

Comprehensive Annual Financial Report



Utility Board of the City of Key West, Florida

For the Fiscal Year Ended September 30, 2011

UTILITY BOARD OF THE CITY OF
KEY WEST, FLORIDA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

JACK WETZLER
ASSISTANT GENERAL MANAGER &
CHIEF FINANCIAL OFFICER

PEGGY WALLS
ASSISTANT FINANCE DIRECTOR

LYNNE E. TEJEDA
GENERAL MANAGER &
CHIEF EXECUTIVE OFFICER

CINDY McVEIGH
SUPERVISOR of ACCOUNTING

UTILITY BOARD OF THE CITY OF KEY WEST

Comprehensive Annual Financial Report

For the Fiscal Year Ended September 30, 2011

TABLE OF CONTENTS

	<u>Page</u>
<u>INTRODUCTORY SECTION</u>	
Letter of Transmittal	i
GFOA Certificate of Achievement for Excellence in Financial Reporting Officials and Employees	x xiii
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Balance Sheet	11
Statement of Revenues, Expenses and Changes in Net Assets	13
Statements of Cash Flows	14
Notes to the Financial Statements	16
Required Supplementary Information	35
Schedule of Revenues Earned	36
Schedule of Revenues and Expenditures - Budget to Actual	37
<u>STATISTICAL SECTION</u>	
Statistical Section Description	38
Financial Trends - Condensed Balance Sheets - Last 10 Fiscal Years	39
Financial Trends - Changes in Net Assets - Last 10 Fiscal Years	41
Financial Trends - Net Assets by Component - Last 10 Fiscal Years	44
Revenue Capacity - Revenues by Type of Customer - Last 10 Fiscal Years	45
Revenue Capacity - Actual Number of Customers Billed (September) - Last 10 Fiscal Years	46
Revenue Capacity - kWh Sales by Type of Customer - Last 10 Fiscal Years	47
Revenue Capacity - Rate Analysis - Residential & Commercial - Last 10 Fiscal Years	48
Debt Capacity - Computation of Debt Service Coverage - Last 10 Fiscal Years	49
Debt Capacity - Principal Payments Payable for all Debt Issues Through 2032	50
Demographic and Economic Information - Last 10 Fiscal Years	51
Demographic and Economic Information - Monroe County Major Employers	52
Operating Information - Operating Expenses - Last 10 Fiscal Years	53
Operating Information - Energy Sources - Last 10 Fiscal Years	54
Operating Information - Generating Capacity - Last 10 Fiscal Years	55
Operating Information - Employee Information - Last 10 Fiscal Years	56
Operating Information - Ten Highest Consumption Locations	57
<u>COMPLIANCE SECTION</u>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	58



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UTILITY BOARD OF THE CITY OF KEY WEST

January 25, 2012

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

The Comprehensive Annual Financial Report (CAFR) of the Utility Board of the City of Key West, Florida (the Board) d/b/a Keys Energy Services (KEYS), for the Fiscal Year ended September 30, 2011, is submitted herewith, pursuant to and by the authority of Chapter 69-1191, Laws of Florida, as amended, and Resolution No. 532 of the Utility Board, Article V, Section 5.01 (H), adopted November 13, 1985, as amended and supplemented. The CAFR was compiled by the staff of the Finance Department with the close cooperation of our independent auditor and represents the official report of the Utility's financial operations and conditions to the citizens, the Board, management personnel, rating agencies, bond holders and other interested parties.

Responsibility for both the accuracy of the presented data as well as the completeness and fairness of the presentation, including all disclosures, rests with the Board. We believe that the data as presented is accurate in all material respects, that the data is presented in a manner designed to fairly set forth the financial position and results of operations of the Board and that all disclosures necessary to enable the reader to gain maximum understanding of the Board's financial affairs have been included.

Resolution No. 532 of the Board, Article V, Section 5.01 (H), adopted November 13, 1985, as amended and supplemented requires an annual audit by independent certified public accountants. For Fiscal Years 2011 and 2010 the Utility Board selected the accounting firm of Oropeza & Parks, CPAs. The auditor's report on the financial statements is included in the Financial Section of this report.

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

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

Power In Numbers

In a continually challenging economy, KEYS harnessed the power of joint partnerships to advance local initiatives and assure the continued reliability of power. FY2011 saw KEYS transfer ownership of local generation units to the Florida Municipal Power Agency (FMPA), KEYS' wholesale power provider; work to increase the import capacity of the Transmission Line (TIELINE), and received approval for grant funding from the State of Florida for local green initiatives.

GENERATION OWNERSHIP TRANSFERRED TO FMPA

The FMPA Executive Committee approved the transfer of ownership for KEYS Generation units to FMPA to take place on January 1, 2011. The Board previously approved the transfer of ownership, and, along with the FMPA's Executive Committee, approved a companion agreement called the Consolidated Operating and Maintenance Agreement that arranges for KEYS' Generation staff to operate the units on behalf of FMPA.

The original intent of the ARP was to take over the generation of all its members, but given the various needs of the 14-member cities this did not immediately happen. FMPA and the respective member cities rededicated themselves to the original intent of the ARP and created the True All-Requirements Project (TARP) concept to see that vision through.

KEYS is a long-standing member of FMPA and since 1997 has been a member of their 14-member All-Requirements Project (ARP) which provides wholesale power requirements for the participating cities, some with generating capabilities and others without.

As a member of ARP, and per the terms of their 30-year contract, FMPA is required to maintain enough local generation to power 60-percent of KEYS' peak power needs in the event they cannot import power from the mainland via the TIELINE. Prior to the transfer, KEYS had six-generating units at the Stock Island Generation Facility – three owned by KEYS and three owned by FMPA. KEYS operated and maintained all six, while FMPA reimbursed KEYS Operating & Maintenance and Capital costs associated with their three. Additionally, FMPA paid KEYS capacity credits and variable Operating & Maintenance credits for these units.

Unfortunately, the costs of local generation far exceeded the credits. Because local generation was a large expense, KEYS considered retiring its units. Instead, KEYS and FMPA decided to negotiate the TARP agreement to transfer the title of the three KEYS owned to FMPA. The arrangement provided substantial savings to the Board and finally achieved the one utility vision for FMPA

TIELINE UPGRADE AT ONE-THIRD THE COST

The Board approved phase one of a project which will result in an increase to the import capacity of the nearly 25-year old TIELINE, which is responsible for providing power to the Florida Keys from the Florida mainland.

The project is a joint effort between KEYS, Florida Keys Electric Co-Operative (FKEC), and FMPA. All three agencies will share the cost of the estimated \$12-million project that will increase the current 277 Megawatt (MW) import capacity of the TIELINE to 320 MW, which is the maximum it was designed to carry and supply.

The TIELINE consists of 120-miles of electrical infrastructure from the Florida mainland to Key West. Due to the geography of the Florida Keys, long length of the line, and energy loads, the import capacity of the TIELINE is operating below its optimum capacity. The improvement project will upgrade existing equipment with more modern technology, which will include a static compensator and series capacitor.

The improvement project will be completed in two phases, with the Lower Keys' portion in Big Pine Key and Stock Island being completed and energized by the summer of 2012, and the Upper Keys' portion in Islamorada being completed by the summer of 2013.

The TIELINE improvement project will allow KEYS to retire its existing 35-year old Synchronous Condenser. Additionally, KEYS will be able to run less local generation during the summer months to compensate for the lower TIELINE capacity, improve system voltage stability during power outages, and provide long term system planning for the next 10+ years.

STATE GRANT HELPS GROW LOCAL GREEN EFFORTS

In the spring of 2011, KEYS was awarded a Clean Energy Grant from the State totaling \$770,000. The grant award was the result of an arduous application process that KEYS staff participated in during the summer of 2010.

The grant is made possible by the American Recovery and Reinvestment Act and the United States Department of Energy and pursuant to the grant, the State will fund approximately \$434,000 of the total grant.

The grant will fund seven projects identified by KEYS, which include:

1. Installing a thermal storage unit at KEYS' Service Building to shift air conditioning cooling costs during peak hours. The unit will work by storing energy off-peak in the form of ice, when electricity generation is more efficient and more abundant, and delivering it on-peak, when it is needed most, to help air condition the building.
2. Installing an energy management system at KEYS' Service Building.
3. Constructing a 44.8 Kilowatt* (kW) solar photovoltaic system on a KEYS' warehouse at its Stock Island Generating Facility.
4. Erecting two wind turbines totaling 4.8 kW at KEYS' Cudjoe Key Electrical Substation.
5. Offering \$100,000 in rebates to qualifying customers who purchase energy efficient appliances.
6. Providing 225 residential energy surveys over 18-months, which will include the distribution of compact fluorescent light bulbs, low flow showerheads, and faucet aerators.
7. Hosting three workshops for commercial customers to learn how to implement energy efficiency in their businesses.

All grant projects must be completed by April 2012 in order to receive funding.

As KEYS prepares to mark its 69th year of providing power to the residents of Key West and the Lower Florida Keys, its customers can rest assured their hometown utility will continue to utilize partnership opportunities to advance local initiatives and improvements while keeping an eye on the bottom line.

Definitions:

Kilowatt (kw) – A unit of electrical power equal to 1,000 watts.

Megawatt (MW) – A unit of electric real power equal to 1,000 kilowatts or 1,000,000 watts.

Series Capacitor – An electrical device that maintains or increases voltage in power lines and improves the efficiency of the electrical system by reducing inductive losses that produce wasted energy.

Static Compensator (STATCOM) – An advanced power electronics regulating device installed on transmission networks to solve a variety of power system voltage and stability conditions.

Synchronous Condenser – A motor interconnected to the electric grid which helps to adjust conditions on the electrical transmission grid, namely voltage levels.

Entity Definition

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

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

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

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

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

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

Basis of Accounting

The financial statements are prepared on the basis of generally accepted accounting principles using the Federal Energy Regulatory Commission (FERC) chart of accounts, which are peculiar to utilities. Revenues are recognized in the period earned and expenses are recognized in the period incurred.

Budgetary control is maintained through the use of monthly financial reports and the use of purchase orders, work orders, and miscellaneous cash disbursements and approval procedures. Property, Plant and Equipment is stated at cost, which includes costs of contract work, labor, materials, allocated indirect charges, and capitalized interest. Major renewals and betterments are capitalized while minor replacements and repairs are expensed as incurred.

Internal Accounting Controls

In developing and maintaining the accounting system, consideration is given by the administration as to the adequacy of internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition; the reliability of financial records for preparing financial statements in conformity with generally accepted accounting principles; and maintaining accountability for assets. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the evaluation of costs and benefits requires estimates and judgments by management.

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

Budgetary Control

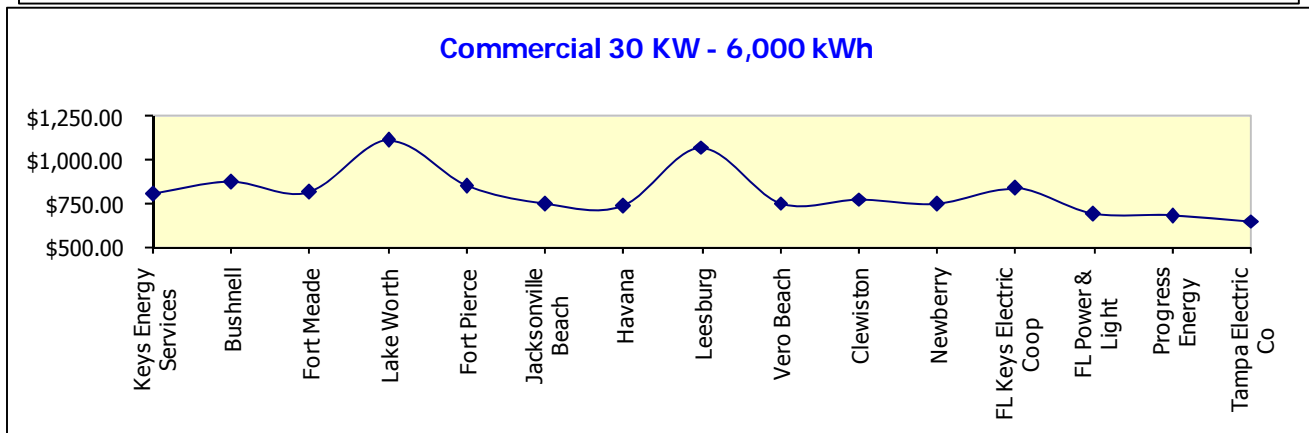
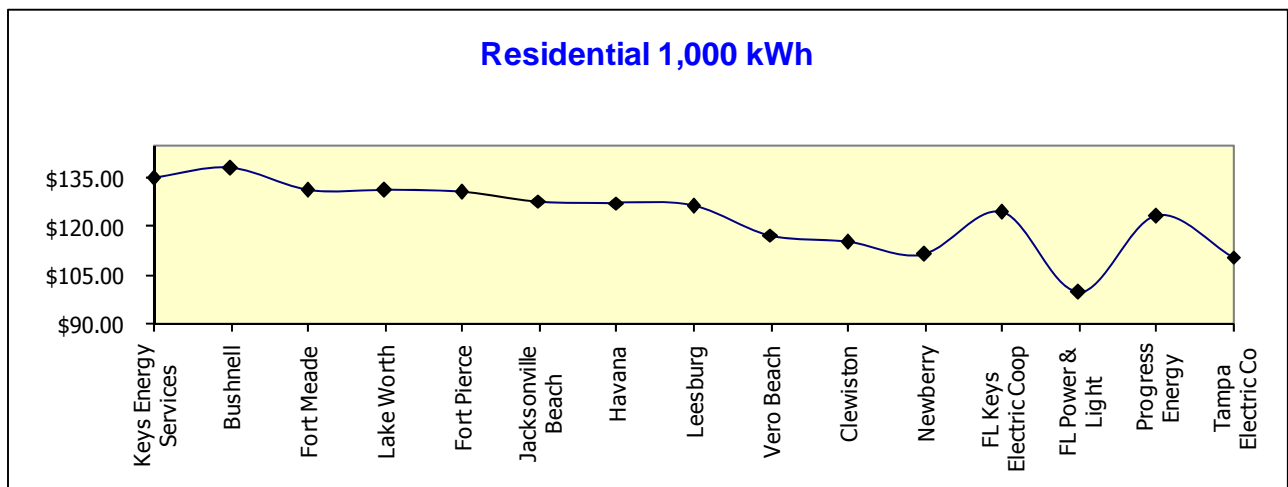
In accordance with the Enabling Legislation, the Board holds public hearings and subsequently adopts an annual budget for operating expenses and capital outlay prior to October 1 of the fiscal year. Actual revenues and expenses are compared to the budget on a line item basis (which is the legal level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

Rates for Service

The following table compares average monthly charges for electric service among selected utilities in Florida for the fiscal year ended September 30, 2011.

COMPARISON OF AVERAGE MONTHLY ELECTRIC BILLS				
		Residential 1,000 kWh	Commercial 30KW - 6,000 kWh	
	Keys Energy Services	\$ 135.00	\$ 807.42	
	Bushnell	\$ 138.24	\$ 873.33	
	Fort Meade	\$ 131.50	\$ 813.41	
	Lake Worth	\$ 131.43	\$ 1,115.99	
<i>Other Municipal Utilities and Cooperatives in Florida</i>	Fort Pierce	\$ 130.75	\$ 853.19	
	Jacksonville Beach	\$ 127.91	\$ 746.46	
	Havana	\$ 127.46	\$ 734.76	
	Leesburg	\$ 126.52	\$ 1,074.10	
	Vero Beach	\$ 117.55	\$ 752.64	
	Clewiston	\$ 115.50	\$ 776.61	
	Newberry	\$ 111.69	\$ 749.95	
	FL Keys Electric Coop	\$ 124.55	\$ 836.85	
	<i>Investor-Owned Utilities in Florida</i>	FL Power & Light	\$ 99.78	\$ 690.82
		Progress Energy	\$ 123.34	\$ 681.36
Tampa Electric Co		\$ 110.60	\$ 647.96	

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

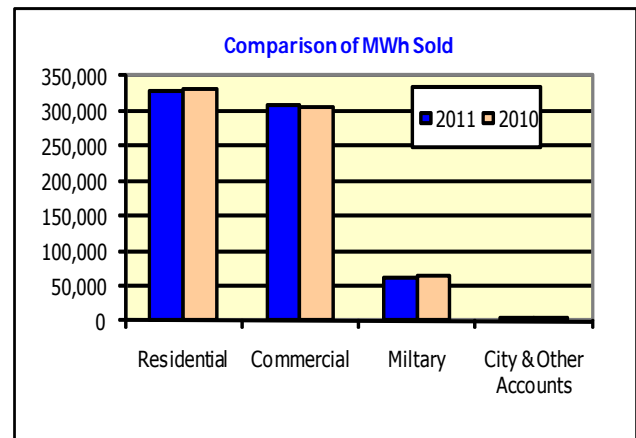
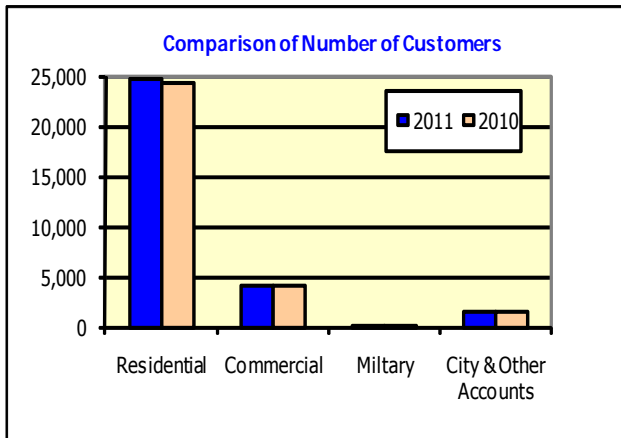


Customer Statistics

At fiscal year-end 2011, the Utility's total customer base was 30,111 or 274 more customers than the FY 2010 level of 29,837. The number of residential customers increased 231 to 24,619. The number of commercial customers increased 42 to 4,043.

The average monthly residential consumption of 1,110 kWh was lower than the FY2010 level by 27 kWh. The average monthly commercial consumption of 6,335 kWh was lower than the FY2010 level by 1,391 kWh. The consumption for the military decreased 3.4 million kWh.

Peak Demand (60 minute net) increased to 140.2 MW from the FY2010 peak of 138.1 MW. Load Factor was 60.9% in FY2011 compared to 61.8% in FY2010.



Purchased Power

The Board voted on July 7, 1997 and amended January 1, 2011, to participate in the FMPA True All-Requirements Project (TARP) whereby the Board will purchase their bulk power supply requirements, in excess of certain excluded resources, from the ARP. The Board began operations as a project participant effective April 1, 1998. The Board has previously entered into several purchased power arrangements including (i) the FMPA Tri-City Project (Stanton 1); (ii) the FMPA Stanton 2 Project, and (iii) long-term purchase agreement from Florida Power & Light Company (FPL). As a member of the ARP, the Board's resources and costs under these three contracts have been assigned to FMPA. Other power resources include the sale of power to Florida Keys Electric Cooperative Association, Inc. (FKEC) and interchange service arrangements with other Florida utilities, customers with renewable generating facilities, and with power marketers.

