria and limitation:

Fixed Income:

1. Sector

	Minimum Weighting	Maximum Weighting
Sector Diversification		
U.S. Treasury/Agency Securities (including cash)	0%	100%
Asset Backed	0%	35%
Mortgage-Related	0%	65%
Corporate	0%	65%
Municipals	0%	25%

No more than 5% of the portfolio will be held in any one credit or issue rated AA- or higher, excluding securities of the U.S. Government and its agencies. No more than 2% of the portfolio will be held in any one credit or issue rated below AA-, excluding securities of the U.S. Government and its agencies. No more than 20% may be invested in direct obligations of any one privately owned government agency. No more than 15% may be invested in any single asset backed or non-government mortgage backed issuer.

2. Quality

All securities will be investment grade at time of purchase. The weighted average quality of the portfolio will be "AA" or better.

3. Maturity/Duration

The effective duration of the portfolio shall be kept within +/-15% of Lehman Intermediate Aggregate Index.

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

**Investment Policy Statement**

4. Permissible Securities
- a. U. S. Treasury notes, bonds, bills/or other debts or loans guaranteed by the U.S. Treasury
  - b. U.S. Federal Agency Securities/or other debts or loans backed by U.S. Govt. Agencies
  - c. Asset-backed securities
  - d. Corporate notes, bonds, and debentures, bank credit or loan participation agreements including domestic and foreign issuers (Yankee bonds)
  - e. Mortgage-backed securities
  - f. Mortgage pass through securities
  - g. Municipal securities
  - h. Forward purchase agreements/dollar rolls
  - i. Swaps
  - j. U.S. Treasury futures and Euro-dollar futures agreement
  - k. Federal Funds
  - l. Repurchase Agreements
  - m. Money market instruments
  - n. Mutual funds
  - o. Private placements/144A (with reg. rights)
  - p. Fixed or Variable rate Preferreds/Hybrids
  - q. Other illiquid securities with exposure not to exceed 5% of the portfolio assets
  - r. Collective Funds investing in the above

Equities:

- 1. Traded on a national exchange.
- 2. Not more than 5% of the Fund's assets 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.

Money Market:

- 1. Standard & Poors A1 or Moody's P1.

Foreign Securities:

Foreign securities shall be limited to equities meeting the following criteria:

- 1. be traded on a foreign exchange, which is recognized as the official exchange by the government where the foreign exchange is located, or on any of the major equivalent electronic exchanges.
- 2. be limited to fully and easily negotiable equity securities.
- 3. be invested primarily (no less than 75%) of countries considered developed as defined by the standards defined by a major index provider such as but not limited to the MSCI-EAFE Index.

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

**Investment Policy Statement**

4. There are are no qualitative guidelines with regard to equity ratings, etc., except that prudent standards should be developed and maintained by the manager.
5. No more than 5% of the market value of the international portfolio shall be invested in any single issuer.
6. Country allocations shall include representation in a minimum of 15 countries.
7. Investment in countries not considered developed by a major index provider (such as MSCI EAFE Index), (excepting Canada) shall be limited to 25% of the market value of the manager's portfolio.
8. Notwithstanding B. Money Market-1, foreign equity managers may hold incidental cash in foreign currencies.

Allocation Limitations:

1. Investments in corporate common stock and convertible bonds shall not exceed 70% of the assets of the fund at market.
2. Allocations to foreign securities shall not exceed 20% at cost of the fund assets.

C. 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 manager on behalf of the Plan will be governed by the Portfolio Management Agreement between the Plan and the Investment Managers.

**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. On a quarterly basis, the managers shall provide a written report affirming compliance with the security restrictions of Section IV above and a summary of common stock diversification and attendant schedules.
- B. In addition, , the manager shall deliver each quarter a report detailing the Fund's performance, adherence to the investment policy, forecast of the market and economy, portfolio analysis and current assets of the Trust. Written reports shall be delivered to the Trustees 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 Trustees 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 above.
- C. The Investment Managers will disclose any securities that do not comply with section IV in each quarterly report.

