

Comprehensive Annual Financial Report



Utility Board of the City of Key West, Florida

For the Fiscal Year Ended September 30, 2006

COMPREHENSIVE ANNUAL FINANCIAL REPORT

UTILITY BOARD OF THE CITY OF
KEY WEST, FLORIDA

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

JACK WETZLER
ASSISTANT GENERAL MANAGER &
CHIEF FINANCIAL OFFICER

LYNNE TEJEDA
GENERAL MANAGER &
CHIEF EXECUTIVE OFFICER

CONTENTS

	<u>Page</u>
<u>INTRODUCTORY SECTION</u>	
Letter of Transmittal	i
Certificate of Achievement for Excellence in Financial Reporting Officials and Employees	x xi
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Balance Sheets	8
Statements of Revenues, Expenses and Changes in Net Assets	10
Statements of Cash Flows	11
Notes to Financial Statements	13
Supplemental Schedules:	
Schedules of Revenues Earned	28
Schedules of Revenues and Expenditures - Budget to Actual	29
<u>STATISTICAL SECTION</u>	
Statistical Section Description	30
Financial Trends – Condensed Balance Sheets – Last 10 Fiscal Years	31
Financial Trends – Changes in Net Assets – Last 10 Fiscal Years	33
Financial Trends – Net Assets by Component – Last 10 Fiscal Years	36
Revenue Capacity – Revenues by Type of Customer – Last 10 Fiscal Years	37
Revenue Capacity – Actual Number of Customers Billed – Last 10 Fiscal Years	38
Revenue Capacity – kWh Sales by Type of Customer – Last 10 Fiscal Years	39
Revenue Capacity – Average Monthly Bill – Last 10 Fiscal Years	40
Revenue Capacity – Residential Rate Analysis (September) – Last 10 Fiscal Years	41
Revenue Capacity – Rate Increases – Last 10 Fiscal Years	42
Debt Capacity – Debt Service Coverage & Ratios of Outstanding Debt– Last 10 Fiscal Years	43
Debt Capacity – Principal Payments Payable for All Debt Issues Through 2031	44
Demographic and Economic Information – Last 10 Fiscal Years	45
Operating Information – Operating Expenses – Last 10 Fiscal Years	46
Operating Information – Energy Sources – Last 10 Fiscal Years	47
Operating Information – Generating Capacity – Last 10 Fiscal Years	48
Operating Information – Employee Information – Last 10 Fiscal Years	49
Operating Information – Ten Highest Consumption Locations	50
<u>SINGLE AUDIT</u>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Audit Standards	51
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	53
Schedule of Expenditures of Federal Awards	55
Notes to Schedule of Expenditures of Federal Awards	56
Schedule of Findings and Questioned Costs	57
Summary Schedule of Prior Audit Findings	58
Corrective Action Plan	59



(305) 295-1000
1001 James Street
PO Box 6100
Key West, FL 33040-6100
www.KeysEnergy.com

UTILITY BOARD OF THE CITY OF KEY WEST

January 11, 2007

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, for the Fiscal Year ended September 30, 2006, 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, Utility Board, management personnel, rating agencies, bond holders and other interested parties. Management is responsible for the contents of the CAFR.

The *Introductory Section* includes the table of contents and this transmittal letter. The *Financial Section* is comprised of the independent auditor's report, management's discussion and analysis of our financial position and results of operations, the financial statements, supplemental schedules and other auditor's reports. The notes to the financial statements are considered an integral and essential part of adequate disclosure and fair presentation of the financial statements. The *Statistical Section* includes selected financial and demographic trend information. The tables within this section differ from the financial section schedules in that they present some non-accounting data covering more than two fiscal years. Please refer to these sections for in depth analysis.

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

The Power of Leadership

While Florida Keys residents were offered a respite with an extremely quiet hurricane season in 2006, recollections of the 2005 season were close at hand throughout the year and served as a guiding light as residents, and businesses alike, rebuilt and looked toward the future.

Keys Energy Services' (KEYS) recognized leadership in the field of hurricane preparation and restoration was called upon throughout the year as fellow utilities looked to emulate enviable practices and restoration statistics. Most notably, in the spring of 2006 the City of Lake Worth requested assistance, via the Florida Municipal Electric Association (FMEA), in reviewing and improving their hurricane procedures after a tumultuous 2005 season. Among the five utilities asked to participate, KEYS was the most sought after by both FMEA and Lake Worth given its relative size and proven track record.

KEYS Financial Advisor Craig Dunlap, in a presentation to the Utility Board regarding an upcoming Bond Issuance, further added that, "no other utility in the State of Florida is more prepared than KEYS, when it comes to hurricanes, with a set of proven policies and procedures that are second to none."

Looking toward the future, KEYS became one of the first local public agencies to offer an online payment option to its customers in May 2006. The online payment feature further expands KEYS numerous online services and allows customers to pay their monthly energy bills via the web and have 24-hour access to their billing consumption and history. More than 3,000 KEYS customers have registered to pay and/or access their billing online since the program's inception.

The year 2006 also marked the 10th anniversary of KEYS annual calendar, featuring the artwork of local elementary school students to illustrate its pages. In yet another example of community and industry leadership, the academic year calendar focused on promoting energy conservation and efficiency at a time when the national conversation had yet to focus on these same concepts. KEYS led the charge for over ten years to both educate and inform its customers by utilizing the innocent wisdom of children, and in doing so further established itself as a conscientious, forward-thinking member of the community.

Fiscal Year (FY) 2006 can be looked back on as a year when the successes of the past served to elevate the expectations of leaders and test their mettle. FY 2006 proved, yet again, that when it comes to reliably powering paradise and lighting the path to the future, no one comes close to KEYS.

Entity Definition

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

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

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

The Florida Public Service Commission (FPSC) – 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 accounting required by the Federal Energy Regulatory Commission (FERC), which is an application of generally accepted accounting principles that is peculiar to utilities. Revenues are recognized in the period earned and expenses are recognized in the period incurred.

Budgetary control is maintained through the use of monthly financial reports and the use of purchase orders, work orders, and miscellaneous cash disbursements and approval procedures. Property, Plant and Equipment is stated at cost, which includes costs of contract work, labor, materials, allocated indirect charges, and capitalized interest. Major renewals and betterments are capitalized while minor replacements and repairs are expensed as incurred. The cost of electric plant retired, together with removal costs less salvage, is charged to accumulated depreciation at such time as property is removed from service.

In June 1999, the Governmental Accounting Standards Board (GASB) adopted Statement 34, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments. The standard requires that a "Management Discussion and Analysis" be included with annual audited basic financial statements. KEYS implemented GASB Statement 34 for the fiscal year ended September 30, 2002. Your attention is directed to Note 1 of the Notes to the Financial Statements, which fully describes the accounting practices for the presentation of the financial statements.

Internal Accounting Controls

In developing and maintaining the accounting system, consideration is given by the administration as to the adequacy of internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition; the reliability of financial records for preparing financial statements in conformity with generally accepted accounting principles; and maintaining accountability for assets. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the evaluation of costs and benefits requires estimates and judgments by management. For the fiscal year ended September 30, 2006, the Auditor noted no matters involving internal control over financial reporting and its operation that would be considered to be a material weakness.

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

Budgetary Control

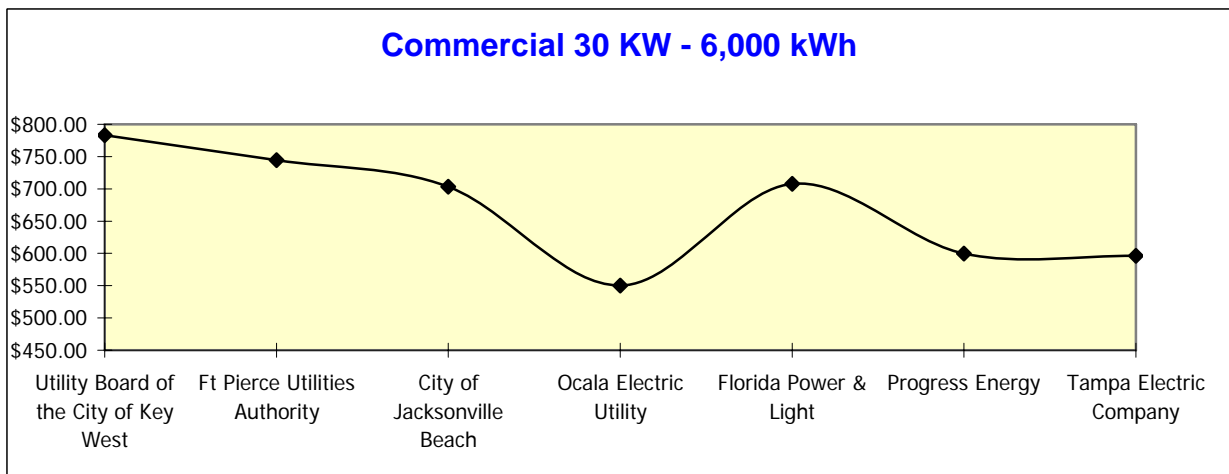
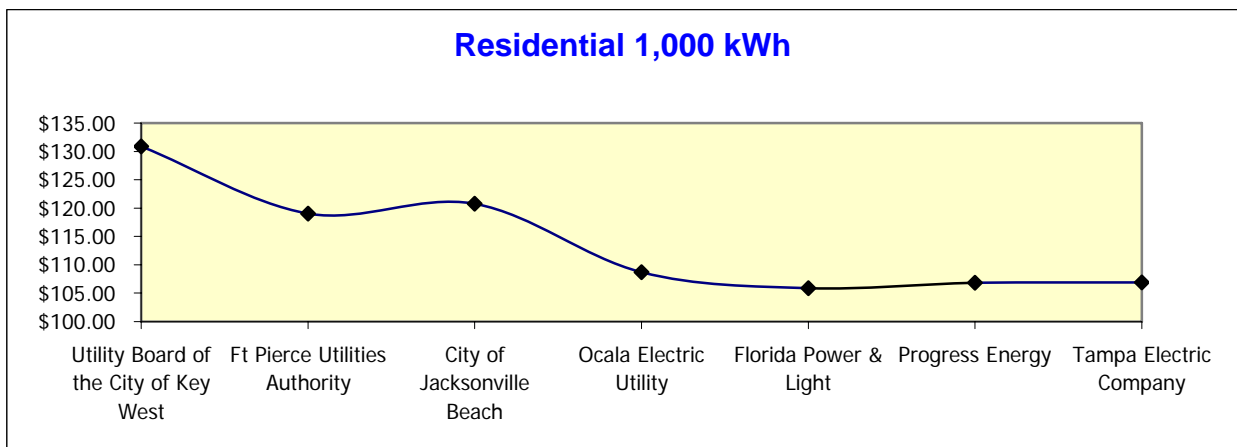
In accordance with the Enabling legislation, the Utility Board holds public hearings and subsequently adopts an annual budget for operating expenses and capital outlay prior to October 1 of the fiscal year. Actual revenues and expenses are compared to the budget on a line item basis (which is the legal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

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, 2006.

COMPARISON OF AVERAGE MONTHLY ELECTRIC BILLS			
		Residential 1,000 kWh	Commercial 30KW - 6,000 kWh
	Utility Board of the City of Key West	\$ 130.90	\$ 782.90
<i>Other Municipal Utilities in Florida</i>	Ft Pierce Utilities Authority	\$ 119.00	\$ 744.26
	City of Jacksonville Beach	\$ 120.76	\$ 703.56
	Ocala Electric Utility	\$ 108.69	\$ 549.98
<i>Investor-Owned Utilities in Florida</i>	Florida Power & Light	\$ 105.89	\$ 707.65
	Progress Energy	\$ 106.82	\$ 599.52
	Tampa Electric Company	\$ 106.87	\$ 596.14

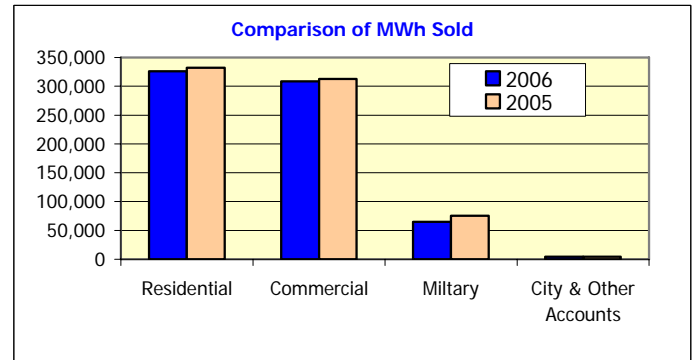
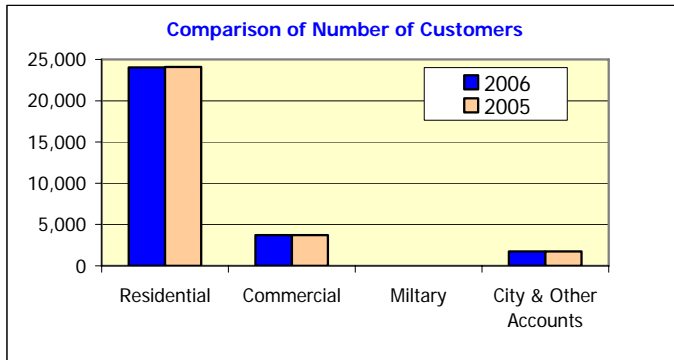
Source: Florida Municipal Electric Association, Inc. Tallahassee, Florida



Customer Statistics

At fiscal year end 2006, the Utility's customer base was 29,507 or 38 less than the 2005 level of 29,545. Peak Demand (60 minute net) decreased to 136.0 MW compared to the 2005 peak of 145.5 MW. Load Factor was 63.1% in Fiscal 2006 compared to 61.1% in 2005.

The number of residential customers decreased 70 to 24,011. The average monthly consumption of 1,132 kWh was lower than the 2005 level by 18 kWh. The number of commercial customers increased 46 to 3,743. The average monthly consumption of 6,874 kWh was higher than the 2005 level by 170 kWh. The average monthly consumption for the Military decreased 875.0 thousand kWh.



Cash Management

The Utility Board's investment policies are governed by state statutes, bond covenants, and the Utility Board's own investment practices. Utility Board 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, U.S. agencies and any state of the United States of America; certificates of deposit; repurchase agreements; and commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1" by S&P and which matures not more than 270 calendar days after the date of purchase; units of participation in the State of Florida Local Government Surplus Funds Trust Fund; and investment agreements with a bank or insurance company which has an unsecured, uninsured and unguaranteed obligation rated "A3" or better by Moody's and "A-" or better by S&P.

Collateral is provided for demand deposits and certificates of deposit through the Florida Security for Public Deposits Act. This Act establishes 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, a qualified public depository must pledge collateral valued at not less than 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 certain conditions.

The investment goal of the Utility Board is to invest public funds in a manner which will provide the highest investment return with the maximum security, while meeting the daily cash flow demands of the Utility Board and conforming to all state and local laws governing the investment of public funds. Safety of principal is regarded as the foremost objective of the investment program. Maintaining sufficient liquidity is also an important investment objective. The cash management performance for Fiscal 2006 produced earnings in the amount of \$1.0 million, which was \$434.2 thousand more than 2005 as a result of higher interest rates.