All of the power purchases listed above requires transmission over the FKEC transmission system. On January 1, 1992, this became a jointly owned system between KEYS and FKEC and is covered by a Long-Term Joint Investment Transmission Agreement. Please see Notes to Financial Statements for further information.

Transmission Facilities

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

Pursuant to the current transmission agreement with FKEC, the Board constructed and jointly owns with FKEC a second 138 kV transmission line, which extends 21 miles from the Tavernier Substation in the FKEC service territory to the Monroe-Dade County line, where it ties into the FPL 138 kV transmission line. The two transmission lines provide greater reliability and increased import capability to KEYS. With the additional segment of 138 kV line the firm MW transfer allocation for KEYS over the Transmission Line is approximately 110 MW. Currently, the transfer capability of the transmission line is approximately 277 MW. KEYS local transmission facilities consist of seven-69 kV lines (14.9 miles) in Key West/Stock Island and four-138 kV lines (51.2 miles) from Key West to Marathon. Distribution is supplied from the 69/138 kV system to KEYS' nine distribution substations.

Distribution Facilities

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

Local Generation Facilities

On January 1, 2011, the Board transferred ownership of its three generating units to FMPA with a total synchronized rating of 32 MW. This included a combustion turbine (CT) unit and two medium speed diesel units. Three peaking diesel units located at Stock Island were decommissioned.

The other three combustion turbines at Stock Island owned by FMPA have a combined synchronized ratings are 76 MW. These units contribute to the total synchronized rating of 108 MW. The units all operate with No. 2 oil.

Debt Administration

The principal amount of Long Term Debt, net of the current portion, was \$66.0 million at September 30, 2011 compared to \$73.1 million at September 30, 2010. All outstanding debt had fixed interest rates. Total revenue bond debt was comprised of three refunding bond issues 1991, 2000 and 2001, and one revenue bond issue 2006. All issues are rated AAA by Standard & Poor's (S&P) as insured by AMBAC Indemnity Corporation.

Long Term Financial Planning

Long-term financial planning includes monitoring KEYS electric rates while providing quality service for its rate payers. On December 15, 2010 the Board approved and signed the Revised, Amended, and Restated Capacity and Energy Sales Contract which took effect on January 1, 2011 and will remain in effect until October 1, 2024. Under the terms of this contract FMPA took over operational control and ownership of risk for KEYS Stock Island generating units as well as all operation and maintenance costs and capital expenditures. FMPA has hired KEYS as its agent to be responsible for operating and maintaining the generating units. This will save KEYS \$2.5 million per year in capital and Operation and Maintenance costs for the first ten years.

Change in Accounting Method

On June 30, 2011, KEYS changed its method of recording capital asset retirements from Federal Energy Regulatory Commission (FERC) to Generally Accepted Accounting Principles (GAAP). This change is discussed more fully in Note 1 – Summary of Significant Accounting Policies.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Utility Board of the City of Key West for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2010.

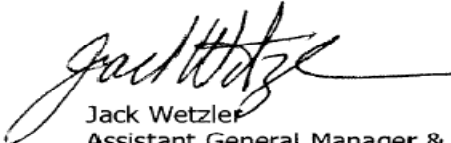
This was the 19th consecutive year that the Board has achieved this prestigious national award. In order to be awarded a Certificate of Achievement, a government unit must publish an easy to read and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

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

Acknowledgments

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

Respectfully submitted,



Jack Wetzler
Assistant General Manager &
Chief Financial Officer



Lynne Tejeda
General Manager &
Chief Executive Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Utility Board of the City of Key West, Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2010

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.



Linda C. Danison

President

Jeffrey R. Emer

Executive Director

Utility Board of the City of Key West, Florida



Chairman Lou Hernandez has served on the Utility Board since 1997. He is the Executive Director of HELPLINE, Inc.; a crisis intervention and information referral telephone hotline in Monroe County. Upon graduation from Texas A&M University, Mr. Hernandez was commissioned by the U.S. Army and served as an Infantry Officer in Vietnam. After completing his Armed Services commitment, Mr. Hernandez secured a Federal internship with the US Department of Transportation in the Human Resources Development area. He worked with several Federal agencies, completing his career in Washington as the Director of Training and Employee Development with the General Services Administration. He moved to Key West in 1983 and has worked in the home renovation business and as a counselor at FTPA and the Public Health Department. Mr. Hernandez has served on the Florida Municipal Power Agency's Board since 2007 and as its Secretary in 2009 and in 2010. Mr. Hernandez has served as president of the Old Island Restoration Foundation, Chairman of the Historic Architectural Review Commission, Chairman of the Monroe County Democratic Party, Secretary/Treasurer of the Key West Redevelopment Land Agency, a Director of the Private Industry Council of Dade/Monroe, member of the Key West AIDS Memorial Board of Directors, president of the Key West Business Guild, and served as Chairman of the Citizen's Review Board of the City of Key West.

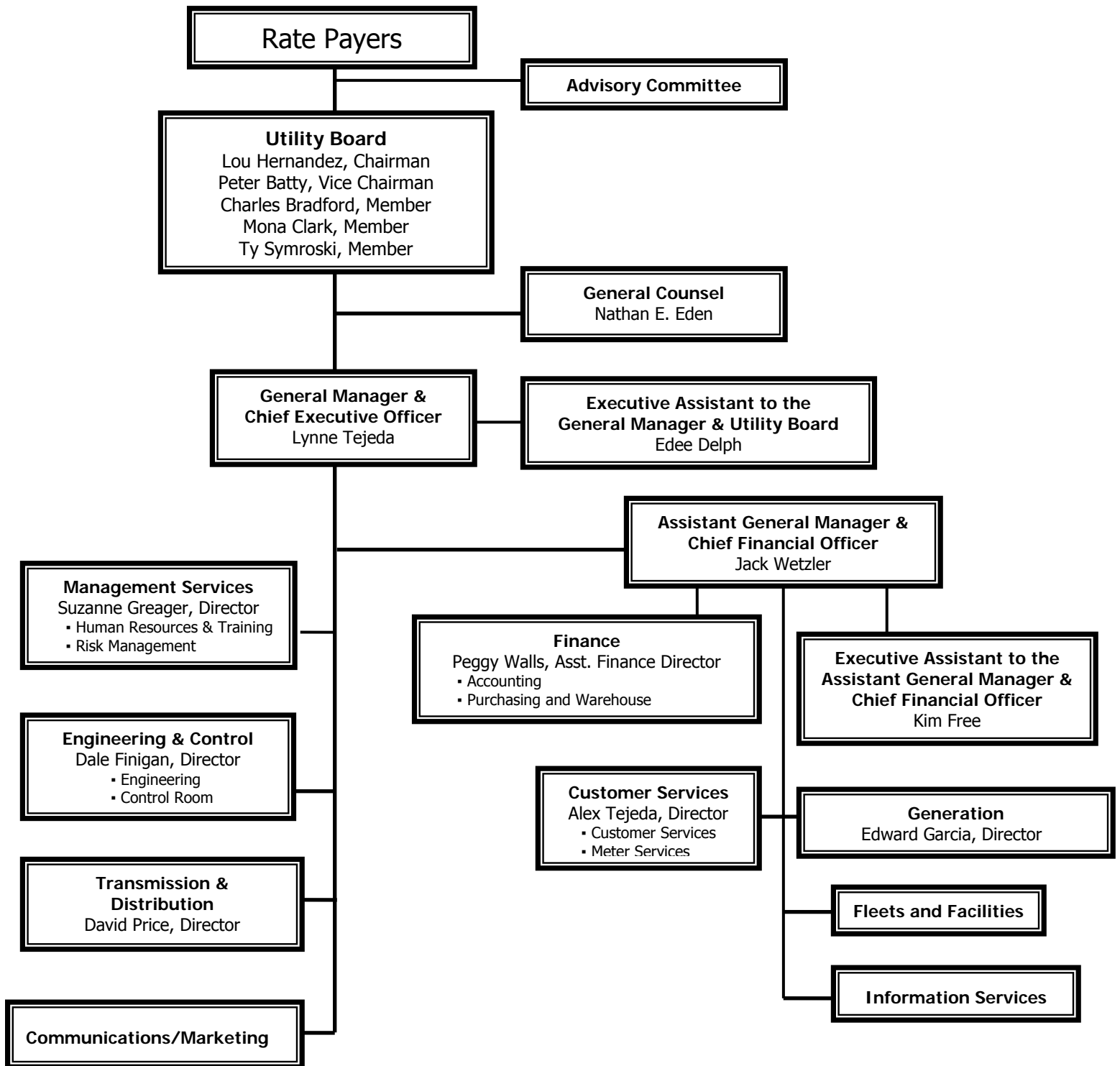
Vice Chairman Peter Batty has served on the Utility Board since 2005. He is a Florida Licensed Real Estate Broker and has lived in the Florida Keys since 1989. On November 18, 2000, he was ordained as a Permanent Deacon to the Archdiocese of Miami. Mr. Batty received his Bachelor of Science degree from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

Mr. Charles A. Bradford Jr. has served on the Utility Board since 2006. He works for Heartland Payment Systems and has worked in the Banking and Finance industry for 35 years. Mr. Bradford received his Bachelor's degree in Banking and Finance from the University of North Florida and has certifications in Consumer Lending, Cash Flow analysis, and Accounting. He is a member of St. Paul's Episcopal Church, and Arcturus, serves on a number of other boards in Key West. In addition, Mr. Bradford is past chair of the Key West Chamber of Commerce and former member of KEYS' Advisory Committee. Mr. Bradford has lived in the Florida Keys since 1980.

Ms. Mona C. Clark has served on the Utility Board since 2004 and holds the distinction of being the first female Board member in the Utility's history. She is a retired educator and administrator for the Monroe County School District, where she worked for over 35 years. Ms. Clark received her Bachelor of Science in Education degree from Florida A & M University and her Masters of Education/Leadership degree from the University of South Florida. Ms. Clark has served as Chair of the Mayor's Revolving Loan Fund for the City of Key West and Chair of the Citizen's Advisory Task Force for the Florida Keys Housing Authority. Ms. Clark also served on the Florida Keys Community College Board of Trustees from 1993 to 2001, serving as Board Chair from 1999 to 2001. Additionally, Ms. Clark is a Board member of Womankind, member of the Dr. Martin Luther King, Jr. Scholarship and Birthday Celebration Committee, Mentor for the Take Stock in children program, a 7th grade CCD teacher at St. Mary's Star of the Sea Church, past Sponsor/Director of Tomorrow's Leaders Today, past Secretary for the Wesley House Family Services Board of Directors, and past Treasurer and Vice President of the local branch of the N.A.A.C.P.

Mr. Ty Symroski has served on the Utility Board since 2007. He is the owner of Ty Symroski Land Use Planning, LLC, and previously served as the Monroe County Growth Management Director and Key West City Planner. Mr. Symroski received his Bachelor's degree in Land Use Planning from the University of Michigan and Master's degree in Regional Planning from the University of North Carolina. He is a member of the Sunrise Rotary Club, construction committee of Habitat for Humanity of Key West and the Lower Keys, advisory member of the Florida Keys Scenic Corridor Alliance, and past Chair of the Resort and Tourism Division of the American Planning Association. Mr. Symroski has lived in Key West and the Lower Keys since 1984.

Organizational Chart Fiscal Year Ended September 30, 2011



Keys Energy Services Employees as of September 30, 2011

John Albury	Albert Fernandez	Patrick Nolan	Bruce Woodard
Matthew Alfonso	Dale Finigan	Glicel Owen	Donnie Yarbrough
Frank Arencibia	Elizabeth Franco	Allen Palka	Joshua Yarbrough
Heather Arencibia	Kim Free	Jeff Partington	Erica Zarate
Marcos Arencibia	Daniel Garcia	Don Paxson	
Pedro Arencibia	Eddie Garcia*	Catherine Peace	
Eric Balbuena	Frankie Garcia	Chasity Perez**	
Deborah Barnett	Mark Garcia	Dina Perez	
Robert Barrios	Milagros Gartenmayer	Jerry Pita	
Julio J. Barroso	Roger George	Eva Pope	
James Barry	Dave Gerstenkorn	David Price	
Terry Beeman	Edward Giesler	Alberto Pumar	
Tony Bethel	Zahny Gonzalez	Martha Ramas	
Mayra Bethel	Tennille Grassi	Beverly Ray	
Jennifer Bevis-Pindur	Thomas Grassi	Milton Roberts	
Laurel Bogoeff	Suzanne Greager	Alvaro Rodriguez	
Alan Bradley	Michael Griffin	Amanda Rodriguez	
Karla Bravo	Sabrina Hall	David Rodriguez	
Kris Bremer	Susan Ham	Armando Rojas	
Lynda Bringle	Brittani Harden	Matthew Roy	
Eric Cyrus Brown	Kevin Hawthorne	Stan Rzad	
Robert Burchett	Timothy Hertzog	Daniel Sabino	
Harry Carey	Randy Huss	Diane Sanchez	
Julissa Caridad	Ana Kerr	Manuel Sanchez*	
Walter Cashwell	Sean Kipp	Paul Sanchez	
George Castellon	Phil Klausing	Mark Schimizz*	
Michael Commander	Harold Knowles	Thomas Schuler	
David Cottar, Jr.	Victor Linares	Vin Smith	
David Cottar	Jacek Majewski	Dennis Stone	
Kevin Crockett	Herschell Major	Robert Stover	
Fred Culpepper	Laurence Marius	Alex Tejeda	
Jamie Curry	James McClendon	Lynne Tejeda	
Wayne Davila	Cindy McVeigh	Larry Thomas	
Maria De La Torre	Neil Mellies	Barry Travis	
Daniel Delice	Ony Mendez	Ivan Urbay	
Edee Delph	Amber Menedez	Hugo Valdes	
Joseph Diaz	Juan Menendez	Bryan Veliz	
Patty Dixon	Robert Mesa	Mary Vidal	
Michael Domenech	Elizabeth Miller	Chuck Vinson	
William Duran	Armando Mira III	Dane'Ile Waldon	
Cassie Dzatlik	Horace Mobley	Peggy Walls	
Manuel Estevez	Sharon Moore	Charles Walterson	
Michael Euliss	James Newton	Stefan Washington	
John Fallon	Griff Niekerk	Jack Wetzler	
	Catherine Nix	Hershel White	

Employee Count: 138
* Employee of the Quarter 2011
**Employee of the Year 2011



**OROPEZA
& PARKS**
Certified Public Accountants

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Denise Y. Rohrer, C.P.A., P.A.
James H. Hill, Jr., C.P.A.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Utility Board of the City of Key West, Florida, d/b/a Keys Energy Services, ("KEYS") as of and for the years ended September 30, 2011 and 2010, which collectively comprise KEYS' basic financial statements as listed in the table of contents. These financial statements are the responsibility of KEYS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

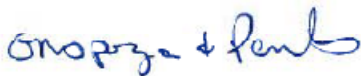
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility Board of the City of Key West, Florida, Keys Energy Services as of September 30, 2011 and 2010, and the changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2012, on our consideration of KEYS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise KEYS' basic financial statements as a whole. The introductory section, the schedules of revenues earned and the schedules of revenues and expenditures-budget to actual as listed in the financial section and the statistical section in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of revenues earned and the schedule of revenues and expenditures-budget to actual have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical section in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



OROPEZA & PARKS
CERTIFIED PUBLIC ACCOUNTANTS

January 25, 2012

Management's Discussion and Analysis

As management of the Utility Board of the City of Key West, Florida (the Board) d/b/a Keys Energy Services (KEYS), we offer readers of the Board's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our Letter of Transmittal.

Required Financial Statements

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

Balance Sheet

The Utility's Net Assets decreased in FY2011 by \$20.6 million, or 22.4%.

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2010 to 2011 Increase (Decrease)</u>	
				<u>Amount</u>	<u>Percent</u>
Total Unrestricted Current Assets	\$ 34,729,426	\$ 35,222,402	\$ 33,806,734	\$ (1,415,668)	-4.0%
Total Restricted Current Assets	30,053,107	17,919,057	17,604,301	(314,756)	-1.8%
Total Capital Assets	141,343,015	154,937,272	128,363,393	(26,573,879)	-17.2%
Total Restricted Non-Current Assets	2,266,539	2,266,539	2,266,539	-	0.0%
Total Unrestricted Non-Current Assets	<u>8,139,388</u>	<u>7,542,314</u>	<u>12,049,108</u>	<u>4,506,794</u>	<u>59.8%</u>
Total Assets	<u>\$216,531,475</u>	<u>\$ 217,887,584</u>	<u>\$194,090,075</u>	<u>\$ (23,797,509)</u>	<u>-10.9%</u>
Total Unrestricted Current Liabilities	9,053,032	7,542,445	7,678,377	135,932	1.8%
Total Restricted Current Liabilities	14,878,190	15,168,507	14,025,479	(1,143,028)	-7.5%
Total Non-Current Liabilities	<u>103,590,523</u>	<u>103,087,354</u>	<u>100,934,515</u>	<u>(2,152,839)</u>	<u>-2.1%</u>
Total Liabilities	<u>127,521,745</u>	<u>125,798,306</u>	<u>122,638,371</u>	<u>(3,159,935)</u>	<u>-2.5%</u>
Net Assets:					
Invested in Capital Assets, net of related debt	\$ 76,593,445	\$ 82,248,111	\$ 61,312,051	\$ (20,936,060)	-25.5%
Restricted	3,188,316	2,997,107	6,864,884	3,867,777	129.1%
Unrestricted	<u>9,227,969</u>	<u>6,844,060</u>	<u>3,274,769</u>	<u>(3,569,291)</u>	<u>-52.2%</u>
Net Assets	<u>89,009,730</u>	<u>92,089,278</u>	<u>71,451,704</u>	<u>(20,637,574)</u>	<u>-22.4%</u>
Total Liabilities and Net Assets	<u>\$216,531,475</u>	<u>\$ 217,887,584</u>	<u>\$194,090,075</u>	<u>\$ (23,797,509)</u>	<u>-10.9%</u>

The changes in Assets from FY2009 to FY2010 are listed as follows:

- Increase in Total Unrestricted Current Assets – \$493,000.
 - Increase in Cash – \$874,000
 - Decrease in Customer Receivables – \$298,000 due to lower kWh Sales offset by timing of Navy receivable.
 - Increase in Other Receivables – \$71,000 outstanding receivables from FMPA, No Name Key, and pole replacements.
 - Decrease in Due from Other Governments – \$291,000 payments received and adjustments to FEMA receivable.
 - Increase in Current Portion of Lease Receivable – \$3,000 due to a change in the Consumer Price Index.
 - Decrease in Inventory – \$127,000 inventory for three retired High Speed Diesels was removed from inventory.
 - Increase in Prepaid Expense – \$215,000 due to timing of payments of annual insurance renewals.

- Decrease in Total Restricted Current Assets – \$12.1 million.
 - Decrease in Cash – \$20.7 million due to spending of 2006 Bond proceeds and October 1, 2010 bond payments paid on September 30, 2010.
 - Increase in Prepaid Expense – \$8.5 million prepayment of October 1, 2010 bond installment.