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

**Investment Policy Statement**

- D. If the Fund 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 shall result in rebalancing within 30 days; noncompliant investments shall be disposed of at the earliest economically feasible opportunity in accordance with the prudent man standard of care, but no additional investment may be made unless authorized by law or ordinance.
- E. The Trustees shall retain a monitoring service to evaluate and report on a quarterly basis the rate of return and relative performance of the Fund.
- F. The Trustees will meet quarterly to review the monitoring service's Performance Report. The Trustees will meet with the investment manager and appropriate outside consultants to discuss performance results, economic outlook, investment strategy and tactics and other pertinent matters affecting the Fund on a periodic basis.
- G. At least annually, the Trustees 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 Trustees 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 of Trustees 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. At the direction of the Trustees, operations of the fund shall be reviewed by independent certified public accountants, as part of any financial audit periodically required. Compliance with the Trustees' internal controls shall be verified. These controls have been designed to prevent losses of funds 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.
- C. The Plan acknowledges the importance of continuing education for the Trustees. Education will be provided on an ongoing basis by the Plan's actuary, attorney, custodian, investment manager(s), consultant, and administrator. In addition, the Trustees are encouraged to attend educational conferences in connection with their duties and responsibilities as Trustees. All Trustees are authorized to attend two schools or conferences in the State of Florida each year. Attendance at seminars out of state is not prohibited, but requires prior approval by the Board. All service providers are expected to educate the Board of Trustees about duties, responsibilities and significant trends and developments in their area of expertise.

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

**Investment Policy Statement**

- D. With each actuarial valuation, the Board of Trustees 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.
- E. The proxy votes must be exercised for the exclusive benefit of the participants of the Fund. Each 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.

**VII. CRITERIA FOR INVESTMENT REVIEW**

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

- A. Four consecutive quarters of total Fund performance below the 50th percentile in manager performance rankings.
- B. Cumulative rolling performance below the target benchmark (rolling 3 and 5 years net of fees).
- C. Standard deviation for a fund component in excess of 125% of the assigned benchmark.
- D. Loss by the manager of any senior investment personnel.
- E. Any change in basic investment philosophy by the manager.
- F. Failure to attain 60% vote of confidence by the Board of Trustees
- G. Failure to observe the security quality restrictions of section IV.

Nothing in this section shall limit or diminish the Trustees' right to terminate the manager at any time for any reason.

**VIII. FLORIDA STATUTES 112, 215.47 AND APPLICABLE CITY ORDINANCES**

If, at any time, this document is found to be in conflict with Fla. Stat. 112, 215.47 or the applicable Resolutions, the Statutes and Ordinances shall prevail.

**IX. REVIEW AND AMMENDMENTS**

It is the Trustees 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 money manager's interest in consistency in these matters is recognized and will be taken into account when changes are being considered. If, at any time, the Investment Manager feels that the specific objectives defined herein cannot be met, or the guidelines constrict performance, the Trustees should be notified in writing. By initial and continuing acceptance of this Investment Policy Statement, the Investment Managers concur with the provisions of this document.

Policy adopted May 8, 2007

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

**Investment Policy Statement**

*Schedule A*

<u>ASSET CLASS</u>	<u>TARGET</u>	<u>RANGE</u>	<u>BENCHMARK INDEX</u>
Broad Cap Value Equity	18.0%	15.0% - 25.0%	Russell 3000 Value
Broad Large Cap Growth Equity	18.0%	15.0% - 25.0%	Russell 1000 Growth
Large Cap Core	9.0%	5.0% - 15.0%	S & P 100
International Equity	15.0%	10.0% - 20.0%	MSCI EAFE
Investment Grade Bonds	25.0%	15.0% - 35.0%	LB Intermediate Aggregate
TIPS	5.0%	0.0% - 7.0%	LB TIPS
Alternatives	5.0%	0.0% - 10.0%	TBD

Investments in corporate common stock and convertible bonds shall not exceed 70% of the fund assets at market. The foreign equity allocation shall not exceed 20% at cost of the fund assets.

