

# Comprehensive Annual Financial Report



## Utility Board of the City of Key West, Florida

For the Fiscal Years Ended September 30, 2014 and 2013



UTILITY BOARD OF THE CITY OF  
KEY WEST, FLORIDA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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 Years Ended September 30, 2014 and 2013

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UTILITY BOARD OF THE CITY OF KEY WEST

January 28, 2015

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 Years ended September 30, 2014 and 2013, 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 and Management. 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 2014 and 2013 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.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a 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 MD&A can be found immediately following the report of the independent auditors.

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 serve four year terms. The members are elected by the registered voters of the City of Key West in alternating elections every two years.

## NATIONALLY RECOGNIZED

Fiscal Year (FY) 2014 saw Keys Energy Services reaffirm its position as a nationally recognized Public Power provider. Whether demonstrating exceptional reliability statistics or standing out in the credit market, KEYS shined brightly in 2014. Looking forward to 2015, the Utility Board memorialized their vision for KEYS by approving its strategic plan for 2015 and 2016 to ensure continued success well into the future.

### **Reliable Public Power Provider**

KEYS was one of 94 of the nation's more than 2,000 public power utilities to earn the Reliable Public Power Provider™ (RP<sub>3</sub>) recognition from the American Public Power Association (APPA) for providing consumers with the highest degree of reliable and safe electric service. Located in Washington DC, APPA is the national organization representing more than 2,000 not-for-profit, community- and state-owned electric utilities.

The RP<sub>3</sub> designation recognizes public power utilities that demonstrate proficiency in four key disciplines: reliability, safety, training, and system improvement. Criteria within each category are based on sound business practices and represent a utility-wide commitment to safe and reliable delivery of electricity.

This is the ninth year that the RP<sub>3</sub> award has been offered and the fourth consecutive year that KEYS has been among the ranks of the RP<sub>3</sub> designees.

### **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.

On July 9, 2014 Resolution 795 was approved amending the Original Bond Resolution 532. Resolution 795 amends the methodology of calculating KEYS Debt Service Coverage. Unfunded portions of Other Post Employment Benefits (OPEB) and pension expense are excluded from the calculation, provided at least 75% of the minimum pension obligation is paid each year.

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.

*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 GAAP 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. This report together with the accounting and budgeting systems, have been designed to conform to the standards set forth by the Governmental Accounting Standards Board (GASB).

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 if appropriate. 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 GAAP; 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 KEYS hire an independent certified public accountant to complete an annual audit. The second level of control comes from the covenants made by KEYS to the bondholders. Among other requirements, KEYS must keep accounts in accordance with GAAP 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 KEYS has established an audit committee consisting of two board members.

### **Budgetary Control**

In accordance with the Enabling Legislation, KEYS 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 is prepared quarterly.

During the year, staff may make amendments within the operating budget or the capital budget that do not change the total budget, provided that the change is within the same limitations established by Resolution adopted by KEYS.

The Board approves all other budget changes. Supplemental appropriations were necessary and 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.

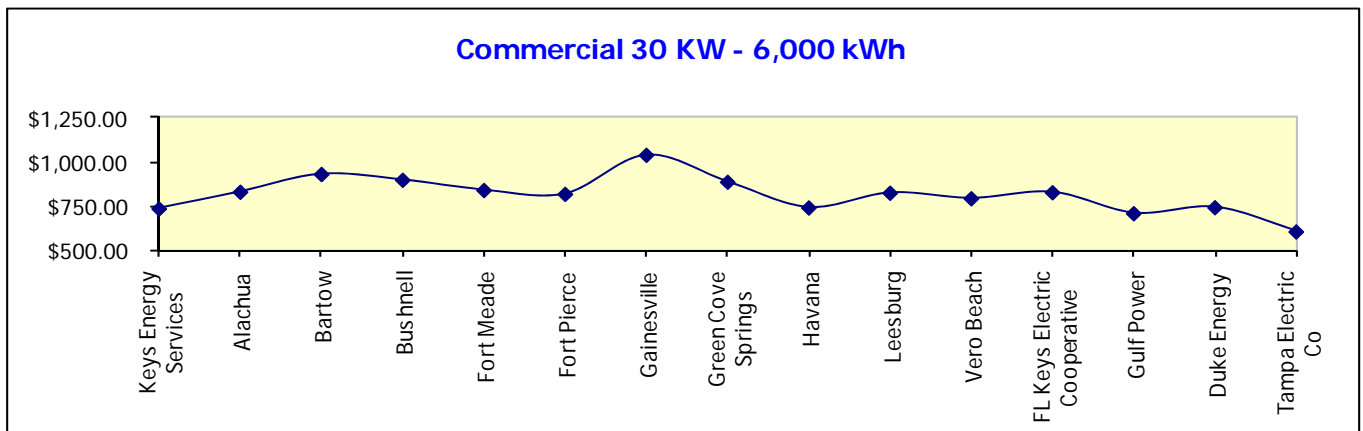
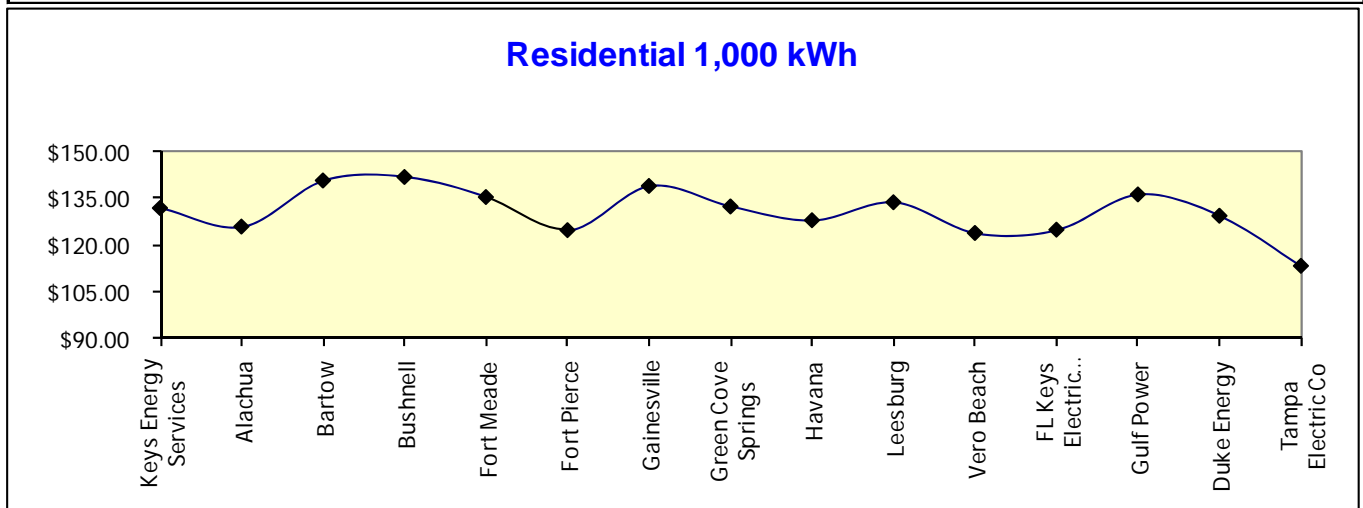
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### Rates for Service

The following table compares average monthly charges for electric service among selected utilities in Florida for the fiscal year ended September 30, 2014.

<b>COMPARISON OF AVERAGE MONTHLY ELECTRIC BILLS</b>				
		Residential 1,000 kWh	Commercial 30KW - 6,000 kWh	
	Keys Energy Services	\$ 132.00	\$ 732.53	
	Alachua	\$ 126.00	\$ 826.50	
	Bartow	\$ 140.92	\$ 927.02	
	Bushnell	\$ 142.05	\$ 894.55	
<i>Other Municipal Utilities and Cooperatives in Florida</i>	Fort Meade	\$ 135.56	\$ 836.88	
	Fort Pierce	\$ 124.84	\$ 815.16	
	Gainesville	\$ 139.15	\$ 1,035.00	
	Green Cove Springs	\$ 132.50	\$ 883.00	
	Havana	\$ 128.05	\$ 738.30	
	Leesburg	\$ 133.88	\$ 821.16	
	Vero Beach	\$ 123.93	\$ 790.10	
	FL Keys Electric Cooperative	\$ 124.99	\$ 824.22	
	<i>Investor-Owned Utilities in Florida</i>	Gulf Power	\$ 136.42	\$ 705.68
		Duke Energy	\$ 129.49	\$ 739.63
Tampa Electric Co		\$ 113.28	\$ 603.42	

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

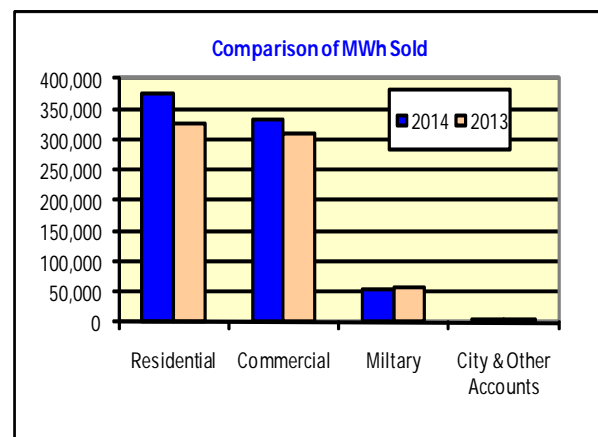
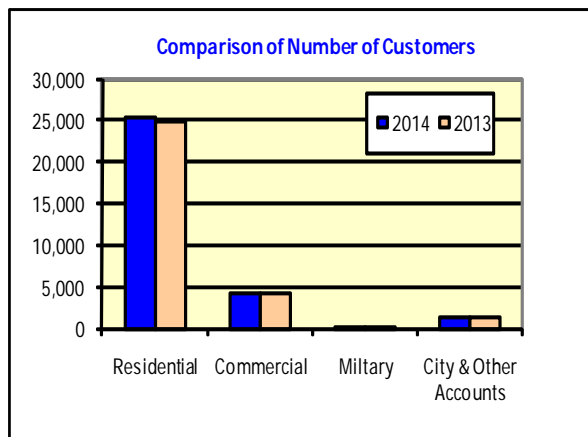


## Customer Statistics

At fiscal year-end 2014, the Utility's total customer base was 30,859 or 443 more customers than the prior year level of 30,416. The number of residential customers increased 437 to 25,306. The number of commercial customers increased 6 to 4,230. Area light customers remained at 1,323.

The average monthly residential consumption of 1,233 kWh was higher than the FY2013 level by 138 kWh. The average monthly commercial consumption of 6,568 kWh was higher than the FY2013 level by 439 kWh. In accordance with a Federal Mandate, the consumption for the military decreased 4.0 million kWh.

The Non-Coincident Peak Demand (60 minute net) increased to 145.1 MW from the FY2013 peak of 137.6 MW. The Load Factor was 60.6 in FY2014 compared to 61.2% in FY2013.



## 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. KEYS 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) which ended June 2013. As a member of the ARP, KEYS 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.

## Transmission Facilities

KEYS is connected to mainland Florida's 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. KEYS 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 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 120 MW. Currently, the transfer capability of the transmission line is approximately 300 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 233 miles of three-phase equivalent 13.8 kV lines from nine distribution substations. Switching for the 13.8 kV distribution system 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 and padmount transformers are used on the distribution systems to step down from distribution voltage to utilization voltage at hotels and other large loads.

### **Local Generation Facilities**

All generating units belonging to FMPA have a total synchronized rating of 109.0 MW. The units include four combustion turbine (CT) units, two medium speed diesel units and a converted peaking diesel unit all of which operate with No. 2 oil.

### **Debt Administration**

The principal amount of Long Term Debt, net of the current portion, was \$48.7 million at September 30, 2014 compared to \$50.6 million at September 30, 2013. All outstanding debt had fixed interest rates. Total revenue bond debt was comprised of one refunding bond issues 1991 and one revenue bond issue 2006.

### **Long Term Financial Planning**

In September 2013 the Board awarded a contract for Transmission Pole Foundation Inspection services. The report from this inspection will provide KEYS with information regarding the foundations of the system's transmissions poles. This information will aid KEYS in long range expense planning should the foundations require substantial repair. The inspection project began in July 2014 and the report on the findings is expected in February 2015.

In September 2014 in anticipation of refunding Bond Series 2006, KEYS sought a rating review with Moody's and Standard & Poor's. Each agency conducted a thorough review. Moody's upgraded KEYS' rating to A1 from A2 on the outstanding Series 1991 and the proposed Series 2014. Standard & Poor's issued an A- rating on the proposed Series 2014 with a AAA rating on the insured 1991 Series. Also in September 2014 the Board began the process of refunding Bond Series 2006, with original estimates of net present value savings of approximately \$2.6 million. This is discussed more fully in the Subsequent Event Note.

### **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, 2013. This was the 22<sup>nd</sup> consecutive year that KEYS 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



Government Finance Officers Association

**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, 2013**

Executive Director/CEO

# September 30, 2014

## Utility Board of the City of Key West, Florida



**Chair Peter Batty** has served on the Utility Board since 2005. He is a Florida Licensed Real Estate Broker and Florida Supreme Court Certified Circuit and Family Mediator. 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 former member of the Florida Keys Community College Board and former Vice President of the Wesley House Family Services Board of Directors. Mr. Batty was born in Salisbury, England, and immigrated to the United States in 1955. He has lived in the Florida Keys since 1989 where he raised four children with his wife, Ellen.

**Vice Chair 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 serves 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 7<sup>th</sup> grade CCD teacher at St. Mary's Star of the Sea Church, and a member of the Catholic Daughters of America, 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.