- Increase in Total Capital Assets – \$13.6 million.
 - Increase in Capital Assets – Net Utility Plant – \$20.1 million. The larger assets added to Utility Plant are as follows:

Distribution Improvements	\$ 5,300,000
Purchase & Install Substation Transformers	\$ 4,000,000
Construct New Stock Island Substation	\$ 2,500,000
Switchgear Replacement at US1 Substation	\$ 1,600,000
Construct Non Capacity Station Service	\$ 1,100,000
Upgrade Transmission Relays	\$ 919,000
 - Net Decrease in Construction Work in Progress – \$6.5 million due to projects placed into service.

- Decrease in Total Unrestricted Non-Current Assets – \$597,000 due to a change in the estimated sales proceeds related to Other Long Term Receivables and amortization of bond discount and issuance costs.

The changes in Assets from FY2010 to FY2011 are listed as follows:

- Decrease in Total Unrestricted Current Assets – \$1.4 million.
 - Decrease in Cash – \$989,000
 - Increase in Customer Receivables – \$104,000 due to higher kWh Sales in September 2011.
 - Increase in Other Receivables – \$279,000 outstanding receivables from FMPA and FKEC.
 - Decrease in Due from Other Governments – \$152,000 payments received and adjustments to FEMA receivable.
 - Increase in Current Portion of Note Receivable – \$471,000 due TARP – the transfer of ownership of generating units to FMPA
 - Decrease in Inventory – \$1.1 million inventory sold to FMPA in conjunction with the sale of KEYS generation assets.

- Decrease in Prepaid Expense – \$149,000 due to timing of payments of annual insurance renewals and reduction of insurance required for generation assets.
 - Increase in interest receivable – \$155,000 interest calculated on current portion of FMPA receivable.
- Decrease in Total Restricted Current Assets – \$315,000.
- Increase in Cash – \$8.2 million primarily due to the October 1, 2011 bond payments accumulated in the Bond Sinking Fund and paid on October 3, 2011.
 - Decrease in Prepaid Expense – \$8.5 million payment of October 1, 2011 bond installment was made on 10/03/11 compared to prior year when payment was prepaid prior to October 1st due date.
- Decrease in Total Capital Assets – \$26.6 million.
- Decrease in Utility Plant – Net Utility Plant – \$34.9 million due to the sale of assets to FMPA, change in accounting method, offset by assets placed into service. The larger assets added to Utility Plant are as follows:
- | | |
|---------------------------------------|--------------|
| Storm Hardening | \$ 4,900,000 |
| Transmission Pole Foundations Upgrade | \$ 3,400,000 |
| Transmission Line 1 Reconductoring | \$ 1,075,000 |
| Distribution Improvements | \$ 1,016,000 |
- Decrease in Accumulated Depreciation – \$9.3 million primarily due to the sale of assets to FMPA and change in accounting method.
 - Net Decrease in Construction Work in Progress – \$967,000 due to projects placed into service.
- Increase in Total Unrestricted Non-Current Assets – \$4.5 million due to Note Receivable for TARP, a change in the estimated sales proceeds related to Other Long Term Receivables and amortization of bond discount and issuance costs.

The changes in Liabilities from FY2009 to FY2010 are listed as follows:

- Decrease in Unrestricted Current Liabilities – \$1.5 million due to lower accounts payable and accrued expenses.
- Increase in Restricted Current Liabilities – \$290,000 due to higher accounts payable and current portion of long term debt offset by security deposit previously held for sale property was forfeited by buyer.
- Decrease in Non-Current Liabilities – \$500,000 due to an increase in the Other Post Employment Benefits (OPEB) expense offset by a decrease in Revenue Bonds and Accrued Interest.

The changes in Liabilities from FY 2010 to FY 2011 are listed as follows:

- Increase in Unrestricted Current Liabilities – \$136,000 due to higher accounts payable, accrued expenses and deferred revenues offset by lower compensated absences.

- Decrease in Restricted Current Liabilities – \$1.1 million due to lower accounts payable and accrued interest offset by an increase in the current portion of long term debt, and an increase in deposits collected from customers.

- Decrease in Non-Current Liabilities – \$2.2 million due to an increase in the Other Post Employment Benefits (OPEB) expense and accrued interest offset by a payment of revenue bonds and lower compensated absences.

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Statement of Revenues, Expenses and Changes in Net Assets

Electric sales of 699.8 Gigawatt hours (GWh's) in FY2011 were lower than FY2010 sales of 707.8 GWh's, by 1.1%.

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2010 to 2011 Increase (Decrease)</u>	
				<u>Amount</u>	<u>Percent</u>
Electric Revenues	\$ 105,925,446	\$ 101,264,428	\$ 94,708,758	\$ (6,555,670)	-6.5%
Other Electric Revenues	<u>3,574,040</u>	<u>3,700,174</u>	<u>1,706,353</u>	<u>(1,993,821)</u>	<u>-53.9%</u>
Total Operating Revenues	109,499,486	104,964,602	96,415,111	(8,549,491)	-8.1%
Production Expense - Diesel	2,186,002	1,557,898	359,330	(1,198,568)	-76.9%
Purchased Power	66,847,376	63,272,371	52,961,249	(10,311,122)	-16.3%
Transmission Expenses	4,648,803	4,519,506	4,793,953	274,447	6.1%
Distribution Expenses	4,065,166	3,939,956	3,844,570	(95,386)	-2.4%
Customer Accounts and Collection Expenses	1,675,437	1,663,487	1,256,967	(406,520)	-24.4%
Administrative and General Expenses	12,620,134	14,288,249	14,682,883	394,634	2.8%
Depreciation	7,190,781	7,925,719	7,033,190	(892,529)	-11.3%
Taxes Other than Income Taxes	<u>2,793,943</u>	<u>2,666,194</u>	<u>2,488,173</u>	<u>(178,021)</u>	<u>-6.7%</u>
Total Operating Expenses	102,027,642	99,833,380	87,420,315	(12,413,065)	-12.4%
Interest Income	388,391	266,524	419,245	152,721	57.3%
Miscellaneous Non-Operating Revenue	2,523,179	2,014,620	1,969,389	(45,231)	-2.2%
Payment to City of Key West	(386,188)	(393,368)	(444,926)	(51,558)	13.1%
Interest on Debt	(4,034,263)	(3,809,889)	(4,568,087)	(758,198)	19.9%
Interest on Customer Deposits	(10,807)	(8,998)	(10,238)	(1,240)	13.8%
Amortization of Bond Discount and Issue Costs	(115,548)	(115,548)	(100,000)	15,548	-13.5%
Loss on Disposal of Assets	-	-	(1,130,404)	(1,130,404)	100.0%
Grant Revenue	(479)	(125,000)	1,523	126,523	-101.2%
Grant Expenses	-	-	(7,992)	(7,992)	0.0%
Total Non-Operating Revenue and (Expenses)	<u>(1,635,715)</u>	<u>(2,171,659)</u>	<u>(3,871,490)</u>	<u>(1,699,831)</u>	<u>78.3%</u>
Loss on Disposition of Generation Assets - TARP	-	-	(13,141,312)	(13,141,312)	100.0%
Loss on Disposal of Assets - Change in Accounting Method	-	-	(12,709,385)	(12,709,385)	100.0%
Total Special Items	-	-	(25,850,697)	(25,850,697)	100.0%
Change in Net Assets Before Capital Contributions	5,836,129	2,959,563	(20,727,391)	(23,686,954)	-800.4%
Capital Contributions	<u>94,823</u>	<u>119,985</u>	<u>89,817</u>	<u>(30,168)</u>	<u>-25.1%</u>
Change in Net Assets	5,930,952	3,079,548	(20,637,574)	(23,717,122)	-770.1%
Net Assets, Beginning of Year	<u>83,078,778</u>	<u>89,009,730</u>	<u>92,089,278</u>	<u>3,079,548</u>	<u>3.5%</u>
Net Assets, End of Year	<u>\$ 89,009,730</u>	<u>\$ 92,089,278</u>	<u>\$ 71,451,704</u>	<u>\$ (20,637,574)</u>	<u>-22.4%</u>

The Change in Net Assets was an increase of \$3.1 million in FY2010. This was primarily due to:

- Decrease in Total Operating Revenues – \$4.5 million.
 - Decrease in Electric Revenue – \$4.7 million is primarily a result of lower kWh Sales.
 - Increase in Other Electric Revenues – \$126,000 is primarily a result of higher line extension revenue partially offset by lower capacity credits.

- Decrease in Total Operating Expenses – \$2.2 million.
 - Decrease in Production expenses – \$628,000 primarily due to no soil remediation costs incurred in FY2010 compared to prior year.
 - Decrease in Purchased Power Costs – \$3.6 million primarily due to lower kWh purchased as well as lower energy rates.
 - Decrease in Transmission expenses – \$129,000 is a result of lower demand charge for transmission by FMPA offset by higher steel pole painting costs.
 - Decrease in Distribution expenses – \$125,000 is a result of lower equipment costs, lower outside services and material costs.
 - Increase in Administrative and General (A&G) expenses – \$1.7 million is primarily due to an increase in employee benefits of \$2.3 million mainly related to OPEB, offset by \$600,000 higher administrative transfers from A&G to capital projects.
 - Increase in Depreciation expense – \$735,000 is a result of more capital projects being placed into service.
 - Decrease in Taxes Other than Income Tax expenses – \$128,000 is due primarily to lower Gross Receipts Tax which is consistent with lower revenue.

- Decrease in Total Non-Operating Revenue & Expenses – \$535,000.
 - Decrease in Interest Income – \$122,000 due to interest earned related to potential sale of property in FY2009.
 - Decrease in Miscellaneous Non-Operating Revenue – \$509,000 due to receipt of forfeited security deposit in FY2010 related to the terminated contract for sale of property and receipt of \$1.0 million from FMPA for termination of gas contract in FY2009.
 - Decrease in the Interest on Debt – \$224,000 is primarily due to continued principal reduction of revenue bonds.
 - Decrease in Hurricane-Grant Revenue – \$125,000 receivable reversed due to cancellation of the mitigation project.

The Change in Net Assets was a decrease of \$20.6 million in FY2011. This was primarily due to:

- Decrease in Total Operating Revenues – \$8.5 million.
 - Decrease in Electric Revenue – \$6.5 million is primarily a result of lower kWh Sales and a lower Power Cost Adjustment in FY2011.
 - Decrease in Other Electric Revenues – \$2.0 million is primarily a result of reduction in Capacity Credits due to TARP.

- Decrease in Total Operating Expenses – \$12.4 million.
 - Decrease in Production expenses – \$1.2 million primarily due to the sale of KEYS generating units to FMPA (TARP) and KEYS no longer incurring these costs.
 - Decrease in Purchased Power Costs – \$10.3 million primarily due to lower kWh purchased as well as lower energy rates.
 - Increase in Transmission expenses – \$274,000 is a result of lower costs for the synchronous condenser and pole paintings costs offset by higher demand charges for transmission by FMPA.
 - Decrease in Distribution expenses – \$95,000 is a result of lower equipment costs, lower outside services and material costs.
 - Decrease in Customer Accounts – \$406,000 is a result of lower uncollectible account costs and lower wages due to reclassification of meter reading wages to distribution.

- Increase in Administrative and General (A&G) expenses – \$395,000 is primarily due to an increase of \$1.4 million in health insurance costs and lower administrative transfers from A&G to capital projects, offset by lower wages and benefits related to TARP and other types of insurance savings.
 - Decrease in Depreciation expense – \$892,000 is primarily due to sale of generation assets.
 - Decrease in Taxes Other than Income Tax expenses – \$178,000 is due primarily to lower Gross Receipts Tax which is consistent with lower revenue.
- Decrease in Total Non-Operating Revenue & Expenses – \$1.7 million.
- Increase in the Interest on Debt – \$758,000 is primarily due to the interest on the 2006 Bond is no longer capitalized offset by the principal reduction of revenue bonds.
 - Increase in Loss on Disposal of Assets – \$1.1 million due to a change in accounting method in the retirement of assets.
- Increase in Special Items – \$23.7 million.
- Increase in Loss on Disposition of Generation Assets-TARP – \$13.1 million due the sale of Generating Units. The sale amount was less than the net book value of the generating assets.
 - Increase in Loss on Disposal of Assets-Change in Accounting Method – \$12.7 million due the change in accounting from FERC to GAAP of recording retired assets. See further details in Note 1 in the Notes to the Financial Statements.

Statement of Cash Flows

The Utility's rate structure is designed to collect sufficient revenues to pay debt service and recover operating and maintenance expenses. The Utility successfully accomplished this objective during FY 2011. The same situation held true for the prior fiscal year. Although the Utility had decreased net assets of \$20.6 million, this was not due to operations but the disposition of assets and a change in accounting method. The Utility paid down debt of \$6.7 million in principal and \$1.9 million in interest.

Restricted Assets

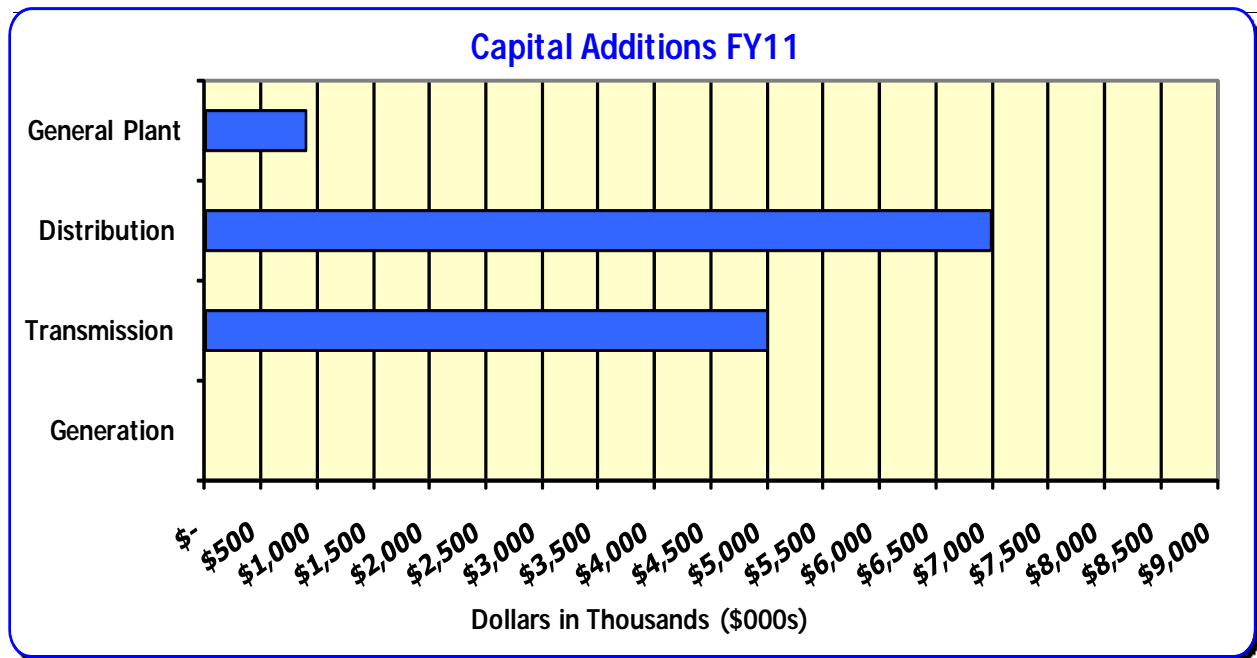
Total restricted current assets were \$17.6 million at September 31, 2011, compared to \$18.0 million at September 30, 2010. The Utility's bond resolution specifies the manner in which monies on deposit in the various funds must be used. The Renewal and Replacement Fund is used only for paying the cost of extensions, enlargements, replacements or additions to the capital assets of the Utility. The Sinking Fund is used only to pay principal and interest on Bonds as they mature and become due. The Construction Fund is used only for paying the cost of large additions to the capital assets of the Utility.

Significant Capital Assets

Capital Assets totaled \$128.3 million at the end of FY2011 compared to \$154.9 million the prior year, an decrease of \$26.6 million which is the result of the sale of generation assets and change in accounting method for retired assets.

Significant projects placed in service were Storm Hardening Improvements, Transmission Foundations Upgrade, Transmission Line 1 Reconductoring Upgrade, and Distribution Improvements. Please see Note 1 in Notes to Financial Statements for further information.

Capital additions are illustrated in the following graph:



Long Term Debt

The Utility's trustee will pay to the bondholders a principal payment of \$7.1 million on October 1, 2011. In accordance with the Bond covenants, monthly transfers are made from the Revenue Fund to the Sinking Fund. The bondholders are paid annual principal payments on October 1st and semiannual interest payments on April 1st and October 1st of each year.

The Utility's total debt service payments have been structured to average approximately \$10.9 million a year through 2016, \$5.8 million a year through 2026 and \$4.4 million a year through 2031. Please see Note 5 in Notes to Financial Statements for further information.