Purchased Power

The Utility Board voted on July 7, 1997, to participate in the FMPA All-Requirements Project (ARP) whereby the Utility will purchase their bulk power supply requirements, in excess of certain excluded resources, from the ARP. The Utility began operations as a project participant effective April 1, 1998. The Utility Board has previously entered into several purchased power arrangements including (i) the FMPA Tri-City Project (Stanton 1); (ii) the FMPA Stanton 2 Project, and (iii) long-term purchase agreement from Florida Power & Light Company (FPL). As a member of the ARP, the Utility Board's resources and costs under these three contracts have been assigned to FMPA. Other power resource and sale arrangements include the Utility Board's purchases from a small resource recovery unit located on Stock Island, sale of power to the Florida Keys Electric Cooperative Association, Inc. (FKEC) and interchange service arrangements with other Florida utilities and with power marketers. All of the power purchases listed above, except for the purchase from the resource recovery unit, requires transmission over the FKEC transmission system. On January 1, 1992, this became a jointly owned system between KEYS and FKEC and is covered by a Long-Term Joint Investment Transmission Agreement. Please see Notes to Financial Statements for further information.

Transmission Facilities

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

Pursuant to the current transmission agreement with FKEC, the Utility 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 between Florida City and Tavernier provide greater reliability and increased import capability to KEYS. With the addition of this latest segment of 138 kV line and the conversion of the decommissioned steam generating unit at the Stock Island Plant to a synchronous condenser, the firm MW transfer allocation for KEYS over the Transmission Line is approximately 110 MW. The transfer capability of the transmission line is approximately 270 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' eight distribution substations.

Distribution Facilities

KEYS' distribution system comprises approximately 244 miles of three-phase equivalent 13.8 kV lines from the Utility's power plants and eight distribution substations. Switching for the 13.8 kV distribution is provided by 13.8 kV metal clad switchgear. Distribution at 13.8 kV is provided via substation power 13.8kV transformers with varying capacities. There are numerous sectionalizing and isolation switches on the 13.8 kV distribution systems. Additionally, transformer vaults are used on the distribution systems to step down from distribution voltage to utilization voltage at hotels and other large loads.

Local Generation Facilities

The Utility Board currently owns, operates and maintains six generating units with a total Nameplate rating of 43.4 MW. This includes a combustion turbine (CT) unit, two medium speed diesel units and three peaking diesel units located at Stock Island. Three other peaking diesel units, located at Big Pine Key and Cudjoe Key, are in the process of being decommissioned and are not available for use.

Additionally, FMPA owns three combustion turbines at Stock Island; the combined Nameplate ratings are 79.7 MW. These units contribute to the total Nameplate rating of 123.1 MW and the Utility operates all the units with No. 2 oil. Under provisions of the ARP Supply Contract, the output of the Utility-owned generating facilities is being purchased in its entirety by FMPA as part of the ARP. The table entitled "Generating Capacity" in the Statistical Section provides more detailed information.

Debt Administration

The principal amount of Long Term Debt, net of the current portion, was \$55.0 million at September 30, 2006, compared to \$60.4 million at September 30, 2005. All outstanding debt had fixed interest rates, with exception of the Loan Payable, which carried a variable rate. Total revenue bond debt was comprised of three refunding bond issues: 1991, 2000 and 2001. All issues are rated AAA by Standard & Poor's (S&P) and insured by AMBAC Indemnity Corporation. The Utility Board approved the execution of a loan agreement in May 2005 for \$1,185,000 from the Florida Municipal Power Authority Pooled Loan Project to provide funding for capital projects. As of September 30, 2006, the outstanding balance on the FMPA Pooled Loan was \$948,000. Capital projects funded included a field communication system, converting a 4160 Feeder to 13.8KV, purchase and installation of a telephone system, and performing transmission pole foundation repairs.

Long Term Financial Planning

On October 31, 2006, KEYS issued \$42.0 million of Electric System Refunding and Capital Improvement Revenue Bonds, Series 2006. The bonds refunded the FMPA loan of \$948,000 and will fund several capital projects, including a pole hardening program, transmission and distribution improvements, a new substation located in Stock Island, installation of new feeders at the Big Pine substation, replace certain substation transformers and install fin fan coolers at the Stock Island Generating Facilities. Since many of the projects rehabilitate deteriorating lines, the impact on operating and maintenance related to that rehabilitation is expected to be favorable. The issue is rated AAA by Standard & Poor's (S&P) and Fitch and Aaa by Moody's and is insured by the MBIA Insurance Company. In addition, KEYS obtained an underlying bond rating of A2 from Moody's and A- from Standard & Poor's (S&P).

Risk Management

The Utility 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. The System will either retain the exposures to loss or transfer the risk to a commercial carrier, to minimize the financial impact on the Utility. The Utility retains the risk of loss up to the deductible amounts.

The Risk Management section has developed a specific coverage program. Under this program, coverage is provided for worker's compensation, comprehensive general liability, excess liability, automobile comprehensive and physical damage, crime and fiduciary, public official's errors and omissions, property, boiler and machinery, windstorm, flood and pollution liability. The Risk Management section, is striving to meet the goal of continuous no-lost time accidents and minimizing injury claims, through their coordinated and continuous efforts in monitoring potential risk exposures and implementing safety control programs, such as Safety Training Observation Program ("STOP"), coupled with effective claims administration.

Independent Audit

Resolution No. 532 of the Utility 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 2006 and 2005 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.

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, 2005.

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

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

Acknowledgments

We extend our personal thanks to the dedicated efforts of the Finance Department and efforts of those employees 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 Utility Board of the City of Key West for their interest and support in planning and conducting the operations of the Utility in a responsible and progressive manner.

Respectfully submitted,



Jack Wetzler
Assistant General Manager &
Chief Financial Officer



Lynne Tejeda
General Manager &
Chief Executive Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Utility Board of the City of Key West, Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2005

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



A handwritten signature in black ink, appearing to read "Ronald J. Hawn".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

Utility Board of the City of Key West, Florida



Chairman Robert R. Padron has served on the Utility Board since 1995. He was employed by Keys Energy Services from 1961 to 1994, and retired as the General Manager. Mr. Padron holds a Bachelor of Science Degree from Tulane University and a Master's of Science from Nova University. He serves on various committees of the Florida Municipal Power Agency (FMPPA), the American Public Power Association (APPA) and the Florida Municipal Electric Association (FMEA), where he is a past president. He was the 2002 recipient of the APPA's Spence Vanderlinden Public Official Award.

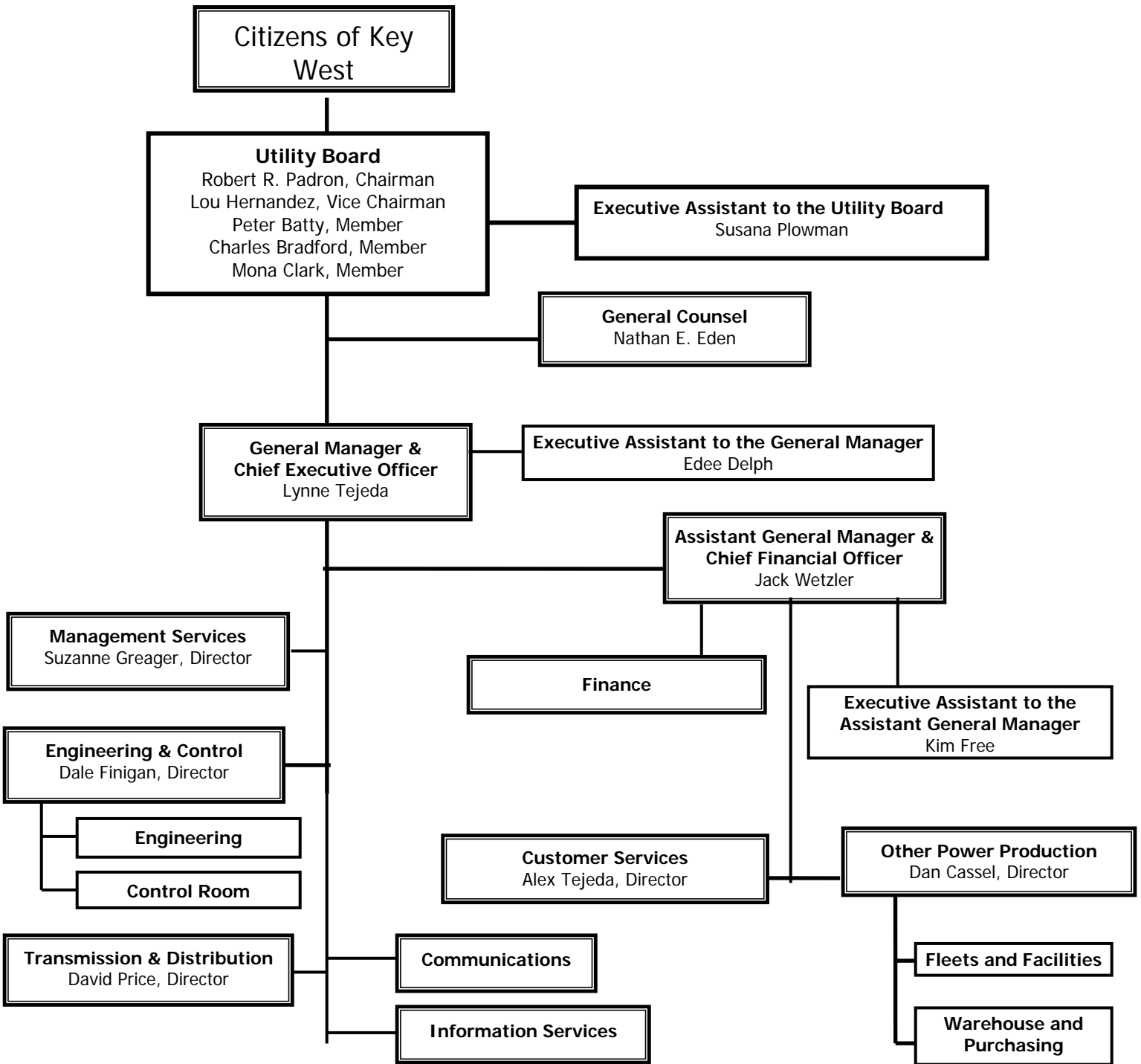
Vice Chairman Lou Hernandez has served on the Utility Board since 1997. He is the Executive Director of HELPLINE, Inc., a crisis intervention and information referral telephone hotline in Monroe County. Upon graduation from Texas A&M University, Mr. Hernandez was commissioned by the U.S. Army and served as an Infantry Officer in Vietnam. After completing his Armed Services commitment, Mr. Hernandez secured a Federal internship with the US Department of Transportation in the Human Resources Development area. He worked with several Federal agencies, completing his career in Washington as the Director of Training and Employee Development with the General Services Administration. He moved to Key West in 1983 and has worked in the home renovation business and as a counselor at FTPA and the Public Health Department. He is the current Vice-Chair of the Citizen's Review Board of the City of Key West.

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

Mr. Charles A. Bradford Jr. has served on the Utility Board since 2006. He has worked in the Banking and Finance industry for 30 years and is currently the Vice President of Keys Federal Credit Union. 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 the City of Key West's Port Advisory Board and Workforce Housing Committee, Sunrise Rotary Club, and is past Chair of the Key West Chamber of Commerce and former member of KEYS Advisory Committee. Mr. Bradford has lived in the Florida Keys since 1980.

Ms. Mona C. Clark has served on the Utility Board since 2004 and holds the distinction of being the first female Board member in the Utility's history. She has worked for the Monroe County School District for over 30 years, serving as an educator and an administrator – she is currently the Site Administrator at May Sands School. 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 is the 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 Monroe County Housing Authority.

Organizational Chart Fiscal Year Ended September 30, 2006



Keys Energy Services Employees as of September 30, 2006

Sylvia Adams	John Fallon	Horace Mobley	Lynne Tejeda
John Albury	Albert Fernandez	Patrick Mobley	Larry Thomas
Matthew Alfonso	Desiree Fernandez	Sharon Moore	Barry Travis
Barbara Archer	Dale Finigan	Scott Morgan	Ivan Urbay
Frank Arencibia	Chuck Finlayson	David Morris	Hugo Valdes
Heather Arencibia	Nancy Flores	James Newton	Bryan Veliz
Marcos Arencibia	Margie Fontanez	Catherine Nix	Mary Vidal
Pedro Arencibia	Elizabeth Franco	Patrick Nolan	Chuck Vinson
Raymond Baker	Kim Free	Chomi Oropeza	Dane'lle Waldon
Eric Balbuena	Russell Free	Milagros Ortiz	Peggy Walls
Deborah Barnett	Daniel Garcia	Allen Palka	Charles Walterson
Robert Barrios	Eddie Garcia	Carliss Parks	Stefan Washington
Julio J. Barroso	Estela Garcia	Jeff Partington	Frankie Webb
James Barry*	Juan Carlos Garcia	Don Paxson	Jack Wetzler
Terry Beeman	Mark Garcia	Catherine Peace	Bruce Woodard
Tony Bethel	Ralph A. Garcia	Chasity Perez	Donnie Yarbrough
Cassie Blanco	Roger George	Desi Perez	Joshua Yarbrough
Karla Bravo	Dave Gerstenkorn	Jack Pins	Idalia Yorba
Kris Bremer	Edward Giesler	Jerry Pita	Erica Zarate
Lynda Bringle	Thomas Grassi	Susana Plowman	
Heath Brundage	Suzanne Greager	Eva Pope	
Robert Burchett	Michael Griffin	Leticia Powell	
Elaine Carey	Sabrina Hall	David Price	
Harry Carey	Susan Ham**	Alberto Pumar	
Mike Carey	Kevin Hawthorne	Stacey Pyle	
Brandon Casanta	Timothy Hertzog	Martha Ramas	
Walter Cashwell	Cecelia Hoversen	Beverly Ray	
Dan Cassel	Ana Kerr	Milton Roberts	
George Castellon	Emmanuel Kerr	Randy Roberts	
Jason Cohen	Johnny Kerr	Alvaro Rodriguez	
Michael Commander	Steven Key	David Rodriguez	
David Cottar	Harold Knowles	Manuel Rodriguez	
Kevin Crockett	Brenda LaLama	Steve Rodriguez	
Fred Culpepper	Wayne Lewallen	Armando Rojas	
John Curry	Julio Lot	Bobby Ruble	
Wayne Davila	Herschell Major	Stan Rzad	
Maria De La Torre	Laurence Marius	Daniel Sabino	
Jose Del Rio	James McClendon	Manuel Sanchez	
Daniel Delice	Cindy McVeigh	Austin Sands	
Edee Delph	Neil Mellies*	Thomas Schuler	
Joseph Diaz	Ony Mendez*	Vin Smith	
Patty Dixon	Juan Menendez	Dennis Stone	
Michael Domenech	James Menite	Susan Storm	
Eugene Edwards	Robert Mesa	Frank Story	
	Armando Mira III	Alex Tejeda	

* Employee of the Quarter 2006

**Employee of the Year 2006



815 Peacock Plaza
Key West, Florida 33040
305.294.1049 / 305.294.1040
Fax: 305.294.3951

Scott G. Oropeza, C.P.A., P.A.
John G. Parks, Jr., C.P.A., P.A.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Utility Board of the City of Key West, Florida, d/b/a Keys Energy Services, ("KEYS") as of and for the years ended September 30, 2006 and 2005 as listed in the table of contents. These financial statements are the responsibility of KEYS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility Board of the City of Key West, Florida, Keys Energy Services as of September 30, 2006 and 2005, and the changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2007, on our consideration of KEYS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the *Governmental Accounting Standards Board*.

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of KEYS'. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole. 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 express no opinion on them.


OROPEZA & PARKS
CERTIFIED PUBLIC ACCOUNTANTS

January 11, 2007

Management's Discussion and Analysis

As management of the Utility Board of the City of Key West, Florida, we offer readers of the Utility Board's financial statements this narrative overview and analysis of the financial activities of the Utility Board of the City of Key West for the fiscal year ended September 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our Letter of Transmittal.

Required Financial Statements

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

Balance Sheet

The Utility's Net Assets, which do not include the negative net pension obligation, increased in Fiscal 2006 by \$6.0 million, or 9%.