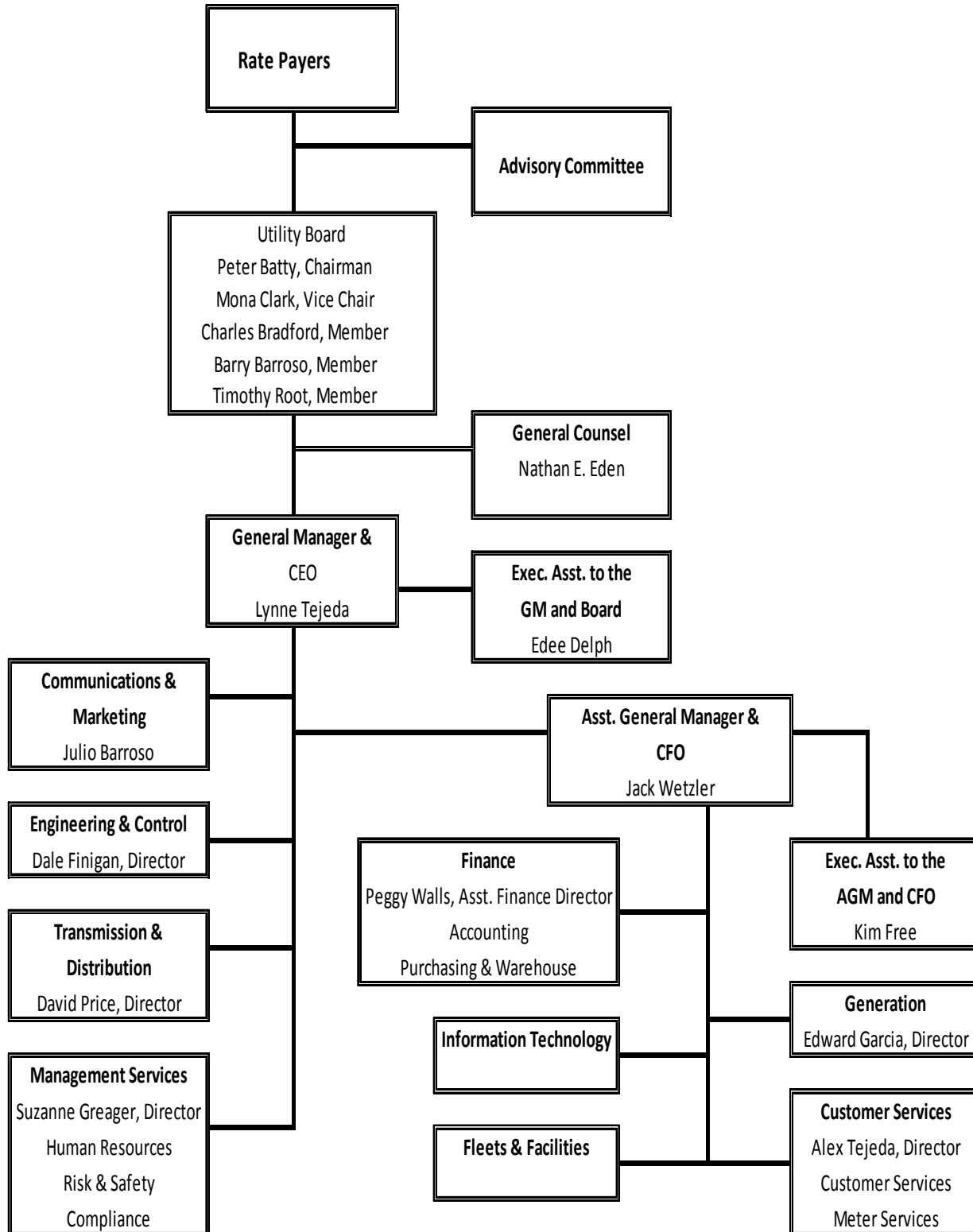
**Mr. Barry L. Barroso, Jr.** has served on the Utility Board since 2011. He was born and raised in Key West and has owned Certified Lower Keys Plumbing, Inc. since 1995. Mr. Barroso is a graduate of Mary Immaculate and is a Florida State Certified Master Plumber. He has served on the Key West Planning Board (2006-2009), Key West Board of Adjustments (2007-2009), and the Florida Keys Community College Advisory Board (2010). Mr. Barroso and his wife Ieva have four children and live in Key West.

**Mr. Charles A. Bradford Jr.** has served on the Utility Board since 2006. He works for the Monroe County Clerk of the Courts and has been in the banking and finance industry since 1974. 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, the Veterans of Foreign Wars Men's Auxiliary, Loyal Order of Moose, and serves on a number of other boards in Key West. In addition, Mr. Bradford is past chair of the Key West Chamber of Commerce, two term President of the Navy league, member of Association for Naval Aviation, and former member of KEYS' Advisory Committee, City of Key West Port Advisory Board, and Tree Commission. Mr. Bradford has lived in the Florida Keys since 1980.

**Mr. Timothy Root** has served on the Utility Board since 2013. He was born and raised in Lancaster, Pennsylvania, and traded school, at age 17, for a trade union job building the shipyards in Philadelphia. He moved to Key West in 1987, where he started as a project manager for developer Pritam Singh's historic structures venture. Mr. Root worked on the Little White House and other downtown Key West projects. In 1998, he helped build Hurricane Hole Marina and was a part-owner for several years. Mr. Root has been a general contractor since 1980 and is currently working as the chief estimating officer for Mingo Co. construction. He has served on the Key West Historic Architectural Review Commission and was appointed to the City of Key West Planning Board and Monroe County's Affordable Housing Task Force. Mr. Root and his wife Reta have three children and four grandchildren, they live in Key West.



# Organizational Chart Fiscal Year Ended September 30, 2014



## Keys Energy Services Employees as of September 30, 2014

Maria Abreu	Albert Fernandez	Robert Mesa	Dane'lle Waldon*
John Albury	Robin Ferrer	Armando Mira III	Peggy Walls
Matthew Alfonso	Dale Finigan	Horace Mobley	Charles Walterson
Frank Arencibia	Elizabeth Franco	Sharon Moore	Stefan Washington
Heather Arencibia	Kim Free	James Newton	Jack Wetzler
Marcos Arencibia	Daniel Garcia Jr	Griff Niekerk	Donnie Yarbrough
Pedro Arencibia*	Daniel Garcia III	Catherine Nix	Erica Zarate
Eric Balbuena	Eddie Garcia	Patrick Nolan	
Deborah Barnett	Frankie Garcia	Gricel Owen	
Robert Barrios	Mark Garcia	Allen Palka	
Antonio Boza	Mimi Gartenmayer	Jeff Partington	
Terry Beeman	Roger George	Don Paxson	
Mayra Bethel	Thomas Ryan Gomez	Chasity Perez	
Jennifer Bevis	Zahny Gonzalez	Dina Perez	
Alan Bradley	Tennille Grassi	Eva Pope	
Karla Bravo	Thomas Grassi	David Price	
Kris Bremer	Suzanne Greager	Alberto Pumar	
M M Briones Hidalgo	Michael Griffin	Martha Ramas	
Eric Cyrus Brown	Amy Haas	Tyler Randolph	
Sandra Brown	Sabrina Hall	Beverly Ray	
Robert Burchett	Susan Ham	Anthony Roberts	
Harry Carey	Brittani Harden	Alvaro Rodriguez	
Walter Cashwell	Kevin Hawthorne	Amanda Rodriguez*	
George Castellon	Hernan Hernandez	David Rodriguez	
Michael Commander	Randy Huss	Armando Rojas	
David Cottar	Ana Kerr	Stan Rzad	
Kevin Crockett	Sean Kipp	Daniel Sabino	
Fred Culpepper	Phil Klausing	Diana Sanchez	
Jamie Curry	Harold Knowles	Paul Sanchez	
Daniel Delice	Victor Linares	Thomas Schuler	
Edee Delph	Jacek Majewski	Vin Smith	
Robert C DePhillips Jr	Herschell Major	Dennis Stone	
Joseph Diaz	Laurence Marius	Alex Tejada	
Patty Dixon	David Martyniuk	Lynne Tejada	
Michael Domenech	Cindy McVeigh	Larry Thomas	
William Duran	Margaret Medina	Julio J. Torrado*	
Cassie Dzatlik	Neil Mellies	Ivan Urbay	
Jeremy N Edwards	Ony Mendez	Hugo Valdes	
Manuel Estevez	Amber Menendez	Bryan Veliz	
John Fallon	Juan Menendez	Mary Vidal	

Employee Count: 127 * Employee of the Quarter 2014
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Members:  
AMERICAN INSTITUTE OF CPA'S  
FLORIDA INSTITUTE OF CPA'S

**OROPEZA  
& PARKS**  
Certified Public Accountants

815 Peacock Plaza  
Key West, Florida 33040  
305.294.1049 | 305.294.1040  
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*John G. Parks, Jr., CPA - retired*

Scott G. Oropeza, CPA, PA  
Denise Y. Rohrer, CPA, PA  
James H. Hill, Jr., CPA, PLLC

## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Financial Statements**

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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise KEYS' basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of KEYS as of September 30, 2014 and 2013, and the changes in financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–10 and page 36 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.

#### *Other Information*

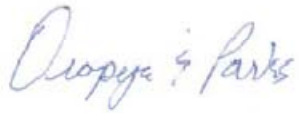
Our audit was conducted for the purpose of forming opinions on the KEYS' basic financial statements. The introductory section and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2015 on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KEYS' internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Oropye & Parks". The signature is written in a cursive, flowing style.

January 28, 2015

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## 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, 2014. 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 Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The *Statements of Net Position* provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities) and 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 *Statements of Revenues, Expenses and Changes in Net Position*. These statements report 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. These statements report cash receipts, cash payments, and net changes in cash resulting from activities related to operations, non-capital financing, and capital and related financing. The statements also provide 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?"

### Statements of Net Position

The Utility's Net Position increased in FY2014 by \$6,091,083, or 7.4%.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2013 to 2014 Increase (Decrease)</u>	
				<u>Amount</u>	<u>Percent</u>
Total Unrestricted Current Assets	\$ 40,004,865	\$ 23,428,287	\$ 30,247,965	\$ 6,819,678	29.1%
Total Restricted Current Assets	18,581,504	19,712,238	20,282,735	570,497	2.9%
Total Capital Assets	129,834,734	128,279,484	128,997,995	718,511	0.6%
Total Restricted Non-Current Assets	2,266,539	4,769,853	4,785,014	15,161	0.3%
Total Unrestricted Non-Current Assets	<u>11,315,918</u>	<u>25,700,524</u>	<u>24,285,254</u>	<u>(1,415,270)</u>	<u>-5.5%</u>
Total Assets	<u>\$202,003,560</u>	<u>\$ 201,890,386</u>	<u>\$208,598,963</u>	<u>\$ 6,708,577</u>	<u>3.3%</u>
Total Unrestricted Current Liabilities	6,834,379	8,215,939	12,186,714	3,970,775	48.3%
Total Restricted Current Liabilities	14,215,116	15,100,541	15,416,015	315,474	2.1%
Total Non-Current Liabilities	<u>99,100,384</u>	<u>96,759,399</u>	<u>93,090,644</u>	<u>(3,668,755)</u>	<u>-3.8%</u>
Total Liabilities	<u>120,149,879</u>	<u>120,075,879</u>	<u>120,693,373</u>	<u>617,494</u>	<u>0.5%</u>
Net Position:					
Net Investment in Capital Assets	\$ 69,866,406	\$ 74,349,452	\$ 82,992,962	\$ 8,643,510	11.6%
Restricted	7,644,813	8,588,680	8,041,846	(546,834)	-6.4%
Unrestricted	<u>4,342,462</u>	<u>(1,123,625)</u>	<u>(3,129,218)</u>	<u>(2,005,593)</u>	<u>178.5%</u>
Net Position:	<u>81,853,681</u>	<u>81,814,507</u>	<u>87,905,590</u>	<u>6,091,083</u>	<u>7.4%</u>
Total Liabilities and Net Position	<u>\$202,003,560</u>	<u>\$ 201,890,386</u>	<u>\$208,598,963</u>	<u>\$ 6,708,577</u>	<u>3.3%</u>

**The changes in Assets from FY2013 to FY2014 are listed as follows:**

- Increase in Total Unrestricted Current Assets – \$6.8 million.
  - Increase in Cash – \$419,000 primarily due to an increase in the Revenue Fund.
  - Increase in Investment – \$1.1 million represents an increase in the current portion of long term investment.
  - Increase in Customer Receivables – \$83,000 due to timing of receipt of customer payments.
  - Increase in Unbilled Customer Receivables – \$5.0 million represents electric revenues earned but unbilled as of September 30, 2014. There was no unbilled revenue in FY2013.
  - Increase Prepaid Expense – \$297,000 due to timing of payment for insurance and other expenses.
  
- Increase in Total Restricted Current Assets – \$570,000.
  - Decrease in Cash – \$545,000 primarily due to transfers from the Renewal & Replacement fund.
  - Increase in Prepaid Expense – \$1.1 million primarily due to higher bond payment at September 30, 2014 vs September 30, 2013.
  
- Increase in Total Capital Assets – \$719,000.
  - Increase in Utility Plant – \$7.6 million increase due to assets placed into service offset by \$1.4M decrease in assets due to retirements. The larger assets added to Utility Plant are as follows:
 

Transmission & Distribution Building	\$ 4,491,630	Purchase of Transformers	\$ 451,097
Purchase of Meters	\$ 770,678	Stock Island Marina Upgrade	\$ 380,008
  - Increase in Accumulated Depreciation – \$6.3 million due to annual depreciation partially offset by annual retirements.
  - Net Increase in Construction Work in Progress – \$765,000 due to large multi year projects.
  
- Decrease in Total Unrestricted Non-Current Assets – \$1.4 million.
  - Decrease in Investments – \$952,000 due to timing of investments moved from Non-Current to Current Investments.
  - Decrease in Long Term Note Receivable–FMPA/TARP – \$530,000 due to payment received.

**The changes in Assets from FY2012 to FY2013 are listed as follows:**

- Decrease in Total Unrestricted Current Assets – \$16.6 million.
  - Decrease in Cash – \$19.3 million primarily due to moving cash to Non-Current Assets-Investments.
  - Increase in Investment – \$4.0 million represents current portion of long term investment.
  - Decrease in Customer Receivables – \$368,000 due to timing of receipt of customer payments.
  - Decrease in Other Receivables – \$765,000 payment received from FMPA and FKEC.
  - Decrease in Due from Other Governments – \$111,000 payment received for outstanding receivable for Hurricane Isaac and adjustments for FEMA receivable.



- Increase in Total Restricted Current Assets – \$1.1 million.
  - Increase in Cash – \$920,000 primarily due to transfers to the Renewal & Replacement fund offset by the October 1, 2013 bond payments accumulated in the Bond Sinking Fund paid on September 30, 2013.
  - Increase in Prepaid Expense – \$211,000 higher payment of October 1, 2013 bond installment made on September 30, 2013 vs September 30, 2012 bond payment.
- Decrease in Total Capital Assets – \$1.6 million.
  - Increase in Utility Plant – \$1.4 million due to assets placed into service offset by retirements. The larger assets added to Utility Plant are as follows:
 

Annual Distribution System Upgrades	\$530,117	Inaccessible Easements	\$362,918
Purchase of Transformers	\$375,274	Purchase of Meters	\$240,269
  - Increase in Accumulated Depreciation – \$6.6 million due to annual depreciation partially offset by annual retirements.
  - Net Increase in Construction Work in Progress – \$3.6 million due to large multi year projects such as KEYS Main Office building renovation.
- Increase in Total Restricted Non-Current Assets – \$2.5 million due to an increase in Non-Current Assets-Investments and Interest Receivable.
- Increase in Total Unrestricted Non-Current Assets – \$14.4 million.
  - Increase in Investments – \$15.4 million due to cash moved from Current to Non-Current investments.
  - Decrease in Long Term Note Receivable–FMPA/TARP – \$509,000 due to payment received.
  - Decrease in Other Long Term Receivable–KWSP - \$255,000 due to a change in the estimated sales proceeds for the market rate units.

**The changes in Liabilities from FY2013 to FY2014 are listed as follows:**

- Increase in Unrestricted Current Liabilities – \$4.0 million due to the Accrued Cost of Power Adjustment offset by lower accounts payable and lower other accrued expenses.
- Increase in Restricted Current Liabilities – \$315,000 due to higher accrued interest offset by lower Current Portion of Long-Term Debt.
- Decrease in Non-Current Liabilities – \$3.7 million due to the annual payment of principal and interest on the revenue bonds offset by increases in Other Post Employment Benefits (OPEB) expense.