Summary

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

BALANCE SHEETS

SEPTEMBER 30, 2011 AND 2010

	<u>ASSETS</u>	
	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and Cash Equivalents	\$ 21,567,674	\$ 22,556,707
Customer Accounts Receivable, net of Allowance for Bad Debts of \$162,170 and \$167,195 for FY11 and FY10 respectively	7,401,356	7,296,861
Other Accounts Receivable	684,025	405,009
Due From Other Governments	18,895	171,170
Current Portion of Lease Receivable	106,250	102,646
Current Portion of Note Receivable	470,733	-
Plant Material and Operating Supplies Inventory	2,712,209	3,851,035
Prepaid Expenses	643,865	792,771
Interest Receivable	<u>201,727</u>	<u>46,203</u>
 Total Unrestricted Current Assets	 33,806,734	 35,222,402
Restricted Current Assets:		
Cash and Cash Equivalents	17,601,586	9,383,394
Prepaid Expenses	-	8,534,034
Interest Receivable	<u>2,715</u>	<u>1,629</u>
 Total Restricted Currents Assets	 17,604,301	 17,919,057
 Total Current Assets	 <u>51,411,035</u>	 <u>53,141,459</u>
Non-Current Assets		
Capital Assets		
Utility Plant	207,761,502	242,709,897
Less Accumulated Depreciation	<u>81,877,255</u>	<u>91,219,030</u>
Net Utility Plant	125,884,247	151,490,867
Construction in Progress	<u>2,479,146</u>	<u>3,446,405</u>
 Total Capital Assets	 128,363,393	 154,937,272
Restricted Non-Current Assets		
Deposits-Restricted	<u>2,266,539</u>	<u>2,266,539</u>
 Total Restricted Non-Current Assets	 2,266,539	 2,266,539
Unrestricted Non-Current Assets		
Long Term Lease Receivable	6,623,678	6,372,920
Long Term Note Receivable	4,510,939	-
Other Long Term Receivable	402,446	541,801
Bond Discount and Issue Costs, Net	<u>512,045</u>	<u>627,593</u>
 Total Unrestricted Non-Current Assets	 <u>12,049,108</u>	 <u>7,542,314</u>
 Total Non-Current Assets	 <u>142,679,040</u>	 <u>164,746,125</u>
 Total Assets	 <u>\$ 194,090,075</u>	 <u>\$ 217,887,584</u>
	(Continued)	(Continued)

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

BALANCE SHEETS (CONTINUED)

SEPTEMBER 30, 2011 AND 2010

NET ASSETS AND LIABILITIES

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Unrestricted Current Liabilities		
Accounts Payable	\$ 5,552,962	\$ 5,315,703
Accrued Expenses	1,010,445	988,711
Compensated absences and accrued wages	713,276	990,505
Deferred Revenues	<u>401,694</u>	<u>247,526</u>
 Total Unrestricted Current Liabilities	 7,678,377	 7,542,445
Restricted Current Liabilities		
Current Portion of Long-Term Debt	7,061,707	6,666,707
Accounts Payable	584,737	2,088,337
Accrued Interest	1,646,716	1,839,035
Security Deposits Payable	115,155	112,390
Due to Customers	<u>4,617,164</u>	<u>4,462,038</u>
 Total Restricted Current Liabilities	 <u>14,025,479</u>	 <u>15,168,507</u>
 Total Current Liabilities	 21,703,856	 22,710,952
 Non Current Liabilities		
Compensated absences	1,546,768	1,742,962
Accrued OPEB Liability	8,552,520	5,657,018
Revenue Bonds	66,029,226	73,090,933
Accrued Interest	<u>24,806,001</u>	<u>22,596,441</u>
 Total Non Current Liabilities	 100,934,515	 103,087,354
 Total Liabilities	 <u>122,638,371</u>	 <u>125,798,306</u>
 Net Assets		
Invested in Capital Assets net of related debt	61,312,051	82,248,111
Restricted for:		
Working capital assessment	2,266,539	2,266,539
Renewal and replacement	4,598,345	730,568
Unrestricted	<u>3,274,769</u>	<u>6,844,060</u>
 Total Net Assets	 <u>71,451,704</u>	 <u>92,089,278</u>
 Total Net Assets and Liabilities	 <u>\$ 194,090,075</u>	 <u>\$ 217,887,584</u>

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
Operating Revenues	\$ 96,415,111	\$ 104,964,602
Operating Expenses		
Production Expenses	359,330	1,557,898
Purchased Power	52,961,249	63,272,371
Transmission Expenses	4,793,953	4,519,506
Distribution Expenses	3,844,570	3,939,956
Customer Accounts and Collection Expenses	1,256,967	1,663,487
Administrative and General Expenses	14,682,883	14,288,249
Depreciation	7,033,190	7,925,719
Taxes Other than Income Taxes	2,488,173	2,666,194
Total Operating Expenses	87,420,315	99,833,380
Operating Income	8,994,796	5,131,222
Non-Operating Revenue and (Expenses)		
Interest Income	419,245	266,524
Miscellaneous Non-Operating Revenue	1,969,389	2,014,620
Payment to City of Key West	(444,926)	(393,368)
Interest on Debt	(4,568,087)	(3,809,889)
Interest on Customer Deposit	(10,238)	(8,998)
Amortization of Bond Discount and Issue Costs	(100,000)	(115,548)
Loss on Disposal of Assets	(1,130,404)	-
Grant Revenue	1,523	(125,000)
Grant Expense	(7,992)	-
Total Non-Operating Revenue and (Expenses)	(3,871,490)	(2,171,659)
Change in Net Assets Before Special Items	5,123,306	2,959,563
Special Items		
Loss on Disposition of Generation Assets - TARP	(13,141,312)	-
Loss on Disposal of Assets - Change in Accounting Method	(12,709,385)	-
Change in Net Assets Before Capital Contributions	(20,727,391)	2,959,563
Capital Contributions	89,817	119,985
Change in Net Assets	(20,637,574)	3,079,548
Net Assets, Beginning of Year	92,089,278	89,009,730
Net Assets, End of Period	\$ 71,451,704	\$ 92,089,278

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows Provided (Used) by Operating Activities		
Cash Received from Customers	\$ 96,062,062	\$ 104,840,731
Cash Payments to Suppliers for Goods and Services	(62,434,103)	(85,486,021)
Cash Payments to Employees for Services	(10,577,325)	(11,198,121)
Cash Received for Deposits	1,007,583	930,760
Cash Deposits Refunded	(849,692)	(1,281,992)
Cash Received from Other Operating revenue	2,123,557	1,590,884
Cash Received for Hurricane	<u>145,806</u>	<u>165,781</u>
Net Cash Provided by Operating Activities	25,477,888	9,562,022
Cash Flows (Used) by Non-Capital Financing Activities		
Cash Paid to City of Key West, Florida	<u>(444,926)</u>	<u>(393,368)</u>
Net Cash (Used) by Non-Capital Financing Activities	<u>(444,926)</u>	<u>(393,368)</u>
Cash Flows Provided (Used) by Capital and Related Financing Activities		
Principal Paid on Long-Term Debt	(6,695,000)	(6,340,000)
Interest Paid on Revenue Bond Maturities	(2,517,243)	(1,910,982)
Contributions in Aid of Construction	89,817	119,985
Acquisitions and Construction of Capital Assets	(13,416,202)	(21,200,104)
Proceeds from Disposal of Assets	<u>4,472,190</u>	<u>148,083</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(18,066,438)</u>	<u>(29,183,018)</u>
Cash Flows Provided by Investing Activities		
Interest Received on Investments	<u>262,635</u>	<u>221,407</u>
Net Cash Provided by Investing Activities	<u>262,635</u>	<u>221,407</u>
Net Increase (Decrease) in Cash and Cash Equivalents	7,229,159	(19,792,957)
Cash and Cash Equivalents at Beginning of year	<u>31,940,101</u>	<u>51,733,058</u>
Cash and Cash Equivalents at End of Year	<u>\$ 39,169,260</u>	<u>\$ 31,940,101</u>

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

Reconciliation of Operating Income to
Net Cash Provided by Operating Activities

	<u>2011</u>	<u>2010</u>
Operating Income	\$ 8,994,796	\$ 5,131,222
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	7,033,190	7,925,719
Provision for Uncollectible Accounts	247,990	392,918
Amortization of Deferred Revenue	(247,526)	(671,262)
Receipt of Deferred Revenue	401,694	247,526
Other Non-Operating Sources of Revenue	1,969,389	2,014,620
Hurricane Revenue Net	(6,469)	(125,000)
Changes in Assets and Liabilities		
(Increase) Decrease in Accounts Receivable	(5,728,180)	313,142
Decrease in Plant Material & Inventory	1,138,826	127,029
(Increase) Decrease in Prepaid Expenses	8,682,940	(8,749,110)
Decrease in Due from Other Governments	152,275	290,781
Decrease in Accounts Payable	3,132,761	3,839,270
(Decrease) in Accrued Expenses	(451,689)	(823,601)
Increase in Customer Deposits	155,126	146,378
Increase (Decrease) in Security Deposits	<u>2,765</u>	<u>(497,610)</u>
Total Adjustments	<u>16,483,092</u>	<u>4,430,800</u>
Net Cash Provided by Operating Activities	\$ <u>25,477,888</u>	\$ <u>9,562,022</u>

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

In 2011 and 2010, amortization of bond discount and issue costs were \$100,000 and \$115,548, respectively.

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Basis of Accounting - KEYS' financial statements are accounted for based on generally accepted accounting principles (GAAP) using the FERC chart of accounts, which are peculiar to utilities. Revenues are recognized in the period earned and expenses are recognized in the period incurred, regardless of the timing of the related cash flows.

Change in Accounting Method – On June 30, 2011, KEYS changed its method of recording capital asset retirements from the FERC method to GAAP. Under FERC, gains and losses were recorded through the accumulated depreciation accounts and not recognized on the Statement of Revenue, Expenses and Changes in Net Assets. It was determined that KEYS is not regulated by FERC and therefore not required to account for capital asset retirements using their method. The change is considered preferable because the GAAP method will more accurately reflect gains and losses which will be recognized in the month the retirement occurs in keeping with the matching principle, rather than as a contra-asset.

Retroactive revisions have not been made. Due to the numerous years that KEYS followed FERC, the quantity of assets involved to make revisions and the lack of available data on older assets made revisions impractical. As a result of this change to the GAAP method a cumulative loss due to change in accounting method in the amount of \$12.7 million was recognized on June 30, 2011.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budget - In accordance with KEYS' enabling Legislation, the Utility Board holds public hearings and subsequently adopts an annual budget for operating expenses and capital outlay. Actual revenues and expenses are compared to the budget on a line item basis (which is the legal level of control) within cost centers and an analysis of variances report is prepared and submitted to the Utility Board quarterly as required by bond indentures. During the year, staff can make amendments within the operating budget or the capital budget that do not change the total budget for those categories. The Utility Board approves all other budget changes. Budget appropriations lapse at each fiscal year-end except for the Capital Budget. The budget is adopted on a basis consistent with KEYS' basis of accounting.

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

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

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

Property, Plant and Equipment – Property, Plant and Equipment is stated at cost. Transmission, Distribution and Generation Plant are defined by KEYS as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than one year. General Plant assets are defined as assets with an initial, individual cost of \$2,500 or more and an estimated useful life of more than one year.

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

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following is a summary of property, plant and equipment for the year ended September 30, 2011:

	Balance 2010	Additions	Deletions	Balance 2011
Utility Plant in Service:				
Generation Plant	\$ 46,615,707	\$ -	\$ (46,096,438)	\$ 519,269
Transmission Plant	76,805,855	4,995,956	(456,614)	81,345,197
Distribution Plant	97,055,251	6,992,558	(1,952,592)	102,095,217
General Plant	22,012,820	891,347	677,388	23,581,555
Other	220,264	-	-	220,264
Total Utility Plant in Service	<u>242,709,897</u>	<u>12,879,861</u>	<u>(47,828,256)</u>	<u>207,761,502</u>
Accumulated Depreciation:				
Generation Plant	(25,359,197)	(2,790,214)	28,149,411	-
Transmission Plant	(35,182,352)	(4,051,569)	35,860	(39,198,061)
Distribution Plant	(21,406,832)	(9,961,580)	729,035	(30,639,377)
General Plant	(9,270,649)	(2,939,212)	170,044	(12,039,817)
Other	-	-	-	-
Total Accumulated Depreciation	<u>(91,219,030)</u>	<u>(19,742,575)</u>	<u>29,084,350</u>	<u>(81,877,255)</u>
Net Utility Plant in Service	<u>\$ 151,490,867</u>	<u>\$ (6,862,714)</u>	<u>\$ (18,743,906)</u>	<u>\$ 125,884,247</u>
Construction Work in Progress	<u>\$ 3,446,405</u>	<u>\$ 11,912,602</u>	<u>\$ (12,879,861)</u>	<u>\$ 2,479,146</u>

KEYS' policy concerning capitalized interest costs is in accordance with Statement of Financial Accounting Standards No. 62, which requires the capitalization of interest costs of restricted tax-exempt borrowings less any interest earned on investment funds during the construction period.

For the fiscal years ended September 30, 2011 and 2010, interest costs of \$876,157 and \$1,380,701, respectively were capitalized as utility plant construction costs which is detailed below. Spending of bond funds was completed in March 2011 therefore interest was capitalized only the first six months of FY2011.

	<u>2011</u>	<u>2010</u>
Interest Expense	\$ 994,294	\$ 1,988,587
Amortization of Issue Premium	(15,548)	(31,096)
	<u>978,746</u>	<u>1,957,491</u>
Interest Earnings	(102,589)	(576,790)
Net Interest Expense to Capitalize	<u>\$ 876,157</u>	<u>\$ 1,380,701</u>

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

Compensated Absences – KEYS employees are granted sick and vacation leave in varying amounts in accordance with administrative policies. Employees may accumulate unused sick and vacation leave. The number of sick and vacation days allowed to accumulate is subject to limitations as set forth in KEYS policies. Vacation leave is payable to employees upon termination or retirement.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (continued)

Sick leave, subject to policy limitations, is payable to employees with 20 or more years of service. Compensation expense is recorded for unused vacation and sick leave in the year in which the vacation and sick leave is earned in accordance with GASB Statement No. 16. At September 30, 2011, annual vacation leave earned but not taken is \$462,540 and sick leave accumulated by employees with 20 or more years of service is \$1,330,887. The estimated portion of compensated absences due within one year for vacation and sick leave are \$70,255 and \$176,404, respectively.

	Balance 2010	Increases	Decreases	Balance 2011
Vacation Leave	\$ 544,638	\$ 2,257	\$ (84,355)	\$ 462,540
Sick Leave	1,374,253	132,591	(175,957)	1,330,887
Total	\$ 1,918,891	\$ 134,848	\$ (260,312)	\$ 1,793,427

The current and long term compensated absences are as follows:

	Current Liability	Long-Term Liability	Total
Vacation Leave	\$ 70,255	\$ 392,285	\$ 462,540
Sick Leave	176,404	1,154,483	1,330,887
Total	\$ 246,659	\$ 1,546,768	\$ 1,793,427

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

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

Interest Expense – Interest expense for the years ended September 30, 2011 and 2010 is summarized as follows:

	2011	2010
Electric Refunding Revenue Bonds, Series 1991	\$ 2,209,560	\$ 2,061,018
Electric Forward Refunding Revenue Bonds, Series 2000	1,144,200	1,482,900
Electric Forward Refunding Revenue Bonds, Series 2001	160,644	206,582
Electric System Refunding Revenue Bonds, Series 2006	994,294	-
Series 2001 Loss on Refunding	59,389	59,389
Interest on Customer Deposits	10,238	8,998
Total Interest Expense	\$ 4,578,325	\$ 3,818,887

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Restricted – Consists of net assets restricted by constraints that are externally imposed or are imposed by law.

Unrestricted – All other net assets that do not meet the definition of “restricted for debt service” or “invested in capital assets, net of related debt.”

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

Comparative Data/Reclassifications – Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year’s presentation.

NOTE 2 – OTHER PROPERTY AND INVESTMENTS

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

KEYS’ Current Restricted cash and cash equivalents as of September 30, 2011 and 2010, respectively consist of the following:

	2011	2010
Renewal and Replacement Fund	\$ 4,598,344	\$ 730,568
Construction Fund	4,161,181	8,550,213
Sinking Fund	8,736,713	134
Steam Plant Security Deposit	105,348	102,479
Total	\$ 17,601,586	\$ 9,383,394

Restricted Deposits – Florida Municipal Power Agency (FMPA) requires a working capital contribution. At September 30, 2011 this balance remained unchanged at \$2,266,539.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

KEYS' total cash and cash equivalents as of September 30, 2011 and 2010 respectively consist of the following:

	2011	2010
Cash	\$ 23,649,015	\$ 29,246,916
Cash Equivalents:		
Repurchase agreements	15,520,245	2,693,185
Total cash and cash equivalents	\$ 39,169,260	\$ 31,940,101

All cash and cash equivalents are fully liquid.

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

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

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

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

On a monthly basis, the State Treasurer determines that the collateral has a market value adequate to cover the deposits under the provisions of the Act.

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

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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

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

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, KEYS deposits may not be returned. KEYS does not have a deposit policy for custodial risk. As of September 30, 2011 and 2010, the bank balances were \$39,985,124 and \$32,499,503 respectively. The bank balances were covered by federal depository insurance and for the amount in excess of such federal depository insurance, by the State of Florida’s Security of Public Deposits Act. The Act requires each qualified public depository to deposit with the State Treasurer eligible collateral equal to or in excess of the required collateral as determined by the provisions of the Act. In the event of a failure by a qualified public depository, losses in excess of federal depository insurance and proceeds from the sale of securities pledged by the depository are assessed against the other qualified public depositories of the same type as the depository in default.

NOTE 4 – UNRESTRICTED NON-CURRENT ASSETS

Long Term Lease Receivable – The Key West Steam Plant was decommissioned in 1991. In Fiscal Year 2005 a developer received all the permitting and financing to begin construction to redevelop the Steam Plant site. The Utility Board executed two 99-year lease agreements in 2005: one with Steam Plant Condominiums, LLC for 19 luxury condominiums, and one with Old Town Key West Development, LLC for 38 affordable housing units.

The two long-term lease receivables totaling \$6,729,928 are as follows:

- 1) The base rent of the luxury units for \$6,729,841; \$100,000 per year adjusted annually for CPI, monthly payments began May 1, 2008.
- 2) The rent for the affordable housing units of \$87, at \$1 per year.

Summary of Lease Receivable is as follows:

<u>Year</u>	<u>Receivable</u>		
2012	\$ 106,250		
2013	109,333		
2014	113,105		
2015	117,007	Lease Receivable - Current	\$ 106,250
2016	121,043		
2017-2107	6,163,190	Lease Receivable - Long Term	6,623,678
	<u>\$ 6,729,928</u>	Total Lease Receivable	<u>\$ 6,729,928</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 4 – UNRESTRICTED NON-CURRENT ASSETS (Continued)

Long Term Lease Receivable (Continued)

Other Long Term Receivable – The percentage rent of luxury units of \$402,446 is based on a percentage of sales prices due after sale and/or occupancy of unit. Due to changes to the economy and real estate market, the receivable has been adjusted to reflect estimated current prices.

Long Term Note Receivable

On January 1, 2011, the Revised, Amended, and Revised Capacity and Energy Sales Contract with FMPA became effective. This and the other negotiated agreements of the parties resulted in TARP. Under the terms of this contract FMPA purchased all generation assets and assumed operational control and ownership risk for KEYS Stock Island generating units. KEYS retains ownership of the Stock Island land. The contract expires October 1, 2024.

FMPA will utilize the generating units to provide capacity and energy to the All-Requirements Power Supply Project in exchange for fixed payment of \$670,000 per year for ten years. At the end of ten years full ownership of the generating units will transfer to FMPA.

The present value of the long-term note receivable relating to the TARP agreement is a total of \$4,981,672 with annual payments of \$670,000 to be paid each January 1 through 2020. The difference between the \$670,000 annual payment and receivable below will be recorded as interest income.

Summary of the Note Receivable is as follows:

<u>Year</u>	<u>Receivable</u>		
2012	\$ 470,733		
2013	489,562		
2014	509,145		
2015	529,511	Note Receivable - Current	\$ 470,733
2016	550,691		
2017-2020	<u>2,432,030</u>	Note Receivable - Long Term	<u>4,510,939</u>
	<u>\$ 4,981,672</u>	Total Note Receivable	<u>\$ 4,981,672</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 5 – LONG-TERM DEBT

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

Summary of Debt Service Funding Requirements to Maturity

<u>Payment 12 mos ending October 1.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 7,495,000	\$ 2,885,906	\$ 10,380,906
2013	7,925,000	2,447,656	10,372,656
2014	1,859,840	9,398,748	11,258,588
2015	1,735,344	9,523,244	11,258,588
2016	1,599,538	9,659,050	11,258,588
2017-2021	10,508,063	25,278,573	35,786,636
2022-2026	15,230,000	6,880,122	22,110,122
2027-2031	19,145,000	2,964,751	22,109,751
	<u>\$ 65,497,785</u>	<u>\$ 69,038,050</u>	<u>\$ 134,535,835</u>
2011	<u>7,090,000</u>		
	<u>\$ 72,587,785</u>		
Deferred Loss, series 2001	(118,779)		
Premium, series 2006	621,927		
Total	<u>\$ 73,090,933</u>		

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

Changes in Long-Term Debt during FY2011 are as follows:

	<u>September 30, 2010</u>	<u>Additions</u>	<u>Retired</u>	<u>September 30, 2011</u>
Series 1991	\$ 8,077,785	\$ -	\$ -	\$ 8,077,785
Series 2000	24,715,000	-	5,645,000	19,070,000
Series 2001, net	4,342,927	-	990,611	3,352,316
Series 2006, net	42,621,928	-	31,096	42,590,832
Total	<u>\$ 79,757,640</u>	<u>\$ -</u>	<u>\$ 6,666,707</u>	<u>\$ 73,090,933</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 5 – LONG-TERM DEBT (Continued)

Revenue Bonds:

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

2011	2010
\$ 8,077,785	\$ 8,077,785
19,070,000	24,715,000
3,440,000	4,490,000
(118,779)	(178,168)
<u>3,321,221</u>	<u>4,311,832</u>
42,000,000	42,000,000
621,927	653,023
<u>42,621,927</u>	<u>42,653,023</u>
73,090,933	79,757,640
7,061,707	6,666,707
<u>\$ 66,029,226</u>	<u>\$ 73,090,933</u>

Electric System Refunding Revenue Bonds, Series 2000, collateralized by Net Revenues and certain Reserve Funds, payable October 1, 2011 to October 1, 2013 in installments of various amounts, bearing interest at rate of 6%.