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

**Schedule of Investment Results <sup>(1)</sup>**

**For the Year Ended December 31, 2007**

<b>Manager/Fund</b>	<b>Q1</b>	<b>Q2 <sup>(2)</sup></b>	<b>Q3</b>	<b>Q4</b>
<b>Market Index</b>				
Total Portfolio (Net)	0.94%		2.06%	0.07%
55%S&P500/35%LB GI/10% 90 Day TBill	1.02%			
45%Russell3000/30%LBIA/15%MSCI/5%LBTips/5% 3 MonthTBill			2.14%	-0.58%
<b>Large Cap Value</b>				
Lord Abbett	0.09%		N/A	N/A
NFJ - Dividend Value	1.86%		N/A	N/A
Tocqueville Asset Management L.P.	-1.03% <sup>(3)</sup>		N/A	N/A
<i>Russell 1000 Value Index</i>	1.25%		N/A	N/A
<b>All Cap Value</b>				
Brandes	0.53%		N/A	N/A
Moodys Aldrich	N/A		-2.27%	2.23%
Snow Capital Management	N/A		-4.47%	-7.06%
<i>Russell 3000 Value</i>	1.27%		-0.75%	-5.91%
<b>All Cap Core</b>				
MDT Advisers	0.58%		N/A	N/A
<i>Russell 3000 Equity Index</i>	1.27%		N/A	N/A
<b>Fixed Income Total Return</b>				
Pimco	1.61%		N/A	N/A
Galliard Core Fixed Income	N/A		3.41%	2.79%
<i>Lehman Aggregate Bond Index</i>	1.50%		2.75%	2.89%
<b>Large Cap Growth Balanced</b>				
Legg Mason (formerly Citigroup Asset Mgmt)	1.82%		N/A	N/A
<i>60% Russell 1000 Growth / 40% LB Gov/Credit</i>	1.33%		N/A	N/A
<b>International Equities</b>				
NWQ Investment - International Value	0.78%		N/A	N/A
iShares International Equity	N/A		2.05%	-2.02%
<i>MSCI EAFE Index (Europe, Australia, Far East)</i>	4.08%		2.18%	-1.75%
<b>Multi-Cap Growth</b>				
ClearBridge Multi Cap	-0.38%		N/A	N/A
<i>Russell 3000 Growth</i>	1.29%		N/A	N/A
<b>Large Cap Growth</b>				
Lateef Capital Mangement	N/A		2.45%	-1.44%
Sawgrass Capital Management	N/A		5.88%	-0.65%
<i>Russell 1000 Growth</i>	N/A		4.20%	-0.77%
<b>Large Cap Core</b>				
iShares Large Cap Core	N/A		3.38%	-2.72%
<i>S&amp;P 100</i>	N/A		3.69%	-3.49%
<b>High Quality Bonds</b>				
Galliard TIPS	N/A		3.72%	4.96%
<i>Lehman Brothers Tips 1-10</i>	N/A		1.30%	4.97%
Note:				
<sup>(1)</sup> The calculations were prepared using the time-weighted rate of return net of fees management fees				
<sup>(2)</sup> No data available for Q2 2007. During May and June 2007 funds were in transition to new Custodian/Investment Managers				
<sup>(3)</sup> Represents less than one full quarter of performance				