**The changes in Liabilities from FY2012 to FY2013 are listed as follows:**

- Increase in Unrestricted Current Liabilities – \$1.4 million due to higher accounts payable, higher unearned revenues, and higher accrued expenses.
- Increase in Restricted Current Liabilities – \$885,000 due to higher accounts payable and current portion of long term debt offset by a decrease in accrued interest.
- Decrease in Non-Current Liabilities – \$2.3 million due to the annual payment of principal and interest on the revenue bonds offset by increases in Other Post Employment Benefits (OPEB) expense, accrued interest.

## Statements of Revenues, Expenses and Changes in Net Position

Electric sales of 727.0 Gigawatt hours (GWh's) in FY2014 were higher than FY2013 sales of 695.5 GWh's, by 4.5%.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2013 to 2014 Increase (Decrease)</u>	
				<u>Amount</u>	<u>Percent</u>
Electric Revenues	\$ 95,323,356	\$ 89,483,751	\$ 94,744,403	\$ 5,260,652	5.9%
Other Electric Revenues	2,087,715	1,851,010	1,550,566	(300,444)	-16.2%
Total Operating Revenues	97,411,071	91,334,761	96,294,969	4,960,208	5.4%
Production Expense - Diesel	-	-	-	-	-
Purchased Power	50,658,853	51,738,636	52,691,941	953,305	1.8%
Transmission Expenses	4,782,103	5,647,880	5,653,600	5,720	0.1%
Distribution Expenses	3,800,595	3,798,706	3,736,558	(62,148)	-1.6%
Customer Accounts and Collection Expenses	1,242,695	1,383,512	1,222,595	(160,917)	-11.6%
Administrative and General Expenses	14,555,804	15,540,816	15,723,183	182,367	1.2%
Depreciation	6,979,378	7,294,534	7,297,266	2,732	0.0%
Taxes Other than Income Taxes	2,499,757	2,361,199	2,493,197	131,998	5.6%
Total Operating Expenses	84,519,185	87,765,283	88,818,340	1,053,057	1.2%
Interest Income	508,014	611,996	725,435	113,439	18.5%
Miscellaneous Non-Operating Revenue	4,314,783	1,948,323	3,444,872	1,496,549	76.8%
Payment to City of Key West	(423,585)	(434,331)	(419,323)	15,008	-3.5%
Interest on Debt	(5,314,003)	(5,046,358)	(4,710,816)	335,542	-6.6%
Interest on Customer Deposits	(2,870)	-	(11,531)	(11,531)	0.0%
Amortization of Bond (Discount)/Premium	(84,452)	(356,815)	29,379	386,194	-108.2%
Loss on Disposal of Assets	(1,827,209)	(139,794)	(280,530)	(140,736)	100.7%
Unrealized Loss on Investments	-	(153,446)	(79,760)	73,686	-48.0%
Realized Loss on Investments	-	(2,695)	(83,622)	(80,927)	3002.9%
Grant Revenue	446,069	11,750	-	(11,750)	-100.0%
Grant Expenses	(161,494)	-	-	-	0.0%
Capital Contributions (Refunds) in Aid of Construction	54,838	(47,282)	350	47,632	-100.7%
Total Non-Operating Revenue and (Expenses)	(2,489,909)	(3,608,652)	(1,385,546)	2,223,106	-61.6%
Change in Net Position	10,401,977	(39,174)	6,091,083	6,130,257	15648.8%
Net Position, Beginning of Year	71,451,704	81,853,681	81,814,507	(39,174)	0.0%
Net Position, End of Year	<u>\$ 81,853,681</u>	<u>\$ 81,814,507</u>	<u>\$ 87,905,590</u>	<u>\$ 6,091,083</u>	<u>7.4%</u>

**The Change in Net Position was an increase of \$6.1 million in FY2014. This was primarily due to:**

- Increase in Total Operating Revenues – \$5.0 million.
  - Increase in Electric Revenue – \$5.3 million primarily a result of higher kWh Sales, unbilled revenue less the accrued power cost adjustment and higher Power Cost Adjustment rates offset by a 1% rate reduction.
  - Decrease in Other Electric Revenues – \$300,000 is primarily a result of lower service charge revenue and lower line extension revenue.
- Increase in Total Operating Expenses – \$1.1 million.
  - Increase in Purchased Power Costs – \$953,000 primarily due to higher net energy for load and higher peak demand.

- Decrease in Customer Accounts – \$161,000 is primarily due to the write-off of Key West Steam Plant receivables in FY13.
  - Increase in Administrative and General (A&G) expenses – \$182,000 is primarily due to higher transportation & outside service and lower administrative transfers from A&G to capital projects..
  - Increase in Taxes Other than Income Tax expenses – \$132,000 is due primarily to higher Gross Receipts Tax which is consistent with higher revenue.
- Decrease in Total Non-Operating Revenue & Expenses – \$2.2 million.
- Increase in Interest Income – \$113,000 due to note receivable and interest on investments.
  - Increase in Misc Non-Operating Revenue – \$1.5 million primarily due to revenue received from FMPA for the phase 2 of the StatCom capital project.
  - Decrease in Interest on Debt – \$336,000 is primarily due to the final payment made on Series 2000 and Series 2001 bonds.
  - Decrease in Amortization of Bond Discount & Issue Costs – \$386,000 due to the write off of unamortized debt issuance costs required with the implementation of GASB 63 and GASB 65 in FY13.
  - Increase in Loss on Disposal of Assets – \$141,000 due to the disposition of assets.

**The Change in Net Position was a decrease of \$39,200 in FY2013. This was primarily due to:**

- Decrease in Total Operating Revenues – \$6.1 million.
- Decrease in Electric Revenue – \$5.8 million primarily a result of lower kWh Sales, a 1% rate reduction and lower Power Cost Adjustment rates were charged in FY2013.
  - Decrease in Other Electric Revenues – \$237,000 is primarily a result of higher service charge revenue offset by lower line extension revenue.
- Increase in Total Operating Expenses – \$3.2 million.
- Increase in Purchased Power Costs – \$1.1 million primarily due to higher energy rates.
  - Increase in Transmission expenses – \$866,000 is a result of higher costs for substation painting, transformer repairs, transmission pole repairs, helicopter survey and FKEC transmission.
  - Increase in Customer Accounts – \$141,000 is a result of higher costs for uncollectible accounts, easement rebates and tree give away offset by FMPA online energy audit.
  - Increase in Administrative and General (A&G) expenses – \$985,000 is primarily due to higher pension costs and lower administrative transfers from A&G to capital projects offset by lower OPEB expense.
  - Increase in Depreciation expense – \$315,000 is primarily due to additions to the asset base.
  - Decrease in Taxes Other than Income Tax expenses – \$139,000 is due primarily to lower Gross Receipts Tax which is consistent with lower revenue.
- Decrease in Total Non-Operating Revenue & Expenses – \$1.0 million.
- Increase in Interest Income – \$104,000 due to note receivable and interest on investments.
  - Decrease in Misc Non-Operating Revenue – \$2.4 million primarily due to revenue received in FY12 from FMPA for the StatCom capital project.
  - Increase in Interest on Debt – \$268,000 is primarily due to the interest on the 2006 Bond is no longer capitalized offset by the principal reduction of revenue bonds.

- Increase in Amortization of Bond Discount & Issue Costs – \$272,000 due to the write off of unamortized debt issuance costs required with the implementation of GASB 63 and GASB 65.
- Decrease in Loss on Disposal of Assets – \$1.7 million due to the disposition of the Synchronous Condenser in FY12.
- Increase in Unrealized Loss on Investments – \$153,000 due to the unrealized loss on investments.
- Decrease in Grant Revenue – \$434,000 is due to payments received for Energy Grant projects in prior year.
- Increase in Grant Expense – \$161,000 due to costs incurred for Hurricane Isaac in prior year.

**Statement of Cash Flows**

KEYS rate structure is designed to collect sufficient revenues to pay debt service, recover operating and maintenance expenses, and fund transfers. KEYS successfully accomplished this objective during FY2014.

**Restricted Assets**

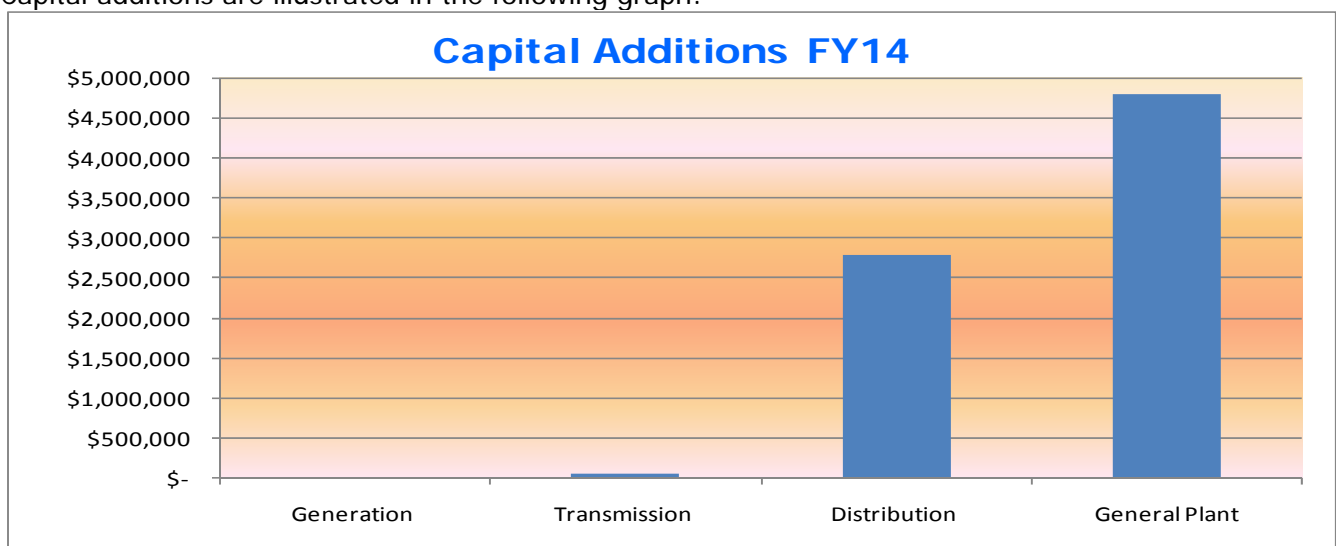
Total restricted current assets were \$20.3 million at September 30, 2014, compared to \$19.7 million at September 30, 2013. KEYS bond resolution specifies the manner in which monies on deposit in the various funds must be used. The Renewal and Replacement Fund is used only for paying the cost of extensions, 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.

**Significant Capital Assets**

Capital Assets totaled \$124.1 million at the end of FY2014 compared to \$124.2 million the prior year, a decrease of \$46,000 which is the result of an increase in accumulated depreciation.

Significant projects placed into service were the Transmission and Distribution Building, Annual Purchase of Transformers, and Annual Purchase of Meters. 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 \$1.9 million on October 1, 2014. 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 1<sup>st</sup> and semiannual interest payments on April 1<sup>st</sup> and October 1<sup>st</sup> of each year.

KEYS total debt service payments have been structured to average approximately \$11.2 million a year through 2018 and \$4.4 million a year from 2019 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**

**STATEMENTS OF NET POSITION**

**SEPTEMBER 30, 2014 AND 2013**

ASSETS

	<u>2014</u>	<u>2013</u>
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 7,999,823	\$ 7,581,223
Investments	5,122,342	4,037,834
Customer Accounts Receivable, net of Allowance for Bad Debts of \$166,567 and \$165,267 for FY14 and FY13 respectively	7,746,099	7,662,903
Unbilled Customer Receivables	4,965,159	-
Other Accounts Receivable	230,524	236,187
Current Portion of Lease Receivable - KWSP	102,581	100,847
Current Portion of Note Receivable - FMPA/TARP	529,511	509,145
Plant Material and Operating Supplies Inventory	2,740,636	2,773,137
Prepaid Expenses	683,330	386,249
Interest Receivable	127,960	140,762
	<hr/>	<hr/>
Total Unrestricted Current Assets	30,247,965	23,428,287
Restricted Current Assets:		
Cash and Cash Equivalents	10,015,183	10,560,152
Prepaid Expenses	10,264,294	9,148,828
Interest Receivable	3,258	3,258
	<hr/>	<hr/>
Total Restricted Current Assets	20,282,735	19,712,238
<b>Total Current Assets</b>	<hr/> <b>50,530,700</b>	<hr/> <b>43,140,525</b>
<b>Non-Current Assets</b>		
Capital Assets		
Utility Plant	219,508,228	213,287,098
Less Accumulated Depreciation	95,344,865	89,077,654
Net Utility Plant	124,163,363	124,209,444
Construction in Progress	4,834,632	4,070,040
	<hr/>	<hr/>
Total Capital Assets	128,997,995	128,279,484
Restricted Non-Current Assets		
Investments	2,511,171	2,494,154
Interest Receivable	7,304	9,160
Deposits	2,266,539	2,266,539
	<hr/>	<hr/>
Total Restricted Non-Current Assets	4,785,014	4,769,853
Unrestricted Non-Current Assets		
Investments	14,471,861	15,423,592
Interest Receivable	34,402	51,349
Long Term Lease Receivable - KWSP	6,789,402	6,704,767
Long Term Note Receivable - FMPA/TARP	2,982,721	3,512,231
Bond Discount/Premium, Net	6,868	8,585
	<hr/>	<hr/>
Total Unrestricted Non-Current Assets	24,285,254	25,700,524
<b>Total Non-Current Assets</b>	<hr/> <b>158,068,263</b>	<hr/> <b>158,749,861</b>
<b>Total Assets and Deferred Outflows</b>	<hr/> <b>\$ 208,598,963</b>	<hr/> <b>\$ 201,890,386</b>

(Continued)

(Continued)

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

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**STATEMENTS OF NET POSITION (CONTINUED)**

**SEPTEMBER 30, 2014 AND 2013**

NET POSITION AND LIABILITIES

	<u>2014</u>	<u>2013</u>
<b>Current Liabilities</b>		
Unrestricted Current Liabilities		
Accounts Payable	\$ 4,446,291	\$ 5,461,602
Accrued Expenses	1,315,968	1,503,634
Compensated absences and accrued wages	953,582	838,295
Accrued Cost of Power Adjustment	5,000,126	-
Unearned Revenues	<u>470,747</u>	<u>412,408</u>
<b>Total Unrestricted Current Liabilities</b>	12,186,714	8,215,939
Restricted Current Liabilities		
Current Portion of Long-Term Debt	1,890,936	7,956,096
Accounts Payable	241,847	912,008
Accrued Interest	8,404,454	1,223,828
Security Deposits Payable	245,546	246,103
Due to Customers	<u>4,633,232</u>	<u>4,762,506</u>
<b>Total Restricted Current Liabilities</b>	<u>15,416,015</u>	<u>15,100,541</u>
<b>Total Current Liabilities</b>	27,602,729	23,316,480
<b>Non Current Liabilities</b>		
Compensated absences	1,448,874	1,542,737
Accrued OPEB Liability	17,900,194	14,896,218
Revenue Bonds	48,715,487	50,606,423
Accrued Interest	<u>25,026,089</u>	<u>29,714,021</u>
<b>Total Non Current Liabilities</b>	93,090,644	96,759,399
<b>Total Liabilities</b>	<u>120,693,373</u>	<u>120,075,879</u>
<b>Net Position</b>		
Net Investment in Capital Assets	82,992,962	74,349,452
Restricted for:		
FMPA working capital assessment	2,266,539	2,266,539
Renewal and replacement	5,775,307	6,322,141
Unrestricted	<u>(3,129,218)</u>	<u>(1,123,625)</u>
<b>Total Net Position</b>	<u>87,905,590</u>	<u>81,814,507</u>
<b>Total Net Position and Liabilities</b>	<u>\$ 208,598,963</u>	<u>\$ 201,890,386</u>