Electric System Refunding Revenue Bonds, Series 2001, collateralized by Net Revenues and certain Reserve Funds, payable October 1, 2011 to October 1, 2013 in installments of various amounts, bearing interest at rates from 4.375% to 5%.

Deferred Loss on Refunding-net, amortized on the straight line basis over the term of the Series 2001 Revenue Bonds

Series 2001, net

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

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

Series 2006, net

Total Long-Term Debt

Less Current Portion

Net Long-Term Debt

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 6 – PRIOR YEAR DEFEASANCE OF DEBT

During 1986, 1987, 1991, 1995, 2000 and 2001, KEYS defeased certain revenue bonds by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in KEYS' financial statements. At September 30, 2011, \$19,587,321 of bonds outstanding relative to the 1980C, 1983, 1984 and 1980D issues, \$9,647,022 relative to the 1985 issue, \$3,620,435 relative to the 1987 issue, \$10,591,919 relative to the 1988 issue, and \$6,610,000 relative to the 1991 issue are considered defeased.

NOTE 7 – RATE COVENANT

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

NOTE 8 – PENSION PLAN

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

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

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

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 8 – PENSION PLAN (Continued)

Schedule of Funding Progress – KEYS’ estimated annual contribution for the calendar year 2011 of \$3,319,357 (33.2%) was determined as part of the January 1, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return and (b) projected salary increases of 6% – 10% per year. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of the Plan assets is the fair value of assets as reported in the Plan financial statements. The unfunded actuarial accrued liability is being amortized as a level payment on a closed basis. The remaining amortization period at January 1, 2011 was 30 years. KEYS had an unfunded actuarial accrued liability of \$20,215,849 and \$17,806,339 as of January 1, 2011 and 2010 respectively. The negative net pension obligation of \$138,972 at December 31, 2010 represents an over funding/prepayment of the Annual Required Contribution. This prepayment is not recorded in the financial statements as it is deemed immaterial.

Actuarial Valuation Date <u>January 1,</u>	Entry Age Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2006	\$ 54,266	\$ 61,004	\$ 6,738	89.0%	\$ 7,644	88.1%
2007	\$ 55,876	\$ 64,344	\$ 8,468	86.8%	\$ 8,344	101.5%
2008	\$ 59,924	\$ 68,109	\$ 8,185	88.0%	\$ 9,203	88.9%
2009	\$ 54,593	\$ 74,212	\$ 19,619	73.6%	\$ 9,782	200.6%
2010	\$ 60,033	\$ 77,840	\$ 17,807	77.1%	\$ 10,025	177.6%
2011	\$ 61,383	\$ 81,599	\$ 20,216	75.2%	\$ 10,005	202.1%

Calendar Year	Annual Pension Cost (APC)	Percentage APC Contributed	Net Pension Obligation
2005	\$ 1,979,611	100%	\$ (77,580)
2006	\$ 2,209,590	102%	\$ (76,895)
2007	\$ 2,461,841	100%	\$ (77,901)
2008	\$ 2,536,372	100%	\$ (78,832)
2009	\$ 3,317,874	100%	\$ (79,679)
2010	\$ 3,044,502	102%	\$ (138,972)

	<u>2010</u>	<u>2011</u>
Annual Required Contribution (ARC)	\$3,045,252	\$3,319,357
Interest on NPO	(6,374)	(11,118)
Adjustment to ARC	5,624	9,158
APC	<u>\$3,044,502</u>	<u>\$3,317,397</u>
Utility Board Contribution	<u>(3,103,795)</u>	
Increase (Decrease) in NPO	(59,293)	
NPO (beginning of year)	<u>(79,679)</u>	
NPO (end of year)	<u>(138,972)</u>	

NOTE 9 – LEASES

Rent expense under cancelable operating leases related to copiers, mailing equipment and time clocks was \$87,078 and \$197,270 in 2011 and 2010, respectively.

NOTE 10 – JOINT INVESTMENT

FKEC Transmission Agreement – To provide the long-term transmission needs of both KEYS and the Florida Keys Electric Cooperative (FKEC), the parties entered into an agreement in which both KEYS and FKEC will maintain an appropriate ownership investment in the transmission line between the Monroe/Dade County line and the north end of the Seven Mile Bridge, at the north end of KEYS’ service area.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 10 – JOINT INVESTMENT (Continued)

The Long Term Joint Investment Transmission Agreement (LTA) is effective for 40 years from its effective date of January 1, 1992, or until all property, comprising the transmission line has been disposed of and all termination costs have been paid, whichever occurs last. Based on the agreement, KEYS is entitled, at all times, to 40% of the approximately 277 MW transfer limit of the 138 KV transmission system, which is currently estimated to be approximately 110 MW.

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

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

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

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

Effective May 26, 2011, KEYS and FKEC amended the LTA to provide for cost sharing and other details related to the Keys Import Upgrades Project. FKEC, KEYS and FMPA will derive benefits from the Keys Import Upgrades because among other things, the import limit of the existing transmission line between the mainland and the Florida Keys will be increased from its present constrained limit of approximately 277 MW to the thermal import limit of approximately 320 MW.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 11 - PURCHASED POWER COMMITMENTS

All Requirements Power Supply Project – In July 1997, KEYS agreed to become a member of the Florida Municipal Power Agency (FMPA) All-Requirements Power Supply Project (the "All-Requirements Project" ARP) and began operations as a project participant effective April 1, 1998. On January 1, 2011, the ARP contract was restructured to become the Revised, Amended and Restated Capacity and Energy Sales Contract. Under the terms of this contract FMPA took over operational control and ownership risk for KEYS Stock Island generating units. FMPA has hired KEYS to maintain and operate the generating units. KEYS retains ownership of the Stock Island land.

FMPA will utilize the generating units to provide capacity and energy to the All-Requirements Power Supply Project in exchange for \$670,000 per year for ten years to be given by FMPA to KEYS, and the other negotiated agreements of the parties to affect a True All-Requirements Project (TARP). At the end of ten years full ownership will transfer to FMPA.

In addition, an Operations & Maintenance agreement accompanies this contract, whereby FMPA is responsible for operating and maintaining the generating units.

Under the contractual arrangement with FMPA, KEYS has assigned all of its generating and firm purchased power resources to FMPA, and FMPA will serve all of KEYS' requirements (net of up to 2 MW of non-firm capacity when available from the local resource recovery facility).

Further, in the event that power cannot be delivered to the KEYS' service area over the tie line from the mainland, KEYS established a policy to have island generation capability equal to at least 60% of KEYS' peak load. FMPA has agreed to meet these criteria by using the existing synchronized generating resources of four combustion turbine units and two medium speed diesels that currently total 108.0 MW. As part of the TARP contract, FMPA is required to maintain generation assets within KEYS' Service Area equal to or above 60% of the KEYS' load. The related assignment of resources by KEYS to FMPA, and other matters pertaining to KEYS' power supply are discussed in the paragraphs following.

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

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

FMPA Tri-City Project (Stanton 1) – KEYS is a member of the FMPA Tri-City Project (Stanton 1). KEYS and FMPA have entered into a Tri-City Project Power Sales Contract and a Tri-City Project Support Contract wherein KEYS has agreed to purchase 54.546% of FMPA's Tri-City Project. The Project consists of a 5.3012% undivided ownership interest in Curtis H. Stanton Energy Center ("Stanton") unit No. 1, a 440 MW coal-fired generating unit jointly owned by the Orlando Utilities Commission ("OUC"), the Kissimmee Utility Authority, and FMPA, and operated by the OUC. Stanton Unit No. 1 began commercial operation in July 1987.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 11 - PURCHASED POWER COMMITMENTS (Continued)

Based upon the unit's high dispatch rating of 440 MW, the Tri-City Project consists of a 23 MW undivided ownership and KEYS' power entitlement share is approximately 12.7 MW at the plant bus bar.

FMPA Stanton 2 Project – KEYS is a member of the FMPA Stanton 2 Project. KEYS and FMPA have entered into a Stanton 2 Project Power Sales Contract and a Project Support Contract wherein KEYS has agreed to purchase 9.8932% of FMPA's Stanton 2 Project. FMPA's Stanton 2 Project consists of a 23.2367% undivided ownership interest in Stanton Unit No. 2, a 446 MW coal-fired generating unit jointly owned by OUC and FMPA, and operated by OUC. Stanton Unit No. 2 began commercial operation in June 1996. Based on the unit's 446 MW high dispatch rating, the Stanton 2 Project consists of 104 MW undivided ownership and KEYS' power entitlement share is approximately 10.3 MW at the plant bus bar.

Florida Power & Light (FPL) Long-Term Purchase – KEYS entered into an agreement with FPL on August 15, 1991, entitled the Long-Term Agreement to Provide Capacity and Energy by Florida Power & Light Company to KEYS (the "FPL Long-Term Agreement") which became effective on June 1, 1993 after the termination of a short-term purchase agreement with FPL. The FPL Long-Term Agreement will continue in effect for 20 years. The initial purchase amount (the "Initial Contract Demand") is 45 MW. The contract demand for each year is to be designated by September 1 of each prior year, but the contract demand cannot be less than the initial contract demand during the term of the agreement.

In the event KEYS' peak load during a year is lower than the KEYS peak load in the immediately preceding year, KEYS may decrease the portion of its contract demand in excess of the Initial Contract Demand, subject to certain limitations.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Risk Management - KEYS is exposed to various risks of loss related to torts, damage, theft or destruction of assets, errors or omissions, injuries to employees, and natural disasters. Currently, KEYS is defending a claim arising from the normal course of business. KEYS expects to prevail in this matter; however, the final outcomes have not yet been determined.

KEYS purchases commercial insurance policies from a commercial insurance carrier and other insurance carriers to minimize its risk of loss in these areas. KEYS' has not experienced an insurance settlement in excess of insurance coverage during the past four fiscal years. KEYS' bears the risk of loss up to the deductible amounts.

NOTE 13 – NAVY CONTRACT

The United States Navy is the largest customer of KEYS and accounted for approximately 8.7% of kilowatt hours sold in FY2011 and approximately 9.1% in FY2010. KEYS' contract with the Navy is for a term of ten years with a provision which requires the parties to commence negotiations for a new contract at least two years prior to the end of the current contract. The contract also contains provisions for minimum billing, service reduction and exclusive service provisions.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 13 – NAVY CONTRACT (Continued)

Pursuant to this contract, KEYS has agreed to provide a maximum of 15 megawatts of power at multiple locations. KEYS executed an amendment to the Navy's service contract on December 8, 1999, which modified the existing rate schedule. The contract is in effect through August 31, 2017. All terms and conditions remain unchanged and in full force and effect.

NOTE 14 – REGULATION

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

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

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

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

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

NOTE 15 – POST EMPLOYMENT HEALTH CARE BENEFITS

KEYS implemented GASB No. 45, "Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions (OPEB)", for certain post employment health care benefits effective fiscal year ended September 30, 2009. The most recent actuarial study is as of October 1, 2009.

Plan Description

In addition to providing pension benefits, KEYS provides life insurance and health care benefits including prescription drug coverage, to retired employees. These benefits are provided pursuant to KEYS' personnel policies as adopted and amended by the Board.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 15 – POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

KEYS is not required to provide contributions to this benefit by any statutory, contractual or other authority. KEYS employees hired before June 9, 1999 are eligible for these benefits, at a cost determined by the Utility Board, if they qualify for retirement status while working for KEYS.

KEYS employees hired after June 9, 1999, who attain retirement eligibility, have the opportunity to purchase health insurance through KEYS insurance provider at the same rate KEYS pays for its active members. At September 30, 2011, 125 retirees were eligible for and were receiving these benefits.

These and similar benefits for active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. The costs of the monthly premiums and OPEB costs are included in these financial statements.

Funding Policy

KEYS follows a pay as you go funding policy contributing an amount to provide for its portion of current year benefit costs, as well as, amounts to establish a reserve for costs incurred but not yet reported. The benefits provided, funding levels, and participant contribution amounts are determined through recommendations by KEYS staff with assistance from outside consultants, and by action of the Board. As of October 1, 2007 the monthly premium for retirees' life insurance and health care benefits was \$671 per month for pre age 65 coverage, and \$335 for post age 65 coverage.

Effective February 2009, these premiums were reduced to \$600 per month for pre age 65 coverage, and \$300 per month for post age 65 coverage. If a retiree is eligible for Medicare they are required enroll in the Medicare program as their primary coverage as soon as they are eligible, thereby reducing KEYS costs. Currently, the Board does not require retirees to contribute to the monthly premium for retiree coverage. The entire monthly premium for retiree coverage is paid by KEYS. Retirees may choose to purchase and pay for coverage for spouses or domestic partners at the current monthly premium of \$399.

Annual OPEB Cost and Net OPEB Obligation

KEYS Annual OPEB Cost (expense) and Net OPEB Obligation (NOO) for fiscal years ended September 30, 2011 and 2010 are shown below:

	2011	2010
Annual Required Contribution (ARC)	\$ 4,625,244	\$ 4,545,184
Interest on Net OPEB Obligation	226,281	96,940
Adjustment to ARC	<u>(290,385)</u>	<u>(124,402)</u>
Annual OPEB Cost	4,561,140	4,517,722
Employer Contribution	<u>(1,665,638)</u>	<u>(489,473)</u>
Increase (Decrease) in OPEB Obligation	2,895,502	4,028,249
Net OPEB Obligation Beginning of Year	<u>5,657,018</u>	<u>1,628,769</u>
Net OPEB Obligation End of Year	<u>\$ 8,552,520</u>	<u>\$ 5,657,018</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 15 – POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for fiscal year ended September 30, 2011 and 2010 are shown below. KEYS implemented GASB 45 effective October 1, 2008 and elected to implement prospectively.

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
9/30/2011	\$4,561,140	37%	\$ 8,552,520
9/30/2010	\$4,517,722	11%	\$ 5,657,018
9/30/2009	\$3,537,000	54%	\$ 1,628,769

Funded Status and Funding Progress

The funded status as of October 1, 2009, was as follows:

Actuarial accrued liability	\$ 60,160,966
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 60,160,966</u>
Funded ratio	0.0%
Covered payroll	\$ 10,063,814
Unfunded actuarial accrued liability as as percentage of covered payroll	597.8%

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples of these estimates include assumptions about future employment and termination rates, mortality, and healthcare cost trend rates. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Projections of future benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in place at the time of each valuation date and on the historical pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long term perspective and utilize methods and assumptions that are designed to reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 15 – POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Annual other postemployment benefit cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement 45. KEYS elected to calculate the ARC and related information using the Project Unit Credit (PUC) actuarial cost method. The ARC represents an amount that if paid on an ongoing basis, would be expected to provide sufficient resources to fund both the normal cost for each year and the amortized unfunded liability over a period not to exceed 30 years utilizing the level percentage of projected payroll on a closed basis. The liability and resulting ARC were calculated using 4.0% rate of return on invested assets, annual health care cost trend of 9.0% at October 1, 2009 declining gradually to 4.5% at 2018 and later, an inflation rate of 3.0% per year, payroll growth rate of 1.0% per year and projected salary increases between 6.0% and 10.0% per year.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

NOTE 16 – PAYMENT TO THE CITY OF KEY WEST

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

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

The annual payments were \$444,926 and \$393,368 for 2011 and 2010, respectively.

NOTE 17 – SUBSEQUENT EVENT

On November 1, 2011 the Synchronous Condenser was retired and taken off line. The Synchronous Condenser was declared as surplus at the Board meeting of June 29, 2011, but remained in operation through the peak usage of the summer months.