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

**List of Largest Assets Held  
As of December 31, 2007**

**Largest Equity Holding (By Fair Value)**

	Shares	Stock	Market Value
1)	93,700	iShares MSCI EAFE Index Fund	\$ 7,355,450
2)	64,930	iShares S&P 100 Index Fund	4,467,184
3)	12,100	NASDAQ Stock Market Inc	598,829
4)	8,149	Sherwin Williams	472,968
5)	96	Berkshire Hathaway	454,656
6)	12,160	Microsoft	432,896
7)	15,524	Intel Corporation	413,870
8)	5,871	Apollo Group	411,851
9)	6,467	United Health Group Inc	376,379
10)	10,540	Disney	340,231

**Largest Debt Holdings (By Fair Value)**

	Quantity	Bonds and Other Debt Securities	Market Value
1)	3,917,809	Federal Prime Obligations Fund #10	\$ 3,917,809
2)	1,111,883	Federal National Mortgage Association 5.5% Mature 2/1/34	1,111,950
3)	1,129,781	Federal National Mortgage Association 5% Mature 3/1/34	1,104,022
4)	942,509	Federal National Mortgage Association 5% Mature 2/1/35	942,565
5)	850,000	US Treasury Note 4.5% Mature 5/15/10	878,356
6)	625,000	US Treasury Note 5.125% Mature 6/30/08	630,176
7)	590,000	US Treasury Note 4.75% Mature 5/31/12	622,680
8)	571,411	US Treasury Inflation Index Mature 4/15/12	592,214
9)	554,038	US Treasury Inflation Index 2% Mature 1/15/14	572,261
10)	566,844	US Treasury Inflation Index 0.875% Mature 4/15/10	564,940

A complete list of portfolio holdings is available upon request

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

**Schedule of Advisors and Fees  
For the Year Ended December 31, 2007**

<u>Investment Managers</u>	<u>Type</u>	<u>2007 Year End Account Value</u>	<u>2007 Investment Manager Fee</u>
Legg Mason (formerly Citigroup)	Large Cap Growth	\$ -	\$ 29,140
PIMCO Total Return	Fixed Income	-	14,205
Brandes US Value Equity	All Cap Value	-	13,820
Lord Abbett Large Cap Value	Large Cap Value	-	28,046
MDT Advisers	All Cap Core	-	17,166
NWQ Investment International	International	-	17,119
NFJ Dividend Value	Large Cap Value	-	498
ClearBridge Multi Cap	Multi-Cap Growth	-	11,885
Tocqueville	All Cap Value	-	34,960
BONY	Cash	-	236
Lateef Capital Management	Large Cap Growth	5,922,145	31,464
Sawgrass Capital Management	Large Cap Growth	4,427,935	15,797
Galliard Core Fixed Income	Fixed Income	22,025,791	30,228
Galliard TIPS	High Quality Bond	2,431,641	3,278
Moodys Aldrich	Large Cap Value	5,174,751	28,406
Snow Capital Management	Large Cap Value	4,510,561	20,713
I Shares Large Cap Core	Large Cap Core	5,266,824	-
I Shares International Equity	International	8,600,043	-
<b>Total</b>		<b><u>\$ 58,359,691</u></b>	<b><u>\$ 296,961</u></b>

**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, 2007**

	Fair Value	% of Total Fair Value
<b>Fixed Income</b>		
International Index Fund	\$ 7,355,450	12.60%
Corporate Bonds	7,480,976	12.82%
Government Bonds	14,677,916	25.15%
State and Local Bonds	<u>1,874,500</u>	<u>3.21%</u>
<b>Total Fixed Income</b>	<u>31,388,842</u>	<u>53.8%</u>
<b>Common Stock</b>	<u>22,642,131</u>	<u>38.80%</u>
<b>Cash and Cash Equivalents</b>	<u>4,328,718</u>	<u>7.42%</u>
<b>Total Investments</b>	<u>\$ 58,359,691</u>	<u>100.00%</u>

**Asset Allocation by Investment Manager  
For the Year Ended December 31, 2007**

	Fair Value	% of Total Fair Value
Lateef Capital Management	\$ 5,922,145	10.15%
Sawgrass Capital Management	4,427,935	7.59%
Galliard Core Fixed Income	22,025,791	37.74%
Galliard TIPS	2,431,641	4.17%
Moodys Aldrich	5,174,751	8.87%
Snow Capital Management	4,510,561	7.73%
iShares Large Cap Core	5,266,824	9.02%
iShares M International Equity	<u>8,600,043</u>	<u>14.74%</u>
<b>Total Investments</b>	<u>\$ 58,359,691</u>	<u>100.00%</u>

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

### **Glossary**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Glossary**

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

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

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

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.