	2004	2005	2006	2005 to 2006 Increase (Decrease)	
				Amount	Percent
Net Property, Plant and Equipment	\$115,031,750	\$114,111,920	\$114,832,809	\$720,889	0.6%
Other Property and Investments	25,791,610	14,709,156	16,076,733	1,367,577	9.3%
Current and Non-Current Assets	<u>16,404,585</u>	<u>33,723,321</u>	<u>33,923,421</u>	<u>200,100</u>	<u>0.6%</u>
Total Assets	<u>\$157,227,945</u>	<u>\$162,544,397</u>	<u>\$164,832,963</u>	<u>\$2,288,566</u>	<u>1.4%</u>
Invested in Capital Assets, net of related debt	\$47,004,365	\$48,044,762	\$53,995,651	\$5,950,889	12.4%
Restricted for Working Capital	3,243,009	3,243,009	3,243,009	-	0.0%
Unrestricted	<u>11,263,359</u>	<u>15,830,949</u>	<u>15,934,969</u>	<u>104,020</u>	<u>0.7%</u>
Net Assets	<u>61,510,733</u>	<u>67,118,720</u>	<u>73,173,629</u>	<u>6,054,909</u>	<u>9.0%</u>
Long-Term Debt, Net of Current Portion	77,786,466	75,257,723	71,126,824	(4,130,899)	-5.5%
Liabilities Payable from Restricted Assets	10,989,426	11,200,080	11,998,052	797,972	7.1%
Current Liabilities and Deferred Revenue	<u>6,941,320</u>	<u>8,967,874</u>	<u>8,534,458</u>	<u>(433,416)</u>	<u>-4.8%</u>
Total Liabilities	<u>95,717,212</u>	<u>95,425,677</u>	<u>91,659,334</u>	<u>(3,766,343)</u>	<u>-3.9%</u>
Total Net Assets and Liabilities	<u>\$157,227,945</u>	<u>\$162,544,397</u>	<u>\$164,832,963</u>	<u>\$2,288,566</u>	<u>1.4%</u>

The changes to Assets are listed as follows:

- Increase in Net Property, Plant and Equipment - \$720.9 thousand
 - Net Additions to Utility Plant - \$1.9 million, primarily repairs to CT#1 and the purchase of vehicles, replacement of the Kennedy Drive Substation Switchgear, the Transmission Pole Foundation Repairs less various retirements.
 - Net Decrease to Construction Work in Progress - \$1.2 million, primarily the Key West Diesel Transformer, purchase of the telephone system and improvement to facilities which were charged during the year and subsequently placed into service and transferred to Utility Plant.
- Increase in Other Property and Investments - \$1.4 million
 - Increase in the Rate Stabilization Fund - \$1.0 million due to the repayment from the Revenue Fund of prior year's borrowing to smooth the effect of the billed PCA charge.
 - Increase to the Restricted Cash Funds - \$400.0 thousand due to the reimbursement from FEMA hurricane proceeds.
- Increase in Current and Non-Current Assets - \$200.0 thousand
 - Increase in Cash and Accounts Receivable - \$829.0 thousand
 - Increase in Other Receivable - \$173.0 thousand (Steam Plant lease)
 - Increase in Prepaid Expense and Inventory - \$270.0 thousand
 - Decrease in Due from Other Governments - \$1.1 million (FEMA receivables)

The changes to Liabilities are listed as follows:

- Decrease in Long Term Debt - \$4.1 million as a result of the annual fiscal year debt service payment.
- Increase in Liabilities from Restricted Assets - \$797.9 thousand as a result of unpaid capital expenditures.
- Decrease in Current Liabilities and Deferred Revenue - \$433.4 thousand

Statement of Revenues, Expenses and Changes in Net Assets

Electric sales of 704.1 Gigawatt hours (GWh's) in fiscal 2006 were lower than Fiscal 2005 sales of 724.0 GWh's, or -2.8%. During the fall 2005 a major hurricane hit Florida. Although the Utility's service area was not severely directly affected by the hurricane, tourism, which makes up a large portion of the Florida Keys economy, was adversely affected.

The Change in Net Assets was \$6.0 million in 2006. This was primarily due to:

- Increase in Total Revenues - \$17.1 million
 - Increase in Power Cost Adjustment (PCA) - \$14.8 million as a result of a higher billed PCA in FY 2006 [FY 2005 billed PCA ranged from \$24.40 to \$38.20/MWh as compared to FY 2006 billed PCA from \$44.50 to \$55.50/MWh]
 - Increase in Grant Revenue - \$1.6 million, resulting from FEMA reimbursements for hurricane claims
- Increase in Operating Expenses - \$11.3 million
 - Increase of Purchased Power Costs - \$10.6 million primarily due to the increase in the actual power costs from FMPA [FY 2005 power costs ranged from \$61.90 to \$80.70/MWh as compared to FY 2006 actual power costs from \$64.20 to \$104.60/MWh]
 - Increase in Diesel production expenses - \$408.0 thousand primarily due to the reimbursement to FMPA of 50% of the CT#3 insurance deductible
 - Increase in Distribution Expenses - \$348.0 thousand largely due to increases in payroll and tree trimming expense

	2004	2005	2006	2005 to 2006 Increase (Decrease)	
				Amount	Percent
Electric Revenues	\$78,284,627	\$80,406,201	\$93,968,368	\$13,562,167	16.9%
Other Electric Revenues	3,054,809	3,072,535	3,231,697	159,162	5.2%
Operating Revenues	81,339,437	83,478,736	97,200,065	13,721,329	16.9%
Interest Income	301,862	613,525	1,047,716	434,191	143.8%
Grant Revenues	110,937	2,020,069	3,281,600	1,261,531	1137.2%
Non-Operating Revenues	627,346	753,622	2,528,474	1,774,852	282.9%
Total Revenues	82,379,582	86,865,952	104,057,855	15,496,181	18.8%
Production Expense - Diesel	887,371	1,074,167	1,482,077	407,910	46.0%
Purchased Power	44,523,179	49,287,046	59,946,424	10,659,378	23.9%
Transmission Expenses	3,298,491	3,646,679	3,539,845	(106,834)	-3.2%
Distribution Expenses	3,250,018	3,017,736	3,366,439	348,703	10.7%
Customer Accounts and Collection Expenses	1,085,522	1,280,590	1,243,322	(37,268)	-3.4%
Administrative and General Expenses	10,004,675	11,540,112	11,452,519	(87,593)	-0.9%
Depreciation	6,441,587	6,391,999	6,182,488	(209,511)	-3.3%
Taxes Other Income Taxes	2,021,223	2,127,074	2,467,955	340,881	16.9%
Payment to City of Key West	325,998	340,548	343,341	2,793	0.9%
Interest on Debt	4,959,686	4,811,456	4,670,672	(140,784)	-2.8%
Interest on Customer Deposit	29,345	109,429	194,367	84,938	289.4%
Amortization of Bond Discount and Issue Costs	104,508	104,508	104,508	-	0.0%
Total Expenses	76,931,603	83,731,344	94,993,957	11,262,613	14.6%
Income Before Special Items	5,447,979	3,134,608	9,063,898	5,929,290	189.2%
Special Items	-	2,354,033	(3,094,972)	(5,449,005)	-231.5%
Income Before Capital Contributions	5,447,979	5,488,641	5,968,926	480,285	8.8%
Capital Contributions	81,417	119,347	85,983	(33,364)	-41.0%
Change in Net Assets	5,529,396	5,607,988	6,054,909	446,921	8.1%
Net Assets, Beginning of Year	55,981,336	61,510,732	67,118,720	5,607,988	10.0%
Net Assets, End of Year	\$ 61,510,732	\$ 67,118,720	\$ 73,173,629	\$ 6,054,909	9.8%

Statement of Cash Flows

The Utility's rate structure is designed to collect sufficient revenues to pay debt service and recover operating and maintenance expenses, and the Utility successfully accomplished this objective during Fiscal 2006. The same situation held true for the prior fiscal year. Income before Capital Contributions increased \$480 thousand. The Utility increased net assets by \$6.0 million while paying down debt of \$5.5 million in principal and \$3.4 million in interest.

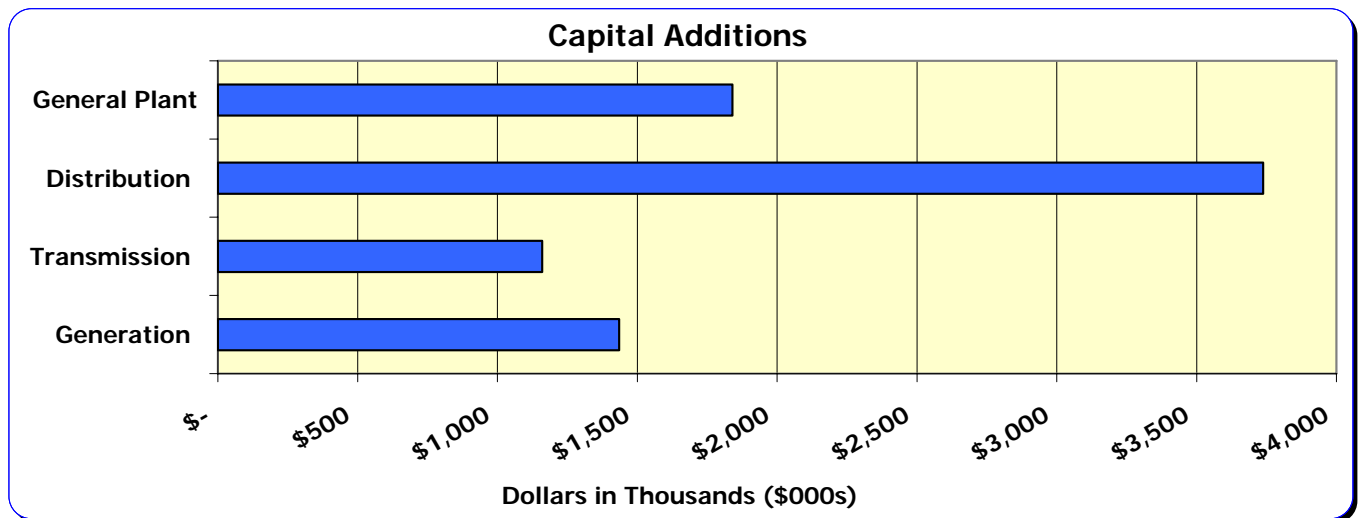
Restricted Assets

Total restricted assets were \$16.0 million at September 30, 2006, compared to \$14.7 million at September 30, 2005. The Utility's bond resolution specifies the manner in which monies on deposit in the various funds must be used. The Contribution in Aid of Construction Capital Fund is used for initial non-residential, commercial or large power service deposits related to transmission or distribution projects. The Customer Deposit Fund is used for residential and commercial deposits for basic electric service. The Emergency Reserve Fund is used to pay emergency repairs or replacements of capital assets, which have been destroyed or damaged. The Rate Stabilization Fund is used to maintain flexibility with respect to future rate adjustments and to provide additional monies for anticipated capital improvements. 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

Net Property, Plant and Equipment totaled \$114.8 million at the end of Fiscal 2006 compared to \$114.1 million the prior year, an increase of \$720.9 thousand.

Significant projects placed in service occurred in Distribution Plant – Kennedy Drive Substation Switchgear Replacement, Distribution Improvements, Key West Diesel Substation Upgrade, Purchase of Residential and Commercial Meters, Daily Work Orders, ER's and Transformers; Generation Plant – Repair CT#1; Transmission Plant – Transmission Pole Foundation Repair; and General Plant – Replace Telephone System, Upgrade Field Communications and Emergency Purchase of Company Vehicles. Major retirements occurred in Distribution Plant - transformers, switches, meters and poles; General Plant – Vehicles, radios and telephones. Please see Note 1 in Notes to Financial Statements for further information.



Long Term Debt

The Utility's trustee paid to the bondholders a principal payment of \$5.4 million on October 1, 2006. In accordance with the Bond covenants, monthly transfers are made from the Revenue Fund to the Sinking Fund, which are reflected on the balance sheet as Other Property and Investments - "restricted assets." The bondholders are paid annual principal payments on October 1 and semiannual interest payments on April 1st and October 1st of each year. On October 31, 2006, KEYS issued \$42.0 million of Electric System Refunding and Capital Improvement Revenue Bonds, Series 2006. The bonds refunded the FMPA loan of \$948,000 and will fund several capital projects, including a pole hardening program, transmission and distribution improvements, a new substation located in Stock Island, installation of new feeders at the Big Pine substation, replace certain substation transformers and install fin fan coolers at the Stock Island Generating Facilities. The issue is rated AAA by Standard & Poor's (S&P) and Fitch and Aaa by Moody's and is insured by the MBIA Insurance Company. In addition, KEYS obtained an underlying bond rating of A2 from Moody's and A- from S&P. The Utility's debt service payments have been structured to remain fairly constant at approximately \$8.5 million through 2014, \$9.3 million through 2018 and \$4.4 million from 2019 through 2031. Please see Note 4 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 and to indicate accountability for the revenues received. Questions about this report or requests for additional information should be directed to the Assistant General Manager & Chief Financial Officer, 305-295-1013, or to our offices located at 1001 James Street, Key West Florida 33040.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

BALANCE SHEETS

SEPTEMBER 30, 2006 AND 2005

ASSETS

	<u>2006</u>	<u>2005</u>
Current Assets		
Cash and Cash Equivalents	\$ 7,064,406	\$ 6,657,203
Customer Accounts Receivable, net of Allowance for Bad Debts of \$263,331 and \$322,571 for 2006 and 2005 respectively	6,152,177	5,729,570
Other Accounts Receivable	495,129	492,778
Due From Other Governments	823,921	1,900,702
Plant Material and Operating Supplies Inventory	2,722,320	2,454,805
Prepaid Expenses	<u>7,918,510</u>	<u>7,810,145</u>
 Total Unrestricted Current Assets	 25,176,463	 25,045,203
 Cash and Cash Equivalents-Restricted	 <u>12,833,724</u>	 <u>11,466,147</u>
 Total Restricted Currents Assets	 <u>12,833,724</u>	 <u>11,466,147</u>
 Total Current Assets	 <u>38,010,187</u>	 <u>36,511,350</u>
 Non-Current Assets		
Capital Assets		
Utility Plant	196,142,287	191,713,948
Less Accumulated Depreciation	<u>82,465,916</u>	<u>79,909,835</u>
Net Utility Plant	113,676,371	111,804,113
Construction in Progress	<u>1,156,438</u>	<u>2,307,807</u>
 Total Capital Assets	 114,832,809	 114,111,920
 Restricted Non-Current Assets		
Deposits-Restricted	<u>3,243,009</u>	<u>3,243,009</u>
 Total Restricted Non-Current Assets	 3,243,009	 3,243,009
 Unrestricted Non-Current Assets		
Other Accounts Receivable	7,942,212	7,768,864
Bond Discount and Issue Costs, Net	<u>804,746</u>	<u>909,254</u>
 Total Unrestricted Non-Current Assets	 <u>8,746,958</u>	 <u>8,678,118</u>
 Total Non-Current Assets	 <u>126,822,776</u>	 <u>126,033,047</u>
 Total Assets	 <u>\$ 164,832,963</u>	 <u>\$ 162,544,397</u>

(Continued)

(Continued)

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

BALANCE SHEETS (CONTINUED)