The Synchronous Condenser is being replaced by a Dynamic Var Compensation System (DVC-Statcom). The DVC-Statcom system will increase the import limit on the existing transmission tie line and provide voltage support to compensate for the retirement of the Synchronous Condenser. The DVC-Statcom system cost is being shared by FMPA and FKEC as each will derive benefits from the Keys Import Upgrades.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION**

Other Post Employment Benefits

Schedule of Funding Progress

<u>Actuarial Valuation Date October 1,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) -PUC</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
2007	\$ -	\$ 46,294,714	\$ 46,294,714	0.0%	\$ 9,175,835	504.5%
2009	\$ -	\$ 60,160,966	\$ 60,160,966	0.0%	\$ 10,063,814	597.8%

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

Schedule of Funding Progress

<u>Actuarial Valuation Date January 1,</u>	<u>Entry Age Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
2006	\$ 54,266	\$ 61,004	\$ 6,738	89.0%	\$ 7,644	88.1%
2007	\$ 55,876	\$ 64,344	\$ 8,468	86.8%	\$ 8,344	101.5%
2008	\$ 59,924	\$ 68,109	\$ 8,185	88.0%	\$ 9,203	88.9%
2009	\$ 54,593	\$ 74,212	\$ 19,619	73.6%	\$ 9,782	200.6%
2010	\$ 60,033	\$ 77,840	\$ 17,807	77.1%	\$ 10,025	177.6%
2011	\$ 61,383	\$ 81,599	\$ 20,216	75.2%	\$ 10,005	202.1%

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
SCHEDULES OF REVENUES EARNED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Electric Revenues	\$ 96,968,565	\$ 98,111,931
Power Cost Adjustment	(2,259,807)	3,152,497
Service Charges	400,005	423,187
Penalty Charges	637,130	803,952
Reserve Capacity	332,707	1,611,873
Charges for New Service	280,697	814,739
Other	<u>55,814</u>	<u>46,423</u>
Total	<u>96,415,111</u>	<u>104,964,602</u>
Other Income:		
Interest	419,245	266,524
Hurricane-Grant Revenue	1,523	(125,000)
Pole Attachment	511,221	489,990
Generating Unit Expense Reimbursement	575,814	869,358
Tree Trimming	130,912	129,888
Rental Income	284,715	(247,746)
Miscellaneous Non-Operating Revenue	<u>466,727</u>	<u>773,130</u>
Total Other Income	<u>2,390,157</u>	<u>2,156,144</u>
Total Revenues	<u>\$ 98,805,268</u>	<u>\$ 107,120,746</u>

UTILITY BOARD OF THE CITY OF KEY WEST
SCHEDULES OF REVENUES AND EXPENDITURES – BUDGET TO ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Annual Budget		Year to Date Actual	Variance- Favorable (Unfavorable)
	Original	Current		
Revenues				
Operating Revenues	\$ 117,467,333	\$ 117,467,333	\$ 94,708,758	\$ (22,758,575)
Other Operating Revenues	2,497,741	1,490,530	1,706,353	215,823
Interest Income	475,754	475,754	419,245	(56,509)
Grant Revenue	-	-	(6,469)	(6,469)
Non-Operating Revenues	<u>3,606,436</u>	<u>1,398,739</u>	<u>1,969,389</u>	<u>570,650</u>
Total Revenue	<u>124,047,264</u>	<u>120,832,356</u>	<u>98,797,276</u>	<u>(22,035,080)</u>
Expenditures				
Production Expenses - Diesel	1,774,793	340,520	359,330	(18,810)
Purchased Power	75,938,422	75,938,422	52,961,249	22,977,173
Transmission Expenses	4,418,106	4,187,598	4,793,953	(606,355)
Distribution Expenses	4,558,421	4,413,382	3,844,570	568,812
Customer Accounts and Collection Expenses	1,475,394	1,459,343	1,256,967	202,376
Interest on Customer Deposits	44,063	44,063	10,238	33,825
Administrative and General Expenses	17,870,727	21,467,984	19,412,951	2,055,033
Senior Lien Debt Service	9,389,138	9,389,138	9,389,138	-
Payment to City of Key West	<u>440,266</u>	<u>440,266</u>	<u>444,926</u>	<u>(4,660)</u>
Total Expenditures	<u>115,909,330</u>	<u>117,680,716</u>	<u>92,473,322</u>	<u>25,207,394</u>
Excess of Revenues Over Expenditures	<u>\$ 8,137,934</u>	<u>\$ 3,151,640</u>	6,323,954	<u>\$ 3,172,314</u>
Adjustments				
Depreciation			(7,033,190)	
Principal Portion of Budgeted Debt Service			7,090,000	
Capitalized Overhead			2,241,895	
Interest Accrued but Unfunded			(2,209,560)	
Amortization of Issuance Costs			(100,000)	
Capital Contributions			89,817	
Loss on Disposition of Assets			(26,981,101)	
Amortization of Loss on Refunding			<u>(59,389)</u>	
Change in Net Assets, GAAP Basis			<u>\$ (20,637,574)</u>	

UTILITY BOARD OF THE CITY OF KEY WEST
STATISTICAL SECTION DESCRIPTION

This part of the KEYS Comprehensive Annual Financial Report presents detailed information as a context for understanding what the data in the financial statements, note disclosure, and required supplementary information says about KEYS overall financial health. Statistical information for current period, as well as nine years prior is presented in this section.

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

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

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

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

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CONDENSED BALANCE SHEETS

FISCAL YEARS 2011 - 2002

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>
ASSETS										
Current Assets										
Cash and Investments	\$ 21,567,674	\$ 22,556,707	\$ 21,682,666	\$ 20,027,657	\$ 4,878,731	\$ 7,064,406	\$ 6,657,203	\$ 5,950,771	\$ 5,897,131	\$ 6,094,567
Accounts Receivable, net	7,401,356	7,296,861	7,594,719	9,374,828	6,930,502	6,152,177	5,729,570	5,252,346	4,317,862	4,514,931
Plant Material and Operating Supplies Inventory	2,712,209	3,851,035	3,978,064	3,791,212	3,422,943	2,722,320	2,454,805	2,659,814	2,496,248	3,408,455
Other Current Assets	<u>2,125,495</u>	<u>1,517,799</u>	<u>1,473,977</u>	<u>2,322,035</u>	<u>10,201,069</u>	<u>9,237,560</u>	<u>10,203,625</u>	<u>1,483,817</u>	<u>1,159,438</u>	<u>809,915</u>
Total Unrestricted Current Assets	<u>33,806,734</u>	<u>35,222,402</u>	<u>34,729,426</u>	<u>35,515,732</u>	<u>25,433,245</u>	<u>25,176,463</u>	<u>25,045,203</u>	<u>15,346,748</u>	<u>13,870,679</u>	<u>14,827,868</u>
Cash and Investments-Restricted	17,601,586	9,383,394	30,050,392	29,771,908	49,983,884	12,833,724	11,466,147	19,538,828	19,329,440	22,871,985
Prepaid Expenses	-	8,534,034	-	8,190,244	-	-	-	-	-	-
Interest Receivable	<u>2,715</u>	<u>1,629</u>	<u>2,715</u>	<u>2,715</u>	<u>2,715</u>	-	-	-	-	-
Total Restricted Current Assets	<u>17,604,301</u>	<u>17,919,057</u>	<u>30,053,107</u>	<u>37,964,867</u>	<u>49,986,599</u>	<u>12,833,724</u>	<u>11,466,147</u>	<u>19,538,828</u>	<u>19,329,440</u>	<u>22,871,985</u>
Total Current Assets	<u>51,411,035</u>	<u>53,141,459</u>	<u>64,782,533</u>	<u>73,480,599</u>	<u>75,419,844</u>	<u>38,010,187</u>	<u>36,511,350</u>	<u>34,885,576</u>	<u>33,200,119</u>	<u>37,699,853</u>
Non Current Assets										
Capital Assets										
Net Utility Plant	125,884,247	151,490,867	131,418,048	122,510,168	117,452,090	113,676,371	111,804,113	111,753,669	110,314,331	110,624,848
Construction in Progress	<u>2,479,146</u>	<u>3,446,405</u>	<u>9,924,967</u>	<u>6,600,410</u>	<u>3,398,149</u>	<u>1,156,438</u>	<u>2,307,807</u>	<u>3,278,081</u>	<u>5,021,562</u>	<u>2,336,476</u>
Total Net Capital Assets	<u>128,363,393</u>	<u>154,937,272</u>	<u>141,343,015</u>	<u>129,110,578</u>	<u>120,850,239</u>	<u>114,832,809</u>	<u>114,111,920</u>	<u>115,031,750</u>	<u>115,335,893</u>	<u>112,961,324</u>
Other Property										
Net Non-Utility Plant	-	-	-	-	-	-	-	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>
Total Other Property	-	-	-	-	-	-	-	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>
Restricted Non-Current Assets										
Deposits-Restricted	<u>2,266,539</u>	<u>2,266,539</u>	<u>2,266,539</u>	<u>2,266,539</u>	<u>2,266,539</u>	<u>3,243,009</u>	<u>3,243,009</u>	<u>3,243,009</u>	<u>1,621,505</u>	-
Total Restricted Non-Current Assets	<u>2,266,539</u>	<u>2,266,539</u>	<u>2,266,539</u>	<u>2,266,539</u>	<u>2,266,539</u>	<u>3,243,009</u>	<u>3,243,009</u>	<u>3,243,009</u>	<u>1,621,505</u>	-
Unrestricted Non-Current Assets										
Investments	-	-	-	-	-	-	-	44,075	554,913	1,035,667
Long Term Receivable	11,134,617	6,372,920	6,228,096	6,485,648	6,944,377	6,765,007	6,591,659	-	-	-
Other Accounts Receivable	402,446	541,801	1,168,151	1,168,151	1,177,205	1,177,205	1,177,205	-	-	-
Deferred Charges	<u>512,045</u>	<u>627,593</u>	<u>743,141</u>	<u>858,689</u>	<u>972,729</u>	<u>804,746</u>	<u>909,254</u>	<u>1,013,762</u>	<u>1,118,270</u>	<u>1,222,778</u>
Total Unrestricted Non-Current Assets	<u>12,049,108</u>	<u>7,542,314</u>	<u>8,139,388</u>	<u>8,512,488</u>	<u>9,094,311</u>	<u>8,746,958</u>	<u>8,678,118</u>	<u>1,057,837</u>	<u>1,673,183</u>	<u>2,258,445</u>
Total Non-Current Assets	<u>142,679,040</u>	<u>164,746,125</u>	<u>151,748,942</u>	<u>139,889,605</u>	<u>132,211,089</u>	<u>126,822,776</u>	<u>126,033,047</u>	<u>122,342,369</u>	<u>121,640,354</u>	<u>118,229,542</u>
Total Assets	<u>\$ 194,090,075</u>	<u>\$ 217,887,584</u>	<u>\$ 216,531,475</u>	<u>\$ 213,370,204</u>	<u>\$ 207,630,933</u>	<u>\$ 164,832,963</u>	<u>\$ 162,544,397</u>	<u>\$ 157,227,945</u>	<u>\$ 154,840,473</u>	<u>\$ 155,929,395</u>

(Continued)

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CONDENSED BALANCE SHEETS (CONTINUED)

FISCAL YEARS 2011 - 2002

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>
NET ASSETS AND LIABILITIES										
Current Liabilities										
Unrestricted Current Liabilities										
Accounts Payable	\$ 5,552,962	\$ 5,315,703	\$ 5,504,682	\$ 7,068,091	\$ 6,685,677	\$ 5,709,921	\$ 6,751,776	\$ 5,135,018	\$ 4,657,297	\$ 3,864,900
Accrued Expenses	1,723,721	1,979,216	2,877,088	2,977,077	3,149,004	2,508,409	2,133,812	1,697,905	1,457,832	1,250,345
Deferred Revenues	<u>401,694</u>	<u>247,526</u>	<u>671,262</u>	<u>53,991</u>	<u>132,365</u>	<u>316,128</u>	<u>82,286</u>	<u>108,397</u>	<u>64,835</u>	<u>112,201</u>
Total Unrestricted Current Liabilities	7,678,377	7,542,445	9,053,032	10,099,159	9,967,046	8,534,458	8,967,874	6,941,320	6,179,964	5,227,446
Restricted Current Liabilities										
Current Portion of Long-Term Debt	7,061,707	6,666,707	6,311,707	5,976,707	5,694,373	5,454,373	5,169,373	4,909,373	5,009,373	4,790,611
Accounts Payable	584,737	2,088,337	1,620,382	865,410	744,959	914,510	196,656	298,888	518,400	424,638
Accrued Interest	1,646,716	1,839,035	2,020,441	2,185,244	2,342,556	1,498,275	1,639,823	1,768,198	1,889,160	1,998,717
Due to Customers	4,617,164	4,462,038	4,315,660	4,279,001	4,125,296	4,020,894	4,084,228	4,012,967	3,924,232	4,001,563
Due to Other Governments	-	-	-	-	-	-	-	-	-	224,018
Accrued Expenses	-	-	-	-	205,950	-	-	-	-	-
Security Deposits Payable	<u>115,155</u>	<u>112,390</u>	<u>610,000</u>	<u>610,000</u>	<u>110,000</u>	<u>110,000</u>	<u>110,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Restricted Current Liabilities	14,025,479	15,168,507	14,878,190	13,916,362	13,223,134	11,998,052	11,200,080	10,989,426	11,341,165	11,439,547
Total Current Liabilities	21,703,856	22,710,952	23,931,222	24,015,521	23,190,180	20,532,510	20,167,954	17,930,746	17,521,129	16,666,993
Non Current Liabilities										
Compensated absences	1,546,768	1,742,962	1,668,691	1,593,715	-	-	-	-	-	-
Accrued OPEB Expenses	8,552,520	5,657,018	1,628,769	-	-	-	-	-	-	-
Revenue Bonds	66,029,226	73,090,933	79,757,640	86,069,346	92,091,536	55,032,256	60,486,629	65,656,003	70,565,376	75,233,511
Accrued Interest	24,806,001	22,596,441	20,535,423	18,612,844	16,819,451	15,146,568	13,586,094	12,130,463	10,772,630	9,506,029
Loan Payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>948,000</u>	<u>1,185,000</u>	<u>-</u>	<u>-</u>	<u>340,000</u>
Total Non Current Liabilities	100,934,515	103,087,354	103,590,523	106,275,905	108,910,987	71,126,824	75,257,723	77,786,466	81,338,006	85,079,540
Total Liabilities	<u>122,638,371</u>	<u>125,798,306</u>	<u>127,521,745</u>	<u>130,291,426</u>	<u>132,101,167</u>	<u>91,659,334</u>	<u>95,425,677</u>	<u>95,717,212</u>	<u>98,859,135</u>	<u>101,746,533</u>
Net Assets	<u>71,451,704</u>	<u>92,089,278</u>	<u>89,009,730</u>	<u>83,078,778</u>	<u>75,529,766</u>	<u>73,173,629</u>	<u>67,118,720</u>	<u>61,510,733</u>	<u>55,981,338</u>	<u>54,182,862</u>
Total Net Assets and Liabilities	<u>\$ 194,090,075</u>	<u>\$ 217,887,584</u>	<u>\$ 216,531,475</u>	<u>\$ 213,370,204</u>	<u>\$ 207,630,933</u>	<u>\$ 164,832,963</u>	<u>\$ 162,544,397</u>	<u>\$ 157,227,945</u>	<u>\$ 154,840,473</u>	<u>\$ 155,929,395</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CHANGES IN NET ASSETS

FISCAL YEARS 2011 - 2002

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>
Revenues										
Utility Activities:										
Charges for Electric:										
Customer Charge	\$ 2,403,347	\$ 2,387,069	\$ 2,273,622	\$ 2,196,785	\$ 2,182,999	\$ 2,097,779	\$ 2,106,597	\$ 2,076,473	\$ 2,062,558	\$ 2,046,854
Energy	87,125,444	87,979,773	81,257,201	85,037,568	81,175,294	50,721,562	52,074,914	52,842,391	51,946,140	50,539,343
Demand	5,076,653	5,218,362	4,856,126	4,868,544	4,786,021	4,586,551	4,767,462	4,741,167	4,774,887	4,636,591
Power Cost Adjustment	(2,259,807)	3,152,497	14,892,862	14,681,817	(312,369)	34,217,993	19,451,323	16,695,062	9,892,463	5,624,742
Gross Receipts	<u>2,363,121</u>	<u>2,526,727</u>	<u>2,645,635</u>	<u>2,733,628</u>	<u>2,248,446</u>	<u>2,344,483</u>	<u>2,005,905</u>	<u>1,929,535</u>	<u>1,782,729</u>	<u>1,607,900</u>
Total Charges for Electric	94,708,758	101,264,428	105,925,446	109,518,342	90,080,391	93,968,368	80,406,201	78,284,628	70,458,777	64,455,430
Charges for Service:										
Penalty Charge	637,130	803,952	1,023,502	663,025	601,588	470,133	482,655	523,623	457,717	387,600
Service Charge	400,005	423,187	255,514	245,480	248,140	134,068	141,677	132,024	159,050	116,349
Initial Permanent Service	116,165	90,500	83,575	169,040	217,610	31,400	57,800	57,625	35,050	37,575
Line Extension	164,972	724,859	268,576	631,091	500,738	697,538	69,354	195,370	108,115	135,202
Contributions in Aid of Construction	<u>89,817</u>	<u>119,985</u>	<u>94,823</u>	<u>175,860</u>	<u>225,468</u>	<u>85,983</u>	<u>119,347</u>	<u>81,417</u>	<u>146,587</u>	<u>127,323</u>
Total Charges for Service	1,408,089	2,162,483	1,725,990	1,884,496	1,793,544	1,419,122	870,833	990,059	906,519	804,049
Charges for Other Services:										
Green Power	9,760	10,815	13,845	11,700	5,374	3,547	3,601	1,985	-	-
Capacity Credits	332,707	1,611,873	1,777,614	1,767,171	1,931,766	1,804,033	2,029,173	1,909,808	1,883,557	1,598,265
Other	<u>45,614</u>	<u>34,988</u>	<u>151,414</u>	<u>152,244</u>	<u>163,265</u>	<u>90,978</u>	<u>288,275</u>	<u>234,374</u>	<u>34,979</u>	<u>99,870</u>
Total Charges for Other Services	388,081	1,657,676	1,942,873	1,931,115	2,100,405	1,898,558	2,321,049	2,146,167	1,918,536	1,698,135
Total Utility Activities	<u>96,504,928</u>	<u>105,084,587</u>	<u>109,594,309</u>	<u>113,333,953</u>	<u>93,974,340</u>	<u>97,286,048</u>	<u>83,598,083</u>	<u>81,420,854</u>	<u>73,283,832</u>	<u>66,957,614</u>
Non-Utility Activities:										
Rental Income	975,560	854,843	389,888	614,805	644,179	633,419	402,898	316,060	266,547	247,632
Miscellaneous	862,917	978,959	1,998,283	983,232	644,012	1,529,184	269,151	129,512	11,032	657,534
Tree Trimming	130,912	129,888	135,008	118,022	110,550	92,565	81,573	181,774	175,290	188,974
Investment Earnings	419,245	266,524	388,391	751,008	1,392,012	1,047,716	613,525	301,862	396,649	655,969
Special Item-Hurricane	-	-	(479)	292,960	550,209	3,281,600	1,900,702	-	-	-
Special Item-Insurance Proceeds	-	-	-	-	-	273,306	-	-	-	-
Special Item-SO2 Credits	-	50,930	-	72,065	-	-	-	-	-	-
Grant Revenue	1,523	-	-	-	-	-	119,367	110,937	3,022	6,500
Gain on Disposition of Property	-	-	-	-	-	-	4,568,719	-	-	-
Total Non-Utility Activities	<u>2,390,157</u>	<u>2,281,144</u>	<u>2,911,091</u>	<u>2,832,092</u>	<u>3,340,962</u>	<u>6,857,790</u>	<u>7,955,935</u>	<u>1,040,145</u>	<u>852,540</u>	<u>1,756,609</u>
Total Revenues	<u>\$ 98,895,085</u>	<u>\$ 107,365,731</u>	<u>\$ 112,505,400</u>	<u>\$ 116,166,045</u>	<u>\$ 97,315,302</u>	<u>\$ 104,143,838</u>	<u>\$ 91,554,018</u>	<u>\$ 82,460,999</u>	<u>\$ 74,136,372</u>	<u>\$ 68,714,223</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CHANGES IN NET ASSETS (Continued)