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.

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

### **Glossary**

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.

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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April 24, 2008

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

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

The information being provided is compiled from annual actuarial valuations, including the most recent as of January 1, 2008. 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, 2008 Actuarial Valuation, it is our opinion that the Retirement System for General Employees of the Utility Board of the City of Key West continues in sound financial condition under generally accepted actuarial principles.

Sincerest regards,



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

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

**Actuarial Section**

**Summary Actuarial Assumptions and Methods**

**A. Mortality**

The 1983 Group Annuity Table was used with separate rates for males and females.

**B. Investment Return**

8.0%, compounded annually.

**C. Allowances for Expenses or Contingencies**

Estimated annual expenses based upon prior year's experience.

**D. Employee Withdrawal Rates**

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

<b>Withdrawal Rates Per 100 Employees</b>		
<b><u>Age</u></b>	<b><u>Males</u></b>	<b><u>Females</u></b>
20	19.9	29.9
25	11.9	19.9
30	5.9	11.9
35	1.9	5.9
40	0	1.9
45	0	0
50	0	0
55	0	0
60 & Over	0	0

**E. Disability Benefits**

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

**F. Salary Increase Factors**

Current salary was assumed to increase at a rate equal to 5.5% per year, including 3.5% for inflation. Prior to January 1, 2003, current salary was assumed to increase at a rate equal to 6.0% per year.

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

**Actuarial Section**

**Summary Actuarial Assumptions and Methods**

**G. Assumed Retirement Age**

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

Employees who attain age 60 or age 50 with 30 years of service after the valuation date are assumed to retire no later than age 60 or age 50 with 30 years of service. Employees who have reached age 60 or age 50 with 30 years of service as of the valuation date are assumed to remain employed for an additional year.

**H. Death Benefits**

- (1) The assumed incidence of deaths is 90% service incurred and 10% as non-service incurred.
- (2) There are no children assumed eligible for future children's benefits.
- (3) 90% of participants are assumed to be married.
- (4) No remarriage assumed.

**I. Valuation of Assets**

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

**J. Increase in Covered Payroll**

3.0% per year, limited to average annual increase over most recent ten years (4.3%).

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

**Actuarial Section**

**Summary Actuarial Assumptions and Methods**

**K. Cost Methods**

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

**L. Treatment of Actuarial Gains and Losses**

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

**M. Changes Since Previous Actuarial Impact Statement**

None.

**N. Choice of Assumptions and Methods**

The actuarial assumptions and methods are recommended by the actuary and adopted by the Board of Trustees at various times. Unless otherwise indicated (above) the actuarial assumptions were adopted prior to 1998. The recommendations are based on a review of actual plan experience, although no formal experience study has been performed.

**Resolutions Passed (Beginning 1998):**

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

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

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

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

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

**Actuarial Section**

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

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

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

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

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

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

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

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

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

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

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

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

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

**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)
01/01/1999	160	\$ 6,126,555	\$ 38,291	4.0%	1.6%
01/01/2000	157	6,167,798	39,285	2.6%	2.2%
01/01/2001	155	6,397,560	41,275	5.1%	3.4%
01/01/2002	155	6,763,524	43,636	5.7%	1.6%
01/01/2003	154	6,845,370	44,450	1.9%	2.4%
01/01/2004	148	6,897,648	46,606	4.9%	1.9%
01/01/2005	139	6,933,885	49,884	7.0%	3.3%
01/01/2006	144	7,644,008	53,083	6.4%	3.4%
01/01/2007	147	8,343,673	56,760	6.9%	2.5%
01/01/2008	153	9,202,549	60,147	6.0%	4.1%