SEPTEMBER 30, 2006 AND 2005

NET ASSETS AND LIABILITIES

	<u>2006</u>	<u>2005</u>
Current Liabilities		
Unrestricted Current Liabilities		
Accounts Payable	5,709,921	6,751,776
Accrued Expenses	2,508,409	2,133,812
Deferred Revenues	316,128	82,286
	<hr/>	<hr/>
Total Unrestricted Current Liabilities	8,534,458	8,967,874
Restricted Current Liabilities		
Current Portion of Long-Term Debt	5,454,373	5,169,373
Accounts Payable	914,510	196,656
Accrued Interest	1,498,275	1,639,823
Security Deposits Payable	110,000	110,000
Due to Customers	4,020,894	4,084,228
	<hr/>	<hr/>
Total Restricted Current Liabilities	11,998,052	11,200,080
	<hr/>	<hr/>
Total Current Liabilities	20,532,510	20,167,954
Long-Term Debt, Net of Current Portion		
Revenue Bonds	55,032,256	60,486,629
Accrued Interest	15,146,568	13,586,094
Loan Payable	948,000	1,185,000
	<hr/>	<hr/>
Total Long-Term Debt	71,126,824	75,257,723
Net Assets		
Invested in Capital Assets		
net of related debt	\$ 53,995,651	\$ 48,044,762
Restricted for Working Capital	3,243,009	3,243,009
Unrestricted	15,934,969	15,830,949
	<hr/>	<hr/>
Total Net Assets	73,173,629	67,118,720
	<hr/>	<hr/>
Total Net Assets and Liabilities	\$ 164,832,963	\$ 162,544,397
	<hr/>	<hr/>

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 ASSETS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Operating Revenues		
Sales & Charges for Service	\$ 94,831,374	\$ 80,675,032
Other Operating Revenues	<u>2,368,691</u>	<u>2,803,704</u>
Total Operating Revenues	97,200,065	83,478,736
Operating Expenses		
Production Expenses - Diesel	1,482,077	1,074,167
Purchased Power	59,946,424	49,287,046
Transmission Expenses	3,539,845	3,646,679
Distribution Expenses	3,366,439	3,017,736
Customer Accounts and Collection Expenses	1,243,322	1,280,590
Administrative and General Expenses	11,452,519	11,540,112
Depreciation	6,182,488	6,391,999
Taxes Other than Income Taxes	<u>2,467,955</u>	<u>2,127,074</u>
Total Operating Expenses	<u>89,681,069</u>	<u>78,365,403</u>
Operating Income	<u>7,518,996</u>	<u>5,113,333</u>
Non-Operating Revenue and (Expenses)		
Interest Income	1,047,716	613,525
Grant Revenue	-	119,367
Miscellaneous Non-Operating Revenue	2,255,168	753,622
Payment to City of Key West	(343,341)	(340,548)
Interest on Debt	(4,670,672)	(4,811,456)
Interest on Customer Deposit	(194,367)	(109,429)
Amortization of Bond Discount and Issue Costs	<u>(104,508)</u>	<u>(104,508)</u>
Total Non-Operating Revenue and (Expenses)	(2,010,004)	(3,879,427)
Income Before Special Items	<u>5,508,992</u>	<u>1,233,906</u>
Special Items		
Hurricane-Grant Revenue	3,281,600	1,900,702
Hurricane-Expenses	(3,094,972)	(2,214,686)
Hurricane - Insurance Proceeds	273,306	-
Sale of Steam Plant	<u>-</u>	<u>4,568,719</u>
Total Special Items	459,934	4,254,735
Income Before Capital Contributions	<u>5,968,926</u>	<u>5,488,641</u>
Capital Contributions	<u>85,983</u>	<u>119,347</u>
Change in Net Assets	6,054,909	5,607,988
Net Assets, Beginning of Year	<u>67,118,720</u>	<u>61,510,732</u>
Net Assets, End of Year	<u>\$ 73,173,629</u>	<u>\$ 67,118,720</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, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Cash Flows Provided by Operating Activities		
Cash Received from Customers	\$ 96,550,156	\$ 83,029,877
Cash Payments to Suppliers for Goods and services	(76,347,419)	(68,095,776)
Cash Payments for Restricted Working Capital Deposits	-	-
Cash Payments to Employees for Services	(8,142,697)	(8,357,425)
Cash Received for Deposits	871,306	935,250
Cash Deposits Refunded	(934,640)	(863,988)
Cash Received from Other Operating revenue	2,489,010	727,511
Cash Paid for Hurricane Expenses	<u>1,263,409</u>	<u>(2,214,686)</u>
Net Cash Provided by Operating Sources	\$ 15,749,125	\$ 5,160,763
Cash Flows Provided (Used) by Non-Capital Financing Activities		
Cash Received from Insurance Proceeds	273,306	119,367
Cash Paid to City of Key West, Florida	<u>(343,341)</u>	<u>(340,548)</u>
Net Cash (Used) by Non-Capital Financing Activities	<u>(70,035)</u>	<u>(221,181)</u>
Cash Flows Provided (Used) by Capital and Related Financing Activities		
Principal Paid on Long-Term Debt	(5,467,000)	(3,785,000)
Interest Paid on Revenue Bond Maturities	(3,385,486)	(3,533,002)
Contributions in Aid of Construction	85,983	119,347
Acquisitions and Construction of Capital Assets	(6,303,685)	(5,015,976)
Proceeds (costs) from Disposal of Assets	<u>118,162</u>	<u>(748,797)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(14,952,026)</u>	<u>(12,963,428)</u>
Cash Flows Provided (Used) by Investing Activities		
Redemption of Investments	-	44,075
Interest Received on Investments	<u>1,047,716</u>	<u>613,525</u>
Net Cash Provided by Investing Activities	<u>1,047,716</u>	<u>657,600</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,774,780	(7,366,246)
Cash and Cash Equivalents at Beginning of year	<u>18,123,350</u>	<u>25,489,596</u>
Cash and Cash Equivalents at End of Year	<u>\$ 19,898,130</u>	<u>\$ 18,123,350</u>
	(Continued)	(Continued)

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, 2006 AND 2005

Reconciliation of Operating Income to
Net Cash Provided by Operating Activities

	<u>2006</u>	<u>2005</u>
Operating Income	\$ 7,518,996	\$ 5,113,333
 Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	6,182,488	6,391,999
Provision for Uncollectible Accounts	238,648	346,350
Amortization of Deferred Revenue	(82,286)	(108,397)
Receipt of Deferred Revenue	316,128	82,286
Other Non-Operating Sources of Revenue	2,255,168	753,622
Hurricane Loss	186,628	(313,984)
 Changes in Assets and Liabilities:		
(Increase) Decrease in Restricted Working Capital Deposit	-	-
(Increase) Decrease in Accounts Receivable	(836,954)	(755,862)
(Increase) Decrease in Plant Material & Inventory	(267,515)	205,008
(Increase) Decrease in Prepaid Expenses	(108,365)	(6,886,821)
(Increase) Decrease in Due from Other Governments	1,076,781	(1,900,702)
Increase (Decrease) in Accounts Payable	(1,041,855)	1,616,759
Increase (Decrease) in Accrued Expenses	374,597	435,911
Increase (Decrease) in Customer Deposits	(63,334)	71,261
Increase (Decrease) in Security Deposits	-	110,000
 Total Adjustments	 <u>8,230,129</u>	 <u>47,430</u>
 Net Cash Provided by Operating Activities	 <u>\$ 15,749,125</u>	 <u>\$ 5,160,763</u>

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

In Fiscal Years 2006 and 2005, amortization of bond discount and issue costs were \$104,508 in both fiscal years.

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, 2006 AND 2005

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 "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 a Chairman who is elected every two years and four members who are elected every four years by the voters of the City. The General Manager & CEO of KEYS serves as Secretary to the Board and is responsible for the day-to-day operations of KEYS. KEYS is not a component unit of the City.

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

Basis of Accounting - KEYS' financial statements are accounted for based on accounting required by the Federal Energy Regulatory Commission (FERC), which is an application of generally accepted accounting principles that is 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 and submitted to the Utility Board each month as required by bond indentures. During the year, staff can make amendments within the operating budget or the capital budget that do not change the total budget for those categories. The Utility Board approves all other budget changes. Supplemental appropriations were necessary during FY 06 and the Utility Board, in accordance with KEYS' 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' basis of accounting except for depreciation and amortization, debt service on revenue bonds and allocation of administrative costs to capital projects.

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.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Any other investments are stated at fair value in accordance with GASB 31. Florida Statutes govern KEYS' investment policies. These policies are described in more detail in Note 3.

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

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

Property, Plant and Equipment - Property, Plant and Equipment is stated at cost. Transmission, Distribution and Generation Plant are defined by KEYS as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than one year. General Plant assets are defined as assets with an initial, individual cost of \$1,000 or more and an estimated useful life of more than one year. Under FERC accounting practices and procedures, the cost of electric plant retired, together with removal costs less salvage, is charged to accumulated depreciation when property is removed from service.

The following is a summary of property, plant and equipment for the year ended September 30, 2006:

	Balance 2005	Additions	Deletions	Balance 2006
Utility Plant in Service:				
Generation Plant	\$ 49,248,023	\$ 1,435,368	\$ -	\$ 50,683,391
Transmission Plant	71,321,581	1,159,574	-	72,481,155
Distribution Plant	56,439,514	3,738,199	2,015,356	58,162,357
General Plant	14,484,566	1,839,767	1,729,213	14,595,120
Other	220,264	-	-	220,264
Total Utility Plant in Service	<u>191,713,948</u>	<u>8,172,908</u>	<u>3,744,569</u>	<u>196,142,287</u>
Accumulated Depreciation:				
Generation Plant	(26,044,882)	(1,682,392)	-	(27,727,274)
Transmission Plant	(26,373,582)	(1,773,954)	-	(28,147,536)
Distribution Plant	(20,400,310)	(1,771,439)	(2,088,646)	(20,083,103)
General Plant	(7,091,061)	(954,702)	(1,537,760)	(6,508,003)
Other	-	-	-	-
Total Accumulated Depreciation	<u>(79,909,835)</u>	<u>(6,182,487)</u>	<u>(3,626,406)</u>	<u>(82,465,916)</u>
Net Utility Plant in Service	<u>\$ 111,804,113</u>	<u>\$ 1,990,421</u>	<u>\$ 118,163</u>	<u>\$ 113,676,371</u>
Construction Work in Progress	<u>\$ 2,307,807</u>	<u>\$ 7,021,539</u>	<u>\$ 8,172,908</u>	<u>\$ 1,156,438</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

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 fiscal years ended 2006 and 2005, there was no capitalized interest cost.

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

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

Compensated Absences - KEYS records compensation for unused vacation and sick leave as an expense in the year in which the vacation and sick leave is earned in accordance with GASB Statement No. 16. At September 30, 2006, annual vacation leave earned but not taken is \$413,346 and sick leave accumulated but not taken is \$769,156.

Operating Revenues and Expenses – Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the 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 nonoperating revenues and expenses.

Interest - Interest for the years ended September 30, 2006 and 2005 is summarized as follows:

	<u>2006</u>	<u>2005</u>
Electric Refunding Revenue Bonds, Series 1991	\$ 1,560,475	\$ 1,455,631
Electric Forward Refunding Revenue Bonds, Series 2000	2,635,599	2,886,875
Electric Forward Refunding Revenue Bonds, Series 2001	360,950	392,771
Series 2001 Loss on Refunding	60,627	60,626
Interest on Customer Deposits	194,367	109,429
FMPA Pooled Loan	53,021	15,553
Total Interest Expense	<u>\$ 4,865,039</u>	<u>\$ 4,920,885</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Restricted for Working Capital – Consists of a restricted working capital deposit required by FMPA for participation in the All Requirements Project.

Unrestricted – All other net assets that do not meet the definition of “restricted for debt service” or “invested in capital assets, net of related debt.” For the years ended September 30, 2006 and 2005, the board has designated \$1.2 million and \$954.2 thousand respectively, for certain future repair and replacement costs.

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

NOTE 2 – OTHER PROPERTY AND INVESTMENTS

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

KEYS' Restricted Assets as of September 30, 2006 and 2005, respectively consist of the following:

	<u>2006</u>	<u>2005</u>
Emergency Reserve Fund	\$ 2,000,000	\$ 1,002,473
Sinking Fund	-	50,972
Contributions in Aid of Construction Fund	215,922	203,648
Renewal and Replacement Fund	2,606,517	3,162,071
Rate Stabilization Fund	3,925,074	2,924,539
Customer Deposits Fund	4,086,211	4,122,444
Total	<u>\$ 12,833,724</u>	<u>\$ 11,466,147</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

NOTE 2 – OTHER PROPERTY AND INVESTMENTS (Continued)

Restricted Deposits- Florida Municipal Power Agency (FMPA) has required a working capital contribution. As of September 30, 2006 and 2005, the deposit balance remained at \$3,243,009.

NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

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

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

On a monthly basis, the State Treasurer determines that the collateral has a market value adequate to cover the deposits under the provisions of the Act. For purposes of the statement of cash flows, KEYS considers all liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

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

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

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

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

Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, KEYS deposits may be returned. KEYS' does not have a deposit policy for custodial risk. The carrying amount of KEYS' deposits with financial institutions, as of September 30, 2006 and 2005, were \$19,879,955 and \$4,122,521 respectively, and the bank balances were \$20,076,767 and \$4,686,955, respectively. The bank balances were covered by federal depository insurance and for the amount in excess of such federal depository insurance, by the State of Florida's Security of Public Deposits Act. The Act requires each qualified public depository to deposit with the State Treasurer eligible collateral equal to or in excess of the required collateral as determined by the provisions of the Act. In the event of a failure by a qualified public depository, losses in excess of federal depository insurance and proceeds from the sale of securities pledged by the depository are assessed against the other qualified public depositories of the same type as the depository in default.

In addition, KEYS' deposits with the Florida State Board of Administration Pooled Investment Fund, as of September 30, 2006 and 2005, were \$0 and \$13,491,800 respectively. During 2006, KEYS' transferred all deposits held with the Florida State Board of Administration Pooled Investment Fund to local financial institutions in order to take advantage of more attractive interest rates.

NOTE 4 – NON-CURRENT ASSETS

Other Receivable – The Key West Steam Plant was decommissioned in 1991. In Fiscal Year 2005 the 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. Due to the four hurricanes in 2005, the completion date for both housing projects has been extended to late 2007. The sale of the Steam Plant resulted in an extraordinary gain of \$4,568,719 in Fiscal Year 2006. The sale also resulted in four long term lease receivables totaling \$7,942,212. The leases are as follows: 1) base rent of the luxury units for \$6,264,920 due at the end of construction, 2) initial rent of \$500,000 due 42 months after execution of lease, 3) percentage rent of luxury units of \$1,177,205 with a percentage due after sale and/or occupancy of unit, and 4) affordable rent of \$87 due at the end of construction.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

NOTE 4 – NON-CURRENT ASSETS (Continued)

Other Receivable – Summary of Lease Receivable is as follows:

Summary of Lease Receivable			
<u>Year</u>	<u>Receivable</u>		
2007	\$ 1,871,487		
2008	95,650		
2009	94,670		
2010	93,700	Lease Receivable - Current	-
2011	92,740		
2012 - 2104	5,693,965	Lease Receivable - Long Term	7,942,212
Total Lease Receivable	<u>\$ 7,942,212</u>	Total Lease Receivable	<u>\$ 7,942,212</u>

NOTE 5 – LONG-TERM DEBT

Net Revenues, as defined for purposes of bond security, is all income or earnings derived from the operation of KEYS, except Capital Improvement Charges, investment earnings on Construction and Bond Amortization Funds, and transfers to the Rate Stabilization Fund, less costs of operation and maintenance which do not include capital expenditures, extraordinary repairs, amortization of the costs of issuance of debt obligations, payments under Unconditional Output Contracts, or depreciation. See Note 6 for the rate covenant pertaining to revenues.