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

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>Operating Revenues</b>	\$ 96,294,969	\$ 91,334,761
<b>Operating Expenses</b>		
Purchased Power	52,691,941	51,738,636
Transmission Expenses	5,653,600	5,647,880
Distribution Expenses	3,736,558	3,798,706
Customer Accounts and Collection Expenses	1,222,595	1,383,512
Administrative and General Expenses	15,723,183	15,540,816
Depreciation	7,297,266	7,294,534
Taxes Other than Income Taxes	2,493,197	2,361,199
<b>Total Operating Expenses</b>	88,818,340	87,765,283
<b>Operating Income</b>	7,476,629	3,569,478
<b>Non-Operating Revenue and (Expenses)</b>		
Interest Income	725,435	611,996
Miscellaneous Non-Operating Revenue/(Expense)	3,444,872	1,948,323
Payment to City of Key West	(419,323)	(434,331)
Interest on Debt	(4,710,816)	(5,046,358)
Interest on Customer Deposit	(11,531)	-
Amortization of Bond (Discount)/Premium	29,379	(356,815)
Gain/(Loss) on Disposal of Assets	(280,530)	(139,794)
Unrealized Gain/(Loss) on Investments	(79,760)	(153,446)
Realized Loss on Investments	(83,622)	(2,695)
Grant Revenue	-	11,750
Grant Expense	-	-
Capital Contributions (Refunds) in Aid of Construction	350	(47,282)
<b>Total Non-Operating Revenue and (Expenses)</b>	(1,385,546)	(3,608,652)
<b>Change in Net Position</b>	6,091,083	(39,174)
<b>Net Position, Beginning of Year</b>	81,814,507	81,853,681
<b>Net Position, End of Period</b>	\$ 87,905,590	\$ 81,814,507

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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>Cash Flows Provided (Used) by Operating Activities</b>		
Cash Received from Customers	\$ 91,181,155	\$ 91,309,193
Cash Payments to Suppliers for Goods and Services	(65,132,945)	(65,409,567)
Cash Payments to Employees for Services	(10,451,729)	(9,071,295)
Cash Received for Deposits	802,850	1,077,865
Cash Deposits Refunded	(932,681)	(899,974)
Cash Received from Other Operating revenue	3,503,211	2,173,729
Cash Payment to Investment	(149,794)	(21,955,580)
Cash Received for Hurricane	<u>-</u>	<u>122,726</u>
<b>Net Cash Provided by Operating Activities</b>	18,820,067	(2,652,903)
<b>Cash Flows (Used) by Non-Capital Financing Activities</b>		
Cash Paid to City of Key West, Florida	<u>(419,323)</u>	<u>(434,331)</u>
<b>Net Cash (Used) by Non-Capital Financing Activities</b>	<u>(419,323)</u>	<u>(434,331)</u>
<b>Cash Flows Provided (Used) by Capital and Related Financing Activities</b>		
Principal Paid on Long-Term Debt	(7,925,000)	(7,495,000)
Interest Paid on Revenue Bond Maturities	(2,229,654)	(2,666,781)
Capital Contributions (Refunds) in Aid of Construction	350	(47,282)
Acquisitions and Construction of Capital Assets	(9,075,032)	(5,527,756)
Proceeds from Disposal of Assets	<u>108,565</u>	<u>85,948</u>
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<u>(19,120,771)</u>	<u>(15,650,871)</u>
<b>Cash Flows Provided by Investing Activities</b>		
Loss on Invesments	(163,382)	(156,141)
Interest Received on Investments	<u>757,040</u>	<u>546,053</u>
<b>Net Cash Provided by Investing Activities</b>	<u>593,658</u>	<u>389,912</u>
<b>Net (Decrease) in Cash and Cash Equivalents</b>	(126,369)	(18,348,193)
<b>Cash and Cash Equivalents at Beginning of year</b>	<u>18,141,375</u>	<u>36,489,568</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 18,015,006</u>	<u>\$ 18,141,375</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, 2014 AND 2013**

Reconciliation of Operating Income to  
Net Cash Provided by Operating Activities

	<u>2014</u>	<u>2013</u>
<b>Operating Income</b>	\$ 7,476,629	\$ 3,569,478
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>		
Depreciation	7,297,266	7,294,534
Provision for Uncollectible Accounts	69,772	387,513
Amortization of Deferred Revenue	(412,408)	(187,002)
Receipt of Deferred Revenue	470,747	412,408
Other Non-Operating Sources of Revenue	3,444,872	1,948,323
Grant Revenue Net	-	11,750
<b>Changes in Assets and Liabilities</b>		
(Increase) Decrease in Accounts Receivable	(4,689,689)	1,426,810
(Increase) Decrease in Plant Material & Inventory	32,501	(43,948)
(Increase) in Prepaid Expenses	(1,412,547)	(38,009)
Decrease in Due from Other Governments	-	110,976
(Increase) Investment	(149,794)	(21,955,580)
Increase in Accounts Payable	1,988,665	3,864,918
Increase in Accrued Expenses	4,833,884	367,035
Increase in Customer Deposits	(129,274)	99,957
Increase (Decrease) in Security Deposits	<u>(557)</u>	<u>77,934</u>
<b>Total Adjustments</b>	<u>11,343,438</u>	<u>(6,222,381)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 18,820,067</u>	<u>\$ (2,652,903)</u>

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

In 2014 and 2013, amortization of bond (discount)/premium and issue costs were \$29,379 and \$(356,815), 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, 2014 AND 2013**

**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 position.

**Basis of Accounting** – KEYS' financial statements are accounted for based on generally accepted accounting principles (GAAP) 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, regardless of the timing of the related cash flows.

**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 quarterly. 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 KEYS. 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.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue** – Revenue is recognized based on monthly route billings to customers. Effective Fiscal Year 2014 revenue is accrued for services supplied but unbilled at the end of the fiscal period.

**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. Upon implementation of GASB 65, KEYS expensed all unamortized bond issue costs.

**Property, Plant and Equipment** – Property, Plant and Equipment is stated at cost. Transmission, Distribution, Generation Plant and General 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. 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

The following is a summary of property, plant and equipment for the year ended September 30, 2014:

	Balance 2013	Additions	Deletions	Balance 2014
Utility Plant in Service:				
Generation Plant	\$ 519,269	\$ -	\$ -	\$ 519,269
Transmission Plant	80,811,061	52,806	(361)	80,863,506
Distribution Plant	107,523,045	2,790,833	(1,045,600)	109,268,278
General Plant	24,213,459	4,796,640	(373,188)	28,636,911
Total Utility Plant in Service	213,066,834	7,640,279	(1,419,149)	219,287,964
Other Plant in Service				
Other - Intangible	220,264	-	-	220,264
Total Other Plant in Service	220,264	-	-	220,264
 Total Plant in Service	213,287,098	7,640,279	(1,419,149)	219,508,228
Accumulated Depreciation:				
Generation Plant	-	-	-	-
Transmission Plant	(37,176,610)	(2,146,733)	172	(39,323,171)
Distribution Plant	(37,591,149)	(3,900,708)	712,834	(40,779,023)
General Plant	(14,309,895)	(1,249,824)	317,048	(15,242,671)
Total Accumulated Depreciation	(89,077,654)	(7,297,265)	1,030,054	(95,344,865)
 <b>Net Utility Plant in Service</b>	<b>\$ 124,209,444</b>	<b>\$ 343,014</b>	<b>\$ (389,095)</b>	<b>\$ 124,163,363</b>
 Construction Work in Progress	<b>\$ 4,070,040</b>	<b>\$ 8,404,871</b>	<b>\$ (7,640,279)</b>	<b>\$ 4,834,632</b>

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 years ended 2014 and 2013, there were not capitalized interest cost.

**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. Sick leave, subject to policy limitations, is payable upon retirement 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. Bargaining Unit employees may convert a maximum of forty (40) overtime hours in a contract year to compensatory leave. Compensatory leave not used by the end of the fiscal year will be paid out on the first pay check of the next fiscal year.

Balances at September 30, 2014 are as follows:

	Balance 2013	Increases	Decreases	Balance 2014
Vacation Leave	\$ 462,807	\$ 52,062	\$ (29,783)	\$ 485,086
Compensatory Leave	7,712	3,650	(7,712)	3,650
Sick Leave	1,426,580	27,667	(62,925)	1,391,322
<b>Total</b>	<b>\$ 1,897,099</b>	<b>\$ 83,379</b>	<b>\$ (100,420)</b>	<b>\$ 1,880,058</b>

The current and long term compensated absences are as follows:

	Current Liability	Long-Term Liability	Total
Vacation Leave	\$ 68,057	\$ 417,029	\$ 485,086
Compensatory Leave	3,650	-	3,650
Sick Leave	359,477	1,031,845	1,391,322
<b>Total</b>	<b>\$ 431,184</b>	<b>\$ 1,448,874</b>	<b>\$ 1,880,058</b>

**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.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Interest Expense** – Interest expense for the years ended September 30, 2014 and 2013 is summarized as follows:

	<b>2014</b>	<b>2013</b>
Electric Refunding Revenue Bonds, Series 1991	\$ 2,722,228	\$ 2,539,313
Electric Forward Refunding Revenue Bonds, Series 2000	-	403,800
Electric Forward Refunding Revenue Bonds, Series 2001	-	55,268
Electric System Refunding Revenue Bonds, Series 2006	1,988,588	1,988,588
Series 2001 Loss on Refunding	-	59,389
Interest on Customer Deposits	11,531	-
<b>Total Interest Expense</b>	<b>\$ 4,722,347</b>	<b>\$ 5,046,358</b>

**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 Position** – Equity is classified as net position and displayed in three components:

Net Investment in Capital Assets – 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 assets restricted by constraints that are externally imposed or are imposed by law.

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

**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.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

**NOTE 2 – OTHER PROPERTY AND INVESTMENTS (Continued)**

KEYS' Current Restricted cash and cash equivalents as of September 30, 2014 and 2013 respectively consist of the following:

	<u>2014</u>	<u>2013</u>
Renewal and Replacement Fund	\$ 5,775,307	\$ 6,322,141
Construction Fund	4,103,849	4,103,849
Steam Plant Security Deposit	111,445	109,710
No Name Key Escrow	24,582	24,452
<b>Total</b>	<b><u>\$ 10,015,183</u></b>	<b><u>\$ 10,560,152</u></b>

**Restricted Deposits** – Florida Municipal Power Agency (FMPA) requires a working capital contribution. At September 30, 2014 this balance remained unchanged at \$2,266,539.

**NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Cash and Cash Equivalents:**

KEYS' total cash and cash equivalents as of September 30, 2014 and 2013 respectively consist of the following:

	<u>2014</u>	<u>2013</u>
Cash	\$ 4,758,008	\$ 4,639,393
Cash Equivalents:		
Repurchase agreements	13,256,998	13,501,982
<b>Total Cash and Cash Equivalents</b>	<b><u>\$ 18,015,006</u></b>	<b><u>\$ 18,141,375</u></b>

All cash and cash equivalents are fully liquid.

**Investments:**

Investment Balances at September 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Unrestricted Short Term	\$ 5,144,936	\$ 4,057,955
Unrestricted Long Term	14,506,263	15,474,942
Restricted Long Term	2,518,475	2,503,314
<b>Total</b>	<b><u>\$ 22,169,673</u></b>	<b><u>\$ 22,036,211</u></b>

Investments by Category at September 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Corporate Bonds	\$ 5,656,361	\$ 10,163,165
Government Bonds	15,907,097	11,733,639
Pooled Funds & Mutual Funds	541,917	58,777
Accrued Income	64,299	80,630
<b>Total</b>	<b><u>\$ 22,169,673</u></b>	<b><u>\$ 22,036,211</u></b>

State Statutes govern KEYS' investment policies. In addition, KEYS has its own investment practices.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

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

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.

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, 2014 and 2013, the bank balances were \$18,191,259 and \$18,362,799 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 deposit 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.



**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

**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 lease receivables totaling \$6,891,983 are as follows:

- 1) The base rent of the luxury units for \$6,891,896; \$100,000 per year adjusted annually for CPI, monthly payments began May 1, 2008. The amount of the annual payment effective May 1, 2014 has increased to \$111,149.
- 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>			
2015	102,581	*		
2016	114,438			
2017	118,386			
2018	122,471		Lease Receivable - Current	\$ 102,581
2019	126,696			
2020-2107	<u>6,307,411</u>		Lease Receivable - Long Term	<u>6,789,402</u>
<b>Total</b>	<b><u>\$ 6,891,983</u></b>		<b>Total Lease Receivable</b>	<b><u>\$ 6,891,983</u></b>

\* Oct 2014 payment received Sept 2014

**Other Long Term Lease Receivable** – The percentage rent of luxury units was based on a percentage of sales prices due after sale and/or occupancy of the units. Due to changes in the economy and real estate market and the length of time of the sales cycle, the receivable was written off in FY2013. If after all units are sold, if the total sales price exceeds the contract minimum, a receivable will be established at that time.

**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 payments 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 \$3,512,232 with annual payments of \$670,000 to be paid each January 1 through 2020. The difference in the amount received and the present value of the receivable will be recorded as interest income.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

**NOTE 4 – UNRESTRICTED NON-CURRENT ASSETS (Continued)**

Summary of the Note Receivable is as follows:

<u>Year</u>	<u>Receivable</u>			
2015	\$ 529,511			
2016	550,691			
2017	572,719	Note Receivable - Current	\$	529,511
2018	595,628			
2019-2020	1,263,683	Note Receivable - Long Term		2,982,721
<b>Total</b>	<b><u>\$ 3,512,232</u></b>	<b>Total Note Receivable</b>	<b><u>\$</u></b>	<b><u>3,512,232</u></b>

**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 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 premium or discount of debt obligations, payments under Unconditional Output Contracts, depreciation, or unfunded OPEB or pension expense. 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>
2015	1,735,344	9,523,244
2016	1,599,538	9,659,050
2017	1,491,821	9,766,767
2018	1,391,242	9,867,346
2019	2,435,000	1,988,584
2020-2024	13,915,000	8,195,636
2025-2029	17,430,000	4,683,612
2030-2031	8,220,000	621,501
	<b><u>\$ 48,217,945</u></b>	<b><u>\$ 54,305,740</u></b>
2014	1,859,840	
	<b><u>\$ 50,077,785</u></b>	
Premium, series 2006	528,638	
<b>Total</b>	<b><u>\$ 50,606,423</u></b>	

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 FY2014 are as follows:

	<u>September 30, 2013</u>	<u>Additions</u>	<u>Retired</u>	<u>September 30, 2014</u>
Series 1991	\$ 8,077,785	\$ -	\$ -	\$ 8,077,785
Series 2000	6,730,000	-	6,730,000	-
Series 2001, net	1,195,000	-	1,195,000	-
Series 2006, net	42,559,734	-	31,096	42,528,638
<b>Total</b>	<b><u>\$ 58,562,519</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 7,956,096</u></b>	<b><u>\$ 50,606,423</u></b>

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

**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%.

Electric System Refunding Revenue Bonds, Series 2000, collateralized by Net Revenues and certain Reserve Funds, payable 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, 2013 in installments of various amounts, bearing interest at rates from 4.375% to 5%.