FISCAL YEARS 2011 - 2002

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>
Expenses										
Utility Activities:										
Operating Expenses										
Production - Diesel	\$ 359,330	\$ 1,557,898	\$ 2,186,002	\$ 1,625,066	\$ 1,623,810	\$ 1,482,077	\$ 1,074,167	\$ 887,371	\$ 916,557	\$ 779,761
Purchased Power	52,961,249	63,272,371	66,847,376	71,009,513	58,531,619	59,946,424	49,287,046	44,523,179	41,311,655	34,230,472
Transmission	4,793,953	4,519,506	4,648,803	3,938,264	3,857,363	3,539,845	3,646,679	3,298,491	3,711,111	3,485,983
Distribution	3,844,570	3,939,956	4,065,166	4,070,472	3,984,022	3,366,439	3,017,736	3,250,018	2,832,211	3,075,612
Customer Service	1,256,967	1,663,487	1,675,437	1,571,014	1,332,355	1,243,322	1,280,590	1,085,522	1,015,116	985,698
Administrative & General	14,682,883	14,288,249	12,620,134	11,850,327	11,812,589	11,452,519	11,540,112	10,004,675	8,757,455	8,460,644
Depreciation	7,033,190	7,925,719	7,190,781	6,632,858	6,339,122	6,182,488	6,391,999	6,441,587	6,367,595	6,500,687
Gross Receipts Tax	2,367,719	2,531,611	2,648,136	2,738,286	2,252,740	2,348,479	2,010,155	1,932,116	1,786,472	1,611,989
Employer Payroll Tax	<u>120,454</u>	<u>134,583</u>	<u>145,807</u>	<u>145,160</u>	<u>137,946</u>	<u>119,476</u>	<u>116,919</u>	<u>89,107</u>	<u>68,831</u>	<u>65,945</u>
Total Utility Activities	<u>87,420,315</u>	<u>99,833,380</u>	<u>102,027,642</u>	<u>103,580,960</u>	<u>89,871,566</u>	<u>89,681,069</u>	<u>78,365,403</u>	<u>71,512,066</u>	<u>66,767,003</u>	<u>59,196,791</u>
Non-Utility Activities										
Debt Expenses										
Interest on Debt	4,568,087	3,809,889	4,034,263	4,228,875	4,435,260	4,670,672	4,811,456	4,959,686	5,116,455	5,468,680
Interest Customer Deposit	10,238	8,998	10,807	67,621	197,964	194,367	109,429	29,345	31,538	74,701
Amortization of Bond Discount	100,000	115,548	115,548	114,040	113,096	104,508	104,508	104,508	104,508	259,703
Payment to City of Key West	444,926	393,368	386,188	368,741	341,279	343,341	340,548	325,998	318,394	334,485
Loss on Disposal of Assets	1,130,404	-	-	-	-	-	-	-	-	-
Grant Expense	7,992	-	-	-	-	-	-	-	-	-
Special Item - Hurricane	-	125,000	-	256,796	-	3,094,972	2,214,686	-	-	-
Special Item - TARP	13,141,312	-	-	-	-	-	-	-	-	-
Special Item - Change in Accounting	<u>12,709,385</u>	-	-	-	-	-	-	-	-	-
Total Non-Utility Activities	<u>32,112,344</u>	<u>4,452,803</u>	<u>4,546,806</u>	<u>5,036,073</u>	<u>5,087,599</u>	<u>8,407,860</u>	<u>7,580,627</u>	<u>5,419,537</u>	<u>5,570,895</u>	<u>6,137,569</u>
Total Expenses	<u>\$ 119,532,659</u>	<u>\$ 104,286,183</u>	<u>\$ 106,574,448</u>	<u>\$ 108,617,033</u>	<u>\$ 94,959,165</u>	<u>\$ 98,088,929</u>	<u>\$ 85,946,030</u>	<u>\$ 76,931,603</u>	<u>\$ 72,337,898</u>	<u>\$ 65,334,360</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CHANGES IN NET ASSETS (Continued)

FISCAL YEARS 2011 – 2002

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	Restated <u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	Restated <u>2003</u>	Restated <u>2002</u>
<u>Change in Net Assets</u>										
Utility Activities										
Total Utility Revenues	\$ 96,504,928	\$ 105,084,587	\$ 109,594,309	\$ 113,333,953	\$ 93,974,340	\$ 97,286,048	\$ 83,598,083	\$ 81,420,854	\$ 73,283,832	\$ 66,957,614
Total Utility Expenses	<u>87,420,315</u>	<u>99,833,380</u>	<u>102,027,642</u>	<u>103,580,960</u>	<u>89,871,566</u>	<u>89,681,069</u>	<u>78,365,403</u>	<u>71,512,066</u>	<u>66,767,003</u>	<u>59,196,791</u>
Utility Change in Net Assets	9,084,613	5,251,207	7,566,667	9,752,993	4,102,774	7,604,979	5,232,680	9,908,788	6,516,829	7,760,823
Non-Utility Activities										
Total Non-Utility Revenues	2,390,157	2,281,144	2,911,091	2,832,092	3,340,962	6,857,790	7,955,935	1,040,145	852,540	1,756,609
Total Non-Utility Expenses	<u>32,112,344</u>	<u>4,452,803</u>	<u>4,546,806</u>	<u>5,036,073</u>	<u>5,087,599</u>	<u>8,407,860</u>	<u>7,580,627</u>	<u>5,419,537</u>	<u>5,570,895</u>	<u>6,137,569</u>
Non-Utility Change in Net Assets	(29,722,187)	(2,171,659)	(1,635,715)	(2,203,981)	(1,746,637)	(1,550,070)	375,308	(4,379,392)	(4,718,355)	(4,380,960)
Change in Net Assets	<u>\$ (20,637,574)</u>	<u>\$ 3,079,548</u>	<u>\$ 5,930,952</u>	<u>\$ 7,549,012</u>	<u>\$ 2,356,137</u>	<u>\$ 6,054,909</u>	<u>\$ 5,607,988</u>	<u>\$ 5,529,396</u>	<u>\$ 1,798,474</u>	<u>\$ 3,379,863</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

NET ASSETS BY COMPONENT

FISCAL YEARS 2011 - 2002

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>
Utility Activities										
Invested in capital assets, net of related debt	\$ 61,312,051	\$ 82,248,111	\$ 76,593,445	\$ 66,814,871	\$ 60,991,269	\$ 53,995,651	\$ 48,044,762	\$ 47,004,365	\$ 42,238,508	\$ 34,953,312
Restricted	6,864,884	2,997,107	3,188,316	10,830,859	2,266,539	3,243,009	3,243,009	3,243,009	1,621,505	-
Unrestricted	<u>3,274,769</u>	<u>6,844,060</u>	<u>9,227,969</u>	<u>5,433,048</u>	<u>12,271,958</u>	<u>15,934,969</u>	<u>15,830,949</u>	<u>11,263,359</u>	<u>12,121,325</u>	<u>19,229,550</u>
Total Net Assets	<u>\$ 71,451,704</u>	<u>\$ 92,089,278</u>	<u>\$ 89,009,730</u>	<u>\$ 83,078,778</u>	<u>\$ 75,529,766</u>	<u>\$ 73,173,629</u>	<u>\$ 67,118,720</u>	<u>\$ 61,510,733</u>	<u>\$ 55,981,338</u>	<u>\$ 54,182,862</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

REVENUES BY TYPE OF CUSTOMER

FISCAL YEARS 2011 - 2002

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>
Residential	\$ 45,069,747	\$ 48,205,995	\$ 48,875,062	\$ 51,560,478	\$ 42,438,131	\$ 44,302,430	\$ 37,767,031	\$ 36,658,912	\$ 33,526,793	\$ 29,945,374
Senior Citizen	590,760	679,315	567,634	498,448	428,097	452,712	369,301	314,552	229,184	195,524
Small Commercial	10,211,053	10,258,593	11,430,140	11,598,413	9,595,506	9,861,649	8,386,852	8,170,521	7,209,746	6,980,914
Large Commercial	28,064,775	30,124,699	31,847,083	33,354,993	27,432,935	28,882,226	24,131,212	23,690,538	20,955,224	18,998,550
Large Commercial-Primary	2,534,796	2,842,446	2,686,606	2,109,808	1,653,887	1,783,289	1,503,875	1,516,123	1,382,608	1,431,486
Industrial	-	-	-	-	-	-	-	-	7,313	46,533
Military	7,573,830	8,478,864	9,708,708	9,587,871	7,797,799	7,986,754	7,618,487	7,296,000	6,561,783	6,285,413
Churches	88,922	97,813	106,856	120,566	96,087	103,375	87,974	94,843	81,599	73,457
Recreating Lighting	20,523	20,202	21,428	25,540	30,242	28,274	28,956	25,102	23,384	22,505
Street Lighting	355,839	332,508	461,627	441,036	382,452	397,735	339,410	327,408	302,405	289,625
Area Lights	<u>198,513</u>	<u>223,993</u>	<u>220,302</u>	<u>221,189</u>	<u>225,255</u>	<u>169,924</u>	<u>173,103</u>	<u>190,629</u>	<u>178,738</u>	<u>186,049</u>
Total Electric Revenues	<u>\$ 94,708,758</u>	<u>\$ 101,264,428</u>	<u>\$ 105,925,446</u>	<u>\$ 109,518,342</u>	<u>\$ 90,080,391</u>	<u>\$ 93,968,368</u>	<u>\$ 80,406,201</u>	<u>\$ 78,284,628</u>	<u>\$ 70,458,777</u>	<u>\$ 64,455,430</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

ACTUAL NUMBER OF CUSTOMERS BILLED

(Month of September)

FISCAL YEARS 2011 - 2002

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	Restated <u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	Restated <u>2003</u>	Restated <u>2002</u>
Residential	24,143	23,884	23,857	23,728	23,602	23,626	23,722	23,485	23,430	23,244
Senior Citizen	476	504	478	365	365	385	359	328	273	227
Small Commercial	3,388	3,327	3,279	3,275	3,135	3,083	3,003	2,981	2,867	2,847
Large Commercial	638	655	658	650	666	641	689	682	676	663
Large Commercial-Primary	6	6	8	6	5	5	5	5	6	6
Military	1	1	1	1	1	1	1	1	1	1
Churches	11	13	16	17	15	14	14	14	16	14
Recreating Lighting	4	3	3	3	3	4	4	4	4	4
Street Lighting	5	5	5	5	5	5	5	5	5	5
Area Lights	<u>1,439</u>	<u>1,439</u>	<u>1,439</u>	<u>1,452</u>	<u>1,743</u>	<u>1,743</u>	<u>1,743</u>	<u>1,743</u>	<u>1,743</u>	<u>1,743</u>
Total Customers	<u><u>30,111</u></u>	<u><u>29,837</u></u>	<u><u>29,744</u></u>	<u><u>29,502</u></u>	<u><u>29,540</u></u>	<u><u>29,507</u></u>	<u><u>29,545</u></u>	<u><u>29,248</u></u>	<u><u>29,021</u></u>	<u><u>28,754</u></u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

kWh SALES BY TYPE OF CUSTOMER

FISCAL YEARS 2011 - 2002

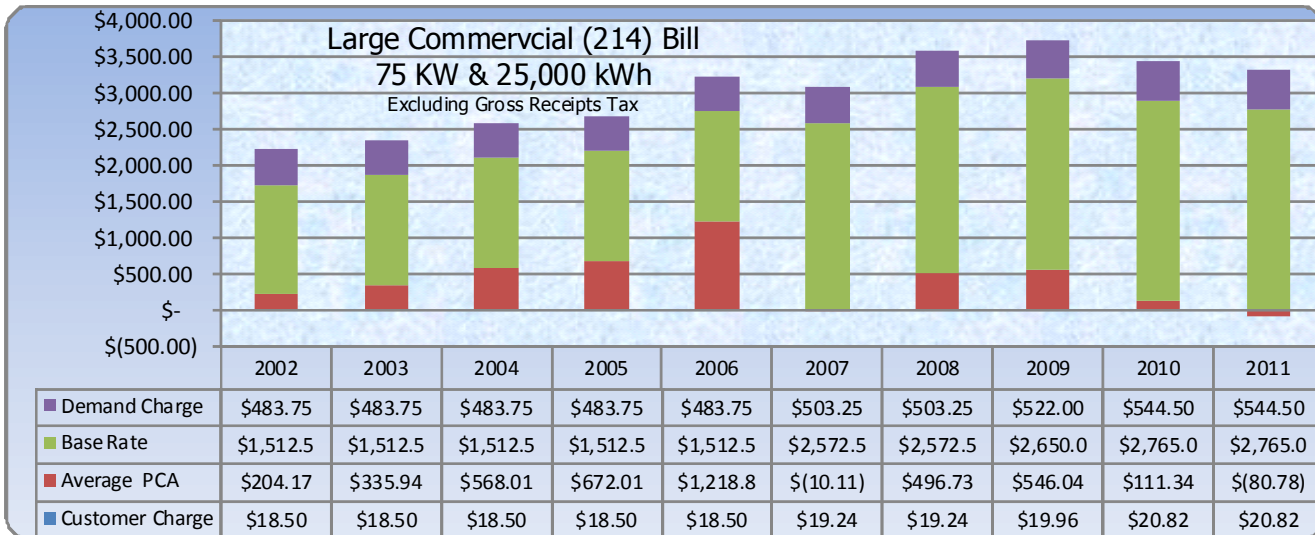
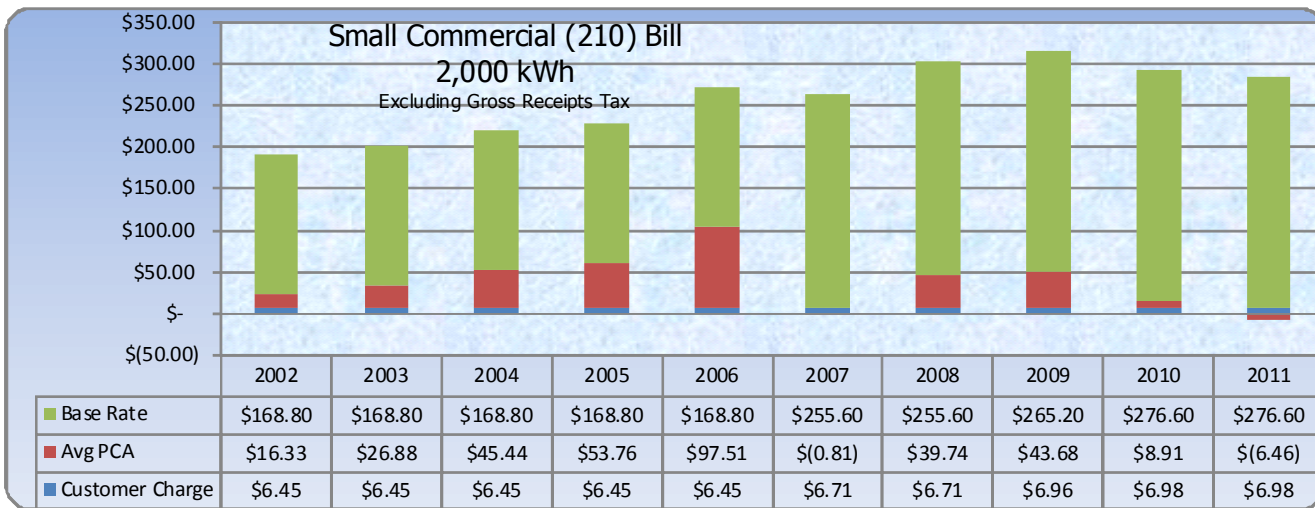
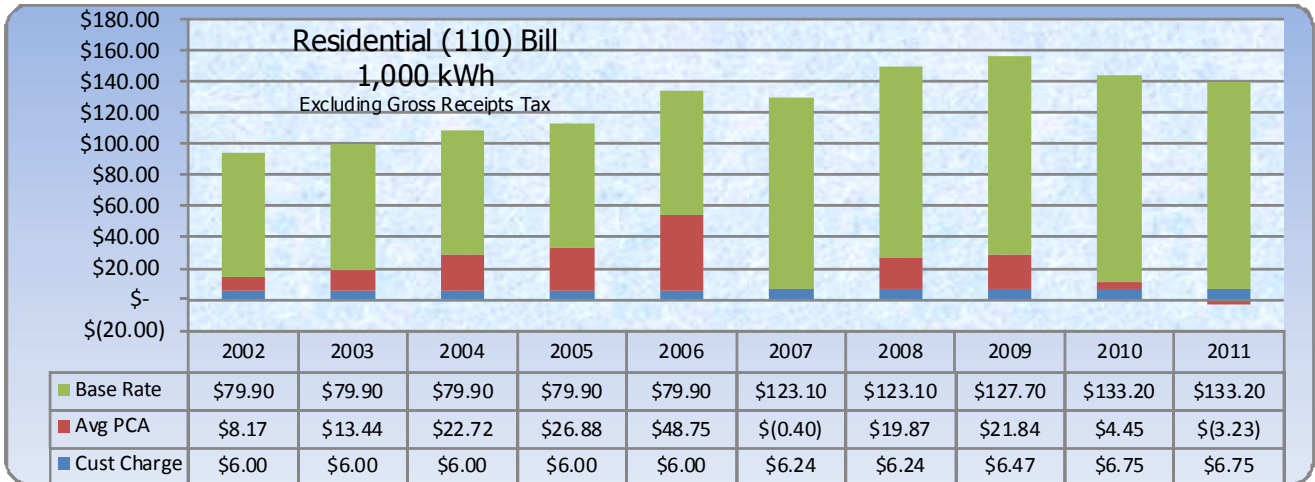
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>
Residential	323,376,914	327,891,790	306,412,074	338,662,570	322,694,803	322,821,261	328,463,571	331,255,087	336,527,072	313,373,473
Senior Citizen	4,431,285	4,813,342	3,708,660	3,395,803	3,390,179	3,433,442	3,367,914	2,990,238	2,421,557	2,162,669
Small Commercial	71,432,985	68,036,855	70,227,949	74,675,605	71,492,573	70,301,646	71,315,388	72,215,876	70,546,836	71,191,876
Large Commercial	215,142,590	216,912,387	210,898,837	233,186,440	223,211,328	223,397,382	225,840,948	232,357,842	229,252,417	217,523,554
Large Commercial-Primary	20,218,840	21,234,670	18,498,199	15,283,453	14,028,201	14,390,129	14,745,675	15,445,343	15,697,282	17,088,655
Industrial	-	-	-	-	-	-	-	-	71,760	472,400
Military	60,739,110	64,148,957	67,370,482	69,584,689	66,557,591	64,737,435	75,332,040	75,596,527	76,739,131	76,916,836
Churches	563,119	591,294	602,154	718,511	648,111	671,840	669,595	757,371	743,337	649,482
Recreating Lighting	122,613	114,580	114,100	145,520	194,740	175,760	210,460	188,060	191,100	188,600
Street Lighting	2,397,191	2,709,204	2,697,333	2,694,288	2,750,949	2,817,954	2,654,569	2,651,128	2,652,752	2,655,220
Area Lights	<u>1,377,516</u>	<u>1,377,516</u>	<u>1,377,516</u>	<u>1,377,516</u>	<u>1,377,516</u>	<u>1,377,516</u>	<u>1,377,516</u>	<u>1,377,516</u>	<u>1,377,516</u>	<u>1,410,415</u>
Total kWh	<u>699,802,163</u>	<u>707,830,595</u>	<u>681,907,304</u>	<u>739,724,395</u>	<u>706,345,991</u>	<u>704,124,365</u>	<u>723,977,676</u>	<u>734,834,988</u>	<u>736,220,760</u>	<u>703,633,180</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