Summary of Debt Service Funding Requirements to Maturity

<u>Payment 12 mos ending October 1,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 5,755,000	\$ 2,697,000	\$ 8,452,000
2008	6,005,000	2,382,000	8,387,000
2009	6,340,000	2,052,000	8,392,000
2010	6,695,000	1,689,000	8,384,000
2011	7,090,000	1,305,000	8,395,000
2012 - 2016	20,615,000	23,972,000	44,587,000
2017 - 2018	2,883,000	15,657,000	18,540,000
Total	<u>\$ 55,383,000</u>	<u>\$ 49,754,000</u>	<u>\$ 105,137,000</u>

Prior to the due date of each series of revenue bonds, KEYS is required to set aside sufficient funds to retire the matured principal amounts in equal, monthly amounts. Accordingly, the above schedule does not include principal amounts maturing October 1, 2006, as those funding requirements have been fully satisfied.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

NOTE 5 – LONG-TERM DEBT (Continued)

Changes in Long-Term Debt during Fiscal 2006 are as follows:

	<u>2005</u>	<u>Additions</u>	<u>Retired</u>	<u>2006</u>
Series 1991	\$ 8,077,785	\$ -	\$ -	\$ 8,077,785
Series 2000	48,900,000	-	4,370,000	44,530,000
Series 2001, net	8,678,217	-	799,373	7,878,844
FMPA	1,185,000	-	237,000	948,000
Total	<u>\$ 66,841,002</u>	<u>\$ -</u>	<u>\$ 5,406,373</u>	<u>\$ 61,434,629</u>

Revenue Bonds:

Electric System Refunding Revenue Bonds, Series 1991, collateralized by Net Revenues and certain Reserve Funds, payable October 1, 2006 to October 1, 2018 in installments of various amounts, bearing interest at rates from 7.05% to 7.10%.

	<u>2006</u>	<u>2005</u>
	\$ 8,077,785	\$ 8,077,785

Electric System Refunding Revenue Bonds, Series 2000, collateralized by Net Revenues and certain Reserve Funds, payable October 1, 2006 to October 1, 2013 in installments of various amounts, bearing interest at rates from 5.75% to 6.00%.

	44,530,000	48,900,000
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Electric System Refunding Revenue Bonds, Series 2001, collateralized by Net Revenues and certain Reserve Funds, payable from October 1, 2006 to October 1, 2013 in installments of various amounts, interest at rates from 3.70% to 4.62%.

	8,290,000	9,150,000
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Deferred Loss on Refunding-net, amortized on the straight line basis over the term of the Series 2001 Revenue Bonds

	(411,156)	(471,783)
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Loan Payable:

Loan from the Florida Municipal Power Agency, collateralized by a lien upon and pledge of the Net Revenues of KEYS subordinate to the claims of KEYS' bonds on the Net Revenues. The payment date of March 15, 2006 was extended and refunded in Series 2006 bond issuance.

	<u>948,000</u>	<u>1,185,000</u>
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Total Long-Term Debt

	61,434,629	66,841,002
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Less Current Portion

	<u>5,454,373</u>	<u>5,169,373</u>
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Net Long-Term Debt

	<u>\$ 55,980,256</u>	<u>\$ 61,671,629</u>
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UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

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, 2006, \$26,444,468 of bonds outstanding relative to the 1980C, 1983, 1984 and 1980D issues, \$15,786,016 relative to the 1985 issue, \$11,863,443 relative to the 1987 issue, \$14,516,919 relative to the 1988 issue, and \$7,480,000 relative to the 1991 issue are considered defeased.

NOTE 7 – RATE COVENANT

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

NOTE 8 – PENSION PLAN

Plan Description - The Retirement System for General Employees (the Plan) is a single-employer defined benefit pension plan administered by the Board of Trustees of the Plan. The Plan provides retirement, disability and death benefits to plan members and beneficiaries. Cost of living adjustments are automatically provided to members and beneficiaries. Commencing January 1, 2001, and every year thereafter, the rate will be increased from 2% to 3%. The Plan was created by resolution of the Utility Board, which the Plan by resolution assigns the authority to establish and amend its provisions to the Utility Board. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Retirement System for General Employees, P.O. Drawer 6100, Key West, FL 33041-6100.

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

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

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

NOTE 8 – PENSION PLAN (Continued)

The minimum required contribution rate of covered payroll would be adjusted to include any benefit changes approved by the Utility Board.

Pension overpayment- During Fiscal 2004, KEYS identified benefit calculation errors resulting in overpayment of benefits over several years for a group of retirees. KEYS is currently examining the effects of these miscalculations and determining a plan of action to remedy the overpayments. Effective October 1, 2004, KEYS corrected the benefit calculations to preclude subsequent overpayments.

Schedule of Funding Progress – KEYS' annual contribution for the calendar year 2006 of \$2,343,090 (30.7%) was determined as part of the January 1, 2006 actuarial valuation using the entry age normal actuarial cost method. The actuarial also stated another cost method that the Board opted to use with an annual contribution rate of 28.7%. The actuarial assumptions included (a) 8.0% investment rate of return and (b) projected salary increases of 5.5% per year. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of the Plan assets is the fair value of assets as reported in the Plan financial statements. The unfunded actuarial accrued liability is being amortized as a level payment on a closed basis. The remaining amortization period at January 1, 2006 was 30 years. KEYS had an unfunded actuarial accrued liability of \$6,737,730 and \$4,475,017 as of January 1, 2006 and 2005 respectively. The net pension obligation was \$(77,580) at December 31, 2005. KEYS has accepted the negative pension obligation and this will be adjusted through the Annual Required Contribution calculation in the next fiscal year.

(1) Actuarial Valuation Date <u>January 1,</u>	(2) Entry Age Actuarial Value of <u>Assets</u>	(3) Actuarial Accrued Liability <u>(AAL)</u>	(4) Unfunded AAL <u>(UAAL)</u>	(5) Funded Ratio	(6) Covered <u>Payroll</u>	(7) UAAL as a Percentage of Covered <u>Payroll</u>
1997	\$ 34,436	\$ 33,475	\$ (961)	102.9%	\$ 5,866	-16.4%
1998	\$ 40,933	\$ 34,826	\$ (6,107)	117.5%	\$ 6,038	-101.1%
1999	\$ 48,032	\$ 40,295	\$ (7,737)	119.2%	\$ 6,127	-126.3%
2000	\$ 53,398	\$ 41,776	\$ (11,622)	127.8%	\$ 6,168	-188.4%
2001	\$ 52,329	\$ 48,646	\$ (3,683)	107.6%	\$ 6,398	-57.6%
2002	\$ 49,513	\$ 50,730	\$ 1,217	97.6%	\$ 6,764	18.0%
2003	\$ 50,459	\$ 52,434	\$ 1,975	96.2%	\$ 6,845	28.9%
2004	\$ 51,439	\$ 55,408	\$ 3,969	92.8%	\$ 6,898	57.5%
2005	\$ 53,036	\$ 57,511	\$ 4,475	92.2%	\$ 6,934	64.5%
2006	\$ 54,266	\$ 61,004	\$ 6,738	89.0%	\$ 7,644	88.1%

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

NOTE 8 – PENSION PLAN (Continued)

<u>Historical Trend Information</u>				<u>Annual Pension Cost and Net Pension Obligation (NPO)</u>		
Calendar Year	Annual Pension Cost (APC)	Percentage APC Contributed	Net Pension Obligation		2005	2006
1997	\$ 673,467	132%	\$ -	Annual Required Contribution (ARC)	\$ 1,979,201	\$ 2,343,090
1998	\$ 616,835	214%	\$ -	Interest on NPO	(3,406)	(6,206)
1999	\$ 624,849	212%	\$ -	Adjustment to ARC	3,816	6,891
2000	\$ 384,057	268%	\$ -	APC	<u>\$ 1,979,611</u>	<u>\$ 2,343,775</u>
2001	\$ 1,245,998	100%	\$ -	Utility Board Contribution	<u>(2,014,613)</u>	
2002	\$ 1,673,299	102%	\$ (26,551)	Increase (Decrease) in NPO	<u>(35,002)</u>	
2003	\$ 1,644,221	101%	\$ (42,957)	NPO (beginning of year)	<u>(42,578)</u>	
2004	\$ 1,911,019	100%	\$ (42,578)	NPO (end of year)	<u><u>(77,580)</u></u>	
2005	\$ 1,979,611	102%	\$ (77,580)			

NOTE 9 – LEASES

Rent expense under cancelable operating leases related to copiers, mailing equipment and time clocks was \$179,882 and \$109,443 in 2006 and 2005.

NOTE 10 - PURCHASED POWER COMMITMENTS

All Requirements Power Supply Project – In July 1997, KEYS agreed to become a member of the Florida Municipal Power Agency (FMPA) All-Requirements Power Supply Project (the “All-Requirements Project”) and began operations as a project participant effective April 1, 1998. Under the contractual arrangement with FMPA, KEYS has assigned all of its generating and firm purchased power resources to FMPA, and FMPA will serve all of KEYS’ requirements (net of up to 2 MW of non-firm capacity when available from the local resource recovery facility). Further, in the event that power cannot be delivered to the KEYS’ service area over the tie line to the mainland, KEYS established a policy to have island generation capability equal to at least 60% of KEYS’ peak load. KEYS and FMPA have agreed to meet these criteria through a combination of KEYS’ 43.4 MW of existing generating resources and three combustion turbine units that are owned by FMPA, which currently total 79.7 MW. As part of the All-Requirements Project contract, the Florida Municipal Power Agency is required to maintain generation assets within KEYS’ Service Area equal to or above 60 percent of the KEYS’ load. Florida Municipal Power Agency purchased a General Electric LM 6000 (CT #4) capable of producing 43 MW that went on line in 2006, allowing KEYS to retire the Big Pine and Cudjoe High Speed Diesels (7 MW). The FMPA All-Requirements Project, the related assignment of resources by KEYS to FMPA, and other matters pertaining to KEYS’ power supply are discussed in the paragraphs following.

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

NOTE 10 - PURCHASED POWER COMMITMENTS (Continued)

Other power purchase and sale arrangements include KEYS' purchases from a small resource recovery unit located on Stock Island, sale of power to FKEC, and interchange service agreements with other Florida utilities and with power marketers.

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. FMPA's Tri-City Project consists of a 5.3012% undivided ownership interest in Curtis H. Stanton Energy Center ("Stanton") unit No. 1, a 425 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 425 MW, the Tri-City Project consists of a 22 MW undivided ownership and KEYS' power entitlement share is approximately 12 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 429 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 429 MW high dispatch rating, the Stanton 2 Project consists of 100 MW undivided ownership and KEYS' power entitlement share is approximately 9.9 MW at the plant bus bar.

Florida Power & Light (FPL) Long-Term Purchase – KEYS entered into an agreement with FPL on August 15, 1991, entitled the Long-Term Agreement to Provide Capacity and Energy by Florida Power & Light Company to Keys Energy Services, the Utility Board of the City of Key West, Florida (the "FPL Long-Term Agreement") which became effective on June 1, 1993 after the termination of a short-term purchase agreement with FPL. The FPL Long-Term Agreement will continue in effect for 20 years. The initial purchase amount (the "Initial Contract Demand") is 45 MW. The contract demand for each year is to be designated by September 1 of each prior year, but the contract demand cannot be less than the initial contract demand during the term of the agreement. In the event KEYS' peak load during a year is lower than the KEYS peak load in the immediately preceding year, KEYS may decrease the portion of its contract demand in excess of the Initial Contract Demand, subject to certain limitations.

NOTE 11 – 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. KEYS purchases commercial insurance policies from a commercial insurance carrier and other insurance carriers to minimize its risk of loss in these areas.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

KEYS' has not experienced an insurance settlement in excess of insurance coverage during the past four fiscal years. KEYS' bears the risk of loss up to the deductible amounts, which are disclosed in the accompanying statistical tables.

NOTE 12 - NAVY CONTRACT

The United States Navy is the largest customer of KEYS and accounted for approximately 9.2% and 10.4% of kilowatt hours sold in Fiscal 2006 and 2005 respectively. KEYS' contract with the Navy is for a term of five 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 megawatts of power at multiple locations.

KEYS executed an amendment to the Navy's service contract on December 8, 1999, which modified the existing rate schedule. The term of the contract was extended to September 1, 2004 subject to certain termination and renegotiation provisions. On February 17, 2004, both parties agreed that this contract shall continue in effect through September 1, 2007. All terms and conditions remain unchanged and in full force and effect.

KEYS submitted a proposal on June 18, 2003 in response to the Department of the Navy's Solicitation No. N62467-00-R-1801 to privatize electric systems at NAS Key West.

In January 2005, the Navy notified KEYS that it had been selected as a best value respondent to the Navy's solicitation. However, after several months of negotiations, the parties were not able to reach agreement on the terms and conditions of the privatization contract between the Navy and KEYS.

NOTE 13 – REGULATION

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

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

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

NOTE 13 – REGULATION (Continued)

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 plant 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 14 – POST EMPLOYMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, KEYS provides life insurance and health care benefits for retired employees. These benefits are provided pursuant to KEYS' personnel policies as adopted 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 if they qualify for retirement status while working for KEYS. At September 30, 2006, 120 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. KEYS recognizes the cost of providing these benefits on a pay-as-you-go basis by expensing the insurance premiums for retirees, which were \$953,344 and \$876,797 for 2006 and 2005, respectively.

NOTE 15 – PAYMENT TO THE CITY OF KEY WEST

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

Paragraph (11) of Section 3.03 (B) of the Original Resolution 532 was amended on September 8, 1999 by Resolution 678 to be effective for the amount paid in 2001. The Board will pay to the City a sum equal to the greater of (a) \$200,000 (adjusted annually for changes in the Consumer Price index or (b) one percent (1%) of the Gross Revenues derived from sales of electricity at retail (exclusive of Power Cost Revenues which are defined as (i) revenues determined by reference to the power cost component of base rates, plus or minus (ii) power cost adjustment charges or credits.) The annual payments were \$343,341 and \$340,548 for 2006 and 2005, respectively.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

NOTE 16 – SPECIAL ITEMS

On October 24, 2005, Hurricane Wilma struck the Florida Keys causing an estimated \$3.1 million in damages, most of which was to the transmission and distribution system. Grants were received from the Florida Department of Community Affairs (DCA) and the Federal Emergency Management Agency (FEMA) which will reimburse 87.5% of eligible costs.