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

\*Information prior to January 1, 2002 not available

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

**Actuarial Section**

**Solvency Test**

Valuation Date	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer Financed Portion)	Actuarial Value of Assets	Portion of Accrued Liability Covered by Assets		
					(1)	(2)	(3)
01/01/1999	\$ 333,959	\$ 20,600,759	\$ 19,360,253	\$ 48,031,711	100.0%	100.0%	100.0%
01/01/2000	273,780	21,915,406	19,586,431	53,398,335	100.0%	100.0%	100.0%
01/01/2001	239,334	25,057,879	23,349,127	52,329,142	100.0%	100.0%	100.0%
01/01/2002	216,625	26,641,717	23,861,847	49,513,555	100.0%	100.0%	94.9%
01/01/2003	175,931	28,516,151	23,741,406	50,458,881	100.0%	100.0%	91.7%
01/01/2004	152,915	30,734,020	24,521,288	51,439,056	100.0%	100.0%	83.8%
01/01/2005	117,921	32,683,883	24,709,690	53,036,477	100.0%	100.0%	81.9%
01/01/2006	105,952	34,747,993	26,149,556	54,265,771	100.0%	100.0%	74.2%
01/01/2007	80,737	36,188,970	28,074,123	55,876,434	100.0%	100.0%	69.8%
01/01/2008	61,282	38,866,974	29,180,801	59,924,147	100.0%	100.0%	72.0%

**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
1998	\$ 4,597,385	\$ 434,063	\$ 5,031,448
1999	2,576,082	676,288	3,252,370
2000	(3,842,311)	(107,604)	(3,949,915)
2001	(5,700,919)	856,995	(4,843,924)
2002	(10,249,011)	752,571	(9,496,440)
2003	(1,694,583)	(291,507)	(1,986,090)
2004	(1,381,687)	(445,053)	(1,826,740)
2005	(1,785,209)	(538,117)	(2,323,326)
2006	(1,541,149)	(50,836)	(1,591,985)
2007	688,320	(332,075)	356,245

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

**Actuarial Section**

**Summary of Plan Provisions and Changes**

- A. Effective Date** - April 9, 1954, as amended and restated as of September 28, 1983, and further amended through Resolution No. 73 effective May 15, 2006.
- B. Eligibility Requirements** - All regular and permanent employees of the Utility Board shall become members of the System immediately upon completion of the probationary period. All regular and permanent employees of the Utility Board prior to October 2, 2003 became members of the System immediately upon employment.
- C. Member Contributions** - Eliminated effective October 1, 1985 (October 1, 1983 for management members).
- D. Utility Board Contributions** - The Utility Board shall contribute an amount that will be determined annually by decision of the Utility Board.
- E. Credited Service** - Credited service is service performed subject to a maximum of 30 years. However, any member with more than 30 years of credited service as of November 20, 1998 will be *grandfathered* under the prior 35-year cap.
- F. Average Final Compensation** - Average final compensation (AFC) equals the average annual pensionable earnings received during a period of the five highest years out of the last ten years of service immediately preceding retirement. Pensionable earnings are calculated using the member's base hourly rate each pay period, multiplied by 80 hours, less any hours that are considered *leave without pay*.
- G. Normal Retirement**
1. Eligibility - Earliest of:
    - (a) Attainment of age 60.
    - (b) Completion of 30 years of credited service.With approval of the Utility Board, a member may remain in active employment beyond his normal retirement date.
  2. Benefit - 2.4% times AFC times years of credited service.
- H. Early Retirement**
1. Eligibility - Earliest of:
    - (a) Attainment of age 55 with completion of 10 years of credited service.
    - (b) Completion of 20 years of credited service.
  2. Benefit - Benefit as calculated for normal retirement based on credited service and AFC as of early retirement date. The member may elect to defer receipt of the benefit until the normal retirement date or alternatively, may elect a benefit reduced 5% for each year the benefit commencement date precedes normal retirement date.