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

<u>2014</u>	<u>2013</u>
\$ 8,077,785	\$ 8,077,785
-	6,730,000
-	1,195,000
-	1,195,000
42,000,000	42,000,000
528,638	559,734
<u>42,528,638</u>	<u>42,559,734</u>
<b>50,606,423</b>	<b>58,562,519</b>
1,890,936	7,956,096
<u><b>\$ 48,715,487</b></u>	<u><b>\$ 50,606,423</b></u>

**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, 2014, \$3,700,487 of bonds outstanding relative to the 1988 issue is considered defeased.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

**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 (excluding unfunded OPEB and pension liabilities), all required reserve payments, and 125% of the principal and interest becoming due on all outstanding bonds.

**NOTE 8 – PENSION PLANS**

**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 was created by resolution of the Utility Board and the authority to establish and amend its provisions rests with the Utility Board. The Plan provides retirement, disability and death benefits to plan members and beneficiaries. 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.

In February 2014, KEYS amended the Retirement Plan by creating a Preservation of Benefits Plan (PB Plan). The PB Plan preserves benefits by paying the difference between the benefit provided per the formula in the Plan and the benefit amount that can be paid because of maximum limitations outlined in Internal Revenue Code Section 415(b).

In addition to the Retirement System for General Employees and the PB Plan, in December 2012, KEYS established a Defined Contribution Plan in order to contribute funds on behalf of the General Manager per the terms of an employment agreement.

**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. 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.

**Schedule of Funding Progress** – KEYS' estimated annual contribution for the calendar year 2014 of \$3,614,947 (39.2%) was determined as part of the January 1, 2014 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return and (b) projected salary increases of 4.5 – 10% per year. Both (a) and (b) included an inflation component of 3.0%.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

**NOTE 8 – PENSION PLANS (Continued)**

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, 2014 was 26 years. KEYS had an unfunded actuarial accrued liability of \$27,734,892 and \$26,808,343 as of January 1, 2014 and 2013 respectively. The net pension asset of \$144,483 at December 31, 2013 represents an over funding/prepayment of the Annual Required Contribution. This prepayment is not recorded in the financial statements as it is deemed immaterial.

Dollar amounts in thousands

Actuarial Valuation Date	Entry Age Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 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%
2012	\$ 61,864	\$ 85,044	\$ 23,180	72.7%	\$ 9,667	239.8%
2013	\$ 62,827	\$ 89,635	\$ 26,808	70.1%	\$ 9,558	280.5%
2014	\$ 69,362	\$ 97,097	\$ 27,735	71.4%	\$ 9,227	300.6%

Historical Trend Information			
Calendar Year	Annual Pension Cost (APC)	Percentage APC Contributed	Net Pension Obligation (Asset)
2008	\$ 2,536,372	100%	\$ (78,832)
2009	\$ 3,317,874	100%	\$ (79,679)
2010	\$ 3,044,502	102%	\$ (138,972)
2011	\$ 3,172,924	100%	\$ (140,932)
2012	\$ 3,354,519	100%	\$ (142,774)
2013	\$ 3,626,500	100%	\$ (144,483)

Annual Pension Cost and Net Pension Asset (NPA)		
	2013	2014
Annual Required Contribution (ARC)	\$ 3,628,209	\$3,614,947
Interest on NPA	(11,422)	(10,836)
Adjustment to ARC	9,713	9,493
APC	\$ 3,626,500	\$3,613,604
Utility Board Contribution	(3,628,209)	
(Increase) Decrease in NPA	(1,709)	
NPO (NPA) beginning of year	(142,774)	
NPO (NPA) end of year	\$ (144,483)	

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

**NOTE 9 – LEASES**

Rent expense under cancelable operating leases related to copiers, mailing equipment, and time clocks was \$62,513 and \$62,463 in 2014 and 2013, respectively.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

**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. 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.

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 agreed to share costs of this project because three parties would derive benefits. Phase 1 of the project was completed in 2012 and increased the electrical import capacity from the mainland from 235 to 280 MW. Phase 2 of the project (series capacitor at the FKEC's Islamorada substation) is scheduled for completion in early 2015. Completion of Phase 2 will bring the total import capacity to 310 MW, corresponding to the thermal rating of the lines.

**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 (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 paid by FMPA to KEYS, and the other negotiated agreements of the parties to affect a True All-Requirements (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.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

**NOTE 11 – PURCHASED POWER COMMITMENTS (Continued)**

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 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 109.0 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 had 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.

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.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

**NOTE 11 – PURCHASED POWER COMMITMENTS (Continued)**

**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 initial purchase amount (the “Initial Contract Demand”) was 45 MW.

This FPL Long-Term Agreement ended in June 2013. It was not necessary to renew this agreement due to KEYS participation in the FMPA All Requirements Project.

**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. During the current fiscal year, KEYS received a favorable judgment from a multi-year court proceeding related to a dispute with a vendor; however such favorable judgment is currently being appealed by said vendor.

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 seven 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 7.1% of the total kilowatt hours sold in FY14 and approximately 8.0% in FY13. 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.

Pursuant to this contract, KEYS has agreed to provide a maximum of 15 MW 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 the exclusive authority to approve the construction of new power plants.



**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

**NOTE 14 – REGULATION (Continued)**

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, 2013.

**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 Utility Board.

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, 2014, 133 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 Utility Board.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

**NOTE 15 – POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)**

During FY14, the monthly premium for retirees’ life insurance and health care benefits was \$789.66 per month. 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 Utility 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.

**Annual OPEB Cost and Net OPEB Obligation**

KEYS Annual OPEB Cost (expense) and Net OPEB Obligation (NOO) for fiscal years ended September 30, 2014 and 2013 are shown below:

	<b>2014</b>	<b>2013</b>
Annual Required Contribution (ARC)	\$ 4,629,189	\$ 4,547,782
Interest on Net OPEB Obligation	595,849	450,159
Adjustment to ARC	<u>(749,801)</u>	<u>(577,686)</u>
Annual OPEB Cost	4,475,237	4,420,255
Employer Contribution	<u>(1,471,261)</u>	<u>(1,313,857)</u>
Increase (Decrease) in OPEB Obligation	3,003,976	3,106,398
Net OPEB Obligation Beginning of Year	<u>14,896,218</u>	<u>11,789,820</u>
Net OPEB Obligation End of Year	<u><u>\$ 17,900,194</u></u>	<u><u>\$ 14,896,218</u></u>

Annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for fiscal years ended September 30, 2014, 2013 and 2012 are shown below. KEYS implemented GASB 45 effective October 1, 2008 and elected to implement prospectively.

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of OPEB Cost</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
9/30/2014	\$4,475,237	33%	\$ 17,900,194
9/30/2013	\$4,420,255	30%	\$ 14,896,218
9/30/2012	\$4,457,219	38%	\$ 11,789,820

**Funded Status and Funding Progress**

The funded status as of the October 1, 2013 valuation was as follows:

Actuarial accrued liability	\$ 71,650,909
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 71,650,909</u></u>
Funded ratio	0.0%
Covered payroll	\$ 9,103,355
Unfunded actuarial accrued liability as as percentage of covered payroll	787.1%

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

**NOTE 15 – POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)**

**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.

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. Assumptions from the Board's October 1, 2013 actuarial valuation were used to determine the liability and resulting ARC using a 4.0% rate of return on invested assets, annual health care cost trend of 9.0% at October 1, 2013 declining gradually to 4.5% at 2023 and later, an inflation rate of 3.5% per year, payroll growth rate of 1.0% per year and projected salary increases between 4.5% 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 described in Resolution 532.

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 \$419,323 and \$434,331 for 2014 and 2013, respectively.

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

**NOTE 17 – SUBSEQUENT EVENT**

On October 8, 2014, The Utility Board approved Springing Master Bond Resolution #797 which becomes effective October 1, 2018 the date Electric System Refunding Revenue Bonds Series 1991 mature. The resolution amends and restates in its entirety the Original Bond Resolution #532.

On October 8, 2014, The Utility Board approved Resolution #798 an Issuance of Electric System Refunding Revenue Bonds Series 2014 for \$40,365,000 to advance refund the existing Electric System Refunding and Capital Improvement Revenue Bond Series 2006. The refunding, which closed on November 20, 2014, results in actual cash flow savings of \$3.5 million and net present value savings of \$2.6 million.

The issuance costs associated with the refunding were approximately \$301,000.

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

**Other Post Employment Benefits  
(OPEB)**

**Schedule of Funding Progress**

Actuarial Valuation Date <u>October 1.</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued Liability (AAL) <u>-PUC</u>	Unfunded AAL ( <u>UAAL</u> )	Funded <u>Ratio</u>	Covered <u>Payroll</u>	UAAL as a Percentage of Covered <u>Payroll</u>
2009	\$ -	\$ 60,160,966	\$ 60,160,966	0.0%	\$ 10,063,814	597.8%
2011	\$ -	\$ 65,247,646	\$ 65,247,646	0.0%	\$ 9,430,372	691.9%
2013	\$ -	\$ 71,650,909	\$ 71,650,909	0.0%	\$ 9,103,355	787.1%

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

**Schedule of Funding Progress**

Dollar amounts in thousands

Actuarial Valuation Date <u>January 1.</u>	Entry Age Actuarial Value of <u>Assets</u>	Actuarial Accrued Liability ( <u>AAL</u> )	Unfunded AAL ( <u>UAAL</u> )	Funded <u>Ratio</u>	Covered <u>Payroll</u>	UAAL as a Percentage of Covered <u>Payroll</u>
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%
2012	\$ 61,864	\$ 85,044	\$ 23,180	72.7%	\$ 9,667	239.8%
2013	\$ 62,827	\$ 89,635	\$ 26,808	70.1%	\$ 9,558	280.5%
2014	\$ 69,362	\$ 97,097	\$ 27,735	71.4%	\$ 9,227	300.6%

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**  
**SCHEDULES OF REVENUES EARNED**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>Operating Revenues:</b>		
Electric Revenues	\$ 99,453,601	\$ 95,943,707
Power Cost Adjustment	(4,709,198)	(6,459,956)
Service Charges	553,309	607,858
Penalty Charges	603,979	629,375
Charges for New Service	372,357	577,035
Other	<u>20,921</u>	<u>36,742</u>
<b>Total</b>	<u>96,294,969</u>	<u>91,334,761</u>
<b>Other Income:</b>		
Interest	725,435	611,996
Grant Revenue	-	11,750
Pole Attachment	555,403	545,669
Generating Unit Expense Reimbursement	444,522	472,927
Transmission Improvement Reimbursement	1,740,771	181,734
Tree Trimming	130,962	124,568
Rental Income	207,185	176,096
Miscellaneous Non-Operating Revenue	<u>366,029</u>	<u>447,329</u>
<b>Total Other Income</b>	<u>4,170,307</u>	<u>2,572,069</u>
<b>Total Revenues</b>	<u>\$ 100,465,276</u>	<u>\$ 93,906,830</u>

**UTILITY BOARD OF THE CITY OF KEY WEST**  
**SCHEDULES OF REVENUES AND EXPENDITURES – BUDGET TO ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Annual Budget		Year to Date Actual	Variance- Favorable (Unfavorable)
	Original	Current		
<b>Revenues</b>				
Operating Revenues	\$ 94,682,065	\$ 94,682,065	\$ 94,744,403	\$ 62,338
Other Operating Revenues	1,245,129	1,245,129	1,550,566	305,437
Interest Income	540,297	540,297	725,435	185,138
Non-Operating Revenues	<u>4,138,559</u>	<u>4,138,559</u>	<u>3,444,872</u>	<u>(693,687)</u>
<b>Total Revenue</b>	<u>100,606,050</u>	<u>100,606,050</u>	<u>100,465,276</u>	<u>(140,774)</u>
<b>Expenditures</b>				
Purchased Power	55,098,213	55,098,213	52,691,941	2,406,272
Transmission Expenses	5,581,225	5,541,417	5,653,600	(112,183)
Distribution Expenses	3,659,263	3,718,508	3,736,558	(18,050)
Customer Accounts and Collection Expenses	1,103,346	1,064,713	1,222,595	(157,882)
Interest on Customer Deposits	-	-	11,531	(11,531)
Administrative and General Expenses	16,416,399	19,882,453	19,282,488	599,965
Senior Lien Debt Service	11,258,588	11,258,588	11,258,588	-
Payment to City of Key West	<u>408,290</u>	<u>408,290</u>	<u>419,323</u>	<u>(11,033)</u>
<b>Total Expenditures</b>	<u>93,525,324</u>	<u>96,972,182</u>	<u>94,276,624</u>	<u>2,695,558</u>
<b>Excess of Revenues Over Expenditures</b>	<u>\$ 7,080,726</u>	<u>\$ 3,633,868</u>	6,188,652	<u>\$ 2,554,784</u>
<b>Adjustments</b>				
Depreciation			(7,297,266)	
Principal Portion of Budgeted Debt Service			1,859,840	
Accrued Interest Capital Appreciation			7,410,160	
Capitalized Overhead			1,066,108	
Interest Accrued but Unfunded			(2,722,228)	
Amortization of Issuance Costs			29,379	
Capital Contributions			350	
Loss on Disposition of Assets			(280,530)	
Realized and Unrealized Loss on investments			(163,382)	
Amortization of Loss on Refunding			<u>-</u>	
<b>Change in Net Position, GAAP Basis</b>			<u>\$ 6,091,083</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 the current period, as well as nine years prior are 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 STATEMENTS OF NET POSITION**