NOTE 17 – SUBSEQUENT EVENT

On October 31, 2006, KEYS issued \$42.0 million of Electric System Refunding and Capital Improvement Revenue Bonds, Series 2006. The bonds refunded the FMPA loan of \$948,000 and will fund several capital projects, including a pole hardening program, transmission and distribution improvements, a new substation located in Stock Island, installation of new feeders at the Big Pine substation, replace certain substation transformers and install fin fan coolers at the Stock Island Generating Facilities. The issue is rated AAA by Standard & Poor's (S&P) and Fitch and Aaa by Moody's and is insured by the MBIA Insurance Company. In addition, KEYS obtained an underlying bond rating of A2 from Moody's and A- from S&P.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
SCHEDULE OF REVENUES EARNED
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Electric Revenues	\$ 59,750,375	\$ 60,954,878
Power Cost Adjustment	34,217,993	19,451,323
Service Charges	134,068	141,677
Penalty Charges	470,133	482,655
Reserve Capacity	1,804,033	2,029,173
Other	94,525	291,876
Charges for New Service	<u>728,938</u>	<u>127,154</u>
Total	<u>97,200,065</u>	<u>83,478,736</u>
Other Income:		
Interest	1,047,716	613,525
Grant Revenue	-	119,367
Hurricane-Grant Revenue	3,281,600	1,900,702
Hurricane-Insurance Proceeds	273,306	-
CT#1 Insurance Proceeds	781,813	-
Pole Attachment	368,669	188,516
FKEC Audit Revenue	231,637	-
DOE Crude Oil Refund	145,416	-
Generating Unit Expense Reimbursement	189,742	22,545
Tree Trimming	92,565	81,573
KW Steam Plant Rental Income	173,348	-
Miscellaneous Non-Operating Revenue	<u>271,978</u>	<u>460,988</u>
Total Other Income	<u>6,857,790</u>	<u>3,387,216</u>
Total Revenues	<u>\$ 104,057,855</u>	<u>\$ 86,865,952</u>

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

UTILITY BOARD OF THE CITY OF KEY WEST
SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET TO ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Annual Budget		Year to Date Actual	Variance- Favorable (Unfavorable)
	Original	Current		
Revenues				
Operating Revenues	\$ 83,151,423	\$ 95,890,056	\$ 93,968,368	\$ (1,921,688)
Other Operating Revenues	4,722,805	4,997,805	3,231,697	(1,766,108)
Interest Income	559,085	632,841	1,047,716	414,875
Grant Revenue	-	-	-	-
Hurricane - Grant Revenue	-	-	3,281,600	3,281,600
Hurricane - Insurance Proceeds	-	-	273,306	273,306
Non-Operating Revenues	<u>600,988</u>	<u>958,806</u>	<u>2,255,168</u>	<u>1,296,362</u>
Total Budget Revenue	<u>89,034,301</u>	<u>102,479,508</u>	<u>104,057,855</u>	<u>1,578,347</u>
Expenditures				
Production Expenses - Diesel	1,159,817	1,531,783	1,482,077	49,706
Purchased Power	51,121,682	63,541,863	59,946,424	3,595,439
Transmission Expenses	3,778,672	3,914,606	3,539,845	374,761
Distribution Expenses	4,056,412	3,755,708	3,366,439	389,269
Customer Accounts and Collection Expenses	1,085,996	1,089,361	1,243,322	(153,961)
Customer Deposit Interest	118,852	118,852	194,367	(75,515)
Administrative and General Expenses	13,708,055	13,467,890	15,153,075	(1,685,185)
Hurricane-Expenses	-	379,298	3,094,972	(2,715,674)
Senior Lien Debt Service	8,451,538	8,451,538	8,511,550	(60,012)
Junior Lien Debt Service	836,933	836,933	290,020	546,913
Dividend to City of Key West	<u>320,297</u>	<u>320,297</u>	<u>343,341</u>	<u>(23,044)</u>
Total Expenditures	<u>84,638,254</u>	<u>97,408,129</u>	<u>97,165,432</u>	<u>242,697</u>
Excess of Revenues Over Expenditures	<u>\$ 4,396,047</u>	<u>\$ 5,071,379</u>	6,892,423	<u>\$ (1,821,044)</u>
Adjustments				
Depreciation			(6,182,488)	
Principal Portion of Budgeted Debt Service			5,752,000	
Capitalized Overhead			1,232,601	
Interest Accrued but Unfunded			(1,560,475)	
Amortization of Issuance Costs			(104,508)	
Capital Contributions			85,983	
Amortization of Loss on Refunding			<u>(60,627)</u>	
Change in Net Assets, GAAP Basis			<u>\$ 6,054,909</u>	

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

UTILITY BOARD OF THE CITY OF KEY WEST

STATISTICAL SECTION

This part of the Keys Energy Services' (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.

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

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

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

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

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CONDENSED BALANCE SHEETS

FISCAL YEARS 2006 - 1997

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
ASSETS										
Current Assets										
Cash and Investments	\$ 7,064,406	\$ 6,657,203	\$ 5,950,771	\$ 5,897,131	\$ 6,094,567	\$ 1,764,083	\$ 2,297,708	\$ 3,650,143	\$ 499,288	\$ 461,415
Accounts Receivable, net	6,152,177	5,729,570	5,252,346	4,317,862	4,514,931	6,723,727	5,890,221	5,573,281	6,529,459	5,113,076
Plant Material and Operating Supplies Inventory	2,722,320	2,454,805	2,659,814	2,496,248	3,408,455	3,282,355	2,938,287	2,470,040	1,846,655	2,341,763
Other Current Assets	<u>9,237,560</u>	<u>10,203,625</u>	<u>1,483,817</u>	<u>1,159,438</u>	<u>809,915</u>	<u>355,942</u>	<u>545,171</u>	<u>529,614</u>	<u>565,305</u>	<u>551,016</u>
Total Unrestricted Current Assets	25,176,463	25,045,203	15,346,748	13,870,679	14,827,868	12,126,107	11,671,387	12,223,078	9,440,707	8,467,270
Cash and Investments-Restricted	12,833,724	11,466,147	19,538,828	19,329,440	22,871,985	26,276,639	31,743,510	34,143,717	29,035,302	27,128,557
Interest Receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,320</u>	<u>368,358</u>	<u>287,446</u>	<u>358,881</u>	<u>277,051</u>
Total Restricted Current Assets	12,833,724	11,466,147	19,538,828	19,329,440	22,871,985	26,319,959	32,111,868	34,431,163	29,394,183	27,405,608
Total Current Assets	<u>38,010,187</u>	<u>36,511,350</u>	<u>34,885,576</u>	<u>33,200,119</u>	<u>37,699,853</u>	<u>38,446,066</u>	<u>43,783,255</u>	<u>46,654,241</u>	<u>38,834,890</u>	<u>35,872,878</u>
Non Current Assets										
Capital Assets										
Net Utility Plant	\$ 113,676,371	\$ 111,804,113	\$ 111,753,669	\$ 110,314,331	\$ 110,624,848	\$ 110,529,716	\$ 100,127,962	\$ 99,348,305	\$ 100,200,302	\$ 103,184,142
Construction in Progress	<u>1,156,438</u>	<u>2,307,807</u>	<u>3,278,081</u>	<u>5,021,562</u>	<u>2,336,476</u>	<u>2,158,024</u>	<u>5,994,178</u>	<u>4,116,931</u>	<u>8,645,799</u>	<u>4,752,830</u>
Total Net Capital Assets	114,832,809	114,111,920	115,031,750	115,335,893	112,961,324	112,687,740	106,122,140	103,465,236	108,846,101	107,936,972
Other Property										
Net Non-Utility Plant	<u>-</u>	<u>-</u>	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>	<u>3,009,773</u>
Total Other Property	-	-	3,009,773	3,009,773	3,009,773	3,009,773	3,009,773	3,009,773	3,009,773	3,009,773
Restricted Non-Current Assets										
Deposits-Restricted	<u>3,243,009</u>	<u>3,243,009</u>	<u>3,243,009</u>	<u>1,621,505</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Restricted Non-Current Assets	3,243,009	3,243,009	3,243,009	1,621,505	-	-	-	-	-	-
Unrestricted Non-Current Assets										
Investments	-	-	44,075	554,913	1,035,667	4,506,094	3,929,257	-	-	-
Other Accounts Receivable	7,942,212	7,768,864	-	-	-	-	-	-	-	-
Deferred Charges	<u>804,746</u>	<u>909,254</u>	<u>1,013,762</u>	<u>1,118,270</u>	<u>1,222,778</u>	<u>1,481,546</u>	<u>1,796,124</u>	<u>2,300,242</u>	<u>2,489,749</u>	<u>2,619,118</u>
Total Unrestricted Non-Current Assets	8,746,958	8,678,118	1,057,837	1,673,183	2,258,445	5,987,640	5,725,381	2,300,242	2,489,749	2,619,118
Total Non-Current Assets	<u>126,822,776</u>	<u>126,033,047</u>	<u>122,342,369</u>	<u>121,640,354</u>	<u>118,229,542</u>	<u>121,685,153</u>	<u>114,857,294</u>	<u>108,775,251</u>	<u>114,345,623</u>	<u>113,565,863</u>
Total Assets	<u>\$ 164,832,963</u>	<u>\$ 162,544,397</u>	<u>\$ 157,227,945</u>	<u>\$ 154,840,473</u>	<u>\$ 155,929,395</u>	<u>\$ 160,131,219</u>	<u>\$ 158,640,549</u>	<u>\$ 155,429,492</u>	<u>\$ 153,180,513</u>	<u>\$ 149,438,741</u>

(Continued)

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CHANGES IN NET ASSETS

FISCAL YEARS 2006 - 1997

	<u>2006</u>	<u>2005</u>	<u>2004</u>	Restated <u>2003</u>	Restated <u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
NET ASSETS AND LIABILITIES										
Current Liabilities										
Unrestricted Current Liabilities										
Accounts Payable	\$ 5,709,921	\$ 6,751,776	\$ 5,135,018	\$ 4,657,297	\$ 3,864,900	\$ 3,917,568	\$ 3,477,950	\$ 3,608,804	\$ 3,821,680	\$ 4,335,392
Accrued Expenses	2,508,409	2,133,812	1,697,905	1,457,832	1,250,345	1,190,933	1,066,370	1,028,575	1,310,498	1,127,300
Deferred Revenues	<u>316,128</u>	<u>82,286</u>	<u>108,397</u>	<u>64,835</u>	<u>112,201</u>	<u>274,301</u>	<u>82,520</u>	<u>219,338</u>	<u>330,703</u>	<u>230,290</u>
Total Unrestricted Current Liabilities	8,534,458	8,967,874	6,941,320	6,179,964	5,227,446	5,382,802	4,626,840	4,856,717	5,462,881	5,692,982
Restricted Current Liabilities										
Current Portion of Long-Term Debt	5,454,373	5,169,373	4,909,373	5,009,373	4,790,611	4,240,611	8,844,404	8,040,014	7,747,728	7,532,728
Accounts Payable	914,510	196,656	298,888	518,400	424,638	268,384	1,075,805	1,073,974	148,466	381,094
Accrued Interest	1,498,275	1,639,823	1,768,198	1,889,160	1,998,717	2,069,870	1,572,960	816,126	948,718	1,052,507
Due to Customers	4,020,894	4,084,228	4,012,967	3,924,232	4,001,563	4,058,346	4,390,789	4,401,941	4,312,816	4,217,713
Due to Other Governments	-	-	-	-	224,018	-	-	-	-	-
Security Deposits Payable	<u>110,000</u>	<u>110,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Restricted Current Liabilities	11,998,052	11,200,080	10,989,426	11,341,165	11,439,547	10,637,211	15,883,958	14,332,055	13,157,728	13,184,042
Total Current Liabilities	20,532,510	20,167,954	17,930,746	17,521,129	16,666,993	16,020,013	20,510,798	19,188,772	18,620,609	18,877,024
Long Term Debt										
Revenue Bonds	55,032,256	60,486,629	65,656,003	70,565,376	75,233,511	83,636,135	87,528,888	55,470,092	61,502,481	67,365,147
Accrued Interest	15,146,568	13,586,094	12,130,463	10,772,630	9,506,029	8,992,072	7,817,871	43,806,585	40,238,624	36,706,380
Loan Payable	<u>948,000</u>	<u>1,185,000</u>	<u>-</u>	<u>-</u>	<u>340,000</u>	<u>680,000</u>	<u>182,409</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Long Term Debt	71,126,824	75,257,723	77,786,466	81,338,006	85,079,540	93,308,207	95,529,168	99,276,677	101,741,105	104,071,527
Total Liabilities	<u>91,659,334</u>	<u>95,425,677</u>	<u>95,717,212</u>	<u>98,859,135</u>	<u>101,746,533</u>	<u>109,328,220</u>	<u>116,039,966</u>	<u>118,465,449</u>	<u>120,361,714</u>	<u>122,948,551</u>
Net Assets	<u>73,173,629</u>	<u>67,118,720</u>	<u>61,510,733</u>	<u>55,981,338</u>	<u>54,182,862</u>	<u>50,802,999</u>	<u>42,600,583</u>	<u>36,964,043</u>	<u>32,818,799</u>	<u>26,490,190</u>
Total Net Assets and Liabilities	<u>\$ 164,832,963</u>	<u>\$ 162,544,397</u>	<u>\$ 157,227,945</u>	<u>\$ 154,840,473</u>	<u>\$ 155,929,395</u>	<u>\$ 160,131,219</u>	<u>\$ 158,640,549</u>	<u>\$ 155,429,492</u>	<u>\$ 153,180,513</u>	<u>\$ 149,438,741</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CHANGES IN NET ASSETS

FISCAL YEARS 2006 - 1997

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Revenues										
Utility Activities:										
Charges for Electric:										
Customer Charge	2,097,779	2,106,597	2,076,473	2,062,558	2,046,854	2,027,916	1,919,513	1,552,443	1,556,088	1,513,985
Energy	50,721,562	52,074,914	52,842,391	51,946,140	50,539,343	49,849,743	48,867,233	39,521,839	39,614,633	38,542,775
Demand	4,586,551	4,767,462	4,741,167	4,774,887	4,636,591	4,480,583	4,464,433	3,610,631	3,619,107	3,521,184
Power Cost Adjustment	34,217,993	19,451,323	16,695,062	9,892,463	5,624,742	9,751,318	857,080	14,089,541	16,605,847	15,163,158
Gross Receipts	2,344,483	2,005,905	1,929,535	1,782,729	1,607,900	1,691,395	1,432,430	593,394	622,321	594,059
Sales for Resale	-	-	-	-	-	-	-	-	480,181	514,321
Total Charges for Electric	93,968,368	80,406,201	78,284,628	70,458,777	64,455,430	67,800,955	57,540,689	59,367,848	62,498,177	59,849,482
Charges for Service:										
Penalty Charge	470,133	482,655	523,623	457,717	387,600	515,682	354,867	392,166	454,953	403,648
Service Charge	134,068	141,677	132,024	159,050	116,349	118,541	121,100	114,665	108,720	121,470
Initial Permanent Service	31,400	57,800	57,625	35,050	37,575	41,750	61,377	43,253	30,789	47,693
Line Extension	697,538	69,354	195,370	108,115	135,202	4,575	2,465	1,800	6,291	13,624
Contributions in Aid of Construction	85,983	119,347	81,417	146,587	127,323	185,059	287,541	621,384	160,911	211,386
Total Charges for Service	1,419,122	870,833	990,059	906,519	804,049	865,607	827,350	1,173,268	761,664	797,821
Charges for Other Services:										
Green Power	3,547	3,601	1,985	-	-	-	-	-	-	-
Capacity Credits	1,804,033	2,029,173	1,909,808	1,883,557	1,598,265	1,471,961	1,368,859	1,243,512	444,960	438,480
Other	90,978	288,275	234,374	34,979	99,870	80,883	59,306	82,131	40,653	24,394
Total Charges for Other Services	1,898,558	2,321,049	2,146,167	1,918,536	1,698,135	1,552,844	1,428,165	1,325,643	485,613	462,874
Total Utility Activities	97,286,048	83,598,083	81,420,854	73,283,832	66,957,614	70,219,406	59,796,204	61,866,759	63,745,454	61,110,177
Non-Utility Activities:										
Rental Income	633,419	402,898	316,060	266,547	247,632	224,991	222,391	248,955	190,526	219,843
Miscellaneous	1,529,184	269,151	129,512	11,032	657,534	854,732	1,656,063	118,110	140,511	40,245
Tree Trimming	92,565	81,573	181,774	175,290	188,974	-	236,691	236,691	216,967	-
Investment earnings	1,047,716	613,525	301,862	396,649	655,969	1,815,338	1,862,118	1,260,837	1,219,430	1,087,936
Special Item-Hurricane	3,281,600	1,900,702	-	-	-	-	331,832	4,439,834	1,215,691	-
Special Item-Insurance Proceeds	273,306	-	-	-	-	-	-	-	-	-
Special Item-SO2 Credits	-	-	-	-	-	-	-	4,285,700	-	-
Grant Revenue	-	119,367	110,937	3,022	6,500	193,019	5,000	-	5,000	14,840
Gain on Disposition of Property	-	4,568,719	-	-	-	-	-	-	-	-
Total Non-Utility Activities	6,857,790	7,955,935	1,040,145	852,540	1,756,609	3,088,080	4,314,095	10,590,127	2,988,125	1,362,864
Total Revenues	\$ 104,143,838	\$ 91,554,018	\$ 82,460,999	\$ 74,136,372	\$ 68,714,223	\$ 73,307,486	\$ 64,110,299	\$ 72,456,886	\$ 66,733,579	\$ 62,473,041