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

**Actuarial Section**

**Summary of Plan Provisions and Changes**

**I. Disability Benefit**

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

2. Benefit - Benefit as calculated for normal retirement based on credited service and average basic compensation during the three years immediately preceding disability, minimum benefit of 20% of final three-year average basic compensation at date of disability. These benefits will be offset by any benefits payable under Workers' Compensation or similar injury or disability benefit payments.

**J. Pre-Retirement Death Benefit**

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

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

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

**Actuarial Section**

**Summary of Plan Provisions and Changes**

**K. Termination Benefit**

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

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

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

<b>Years of Credited Service</b>	<b>Percentage</b>
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.

**L. Normal Form of Payment**

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

**M. Changes Since Last Actuarial Valuation**

None.

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

**Statistical Section**

**Schedule of Changes in Net Assets**

Calendar Year	Net Assets, Beginning of Year	Additions	Deductions	Increase (Decrease) in Net Assets	Net Assets, End of Year
2007	\$ 56,385,417	\$ 6,368,669	\$ 3,183,558	\$ 3,185,111	\$ 59,570,528
2006	51,991,417	7,338,678	2,944,678	4,394,000	56,385,417
2005	51,271,516	3,547,337	2,827,436	719,901	51,991,417
2004	49,534,465	4,374,972	2,637,921	1,737,051	51,271,516
2003	42,259,672	9,716,104	2,441,311	7,274,793	49,534,465
2002	49,513,555	(4,966,565)	2,287,318	(7,253,883)	42,259,672
2001	52,329,142	(701,307)	2,114,280	(2,815,587)	49,513,555
2000	53,398,335	988,958	2,058,151	(1,069,193)	52,329,142
1999	48,059,186	7,295,930	1,956,781	5,339,149	53,398,335
1998	40,932,859	8,866,499	1,740,172	7,126,327	48,059,186

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

**Statistical Section**

**Schedule of Additions by Source to Plan Assets**

Calendar Year	Miscellaneous	Employer Contributions	Employer Contributions as a Percentage of Covered Payroll	Net Investment Income	Total
2007	\$ -	\$ 2,462,847 <sup>1</sup>	26.80%	\$ 3,892,845	\$ 6,355,692 <sup>1</sup>
2006	-	2,208,905	26.50%	5,129,773	7,338,678
2005	-	2,014,613	26.40%	1,532,724	3,547,337
2004	-	1,910,640	27.60%	2,464,332	4,374,972
2003	-	1,660,627	24.10%	8,055,477	9,716,104
2002	-	1,699,850	24.80%	(6,666,415)	(4,966,565)
2001	-	1,246,673	18.40%	(1,947,980)	(701,307)
2000	-	1,028,541	16.10%	(39,583)	988,958
1999	8,094	1,326,320	21.30%	5,961,516	7,295,930
1998	-	1,318,547	21.50%	7,547,952	8,866,499

**Schedule of Deductions by Type of Plan Assets**

Calendar Year	Benefits	Expenses	Refunds	Total
2007	\$ 3,047,455 <sup>1</sup>	\$ 123,126	\$ -	\$ 3,170,581
2006	2,875,615	69,063	-	2,944,678
2005	2,705,806	121,630	-	2,827,436
2004	2,553,007	84,914	-	2,637,921
2003	2,396,683	44,628	-	2,441,311
2002	2,246,363	40,955	-	2,287,318
2001	2,085,070	29,210	-	2,114,280
2000	2,013,723	44,428	-	2,058,151
1999	1,918,152	38,629	-	1,956,781
1998	1,702,552	37,620	-	1,740,172