**FISCAL YEARS 2014 - 2005**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>										
<b>Current Assets</b>										
Cash and Investments	\$ 13,122,165	\$ 11,619,057	\$ 26,849,275	\$ 21,567,674	\$ 22,556,707	\$ 21,682,666	\$ 20,027,657	\$ 4,878,731	\$ 7,064,406	\$ 6,657,203
Accounts Receivable, net	7,746,099	7,662,903	8,030,525	7,401,356	7,296,861	7,594,719	9,374,828	6,930,502	6,152,177	5,729,570
Unbilled Customer Receivables	4,965,159									
Plant Material and Operating Supplies Inventory	2,740,636	2,773,137	2,729,189	2,712,209	3,851,035	3,978,064	3,791,212	3,422,943	2,722,320	2,454,805
Other Current Assets	<u>1,673,906</u>	<u>1,373,190</u>	<u>2,395,876</u>	<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>
Total Unrestricted Current Assets	30,247,965	23,428,287	40,004,865	33,806,734	35,222,402	34,729,426	35,515,732	25,433,245	25,176,463	25,045,203
Cash and Investments-Restricted	10,015,183	10,560,152	9,640,293	17,601,586	9,383,394	30,050,392	29,771,908	49,983,884	12,833,724	11,466,147
Prepaid Expenses	10,264,294	9,148,828	8,937,953	-	8,534,034	-	8,190,244			
Interest Receivable	<u>3,258</u>	<u>3,258</u>	<u>3,258</u>	<u>2,715</u>	<u>1,629</u>	<u>2,715</u>	<u>2,715</u>	<u>2,715</u>	<u>-</u>	<u>-</u>
Total Restricted Current Assets	20,282,735	19,712,238	18,581,504	17,604,301	17,919,057	30,053,107	37,964,867	49,986,599	12,833,724	11,466,147
<b>Total Current Assets</b>	<u>50,530,700</u>	<u>43,140,525</u>	<u>58,586,369</u>	<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>
<b>Non Current Assets</b>										
<b>Capital Assets</b>										
Net Utility Plant	124,163,363	124,209,444	129,410,912	125,884,247	151,490,867	131,418,048	122,510,168	117,452,090	113,676,371	111,804,113
Construction in Progress	<u>4,834,632</u>	<u>4,070,040</u>	<u>423,822</u>	<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>
Total Net Capital Assets	128,997,995	128,279,484	129,834,734	128,363,393	154,937,272	141,343,015	129,110,578	120,850,239	114,832,809	114,111,920
<b>Restricted Non-Current Assets</b>										
Investments	2,511,171	2,494,154	-	-	-	-	-	-	-	-
Interest Receivable	7,304	9,160	-	-	-	-	-	-	-	-
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>2,266,539</u>	<u>2,266,539</u>	<u>2,266,539</u>	<u>3,243,009</u>	<u>3,243,009</u>
Total Restricted Non-Current Assets	4,785,014	4,769,853	2,266,539	2,266,539	2,266,539	2,266,539	2,266,539	2,266,539	3,243,009	3,243,009
<b>Unrestricted Non-Current Assets</b>										
Investments	14,471,861	15,423,592	-	-	-	-	-	-	-	-
Interest Receivable	34,402	51,349	-	-	-	-	-	-	-	-
Long Term Receivable	9,772,123	10,216,998	10,663,958	11,134,617	6,372,920	6,228,096	6,485,648	6,944,377	6,765,007	6,591,659
Other Accounts Receivable	-	-	255,463	402,446	541,801	1,168,151	1,168,151	1,177,205	1,177,205	1,177,205
Bond Discount and Issue Costs, Net	<u>6,868</u>	<u>8,585</u>	<u>396,497</u>	<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>
Total Unrestricted Non-Current Assets	24,285,254	25,700,524	11,315,918	12,049,108	7,542,314	8,139,388	8,512,488	9,094,311	8,746,958	8,678,118
<b>Total Non-Current Assets</b>	<u>158,068,263</u>	<u>158,749,861</u>	<u>143,417,191</u>	<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>
<b>Total Assets</b>	<u>\$ 208,598,963</u>	<u>\$ 201,890,386</u>	<u>\$ 202,003,560</u>	<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>

(Continued)

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**FINANCIAL TRENDS**

**CONDENSED STATEMENTS OF NET POSITION (Continued)**

**FISCAL YEARS 2014 - 2005**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>
<b>NET POSITION AND LIABILITIES</b>										
<b>Current Liabilities</b>										
Unrestricted Current Liabilities										
Accounts Payable	\$ 4,446,291	\$ 5,461,602	\$ 4,703,083	\$ 5,552,962	\$ 5,315,703	\$ 5,504,682	\$ 7,068,091	\$ 6,685,677	\$ 5,709,921	\$ 6,751,776
Accrued Expenses	2,269,550	2,341,929	1,944,294	1,723,721	1,979,216	2,877,088	2,977,077	3,149,004	2,508,409	2,133,812
Accrued Power Cost Adjustment	5,000,126	-	-	-	-	-	-	-	-	-
Unearned Revenues	<u>470,747</u>	<u>412,408</u>	<u>187,002</u>	<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>
Total Unrestricted Current Liabilities	12,186,714	8,215,939	6,834,379	7,678,377	7,542,445	9,053,032	10,099,159	9,967,046	8,534,458	8,967,874
Restricted Current Liabilities										
Current Portion of Long-Term Debt	1,890,936	7,956,096	7,466,707	7,061,707	6,666,707	6,311,707	5,976,707	5,694,373	5,454,373	5,169,373
Accounts Payable	241,847	912,008	474,738	584,737	2,088,337	1,620,382	865,410	744,959	914,510	196,656
Accrued Interest	8,404,454	1,223,828	1,442,953	1,646,716	1,839,035	2,020,441	2,185,244	2,342,556	1,498,275	1,639,823
Due to Customers	4,633,232	4,762,506	4,662,549	4,617,164	4,462,038	4,315,660	4,279,001	4,125,296	4,020,894	4,084,228
Due to Other Governments	-	-	-	-	-	-	-	-	-	-
Accrued Expenses	-	-	-	-	-	-	-	205,950	-	-
Security Deposits Payable	<u>245,546</u>	<u>246,103</u>	<u>168,169</u>	<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>
Total Restricted Current Liabilities	15,416,015	15,100,541	14,215,116	14,025,479	15,168,507	14,878,190	13,916,362	13,223,134	11,998,052	11,200,080
<b>Total Current Liabilities</b>	<b>27,602,729</b>	<b>23,316,480</b>	<b>21,049,495</b>	<b>21,703,856</b>	<b>22,710,952</b>	<b>23,931,222</b>	<b>24,015,521</b>	<b>23,190,180</b>	<b>20,532,510</b>	<b>20,167,954</b>
<b>Non Current Liabilities</b>										
Compensated absences	1,448,874	1,542,737	1,573,337	1,546,768	1,742,962	1,668,691	1,593,715	-	-	-
Accrued OPEB Expenses	17,900,194	14,896,218	11,789,819	8,552,520	5,657,018	1,628,769	-	-	-	-
Revenue Bonds	48,715,487	50,606,423	58,562,519	66,029,226	73,090,933	79,757,640	86,069,346	92,091,536	55,032,256	60,486,629
Accrued Interest	25,026,089	29,714,021	27,174,709	24,806,001	22,596,441	20,535,423	18,612,844	16,819,451	15,146,568	13,586,094
Loan Payable	-	-	-	-	-	-	-	-	948,000	1,185,000
<b>Total Non Current Liabilities</b>	<b>93,090,644</b>	<b>96,759,399</b>	<b>99,100,384</b>	<b>100,934,515</b>	<b>103,087,354</b>	<b>103,590,523</b>	<b>106,275,905</b>	<b>108,910,987</b>	<b>71,126,824</b>	<b>75,257,723</b>
<b>Total Liabilities</b>	<b><u>120,693,373</u></b>	<b><u>120,075,879</u></b>	<b><u>120,149,879</u></b>	<b><u>122,638,371</u></b>	<b><u>125,798,306</u></b>	<b><u>127,521,745</u></b>	<b><u>130,291,426</u></b>	<b><u>132,101,167</u></b>	<b><u>91,659,334</u></b>	<b><u>95,425,677</u></b>
<b>Net Position</b>	<b><u>87,905,590</u></b>	<b><u>81,814,507</u></b>	<b><u>81,853,681</u></b>	<b><u>71,451,704</u></b>	<b><u>92,089,278</u></b>	<b><u>89,009,730</u></b>	<b><u>83,078,778</u></b>	<b><u>75,529,766</u></b>	<b><u>73,173,629</u></b>	<b><u>67,118,720</u></b>
<b>Total Net Position and Liabilities</b>	<b><u>\$ 208,598,963</u></b>	<b><u>\$ 201,890,386</u></b>	<b><u>\$ 202,003,560</u></b>	<b><u>\$ 194,090,075</u></b>	<b><u>\$ 217,887,584</u></b>	<b><u>\$ 216,531,475</u></b>	<b><u>\$ 213,370,204</u></b>	<b><u>\$ 207,630,933</u></b>	<b><u>\$ 164,832,963</u></b>	<b><u>\$ 162,544,397</u></b>

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**FINANCIAL TRENDS**

**CHANGES IN NET POSITION**

**FISCAL YEARS 2014 - 2005**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>
<b>Revenues</b>										
Utility Activities:										
Charges for Electric:										
Customer Charge	\$ 6,708,659	\$ 6,402,838	\$ 2,428,747	\$ 2,403,347	\$ 2,387,069	\$ 2,273,622	\$ 2,196,785	\$ 2,182,999	\$ 2,097,779	\$ 2,106,597
Energy	88,387,525	81,223,828	88,061,761	87,125,444	87,979,773	81,257,201	85,037,568	81,175,294	50,721,562	52,074,914
Demand	6,329,040	6,084,897	5,150,585	5,076,653	5,218,362	4,856,126	4,868,544	4,786,021	4,586,551	4,767,462
Power Cost Adjustment	(9,709,324)	(6,459,956)	(2,696,333)	(2,259,807)	3,152,497	14,892,862	14,681,817	(312,369)	34,217,993	19,451,323
Gross Receipts	<u>3,028,503</u>	<u>2,232,145</u>	<u>2,378,596</u>	<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>
Total Charges for Electric	94,744,403	89,483,752	95,323,356	94,708,758	101,264,428	105,925,446	109,518,342	90,080,391	93,968,368	80,406,201
Charges for Service:										
Penalty Charge	603,980	629,375	653,471	637,130	803,952	1,023,502	663,025	601,588	470,133	482,655
Service Charge	553,309	607,857	388,890	400,005	423,187	255,514	245,480	248,140	134,068	141,677
Initial Permanent Service	147,272	79,420	55,695	116,165	90,500	83,575	169,040	217,610	31,400	57,800
Line Extension	225,399	498,280	942,262	164,972	724,859	268,576	631,091	500,738	697,538	69,354
Contributions in Aid of Construction	<u>350</u>	<u>(47,282)</u>	<u>54,838</u>	<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>
Total Charges for Service	1,530,310	1,767,650	2,095,156	1,408,089	2,162,483	1,725,990	1,884,496	1,793,544	1,419,122	870,833
Charges for Other Services:										
Green Power	-	2,325	9,450	9,760	10,815	13,845	11,700	5,374	3,547	3,601
Capacity Credits	-	-	-	332,707	1,611,873	1,777,614	1,767,171	1,931,766	1,804,033	2,029,173
Other	<u>20,606</u>	<u>33,752</u>	<u>37,947</u>	<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>
Total Charges for Other Services	20,606	36,077	47,397	388,081	1,657,676	1,942,873	1,931,115	2,100,405	1,898,558	2,321,049
Total Utility Activities	<u>96,295,319</u>	<u>91,287,479</u>	<u>97,465,909</u>	<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>
Non-Utility Activities:										
Rental Income	960,861	923,434	841,228	975,560	854,843	389,888	614,805	644,179	633,419	402,898
Miscellaneous	2,382,428	900,321	3,342,387	862,917	978,959	1,998,283	983,232	644,012	1,529,184	269,151
Tree Trimming	130,962	124,568	131,168	130,912	129,888	135,008	118,022	110,550	92,565	81,573
Investment Earnings	725,435	611,996	508,014	419,245	266,524	388,391	751,008	1,392,012	1,047,716	613,525
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	-	11,750	446,069	1,523	-	-	-	-	-	119,367
Gain on Disposition of Property	-	-	-	-	-	-	-	-	-	4,568,719
Total Non-Utility Activities	<u>4,199,686</u>	<u>2,572,069</u>	<u>5,268,866</u>	<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>
Total Revenues	<u>\$ 100,495,005</u>	<u>\$ 93,859,548</u>	<u>\$ 102,734,775</u>	<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>

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**FINANCIAL TRENDS**

**CHANGES IN NET POSITION (Continued)**

**FISCAL YEARS 2014 – 2005**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>
<b>Expenses</b>										
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
Purchased Power	52,691,941	51,738,636	50,658,853	52,961,249	63,272,371	66,847,376	71,009,513	58,531,619	59,946,424	49,287,046
Transmission	5,653,600	5,647,880	4,782,103	4,793,953	4,519,506	4,648,803	3,938,264	3,857,363	3,539,845	3,646,679
Distribution	3,736,558	3,798,706	3,800,595	3,844,570	3,939,956	4,065,166	4,070,472	3,984,022	3,366,439	3,017,736
Customer Service	1,222,595	1,383,512	1,242,695	1,256,967	1,663,487	1,675,437	1,571,014	1,332,355	1,243,322	1,280,590
Administrative & General	15,723,183	15,540,816	14,555,804	14,682,883	14,288,249	12,620,134	11,850,327	11,812,589	11,452,519	11,540,112
Depreciation	7,297,266	7,294,534	6,979,378	7,033,190	7,925,719	7,190,781	6,632,858	6,339,122	6,182,488	6,391,999
Gross Receipts Tax	2,369,484	2,237,094	2,383,084	2,367,719	2,531,611	2,648,136	2,738,286	2,252,740	2,348,479	2,010,155
Employer Payroll Tax	123,713	124,105	116,673	120,454	134,583	145,807	145,160	137,946	119,476	116,919
Total Utility Activities	<u>88,818,340</u>	<u>87,765,283</u>	<u>84,519,185</u>	<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>
Non-Utility Activities										
Debt Expenses										
Interest on Debt	4,710,816	5,046,358	5,314,003	4,568,087	3,809,889	4,034,263	4,228,875	4,435,260	4,670,672	4,811,456
Interest Customer Deposit	11,531	-	2,870	10,238	8,998	10,807	67,621	197,964	194,367	109,429
Amortization of Bond Discount	-	356,815	84,452	100,000	115,548	115,548	114,040	113,096	104,508	104,508
Payment to City of Key West	419,323	434,331	423,585	444,926	393,368	386,188	368,741	341,279	343,341	340,548
Loss on Disposal of Assets	280,530	139,794	1,827,209	1,130,404	-	-	-	-	-	-
Unrealized Loss on Investments	79,760	153,446	-	-	-	-	-	-	-	-
Realized Loss on Investments	83,622	2,695	-	-	-	-	-	-	-	-
Grant Expense	-	-	161,494	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	-	-	-	12,709,385	-	-	-	-	-	-
Total Non-Utility Activities	<u>5,585,582</u>	<u>6,133,439</u>	<u>7,813,613</u>	<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>
Total Expenses	<u>\$ 94,403,922</u>	<u>\$ 93,898,722</u>	<u>\$ 92,332,798</u>	<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>