RATE ANALYSIS – RESIDENTIAL & COMMERCIAL

FISCAL YEARS 2011 - 2002



UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

DEBT CAPACITY

COMPUTATION OF DEBT SERVICE COVERAGE

FISCAL YEARS 2011 - 2002

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>
Operating Revenue	\$ 96,415,111	\$ 104,964,602	\$ 109,499,486	\$ 113,158,093	\$ 93,748,872	\$ 97,200,065	\$ 83,478,736	\$ 81,339,438	\$ 73,137,245	\$ 66,830,291
Other Income	2,470,585	2,281,144	2,911,570	2,539,133	2,790,753	3,302,844	1,486,514	1,040,145	849,518	1,750,109
Rate Stabilization Transfers	1,357	(1,357)	2,662,964	(700,000)	(677,808)	(1,000,535)	235,272	(1,020)	(617,148)	2,330,599
Total Revenues Available	<u>98,887,053</u>	<u>107,244,389</u>	<u>115,074,020</u>	<u>114,997,226</u>	<u>95,861,817</u>	<u>99,502,374</u>	<u>85,200,522</u>	<u>82,378,563</u>	<u>73,369,615</u>	<u>70,910,999</u>
Total Operating Expenses	<u>80,397,363</u>	<u>91,916,658</u>	<u>94,847,669</u>	<u>97,015,782</u>	<u>83,730,408</u>	<u>83,692,856</u>	<u>72,085,736</u>	<u>65,099,824</u>	<u>60,430,945</u>	<u>54,085,176</u>
Net Revenues Available for Coverage	<u>\$ 18,489,690</u>	<u>\$ 15,327,731</u>	<u>\$ 20,226,351</u>	<u>\$ 17,981,444</u>	<u>\$ 12,131,409</u>	<u>\$ 15,809,518</u>	<u>\$ 13,114,786</u>	<u>\$ 17,278,739</u>	<u>\$ 12,938,670</u>	<u>\$ 16,825,823</u>
Annual Debt Service	<u>\$ 10,383,432</u>	<u>\$ 10,373,069</u>	<u>\$ 8,392,294</u>	<u>\$ 8,386,900</u>	<u>\$ 8,451,538</u>	<u>\$ 8,511,550</u>	<u>\$ 8,509,645</u>	<u>\$ 8,506,395</u>	<u>\$ 8,508,320</u>	<u>\$ 8,493,242</u>
Debt Service Coverage Ratio	<u>1.78</u>	<u>1.48</u>	<u>2.41</u>	<u>2.14</u>	<u>1.44</u>	<u>1.86</u>	<u>1.54</u>	<u>2.03</u>	<u>1.52</u>	<u>1.98</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

DEBT CAPACITY

PRINCIPAL PAYMENTS PAYABLE FOR ALL DEBT ISSUES THROUGH 2032

Payments Due for FY	Total for all Debt Issues	1991 Series Bond Issue	2000 Series Bond Issue	2001 Series Bond Issue	2006 Series Bond Issue
2012	7,090,000	-	5,990,000	1,100,000	-
2013	7,495,000	-	6,350,000	1,145,000	-
2014	7,925,000	-	6,730,000	1,195,000	-
2015	1,859,840	1,859,840	-	-	-
2016	1,735,344	1,735,344	-	-	-
2017	1,599,539	1,599,539	-	-	-
2018	1,491,821	1,491,821	-	-	-
2019	1,391,241	1,391,241	-	-	-
2020	2,435,000	-	-	-	2,435,000
2021	2,530,000	-	-	-	2,530,000
2022	2,660,000	-	-	-	2,660,000
2023	2,780,000	-	-	-	2,780,000
2024	2,900,000	-	-	-	2,900,000
2025	3,045,000	-	-	-	3,045,000
2026	3,185,000	-	-	-	3,185,000
2027	3,320,000	-	-	-	3,320,000
2028	3,465,000	-	-	-	3,465,000
2029	3,640,000	-	-	-	3,640,000
2030	3,820,000	-	-	-	3,820,000
2031	4,010,000	-	-	-	4,010,000
2032	4,210,000	-	-	-	4,210,000
	<u>\$ 72,587,785</u>	<u>\$ 8,077,785</u>	<u>\$ 19,070,000</u>	<u>\$ 3,440,000</u>	<u>\$ 42,000,000</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

DEMOGRAPHIC AND ECONOMIC INFORMATION

FISCAL YEARS 2011 - 2002

Year	Key West Population ⁽¹⁾	Key West Personal Income ⁽³⁾	Monroe County Per Capita Income ⁽²⁾	Monroe County Median Age ⁽¹⁾	Monroe County Unemployment Rate ⁽²⁾
2011	(4)	(4)	(4)	(4)	6.7%*
2010	(4)	(4)	(4)	(4)	7.9%*
2009	22,364	(4)	(4)	(4)	7.1%
2008	22,364	\$ 61,825	\$ 34,174	47	4.7%
2007	22,682	\$ 61,216	\$ 39,254	53	2.8%
2006	23,262	\$ 54,955	\$ 36,564	53	3.3%
2005	23,935*	\$ 50,024	\$ 35,612	(4)	3.0%
2004	25,811	\$ 43,905	\$ 35,423	(4)	2.3%
2003	25,811	\$ 38,353	\$ 35,423	43	3.1%
2002	25,853	\$ 37,085	\$ 33,549	43	2.6%

Sources:

(1) Key West Chamber of Commerce

(2) US Department of Labor Bureau of Labor Statistics

(3) Bureau of Economic Analysis

(4) Data not available

* Data updated based on most recent statistics published by source.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

DEMOGRAPHIC AND ECONOMIC INFORMATION

FISCAL YEARS 2011 - 2002

MONROE COUNTY MAJOR EMPLOYERS

Sector	Ranking	Employer Name	Number of Employees ⁽¹⁾
Public	1	US Armed Services (including civilian support & contractors)	2,882
	2	Monroe County Schools	1,316
	3	Monroe County Sheriff's Office	580
	4	Monroe County Government	485
	5	City of Key West	413
	6	Florida Keys Aqueduct Authority	254
	7	Florida Keys Community Collage	236
	8	Keys Energy Services ⁽²⁾	138
Private	1	Ocean Reef Club	900
	2	Health Management Associations Fisherman's Hospital, Marathon (189) Lower Keys Medical Center, Key West (429)	618
	3	Hawk's Cay Resort	306
	4	Casa Marina Resort/Reach Resort	300
	5	Historic Tours of America	288
	6	Spottswood Properties	203
	7	First State Bank of the Keys	180
	8	Cheeca Lodge	178

Sources:

⁽¹⁾ Key West Chamber of Commerce - as of March 2010

⁽²⁾ Keys Energy Services - as of September 2011

Only top 8 employers are available.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

OPERATING EXPENSES

FISCAL YEARS 2011 - 2002

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	Restated <u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	Restated <u>2003</u>	Restated <u>2002</u>
Electric Operating Expenses										
Production - Diesel	\$ 359,330	\$ 1,557,898	\$ 2,186,002	\$ 1,625,066	\$ 1,623,810	\$ 1,482,077	\$ 1,074,167	\$ 887,371	\$ 916,557	\$ 779,761
Purchased Power	52,961,249	63,272,371	66,847,376	71,009,513	58,531,619	59,946,424	49,287,046	44,523,179	41,311,655	34,230,472
Transmission	4,793,953	4,519,506	4,648,803	3,938,264	3,857,363	3,539,845	3,646,679	3,298,491	3,711,111	3,485,983
Distribution	3,844,570	3,939,956	4,065,166	4,070,472	3,984,022	3,366,439	3,017,736	3,250,018	2,832,211	3,075,612
Customer Accounts, Collection and Services	1,256,967	1,663,487	1,675,437	1,571,014	1,332,355	1,243,322	1,280,590	1,085,522	1,015,116	985,698
Administrative and General	14,682,883	14,288,249	12,620,134	11,850,327	11,812,589	11,452,519	11,540,112	10,004,675	8,757,455	8,460,644
Depreciation	7,033,190	7,925,719	7,190,781	6,632,858	6,339,122	6,182,488	6,391,999	6,441,587	6,367,595	6,500,687
Taxes Other Than Income Tax	<u>2,488,173</u>	<u>2,666,194</u>	<u>2,793,943</u>	<u>2,883,446</u>	<u>2,390,686</u>	<u>2,467,955</u>	<u>2,127,074</u>	<u>2,021,223</u>	<u>1,855,303</u>	<u>1,677,934</u>
Total Electric Operating Expenses	<u>\$ 87,420,315</u>	<u>\$ 99,833,380</u>	<u>\$ 102,027,642</u>	<u>\$ 103,580,960</u>	<u>\$ 89,871,566</u>	<u>\$ 89,681,069</u>	<u>\$ 78,365,403</u>	<u>\$ 71,512,066</u>	<u>\$ 66,767,003</u>	<u>\$ 59,196,791</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

ENERGY SOURCES

FISCAL YEARS 2011 - 2002

<u>Description</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<u>Gross Generation in MWh:</u>										
Diesel and Combustion Turbine	425	5,351	5,307	4,872	15,066	20,338	26,067	20,836	29,708	26,229
Less: Station Auxiliaries	<u>3,969</u>	<u>4,595</u>	<u>4,459</u>	<u>4,367</u>	<u>4,073</u>	<u>3,566</u>	<u>3,463</u>	<u>3,372</u>	<u>3,310</u>	<u>3,232</u>
Net Generation	(3,544)	756	848	505	10,993	16,772	22,604	17,464	26,398	22,997
Sales To Other Distributors										
Net Delivered Purchased Power and Stanton Generation	<u>750,899</u>	<u>747,202</u>	<u>732,192</u>	<u>774,025</u>	<u>755,185</u>	<u>738,938</u>	<u>758,537</u>	<u>763,799</u>	<u>767,542</u>	<u>734,541</u>
Net Energy for Load	747,355	747,958	733,040	774,530	766,178	755,710	781,141	781,263	793,940	757,538
Less: Losses	<u>(47,553)</u>	<u>(40,127)</u>	<u>(51,133)</u>	<u>(34,806)</u>	<u>(59,832)</u>	<u>(51,586)</u>	<u>(57,163)</u>	<u>(46,428)</u>	<u>(57,719)</u>	<u>(53,905)</u>
Retail Energy Sales	<u>699,802</u>	<u>707,831</u>	<u>681,907</u>	<u>739,724</u>	<u>706,346</u>	<u>704,124</u>	<u>723,978</u>	<u>734,835</u>	<u>736,221</u>	<u>703,633</u>
Losses	6.4%	5.4%	7.0%	4.5%	7.8%	6.8%	7.3%	5.9%	7.3%	7.1%
Generation Capacity (kW) - Name Plate Rating (1)	130,100	130,100	137,500	137,500	123,100	123,100	87,100	87,100	87,100	87,100
KEYS 60 Minute Net Peak Demand	140,200	138,100	137,400	139,100	142,000	135,511	145,500	139,700	138,900	133,800
Percentage of On Island Resources for Net Peak Demand (2)	92.8%	94.2%	100.1%	98.8%	86.7%	90.8%	59.9%	62.3%	62.7%	65.1%
Load Factor	60.9%	61.8%	60.9%	63.4%	61.6%	63.7%	61.3%	63.8%	65.3%	64.6%
<u>Delivered Purchased Power and Stanton Resources (kW):</u>										
FP&L Long - Term Power	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000
FMPA Tri-City Project (Stanton 1)	12,723	12,289	12,289	12,289	12,289	12,289	12,367	12,289	12,289	12,289
FMPA Stanton 2 Project	10,253	9,862	9,862	9,862	9,862	9,770	9,708	9,862	9,862	9,862
Other Short Term Firm	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Purchased	<u>67,976</u>	<u>67,151</u>	<u>67,151</u>	<u>67,151</u>	<u>67,151</u>	<u>67,059</u>	<u>67,075</u>	<u>67,151</u>	<u>67,151</u>	<u>67,151</u>
Total Generating and Purchased Capability	<u>198,076</u>	<u>197,251</u>	<u>204,651</u>	<u>204,651</u>	<u>190,251</u>	<u>190,159</u>	<u>154,175</u>	<u>154,251</u>	<u>154,251</u>	<u>154,251</u>
Net Reserve Margin Including Purchased Power (3)	41.3%	42.8%	48.9%	47.1%	34.0%	40.3%	6.0%	10.4%	11.1%	15.3%

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

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

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

GENERATING CAPACITY

FISCAL YEARS 2011 - 2002

<u>Generating Units</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Name Plate	Megawatts (MW)									
Combustion Turbine #1	23.5	23.5	23.5	23.5	20.0	20.0	20.0	20.0	20.0	20.0
Combustion Turbine #2	19.8	19.8	19.8	19.8	18.6	18.6	18.6	18.6	18.6	18.6
Combustion Turbine #3	19.8	19.8	19.8	19.8	18.1	18.1	18.1	18.1	18.1	18.1
Combustion Turbine #4	48.0	48.0	48.0	48.0	43.0	43.0	-	-	-	-
Medium Speed Diesels #1	9.5	9.5	9.5	9.5	8.7	8.7	8.7	8.7	8.7	8.7
Medium Speed Diesels #2	9.5	9.5	9.5	9.5	8.7	8.7	8.7	8.7	8.7	8.7
Stock Island Peaking High Speed Diesel #1	-	-	2.5	2.5	2.0	2.0	2.0	2.0	2.0	2.0
Stock Island Peaking High Speed Diesel #2	-	-	2.5	2.5	2.0	2.0	2.0	2.0	2.0	2.0
Stock Island Peaking High Speed Diesel #3	-	-	2.5	2.5	2.0	2.0	2.0	2.0	2.0	2.0
Cudjoe Key Peaking High Speed Diesel #1	-	-	-	-	-	-	2.0	2.0	2.0	2.0
Cudjoe Key Peaking High Speed Diesel #2	-	-	-	-	-	-	2.5	2.5	2.5	2.5
Big Pine Key Peaking High Speed Diesel #1	-	-	-	-	-	-	2.5	2.5	2.5	2.5
Total Name Plate	<u>130.1</u>	<u>130.1</u>	<u>137.6</u>	<u>137.6</u>	<u>123.1</u>	<u>123.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>
Islanded										
Combustion Turbine #1	18.0	18.0	18.0	18.0	12.6	12.6	12.6	12.6	12.6	12.6
Combustion Turbine #2	16.0	16.0	16.0	14.0	17.2	17.2	17.2	17.2	17.2	17.2
Combustion Turbine #3	11.0	11.0	11.0	9.0	17.5	17.5	17.5	17.5	17.5	17.5
Combustion Turbine #4	44.0	44.0	44.0	44.0	43.0	43.0	-	-	-	-
Medium Speed Diesels #1	7.0	7.0	6.4	7.0	8.8	8.8	8.8	8.8	8.8	8.8
Medium Speed Diesels #2	7.0	7.0	6.6	7.0	8.8	8.8	8.8	8.8	8.8	8.8
Stock Island Peaking High Speed Diesel #1	-	-	1.5	1.5	1.8	1.8	1.8	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #2	-	-	1.5	1.5	1.8	1.8	1.8	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #3	-	-	1.5	1.5	1.8	1.8	1.8	1.8	1.8	1.8
Cudjoe Key Peaking High Speed Diesel #1	-	-	-	-	-	-	1.8	1.8	1.8	1.8
Cudjoe Key Peaking High Speed Diesel #2	-	-	-	-	-	-	2.2	2.2	2.2	2.2
Big Pine Key Peaking High Speed Diesel #1	-	-	-	-	-	-	2.3	2.3	2.3	2.3
Total Islanded	<u>103.0</u>	<u>103.0</u>	<u>106.5</u>	<u>103.5</u>	<u>113.3</u>	<u>113.3</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>
Synchronized										
Combustion Turbine #1	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
Combustion Turbine #2	16.0	16.0	16.0	14.0	17.2	17.2	17.2	17.2	17.2	17.2
Combustion Turbine #3	16.0	16.0	16.0	14.0	17.5	17.5	17.5	17.5	17.5	17.5
Combustion Turbine #4	44.0	44.0	44.0	44.0	43.0	43.0	-	-	-	-
Medium Speed Diesels #1	7.0	7.0	6.4	7.0	8.8	8.8	8.8	8.8	8.8	8.8
Medium Speed Diesels #2	7.0	7.0	6.6	7.0	8.8	8.8	8.8	8.8	8.8	8.8
Stock Island Peaking High Speed Diesel #1	-	-	1.5	1.5	1.8	1.8	1.8	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #2	-	-	1.5	1.5	1.8	1.8	1.8	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #3	-	-	1.5	1.5	1.8	1.8	1.8	1.8	1.8	1.8
Cudjoe Key Peaking High Speed Diesel #1	-	-	-	-	-	-	1.8	1.8	1.8	1.8
Cudjoe Key Peaking High Speed Diesel #2	-	-	-	-	-	-	2.2	2.2	2.2	2.2
Big Pine Key Peaking High Speed Diesel #1	-	-	-	-	-	-	2.3	2.3	2.3	2.3
Total Synchronized	<u>108.0</u>	<u>108.0</u>	<u>111.5</u>	<u>108.5</u>	<u>118.7</u>	<u>118.7</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>

Nameplate - Capacity provided by the manufacturer.

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

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

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

As of January 2011 operational control of all generating units were transferred to FMPA. Full ownership will transfer in 2020.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

EMPLOYEE INFORMATION

FISCAL YEARS 2011 - 2002

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
General Manager's Department	11	13	13	13	10	17	18	17	17	16
Engineering & Control	19	21	22	22	22	20	19	19	19	20
Customer Services	28	30	33	33	33	32	32	30	31	33
Finance	16	16	16	16	17	10	10	15	13	13
Transmission & Distribution	34	35	35	34	36	36	34	35	38	42
General Plant	13	15	16	15	17	0	0	8	9	9
Generation	<u>17</u>	<u>19</u>	<u>22</u>	<u>22</u>	<u>23</u>	<u>38</u>	<u>39</u>	<u>22</u>	<u>21</u>	<u>18</u>
Total	<u>138</u>	<u>149</u>	<u>157</u>	<u>155</u>	<u>158</u>	<u>153</u>	<u>152</u>	<u>146</u>	<u>148</u>	<u>151</u>

Notes:

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

The following departmental movements were made during Fiscal Year 2007:

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

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

Purchasing and Warehouse have been moved from Generation to Finance.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

TEN HIGHEST CONSUMPTION LOCATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Ranking	Customer Account	Demand KW	Energy kWh	Dollars
1	U.S. Navy	11,155.3	60,739,110	\$ 7,587,995
2	City of Key West	3,468.4	12,516,484	\$ 1,723,403
3	Monroe County School Board	4,455.6	9,947,498	\$ 1,446,137
4	Monroe County Detention Center	1,204.6	7,642,950	\$ 934,007
5	Winn Dixie Stores	1,091.0	7,268,993	\$ 966,148
6	Key West HMA Inc.	1,095.0	6,890,455	\$ 923,939
7	US Coast Guard Key West Sector	1,515.6	6,555,812	\$ 827,006
8	Florida Keys Aqueduct Authority	1,295.4	5,141,445	\$ 684,153
9	Marriott Casa Marina Hotel	806.5	4,701,893	\$ 634,274
10	Marriot Beachside - SH5 Ltd	435.8	3,786,876	\$ 556,083

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



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

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

We have audited the financial statements of the Utility Board of the City of Key West, Florida, d/b/a Keys Energy Services, ("KEYS") as of and for the year ended September 30, 2011, which collectively comprise KEYS' basic financial statements and have issued our report thereon dated January 25, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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

material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of KEYS, in a separate letter dated January 25, 2012.

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



OROPEZA & PARKS
CERTIFIED PUBLIC ACCOUNTANTS

January 25, 2012