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CHANGES IN NET ASSETS (Continued)

FISCAL YEARS 2006 - 1997

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Expenses										
Utility Activities:										
Operating Expenses										
Production - Steam	-	-	-	-	-	-	-	-	166,385	1,388,706
Production - Diesel	1,482,077	1,074,167	887,371	916,557	779,761	816,946	681,671	841,671	1,036,565	1,727,963
Purchased Power	59,946,424	49,287,046	44,523,179	41,311,655	34,230,472	36,742,561	29,133,085	26,253,614	31,891,585	28,430,580
Transmission	3,539,845	3,646,679	3,298,491	3,711,111	3,485,983	3,589,637	3,673,226	3,575,771	760,025	664,908
Distribution	3,366,439	3,017,736	3,250,018	2,832,211	3,075,612	2,985,558	3,167,390	3,295,190	3,252,971	2,672,478
Customer Service	1,243,322	1,280,590	1,085,522	1,015,116	985,698	1,033,617	1,035,576	1,062,064	1,015,357	990,636
Administrative & General	11,452,519	11,540,112	10,004,675	8,757,455	8,460,644	5,977,699	5,601,023	5,881,170	5,928,275	5,777,256
Depreciation	6,182,488	6,391,999	6,441,587	6,367,595	6,500,687	5,680,618	5,488,771	5,783,556	5,402,133	5,237,831
Gross Receipts Tax	2,348,479	2,010,155	1,932,116	1,786,472	1,611,989	1,695,508	1,432,385	1,533,057	1,515,708	1,476,616
Employer Fica	119,476	116,919	89,107	68,831	65,945	63,034	60,557	55,116	52,260	42,925
Total Utility Activities	<u>89,681,069</u>	<u>78,365,403</u>	<u>71,512,066</u>	<u>66,767,003</u>	<u>59,196,791</u>	<u>58,585,178</u>	<u>50,273,684</u>	<u>48,281,209</u>	<u>51,021,264</u>	<u>48,409,899</u>
Non-Utility Activities										
Debt Expenses										
Interest on Debt	4,670,672	4,811,456	4,959,686	5,116,455	5,468,680	5,788,814	7,107,912	7,424,554	7,517,011	7,635,477
Interest Customer Deposit	194,367	109,429	29,345	31,538	74,701	279,513	252,913	198,347	212,472	196,396
Amortization of Bond Discount	104,508	104,508	104,508	104,508	259,703	127,714	187,707	189,507	190,550	312,340
Payment to City of Key West	343,341	340,548	325,998	318,394	334,485	323,851	317,146	249,644	230,708	217,254
Special Item - Hurricane	3,094,972	2,214,686	-	-	-	-	334,397	5,074,097	1,232,965	-
Retirement of Steam Plant	-	-	-	-	-	-	-	6,894,284	-	-
Total Non-Utility Activities	<u>8,407,860</u>	<u>7,580,627</u>	<u>5,419,537</u>	<u>5,570,895</u>	<u>6,137,569</u>	<u>6,519,892</u>	<u>8,200,075</u>	<u>20,030,433</u>	<u>9,383,706</u>	<u>8,361,467</u>
Total Expenses	<u>\$ 98,088,929</u>	<u>\$ 85,946,030</u>	<u>\$ 76,931,603</u>	<u>\$ 72,337,898</u>	<u>\$ 65,334,360</u>	<u>\$ 65,105,070</u>	<u>\$ 58,473,759</u>	<u>\$ 68,311,642</u>	<u>\$ 60,404,970</u>	<u>\$ 56,771,366</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

CHANGES IN NET ASSETS (Continued)

FISCAL YEARS 2006 - 1997

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
<u>Change in Net Assets</u>										
Utility Activities										
Total Utility Revenues	97,286,048	83,598,083	81,420,854	73,283,832	66,957,614	70,219,406	59,796,204	61,866,759	63,745,454	61,110,177
Total Utility Expenses	<u>89,681,069</u>	<u>78,365,403</u>	<u>71,512,066</u>	<u>66,767,003</u>	<u>59,196,791</u>	<u>58,585,178</u>	<u>50,273,684</u>	<u>48,281,209</u>	<u>51,021,264</u>	<u>48,409,899</u>
Utility Change in Net Assets	7,604,979	5,232,680	9,908,788	6,516,829	7,760,823	11,634,228	9,522,520	13,585,550	12,724,190	12,700,278
Non-Utility Activities										
Total Non-Utility Revenues	6,857,790	7,955,935	1,040,145	852,540	1,756,609	3,088,080	4,314,095	10,590,127	2,988,125	1,362,864
Total Non-Utility Expenses	<u>8,407,860</u>	<u>7,580,627</u>	<u>5,419,537</u>	<u>5,570,895</u>	<u>6,137,569</u>	<u>6,519,892</u>	<u>8,200,075</u>	<u>20,030,433</u>	<u>9,383,706</u>	<u>8,361,467</u>
Non-Utility Change in Net Assets	(1,550,070)	375,308	(4,379,392)	(4,718,355)	(4,380,960)	(3,431,812)	(3,885,980)	(9,440,306)	(6,395,581)	(6,998,603)
Change in Net Assets	<u>\$ 6,054,909</u>	<u>\$ 5,607,988</u>	<u>\$ 5,529,396</u>	<u>\$ 1,798,474</u>	<u>\$ 3,379,863</u>	<u>\$ 8,202,416</u>	<u>\$ 5,636,540</u>	<u>\$ 4,145,244</u>	<u>\$ 6,328,609</u>	<u>\$ 5,701,675</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

FINANCIAL TRENDS

NET ASSETS BY COMPONENT

FISCAL YEARS 2006 - 1997

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Utility Activities										
Invested in capital assets, net of related debt	\$ 53,995,651	\$ 48,044,762	\$ 47,004,365	\$ 42,238,508	\$ 34,953,312	\$ 26,426,478	\$ 12,568,467	\$ 36,964,043	\$ 32,818,797	\$ 26,490,190
Restricted for Working Capital	3,243,009	3,243,009	3,243,009	1,621,505	-	-	-	-	-	-
Unrestricted	15,934,969	15,830,949	11,263,359	12,121,325	17,915,179	24,376,521	30,032,116	-	-	-
Total Net Assets	\$ 73,173,629	\$ 67,118,720	\$ 61,510,733	\$ 55,981,338	\$ 52,868,491	\$ 50,802,999	\$ 42,600,583	\$ 36,964,043	\$ 32,818,797	\$ 26,490,190

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

REVENUES BY TYPE OF CUSTOMER

FISCAL YEARS 2006 - 1997

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Residential	\$ 44,302,430	\$ 37,767,031	\$ 36,658,912	\$ 33,526,793	\$ 29,945,374	\$ 30,573,275	\$ 25,901,263	\$ 25,063,159	\$ 26,316,989	\$ 24,661,756
Senior Citizen	452,712	369,301	314,552	229,184	195,524	207,605	149,109	157,444	148,971	139,601
Small Commercial	9,861,649	8,386,852	8,170,521	7,209,746	6,980,914	7,723,758	6,325,532	6,709,550	6,922,672	6,722,568
Large Commercial	28,882,226	24,131,212	23,690,538	20,955,224	18,998,550	20,122,328	17,229,071	18,900,932	19,573,180	19,007,407
Large Commercial-Primary	1,783,289	1,503,875	1,516,123	1,382,608	1,431,486	1,666,483	1,373,286	1,406,978	1,548,294	1,503,540
Industrial	-	-	-	7,313	46,533	25,134	17,809	19,348	-	-
Metro	-	-	-	-	-	-	-	22,474	-	-
Military	7,986,754	7,618,487	7,296,000	6,561,783	6,285,413	6,848,174	5,938,793	6,475,052	6,832,240	6,634,750
Churches	103,375	87,974	94,843	81,599	73,457	77,890	67,855	75,787	84,084	78,638
Recreating Lighting	28,274	28,956	25,102	23,384	22,505	23,827	21,221	19,770	44,606	44,156
Street Lighting	397,735	339,410	327,408	302,405	289,625	345,077	336,963	357,487	355,615	352,034
Area Lights	169,924	173,103	190,629	178,738	186,049	187,404	179,787	159,867	191,345	190,711
Resale Sales	-	-	-	-	-	-	-	-	480,181	514,321
Total Electric Revenues	\$ 93,968,368	\$ 80,406,201	\$ 78,284,628	\$ 70,458,777	\$ 64,455,430	\$ 67,800,955	\$ 57,540,689	\$ 59,367,848	\$ 62,498,177	\$ 59,849,482

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

ACTUAL NUMBER OF CUSTOMERS BILLED

FISCAL YEARS 2006 - 1997

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Residential	23,626	23,722	23,485	23,430	23,244	23,002	22,945	22,347	22,119	21,674
Senior Citizen	385	359	328	273	227	266	209	243	215	236
Small Commercial	3,083	3,003	2,981	2,867	2,847	2,885	2,855	2,709	2,642	2,604
Large Commercial	641	689	682	676	663	611	632	662	653	622
Large Commercial-Primary	5	5	5	6	6	9	8	9	7	7
Military	1	1	1	1	1	1	1	1	1	1
Churches	14	14	14	16	14	15	15	15	16	16
Recreating Lighting	4	4	4	4	4	4	4	4	4	4
Street Lighting	5	5	5	5	5	5	4	4	4	4
Area Lights	1,743	1,743	1,743	1,743	1,743	1,743	1,545	1,536	1,536	1,499
Total Per Year	29,507	29,545	29,248	29,021	28,754	28,541	28,218	27,530	27,197	26,667

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

kWh SALES BY TYPE OF CUSTOMER

FISCAL YEARS 2006 - 1997

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Residential	322,821,261	328,463,571	331,255,087	336,527,072	313,373,473	297,876,406	291,705,894	280,380,410	279,848,803	268,782,127
Senior Citizen	3,433,442	3,367,914	2,990,238	2,421,557	2,162,669	2,132,083	1,800,705	1,930,306	1,694,143	1,624,056
Small Commercial	70,301,646	71,315,388	72,215,876	70,546,836	71,191,876	69,505,253	64,739,573	59,229,157	58,898,327	59,143,707
Large Commercial	223,397,382	225,840,948	232,357,842	229,252,417	217,523,554	204,191,750	201,076,612	193,964,088	194,184,681	190,522,693
Large Commercial-Primary	14,390,129	14,745,675	15,445,343	15,697,282	17,088,655	17,725,220	16,600,701	15,850,316	17,324,352	14,432,773
Industrial	-	-	-	71,760	472,400	250,800	147,120	140,640	-	-
Metro	-	-	-	-	-	-	-	169,147	233,050	582,580
Military	64,737,435	75,332,040	75,596,527	76,739,131	76,916,836	73,989,067	75,165,609	72,940,692	73,901,898	74,604,534
Churches	671,840	669,595	757,371	743,337	649,482	605,706	590,667	579,606	576,638	566,147
Recreating Lighting	175,760	210,460	188,060	191,100	188,600	188,620	189,900	168,740	182,520	206,600
Street Lighting	2,817,954	2,654,569	2,651,128	2,652,752	2,655,220	2,955,277	3,199,842	3,201,830	3,317,222	3,175,788
Area Lights	1,377,516	1,377,516	1,377,516	1,377,516	1,410,415	1,443,168	1,443,168	1,443,168	1,443,164	1,312,549
Total kWh	704,124,365	723,977,676	734,834,988	736,220,760	703,633,180	670,863,350	656,659,791	629,998,100	631,604,798	614,953,554

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

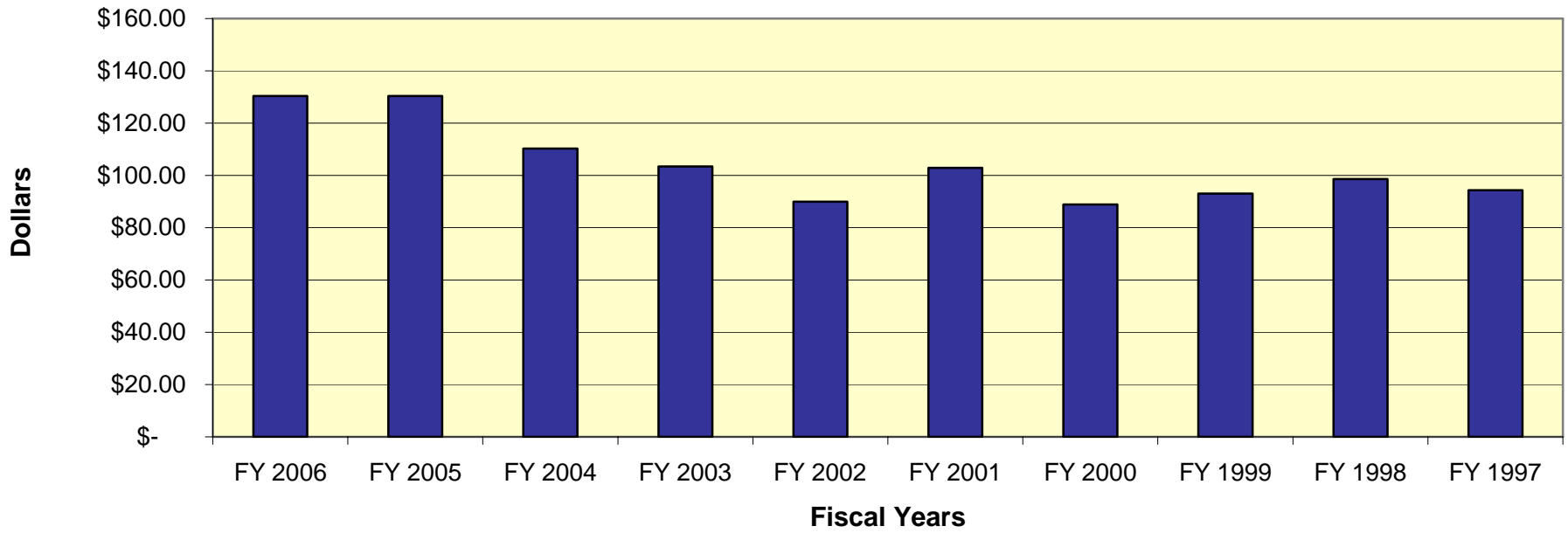
REVENUE CAPACITY

AVERAGE MONTHLY BILL

FISCAL YEARS 2006 - 2000

Average Monthly Residential Bill

Electric 1000 kWh



UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

RESIDENTIAL RATE ANALYSIS

(Month of September)

FISCAL YEARS 2006 - 2000

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Customer Charge	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00
Rate Per kWh	0.0799	0.0799	0.0799	0.0799	0.0799	0.0799	0.0799	0.0799	0.0799	0.0799
PCA Per kWh	0.0450	0.0328	0.0244	0.0175	0.0041	0.0170	0.0030	0.0200	0.0280	0.0239

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

REVENUE CAPACITY

RATE INCREASES

FISCAL YEARS 2006 - 1997

FISCAL YEAR	RATE INCREASES	RATE DECREASES	
FY 2006	0.0%	0.0%	
FY 2005	0.0%	0.0%	
FY 2004	0.0%	0.0%	
FY 2003	0.0%	0.0%	
FY 2002	0.0%	0.0%	
FY 2001	0.0%	0.0%	
FY 2000	0.0%	14.0%	***
FY 1999	0.0%	0.0%	
FY 1998	0.0%	0.0%	
FY 1997	0.0%	0.0%	