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**FINANCIAL TRENDS**

**CHANGES IN NET POSITION (Continued)**

**FISCAL YEARS 2014 – 2005**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>
<b><u>Change in Net Position</u></b>										
Utility Activities										
Total Utility Revenues	\$ 96,295,319	\$ 91,287,479	\$ 97,465,909	\$ 96,504,928	\$ 105,084,587	\$ 109,594,309	\$ 113,333,953	\$ 93,974,340	\$ 97,286,048	\$ 83,598,083
Total Utility Expenses	<u>88,818,340</u>	<u>87,765,283</u>	<u>84,519,185</u>	<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>
Utility Change in Net Position	7,476,979	3,522,196	12,946,724	9,084,613	5,251,207	7,566,667	9,752,993	4,102,774	7,604,979	5,232,680
Non-Utility Activities										
Total Non-Utility Revenues	4,199,686	2,572,069	5,268,866	2,390,157	2,281,144	2,911,091	2,832,092	3,340,962	6,857,790	7,955,935
Total Non-Utility Expenses	<u>5,585,582</u>	<u>6,133,439</u>	<u>7,813,613</u>	<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>
Non-Utility Change in Net Position	(1,385,896)	(3,561,370)	(2,544,747)	(29,722,187)	(2,171,659)	(1,635,715)	(2,203,981)	(1,746,637)	(1,550,070)	375,308
Change in Net Position	<u>\$ 6,091,083</u>	<u>\$ (39,174)</u>	<u>\$ 10,401,977</u>	<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>

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**FINANCIAL TRENDS**

**NET POSITION BY COMPONENT**

**FISCAL YEARS 2014 - 2005**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>
Utility Activities										
Net Investment in Capital Assets	\$ 82,992,962	\$ 74,349,452	\$ 69,866,406	\$ 61,312,051	\$ 82,248,111	\$ 76,593,445	\$ 66,814,871	\$ 60,991,269	\$ 53,995,651	\$ 48,044,762
Restricted	8,041,846	8,588,680	7,644,813	6,864,884	2,997,107	3,188,316	10,830,859	2,266,539	3,243,009	3,243,009
Unrestricted	<u>(3,129,218)</u>	<u>(1,123,625)</u>	<u>4,342,462</u>	<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>
Total Net Position	<u>\$ 87,905,590</u>	<u>\$ 81,814,507</u>	<u>\$ 81,853,681</u>	<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>

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**REVENUE CAPACITY**

**REVENUES BY TYPE OF CUSTOMER**

**FISCAL YEARS 2014 - 2005**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	Restated <u>2007</u>	<u>2006</u>	<u>2005</u>
Residential	\$ 46,366,673	\$ 42,533,827	\$ 45,061,783	\$ 45,069,747	\$ 48,205,995	\$ 48,875,062	\$ 51,560,478	\$ 42,438,131	\$ 44,302,430	\$ 37,767,031
Senior Citizen	776,827	637,247	567,358	590,760	679,315	567,634	498,448	428,097	452,712	369,301
Small Commercial	10,658,271	9,963,899	10,489,560	10,211,053	10,258,593	11,430,140	11,598,413	9,595,506	9,861,649	8,386,852
Large Commercial	27,633,199	26,763,839	28,371,301	28,064,775	30,124,699	31,847,083	33,354,993	27,432,935	28,882,226	24,131,212
Large Commercial-Primary	2,125,496	2,132,495	2,591,693	2,534,796	2,842,446	2,686,606	2,109,808	1,653,887	1,783,289	1,503,875
Military	6,339,908	6,625,457	7,426,468	7,573,830	8,478,864	9,708,708	9,587,871	7,797,799	7,986,754	7,618,487
Churches	88,591	73,151	82,051	88,922	97,813	106,856	120,566	96,087	103,375	87,974
Recreating Lighting	27,058	30,475	27,139	20,523	20,202	21,428	25,540	30,242	28,274	28,956
Street Lighting	527,096	514,325	487,425	355,839	332,508	461,627	441,036	382,452	397,735	339,410
Area Lights	<u>201,284</u>	<u>209,036</u>	<u>218,578</u>	<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>
<b>Total Electric Revenues</b>	<u>\$ 94,744,403</u>	<u>\$ 89,483,751</u>	<u>\$ 95,323,356</u>	<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>

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**REVENUE CAPACITY**

**ACTUAL NUMBER OF CUSTOMERS BILLED**

**(Month of September)**

**FISCAL YEARS 2014 - 2005**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	Restated <u>2007</u>	<u>2006</u>	<u>2005</u>
Residential	24,659	24,267	24,190	24,143	23,884	23,857	23,728	23,602	23,626	23,722
Senior Citizen	647	602	470	476	504	478	365	365	385	359
Small Commercial	3,530	3,517	3,525	3,388	3,327	3,279	3,275	3,135	3,083	3,003
Large Commercial	672	679	661	638	655	658	650	666	641	689
Large Commercial-Primary	6	6	6	6	6	8	6	5	5	5
Military	1	1	1	1	1	1	1	1	1	1
Churches	12	11	11	11	13	16	17	15	14	14
Recreating Lighting	4	5	5	4	3	3	3	3	4	4
Street Lighting	5	5	5	5	5	5	5	5	5	5
Area Lights	<u>1,323</u>	<u>1,323</u>	<u>1,323</u>	<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>
<b>Total Customers</b>	<u><u>30,859</u></u>	<u><u>30,416</u></u>	<u><u>30,197</u></u>	<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>



**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**REVENUE CAPACITY**

**kWh SALES BY TYPE OF CUSTOMER**

**FISCAL YEARS 2014 - 2005**

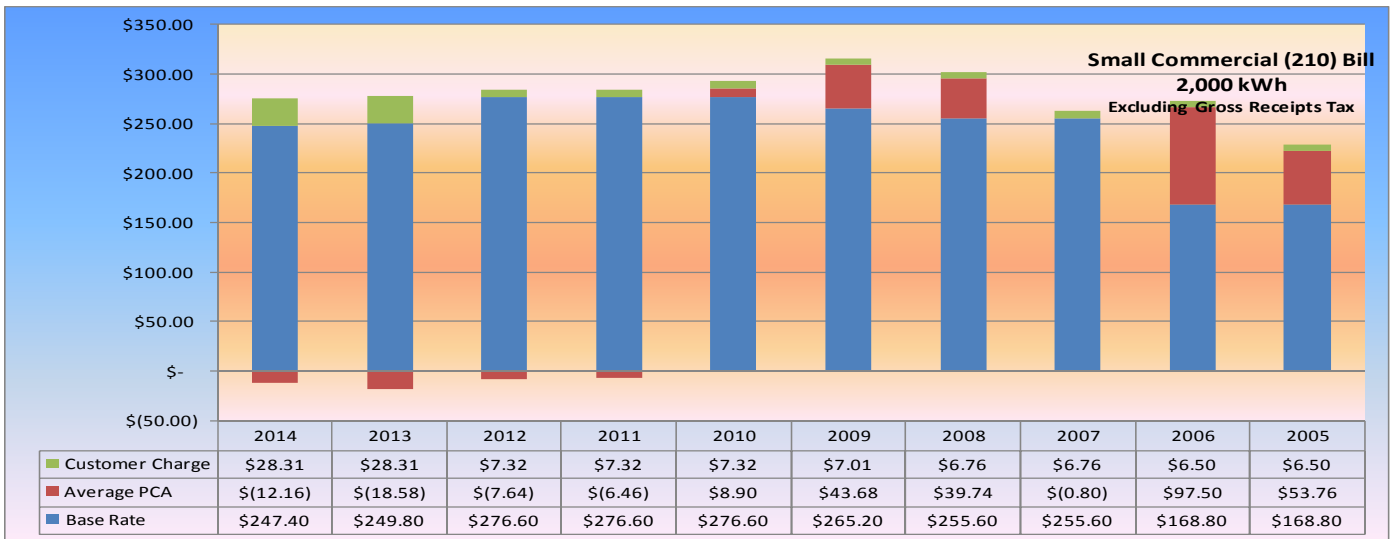
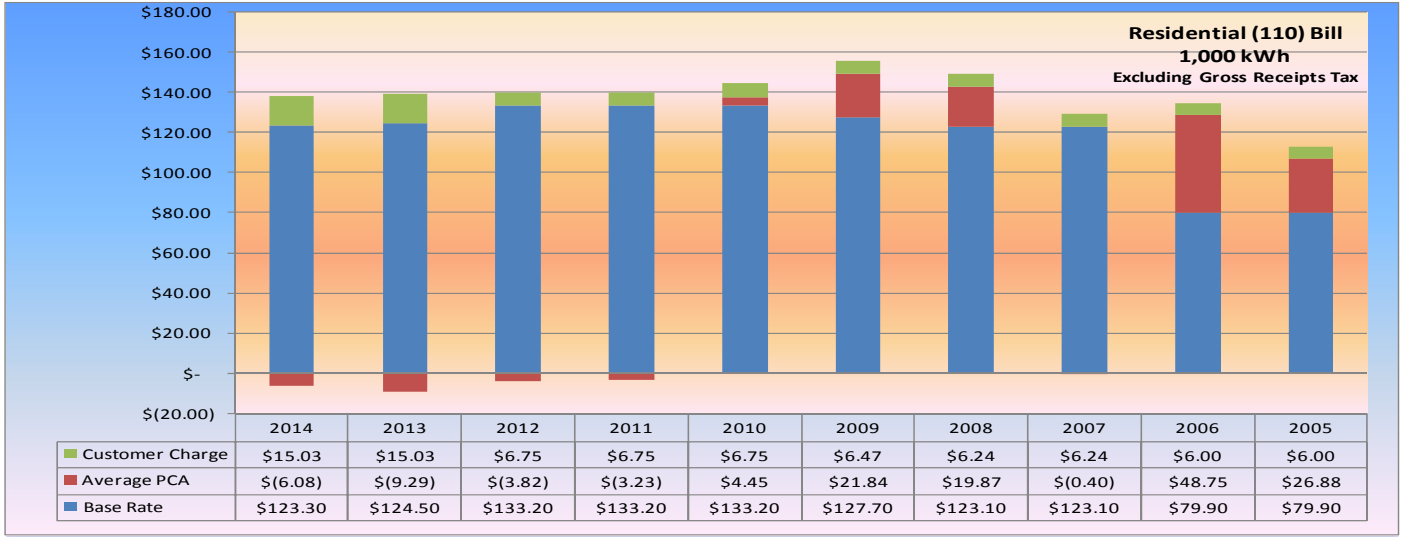
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<b>Restated</b> <u>2007</u>	<u>2006</u>	<u>2005</u>
Residential	367,904,886	321,844,576	324,591,272	323,376,914	327,891,790	306,412,074	338,662,570	322,694,803	322,821,261	328,463,571
Senior Citizen	6,421,613	5,076,910	4,278,721	4,431,285	4,813,342	3,708,660	3,395,803	3,390,179	3,433,442	3,367,914
Small Commercial	81,605,992	73,709,059	73,721,931	71,432,985	68,036,855	70,227,949	74,675,605	71,492,573	70,301,646	71,315,388
Large Commercial	231,795,251	217,310,460	218,661,192	215,142,590	216,912,387	210,898,837	233,186,440	223,211,328	223,397,382	225,840,948
Large Commercial-Primary	18,893,417	18,359,458	20,750,140	20,218,840	21,234,670	18,498,199	15,283,453	14,028,201	14,390,129	14,745,675
Military	54,530,993	55,799,116	59,645,920	60,739,110	64,148,957	67,370,482	69,584,689	66,557,591	64,737,435	75,332,040
Churches	558,523	479,309	524,512	563,119	591,294	602,154	718,511	648,111	671,840	669,595
Recreating Lighting	174,156	192,439	163,563	122,613	114,580	114,100	145,520	194,740	175,760	210,460
Street Lighting	1,987,684	1,964,908	2,069,668	2,397,191	2,709,204	2,697,333	2,694,288	2,750,949	2,817,954	2,654,569
Area Lights	<u>810,751</u>	<u>776,616</u>	<u>1,227,291</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>
<b>Total kWh</b>	<u><u>764,683,266</u></u>	<u><u>695,512,851</u></u>	<u><u>705,634,210</u></u>	<u><u>699,802,163</u></u>	<u><u>707,830,595</u></u>	<u><u>681,907,304</u></u>	<u><u>739,724,395</u></u>	<u><u>706,345,991</u></u>	<u><u>704,124,365</u></u>	<u><u>723,977,676</u></u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

RATE ANALYSIS – RESIDENTIAL & COMMERCIAL

FISCAL YEARS 2014 - 2005



**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**DEBT CAPACITY**

**COMPUTATION OF DEBT SERVICE COVERAGE**

**FISCAL YEARS 2014 - 2005**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Restated 2007</u>	<u>2006</u>	<u>2005</u>
Operating Revenue	\$ 96,294,969	\$ 91,334,761	\$ 97,411,071	\$ 96,415,111	\$104,964,602	\$ 109,499,486	\$ 113,158,093	\$93,748,872	\$ 97,200,065	\$ 83,478,736
Other Income	4,170,307	2,560,319	4,853,083	2,470,585	2,281,144	2,911,570	2,539,133	2,790,753	3,302,844	1,486,514
Rate Stabilization Transfers	-		(360,082)	1,357	(1,357)	2,662,964	(700,000)	(677,808)	(1,000,535)	235,272
Total Revenues Available	<u>100,465,276</u>	<u>93,895,080</u>	<u>101,904,072</u>	<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>
Total Operating Expenses *	<u>78,528,630</u>	<u>77,364,351</u>	<u>77,542,677</u>	<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>
Net Revenues Available for Coverage	<u>\$ 21,936,646</u>	<u>\$ 16,530,729</u>	<u>\$ 24,361,395</u>	<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>
Annual Debt Service	<u>\$ 11,258,588</u>	<u>\$ 10,372,656</u>	<u>\$ 10,380,906</u>	<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>
Debt Service Coverage Ratio	<u>1.95</u>	<u>1.59</u>	<u>2.35</u>	<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>

\* FY14 and FY13 exclude OPEB costs per revised bond resolution

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**DEBT CAPACITY**

**TOTAL PAYMENTS (PRINCIPAL & INTEREST) PAYABLE FOR ALL DEBT ISSUES THROUGH 2032**

**TOTAL PAYMENTS (PRINCIPAL & INTEREST) PAYABLE ON ALL DEBT ISSUES THROUGH FY 2032**

<b>Payments Due for FY</b>	<b>Number of Customers <sup>(1)</sup></b>	<b>Debt per Capita</b>	<b>Total for all Debt Issues</b>	<b>1991 Series Bond Issue</b>	<b>2000 Series Bond Issue</b>	<b>2001 Series Bond Issue</b>	<b>2006 Series Bond Issue</b>	
2015	30,859	425.11	13,118,428	11,129,840	-	-	1,988,588	
2016	30,859	421.07	12,993,932	11,005,344	-	-	1,988,588	
2017	30,859	416.67	12,858,127	10,869,539	-	-	1,988,588	
2018	30,859	413.18	12,750,409	10,761,821	-	-	1,988,588	
2019	30,859	409.92	12,649,829	10,661,241	-	-	1,988,588	
2020	30,859	141.77	4,374,888	-	-	-	4,374,888	
2021	30,859	141.22	4,357,938	-	-	-	4,357,938	
2022	30,859	141.44	4,364,838	-	-	-	4,364,838	
2023	30,859	141.37	4,362,438	-	-	-	4,362,438	
2024	30,859	140.88	4,347,388	-	-	-	4,347,388	
2025	30,859	141.01	4,351,375	-	-	-	4,351,375	
2026	30,859	141.13	4,355,181	-	-	-	4,355,181	
2027	30,859	140.96	4,349,875	-	-	-	4,349,875	
2028	30,859	140.50	4,335,625	-	-	-	4,335,625	
2029	30,859	140.41	4,333,000	-	-	-	4,333,000	
2030	30,859	140.20	4,326,500	-	-	-	4,326,500	
2031	30,859	134.02	4,135,750	-	-	-	4,135,750	
2032	30,859	139.84	4,315,250	-	-	-	4,315,250	
<hr/>				<b>\$ 120,680,771</b>	<b>\$ 54,427,785</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 66,252,986</b>
<hr/>								