<sup>1</sup> 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	
1998	\$ 1,385,817	\$ 73,466	\$ 105,128	\$ 138,141	-	-	-	\$ 1,702,552
1999	1,581,568	89,119	103,482	143,983	-	-	-	1,918,152
2000	1,676,028	96,203	99,794	141,698	-	-	-	2,013,723
2001	1,720,062	136,727	86,805	141,476	-	-	-	2,085,070
2002	1,876,444	160,469	63,601	145,849	-	-	-	2,246,363
2003	1,986,482	169,525	54,093	186,584	-	-	-	2,396,684
2004	2,073,700	185,146	64,017	230,144	-	-	-	2,553,007
2005	2,224,259	168,741	74,619	238,187	-	-	-	2,705,806
2006	2,349,373	192,075	76,858	257,309	-	-	-	2,875,615
2007	2,538,181	198,993	79,164	231,117	-	-	-	3,047,455

**Schedule of Retired Members by Type – January 1, 2008**

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	24	0	0	0	0	0	24	24	0	0	0
\$1 - 250	6	5	1	0	0	0	0	4	2	0	0
251 - 500	5	1	3	1	0	0	0	3	2	0	0
501 - 750	18	4	6	5	2	1	0	13	2	1	2
751 - 1,000	12	4	6	1	0	1	0	10	2	0	0
1,001 - 1,250	19	2	10	3	1	3	0	11	8	0	0
1,251 - 1,500	10	2	4	0	1	3	0	7	3	0	0
1,501 - 1,750	22	7	9	3	0	3	0	11	10	1	0
1,751 - 2,000	5	1	2	0	0	2	0	5	0	0	0
Over 2,000	<u>53</u>	<u>32</u>	<u>18</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>28</u>	<u>25</u>	<u>0</u>	<u>0</u>
Totals	174	58	59	14	5	14	24	116	54	2	2

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

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

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

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

**Statistical Section**

**Schedule of Average Benefit Payments**

Retirement Effective Dates For the Fiscal Years ended December 31	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
<b>1998</b>							
Average Monthly Benefit	\$ -	\$ 402	\$ 2,344	\$ 734	\$ -	\$ 3,872	\$ -
Average Final Average Salary	-	2,066	3,176	3,121	-	3,000	-
Number of Active Retirants	-	1	3	1	-	2	-
<b>1999</b>							
Average Monthly Benefit	\$ -	\$ 118	\$ 1,079	\$ 1,131	\$ 914	\$ 2,766	\$ 6,141
Average Final Average Salary	-	2,358	3,967	3,011	2,634	3,918	7,311
Number of Active Retirants	-	1	1	2	2	1	1
<b>2000</b>							
Average Monthly Benefit	\$ -	\$ -	\$ 1,016	\$ -	\$ 716	\$ -	\$ 2,908
Average Final Average Salary	-	-	4,199	-	1,854	-	4,089
Number of Active Retirants	-	-	1	-	1	-	2
<b>2001</b>							
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
<b>2002</b>							
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
<b>2003</b>							
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
<b>2004</b>							
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	-
<b>2005</b>							
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	-
<b>2006</b>							
Average Monthly Benefit	\$ -	\$ -	\$ -	\$ -	\$ 1,867	\$ 2,507	\$ -
Average Final Average Salary	-	-	-	-	4,548	4,049	-
Number of Active Retirants	-	-	-	-	2	3	-
<b>2007</b>							
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	-
<b>From January 1, 1998 through through December 31, 2007</b>							
Average Monthly Benefit	\$ -	\$ 166	\$ 1,388	\$ 1,357	\$ 1,353	\$ 2,926	\$ 3,460
Average Final Average Salary	-	2,285	3,648	3,459	3,628	4,205	4,660
Number of Active Retirants	-	5	14	11	24	12	7

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