(1) The same number of customers was used for all years due to the limited land available in Key West and Lower Florida Keys. Monroe County has a strict regulated growth policy where further development is limited and any future changes in the number of customers would be minimal

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**DEMOGRAPHIC AND ECONOMIC INFORMATION**

Year	Key West Population <sup>(1)</sup>	Key West Personal Income <sup>(3)</sup>	Monroe County Per Capita Income <sup>(3)</sup>	Monroe County Median Age <sup>(1)</sup>	Monroe County Unemployment Rate <sup>(2)</sup>
2014	(4)	(4)	(4)	(4)	(4)
2013	25,550	(4)	(4)	(4)	4.2%
2012	25,057	\$ 52,660	\$ 34,277	46.4	5.1%
2011	24,909	\$ 51,385	\$ 35,074	46.1	6.3%
2010	24,649	(4)	\$ 36,086	46.4	7.1%
2009	22,364	\$ 60,173	\$ 34,174	47.4	6.7%
2008	22,364	\$ 61,825	\$ 34,174	47	4.0%
2007	22,682	\$ 61,216	\$ 39,254	53	2.6%
2006	23,262	\$ 54,955	\$ 36,564	53	2.4%
2005	23,935*	\$ 50,024	\$ 35,612	(4)	2.7%

Sources:

<sup>(1)</sup> Key West Chamber of Commerce

<sup>(2)</sup> US Department of Labor Bureau of Labor Statistics

<sup>(3)</sup> US Census Bureau

<sup>(4)</sup> 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

MONROE COUNTY MAJOR EMPLOYERS

<b>Sector</b>	<b>Ranking</b>	<b>Employer Name</b>	<b>Number of Employees <sup>(1)</sup></b>
Public	1	US Armed Services (including civilian support & contractors)	2,664
	2	Monroe County Schools	993
	3	Monroe County Sheriff's Office	595
	4	Monroe County Government	522
	5	City of Key West	424
	6	Florida Keys Aqueduct Authority	258
	7	Keys Energy Services <sup>(2)</sup>	127
	8	Florida Keys Electric Cooperative Association	117
Private	1	Ocean Reef Club	816
	2	Community Health Care Center	450
	3	Publix Stores	435
	4	Hawk's Cay Resort	375
	5	Casa Marina/Reach Resort	340
	6	Historic Tours of America	331
	7	Westin Resort & Marina/Sunset Key	310
	8	Spottswood Properties	276

Sources:

<sup>(1)</sup> Key West Chamber of Commerce - as of July 2014

<sup>(2)</sup> Keys Energy Services - as of September 2014

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

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**OPERATING INFORMATION**

**OPERATING EXPENSES**

**FISCAL YEARS 2014 - 2005**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	Restated <u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Electric Operating Expenses</b>										
Production - Diesel	\$ -	\$ -	\$ -	\$ 359,330	\$ 1,557,898	\$ 2,186,002	\$ 1,625,066	\$ 1,623,810	\$ 1,482,077	\$ 1,074,167
Purchased Power	52,691,941	51,738,636	50,658,853	52,961,249	63,272,371	66,847,376	71,009,513	58,531,619	59,946,424	49,287,046
Transmission	5,653,600	5,647,880	4,782,103	4,793,953	4,519,506	4,648,803	3,938,264	3,857,363	3,539,845	3,646,679
Distribution	3,736,558	3,798,706	3,800,595	3,844,570	3,939,956	4,065,166	4,070,472	3,984,022	3,366,439	3,017,736
Customer Accounts, Collection and Services	1,222,595	1,383,512	1,242,695	1,256,967	1,663,487	1,675,437	1,571,014	1,332,355	1,243,322	1,280,590
Administrative and General	15,723,183	15,540,816	14,555,804	14,682,883	14,288,249	12,620,134	11,850,327	11,812,589	11,452,519	11,540,112
Depreciation	7,297,266	7,294,534	6,979,378	7,033,190	7,925,719	7,190,781	6,632,858	6,339,122	6,182,488	6,391,999
Taxes Other Than Income Tax	<u>2,493,197</u>	<u>2,361,199</u>	<u>2,499,757</u>	<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>
<b>Total Electric Operating Expenses</b>	<u>\$ 88,818,340</u>	<u>\$ 87,765,283</u>	<u>\$ 84,519,185</u>	<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>

**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**OPERATING INFORMATION**

**ENERGY SOURCES**

<u>Description</u>	<b>FISCAL YEARS 2014 - 2005</b>									
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>Gross Generation in MWh:</u>										
Diesel and Combustion Turbine	0	0	0	425	5,351	5,307	4,872	15,066	20,338	26,067
Less: Station Auxiliaries	<u>2,694</u>	<u>3,064</u>	<u>3,256</u>	<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>
Net Generation	(2,694)	(3,064)	(3,256)	(3,544)	756	848	505	10,993	16,772	22,604
Sales To Other Distributors										
Net Delivered Purchased Power and Stanton Generation	<u>773,114</u>	<u>741,067</u>	<u>748,378</u>	<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>
Net Energy for Load	770,420	738,003	745,122	747,355	747,958	733,040	774,530	766,178	755,710	781,141
Less: Losses	<u>(43,425)</u>	<u>(42,490)</u>	<u>(39,488)</u>	<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>
Retail Energy Sales (1)	<u>726,995</u>	<u>695,513</u>	<u>705,634</u>	<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>
Losses	5.6%	5.8%	5.3%	6.4%	5.4%	7.0%	4.5%	7.8%	6.8%	7.3%
Generation Capacity (kW) - Name Plate Rating (2)	132,100	132,100	130,100	130,100	130,100	137,500	137,500	123,100	123,100	87,100
KEYS 60 Minute Net Peak Demand	145,080	137,600	137,800	140,200	138,100	137,400	139,100	142,000	135,511	145,500
Percentage of On Island Resources for Net Peak Demand	91.1%	96.0%	94.4%	92.8%	94.2%	100.1%	98.8%	86.7%	90.8%	59.9%
Load Factor	60.6%	61.2%	61.7%	60.9%	61.8%	60.9%	63.4%	61.6%	63.7%	61.3%
<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	12,723	12,723	12,723	12,289	12,289	12,289	12,289	12,289	12,367
FMPA Stanton 2 Project	10,253	10,253	10,253	10,253	9,862	9,862	9,862	9,862	9,770	9,708
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>67,976</u>	<u>67,976</u>	<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>
Total Generating and Purchased Capability	<u>200,076</u>	<u>200,076</u>	<u>198,076</u>	<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>
Net Reserve Margin Including Purchased Power (3)	37.9%	45.4%	43.7%	41.3%	42.8%	48.9%	47.1%	34.0%	40.3%	6.0%

(1) The Retail Energy Sales for FY2014 does not include the accrued unbilled kWh.

(2) 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.

(3) Net Reserve Margin represents the amount of capacity in excess of KEYS peak demand, as a percentage of system peak demand.



**UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA**

**OPERATING INFORMATION**

**GENERATING CAPACITY**

**FISCAL YEARS 2014 - 2005**

<u>Generating Units</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Name Plate	<u>M e g a w a t t s (MW)</u>									
Combustion Turbine #1	23.5	23.5	23.5	23.5	23.5	23.5	23.5	20.0	20.0	20.0
Combustion Turbine #2	19.8	19.8	19.8	19.8	19.8	19.8	19.8	18.6	18.6	18.6
Combustion Turbine #3	19.8	19.8	19.8	19.8	19.8	19.8	19.8	18.1	18.1	18.1
Combustion Turbine #4	48.0	48.0	48.0	48.0	48.0	48.0	48.0	43.0	43.0	-
Medium Speed Diesels #1	9.5	9.5	9.5	9.5	9.5	9.5	9.5	8.7	8.7	8.7
Medium Speed Diesels #2	9.5	9.5	9.5	9.5	9.5	9.5	9.5	8.7	8.7	8.7
Stock Island Peaking High Speed Diesel #1	-	-	-	-	-	2.5	2.5	2.0	2.0	2.0
Stock Island Peaking High Speed Diesel #2	-	-	-	-	-	2.5	2.5	2.0	2.0	2.0
Stock Island Peaking High Speed Diesel #3	-	-	-	-	-	2.5	2.5	2.0	2.0	2.0
Cudjoe Key Peaking High Speed Diesel #1	-	-	-	-	-	-	-	-	-	2.0
Cudjoe Key Peaking High Speed Diesel #2	-	-	-	-	-	-	-	-	-	2.5
Big Pine Key Peaking High Speed Diesel #1	-	-	-	-	-	-	-	-	-	2.5
<b>Total Name Plate</b>	<b><u>130.1</u></b>	<b><u>130.1</u></b>	<b><u>130.1</u></b>	<b><u>130.1</u></b>	<b><u>130.1</u></b>	<b><u>137.6</u></b>	<b><u>137.6</u></b>	<b><u>123.1</u></b>	<b><u>123.1</u></b>	<b><u>87.1</u></b>
Islanded										
Combustion Turbine #1	18.0	18.0	18.0	18.0	18.0	18.0	18.0	12.6	12.6	12.6
Combustion Turbine #2	16.0	16.0	16.0	16.0	16.0	16.0	14.0	17.2	17.2	17.2
Combustion Turbine #3	11.0	11.0	11.0	11.0	11.0	11.0	9.0	17.5	17.5	17.5
Combustion Turbine #4	44.0	44.0	44.0	44.0	44.0	44.0	44.0	43.0	43.0	-
Medium Speed Diesels #1	7.5	7.5	7.5	7.0	7.0	6.4	7.0	8.8	8.8	8.8
Medium Speed Diesels #2	7.5	7.5	7.5	7.0	7.0	6.6	7.0	8.8	8.8	8.8
Stock Island Peaking High Speed Diesel #1	-	-	-	-	-	1.5	1.5	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #2	-	-	-	-	-	1.5	1.5	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #3	-	-	-	-	-	1.5	1.5	1.8	1.8	1.8
Cudjoe Key Peaking High Speed Diesel #1	-	-	-	-	-	-	-	-	-	1.8
Cudjoe Key Peaking High Speed Diesel #2	-	-	-	-	-	-	-	-	-	2.2
Big Pine Key Peaking High Speed Diesel #1	-	-	-	-	-	-	-	-	-	2.3
<b>Total Islanded</b>	<b><u>104.0</u></b>	<b><u>104.0</u></b>	<b><u>104.0</u></b>	<b><u>103.0</u></b>	<b><u>103.0</u></b>	<b><u>106.5</u></b>	<b><u>103.5</u></b>	<b><u>113.3</u></b>	<b><u>113.3</u></b>	<b><u>76.6</u></b>
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	16.0	16.0	16.0	14.0	17.2	17.2	17.2
Combustion Turbine #3	16.0	16.0	16.0	16.0	16.0	16.0	14.0	17.5	17.5	17.5
Combustion Turbine #4	44.0	44.0	44.0	44.0	44.0	44.0	44.0	43.0	43.0	-
Medium Speed Diesels #1	7.5	7.5	7.5	7.0	7.0	6.4	7.0	8.8	8.8	8.8
Medium Speed Diesels #2	7.5	7.5	7.5	7.0	7.0	6.6	7.0	8.8	8.8	8.8
Stock Island Peaking High Speed Diesel #1	-	-	-	-	-	1.5	1.5	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #2	-	-	-	-	-	1.5	1.5	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #3	-	-	-	-	-	1.5	1.5	1.8	1.8	1.8
Cudjoe Key Peaking High Speed Diesel #1	-	-	-	-	-	-	-	-	-	1.8
Cudjoe Key Peaking High Speed Diesel #2	-	-	-	-	-	-	-	-	-	2.2
Big Pine Key Peaking High Speed Diesel #1	-	-	-	-	-	-	-	-	-	2.3
<b>Total Synchronized</b>	<b><u>109.0</u></b>	<b><u>109.0</u></b>	<b><u>109.0</u></b>	<b><u>108.0</u></b>	<b><u>108.0</u></b>	<b><u>111.5</u></b>	<b><u>108.5</u></b>	<b><u>118.7</u></b>	<b><u>118.7</u></b>	<b><u>82.0</u></b>

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 2014 - 2005**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>General Manager's Department</b>	10	10	11	11	13	13	13	10	17	18
<b>Engineering &amp; Control</b>	19	19	20	19	21	22	22	22	20	19
<b>Customer Services</b>	27	27	27	28	30	33	33	33	32	32
<b>Finance</b>	15	15	16	16	16	16	16	17	10	10
<b>Transmission &amp; Distribution</b>	33	32	32	34	35	35	34	36	36	34
<b>General Plant</b>	12	12	13	13	15	16	15	17	0	0
<b>Generation</b>	<u>11</u>	<u>14</u>	<u>15</u>	<u>17</u>	<u>19</u>	<u>22</u>	<u>22</u>	<u>23</u>	<u>38</u>	<u>39</u>
<b>Total</b>	<u>127</u>	<u>129</u>	<u>134</u>	<u>138</u>	<u>149</u>	<u>157</u>	<u>155</u>	<u>158</u>	<u>153</u>	<u>152</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, 2014**

Ranking	Customer Account	Demand KW	Energy kWh	Dollars
1	United States Navy	14,613.0	51,775,701	\$ 6,396,275
2	City of Key West	3,270.0	13,035,420	\$ 1,755,705
3	Monroe County School Board	3,974.9	10,537,514	\$ 1,454,408
4	Key West HMA, Inc	1,135.0	7,222,171	\$ 899,653
5	Monroe County Detention Center	1,197.0	7,742,700	\$ 891,539
6	Winn Dixie Stores	1,124.0	6,915,181	\$ 860,274
7	United States Coast Guard	1,592.2	7,023,406	\$ 839,106
8	Publix Supermarkets, Inc	1,021.1	6,135,880	\$ 770,937
9	Beachside SH5 LTD	297.0	4,033,235	\$ 563,385
10	Marriot Casa Marina Hotel	775.5	4,288,102	\$ 544,943

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



Members:  
AMERICAN INSTITUTE OF CPA'S  
FLORIDA INSTITUTE OF CPA'S

**OROPEZA  
& PARKS**  
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*John G. Parks, Jr., CPA - retired*

Scott G. Oropeza, CPA, PA  
Denise Y. Rohrer, CPA, PA  
James H. Hill, Jr., CPA, PLLC

**INDEPENDENT AUDITOR'S 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, in accordance with the 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, 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, 2014, and the related notes to the financial statements, which collectively comprise KEYS' basic financial statements and have issued our report thereon dated January 28, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered KEYS' internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of KEYS' internal control.

*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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

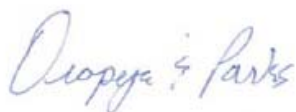
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### 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*.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



January 28, 2015