*** Note the decrease in Fiscal Year 2000 was only for commercial customers

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

DEBT CAPACITY

FISCAL YEARS 2006 - 2000

	<u>COMPUTATION OF DEBT SERVICE COVERAGE</u>									
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Operating Revenue	\$ 97,200,065	\$ 83,478,736	\$ 81,339,438	\$ 72,994,080	\$ 66,657,513	\$ 69,988,022	\$ 59,444,821	\$ 61,245,375	\$ 63,584,543	\$ 60,898,791
Other Income	3,302,844	1,486,514	1,040,145	995,706	1,876,454	3,134,405	4,043,540	6,150,293	2,343,314	1,362,864
Rate Stabilization Transfers	(1,000,535)	235,272	(1,020)	(617,148)	2,330,599	(2,082,435)	6,335,703	(4,334,726)	(787,431)	(1,404,405)
Bond Amortization Fund Interest			-	-	-	(120,475)	(120,475)	(120,475)	(120,475)	(120,475)
Total Revenues Available	99,502,374	85,200,522	82,378,563	73,372,638	70,864,566	70,919,517	69,703,589	62,940,467	65,019,951	60,736,775
Total Operating Expenses	83,692,856	72,085,736	65,099,824	60,430,945	52,770,804	53,184,073	45,037,826	42,696,000	46,266,447	43,368,464
Net Revenues Available for Coverage	\$ 15,809,518	\$ 13,114,786	\$ 17,278,739	\$ 12,941,693	\$ 16,779,391	\$ 17,735,444	\$ 24,665,763	\$ 20,244,467	\$ 18,753,504	\$ 17,368,311
Annual Debt Service	\$ 8,451,538	\$ 8,509,645	\$ 8,506,395	\$ 8,508,320	\$ 8,493,242	\$ 9,293,376	\$ 9,730,135	\$ 9,726,777	\$ 9,726,960	\$ 9,719,540
Debt Service Coverage Ratio	1.87	1.54	2.03	1.52	1.98	1.91	2.53	2.08	1.93	1.79

<u>Fiscal Year</u>	<u>Ratios of Outstanding by Type</u>				
	<u>Bonds (1)</u>	<u>Loan Payable</u>	<u>Security Deposits Payable</u>	<u>Total Government</u>	<u>Per Capita (2)</u>
2006	\$ 77,131,472	\$ 948,000	\$ 110,000	\$ 78,189,472	\$ -
2005	80,881,919	1,185,000	110,000	82,176,919	2,308
2004	84,464,037	-	-	84,464,037	2,384
2003	88,236,539	-	-	88,236,539	2,491
2002	91,528,868	340,000	-	91,868,868	2,738
2001	98,938,688	680,000	-	99,618,688	2,600
2000	105,764,123	182,409	-	105,946,532	2,831
1999	108,132,817	-	-	108,132,817	3,138
1998	110,437,551	-	-	110,437,551	3,814
1997	112,567,762	-	-	112,567,762	5,021

(1) Includes accrued interest and current portion.

(2) The 2006 Per Capita Income data for Monroe County is not available.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

DEBT CAPACITY

PRINCIPAL PAYMENTS PAYABLE FOR ALL DEBT ISSUES THROUGH 2031

Payments Due for FY	Total for all Debt Issues	1991 Series Bond Issue	2000 Series Bond Issue	2001 Series Bond Issue	2006 Series Bond Issue
2007	\$ 5,515,000	\$ -	\$ 4,615,000	\$ 900,000	\$ -
2008	5,755,000	-	4,825,000	930,000	-
2009	6,005,000	-	5,040,000	965,000	-
2010	6,340,000	-	5,335,000	1,005,000	-
2011	6,695,000	-	5,645,000	1,050,000	-
2012	7,090,000	-	5,990,000	1,100,000	-
2013	7,495,000	-	6,350,000	1,145,000	-
2014	9,784,840	1,859,840	6,730,000	1,195,000	-
2015	1,735,344	1,735,344	-	-	-
2016	1,599,539	1,599,539	-	-	-
2017	1,491,821	1,491,821	-	-	-
2018	1,391,241	1,391,241	-	-	-
2019	2,435,000	-	-	-	2,435,000
2020	2,530,000	-	-	-	2,530,000
2021	2,660,000	-	-	-	2,660,000
2022	2,780,000	-	-	-	2,780,000
2023	2,900,000	-	-	-	2,900,000
2024	3,045,000	-	-	-	3,045,000
2025	3,185,000	-	-	-	3,185,000
2026	3,320,000	-	-	-	3,320,000
2027	3,465,000	-	-	-	3,465,000
2028	3,640,000	-	-	-	3,640,000
2029	3,820,000	-	-	-	3,820,000
2030	4,010,000	-	-	-	4,010,000
2031	4,210,000	-	-	-	4,210,000
	\$ 102,897,785	\$ 8,077,785	\$ 44,530,000	\$ 8,290,000	\$ 42,000,000

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

DEMOGRAPHIC AND ECONOMIC INFORMATION

FISCAL YEARS 2006 - 1997

Year	Key West Population ⁽¹⁾	Monroe County Per Capita Income ⁽²⁾	Monroe County Median Age ⁽¹⁾	Monroe County Unemployment Rate ⁽²⁾
2006	(3)	(3)	(3)	(3)
2005	27,000	\$ 35,612	(3)	3.0%
2004	25,811	\$ 35,423	(3)	2.3%
2003	25,811	\$ 35,423	43	3.1%
2002	25,853	\$ 33,549	43	2.6%
2001	25,735	\$ 38,309	43	2.6%
2000	25,478	\$ 37,421	40	2.0%
1999	27,698	\$ 34,456	40	2.0%
1998	27,522	\$ 28,959	37	2.2%
1997	27,305	\$ 22,421	34	2.4%

⁽¹⁾ Key West Chamber of Commerce

⁽²⁾ US Department of Labor Bureau of Labor Statistics

⁽³⁾ Data not available

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

OPERATING EXPENSES

FISCAL YEARS 2006 - 1997

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Restated 2003</u>	<u>Restated 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Electric Operating Expenses										
Production - Steam	-	-	-	-	-	-	-	-	166,385	1,388,706
Production - Diesel	1,482,077	1,074,167	887,371	916,557	779,761	816,946	681,671	841,671	1,036,565	1,727,963
Purchased Power	59,946,424	49,287,046	44,523,179	41,311,655	34,230,472	36,585,038	29,133,085	26,253,614	30,324,745	28,430,580
Transmission	3,539,845	3,646,679	3,298,491	3,711,111	3,485,983	3,589,637	3,673,226	3,575,771	2,326,865	664,908
Distribution	3,366,439	3,017,736	3,250,018	2,832,211	3,075,612	3,143,081	3,167,390	3,295,190	3,252,971	2,672,478
Customer Accounts, Collection and Services	1,243,322	1,280,590	1,085,522	1,015,116	985,698	1,033,617	1,035,576	1,062,064	1,015,357	990,636
Administrative and General	11,452,519	11,540,112	10,004,675	8,757,455	8,460,644	5,977,699	5,601,023	5,881,170	5,928,275	5,777,256
Depreciation	6,182,488	6,391,999	6,441,587	6,367,595	6,500,687	5,680,618	5,488,771	5,783,556	5,402,133	5,237,831
Taxes Other Than Income Tax	<u>2,467,955</u>	<u>2,127,074</u>	<u>2,021,223</u>	<u>1,855,303</u>	<u>1,677,934</u>	<u>1,758,542</u>	<u>1,492,942</u>	<u>1,588,173</u>	<u>1,567,968</u>	<u>1,519,541</u>
Total Electric Operating Expenses	<u><u>89,681,069</u></u>	<u><u>78,365,403</u></u>	<u><u>71,512,066</u></u>	<u><u>66,767,003</u></u>	<u><u>59,196,791</u></u>	<u><u>58,585,178</u></u>	<u><u>50,273,684</u></u>	<u><u>48,281,209</u></u>	<u><u>51,021,264</u></u>	<u><u>48,409,899</u></u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

ENERGY SOURCES

FISCAL YEARS 2006 - 1997

<u>Description</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
<u>Gross Generation in MW:</u>										
Diesel and Combustion Turbine	20,338	26,067	20,836	29,708	26,229	19,656	26,632	14,580	5,899	18,863
Less: Station Auxiliaries	<u>3,566</u>	<u>3,463</u>	<u>3,372</u>	<u>3,310</u>	<u>3,232</u>	<u>3,063</u>	<u>3,085</u>	<u>3,271</u>	<u>1,687</u>	<u>3,575</u>
Net Generation	16,772	22,604	17,464	26,398	22,997	16,593	23,547	11,309	4,212	15,288
Sales To Other Distributors									(18,058)	(9,445)
Net Delivered Purchased Power and Stanton Generation	<u>738,938</u>	<u>758,537</u>	<u>763,799</u>	<u>767,542</u>	<u>734,541</u>	<u>704,034</u>	<u>683,454</u>	<u>681,454</u>	<u>695,287</u>	<u>663,561</u>
Net Energy for Load	755,710	781,141	781,263	793,940	757,538	720,627	707,001	692,763	717,557	688,294
Less: Losses	<u>(51,586)</u>	<u>(57,163)</u>	<u>(46,428)</u>	<u>(57,719)</u>	<u>(53,905)</u>	<u>(49,763)</u>	<u>(50,341)</u>	<u>(62,765)</u>	<u>(85,952)</u>	<u>(73,294)</u>
Retail Energy Sales	<u>704,124</u>	<u>723,978</u>	<u>734,835</u>	<u>736,221</u>	<u>703,633</u>	<u>670,864</u>	<u>656,660</u>	<u>629,998</u>	<u>631,605</u>	<u>615,000</u>
Losses	6.8%	7.3%	5.9%	7.3%	7.1%	6.9%	7.1%	9.1%	12.0%	10.6%
Generation Capacity (kW) - Name Plate Rating (1)	123,100	87,100	87,100	87,100	87,100	87,100	87,100	87,100	87,100	87,100
KEYS 60 Minute Net Peak Demand	135,511	145,500	139,700	138,900	133,800	129,900	131,300	125,400	127,000	119,700
Percentage of On Island Resources for Net Peak Demand (2)	90.8%	59.9%	62.3%	62.7%	65.1%	67.1%	66.3%	69.5%	68.6%	72.8%
Load Factor	63.7%	61.3%	63.8%	65.3%	64.6%	63.3%	61.5%	63.1%	64.5%	65.6%
<u>Delivered Purchased Power and Stanton Resources (kW):</u>										
FP&L Long - Term Power	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000
FMPA Tri-City Project (Stanton 1)	12,289	12,367	12,289	12,289	12,289	11,633	11,633	12,289	12,289	12,434
FMPA Stanton 2 Project	9,770	9,708	9,862	9,862	9,862	9,243	9,243	9,862	9,862	9,885
Other Short Term Firm	0	0	0	0	0	0	0	0	0	15,000
Total Purchased	<u>67,059</u>	<u>67,075</u>	<u>67,151</u>	<u>67,151</u>	<u>67,151</u>	<u>65,876</u>	<u>65,876</u>	<u>67,151</u>	<u>67,151</u>	<u>82,319</u>
Total Generating and Purchased Capability	<u>190,159</u>	<u>154,175</u>	<u>154,251</u>	<u>154,251</u>	<u>154,251</u>	<u>152,976</u>	<u>152,976</u>	<u>154,251</u>	<u>154,251</u>	<u>169,419</u>
Net Reserve Margin Including Purchased Power (3)	40.3%	6.0%	10.4%	11.1%	15.3%	17.8%	16.5%	23.0%	21.5%	41.5%

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

The minimum is based upon a formula in the contract.

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

(3) Net Reserve Margin represents the amount of capacity in excess of KEYS peak demand, as a percentage of system peak demand. Commencing 2002, this calculation utilizes The Net 60 Minute Peak.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

GENERATING CAPACITY

FISCAL YEARS 2006 - 1997

<u>Generating Units</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Name Plate	M e g a w a t t ' s (M W)									
Combustion Turbine #1	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Combustion Turbine #2	18.6	18.6	18.6	18.6	18.6	18.6	18.6	18.6	18.6	18.6
Combustion Turbine #3	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1
Combustion Turbine #4	43.0	-	-	-	-	-	-	-	-	-
Medium Speed Diesels #1	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7
Medium Speed Diesels #2	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7
Stock Island Peaking High Speed Diesel #1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Stock Island Peaking High Speed Diesel #2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Stock Island Peaking High Speed Diesel #3	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Cudjoe Key Peaking High Speed Diesel #1	-	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Cudjoe Key Peaking High Speed Diesel #2	-	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Big Pine Key Peaking High Speed Diesel #1	-	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Total Name Plate	<u>123.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>	<u>87.1</u>
Islanded										
Combustion Turbine #1	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6
Combustion Turbine #2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2
Combustion Turbine #3	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Combustion Turbine #4	43.0	-	-	-	-	-	-	-	-	-
Medium Speed Diesels #1	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Medium Speed Diesels #2	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Stock Island Peaking High Speed Diesel #1	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #2	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #3	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Cudjoe Key Peaking High Speed Diesel #1	-	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Cudjoe Key Peaking High Speed Diesel #2	-	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Big Pine Key Peaking High Speed Diesel #1	-	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Total Islanded	<u>113.3</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>	<u>76.6</u>
Synchronized										
Ralph Garcia Steam Plant (1)	-	-	-	-	-	-	-	-	-	-
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	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2
Combustion Turbine #3	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Combustion Turbine #4	43.0	-	-	-	-	-	-	-	-	-
Medium Speed Diesels #1	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Medium Speed Diesels #2	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Stock Island Peaking High Speed Diesel #1	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #2	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Stock Island Peaking High Speed Diesel #3	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Cudjoe Key Peaking High Speed Diesel #1	-	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Cudjoe Key Peaking High Speed Diesel #2	-	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Big Pine Key Peaking High Speed Diesel #1	-	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Total Synchronized	<u>118.7</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>	<u>82.0</u>

Nameplate - Capacity provided by the manufacturer.

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

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

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

EMPLOYEE INFORMATION

FISCAL YEARS 2006 - 1997

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
General Manager's Department	17	18	17	17	16	11	11	11	10	10
Engineering & Control	20	19	19	19	20	20	20	20	24	24
Customer Services	32	32	30	31	33	32	31	30	30	30
Finance	10	10	15	13	13	21	21	22	22	21
Transmission & Distribution	36	34	35	38	42	39	39	38	38	39
General Plant	0	0	8	9	9	11	14	12	12	16
Generation	<u>38</u>	<u>39</u>	<u>22</u>	<u>21</u>	<u>18</u>	<u>20</u>	<u>18</u>	<u>24</u>	<u>26</u>	<u>24</u>
Total	<u>153</u>	<u>152</u>	<u>146</u>	<u>148</u>	<u>151</u>	<u>154</u>	<u>154</u>	<u>157</u>	<u>162</u>	<u>164</u>

Notes:

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

The approved budgets were used for years 2001 - 1997.
Commencing 2002, actual employee head count is used.

Information Technology moved from the Finance Department to the General Manager's Department. The Warehouse, Purchasing & Contract Administration Departments were moved from the Transmission & Distribution Department to the Generation Department. There were four additional apprentice line persons hired in the Transmission & Distribution Department.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

OPERATING INFORMATION

TEN HIGHEST CONSUMPTION LOCATIONS

FISCAL YEAR 2006

Ranking	Customer Account	Demand KW	Energy kWh	Dollars
1	U.S. Navy	12,538.6	64,737,439	\$ 7,986,755
2	City of Key West	3,234.7	13,625,640	\$ 1,826,751
3	Monroe County School Board	5,146.8	10,210,123	\$ 1,432,375
4	Monroe County Detention	1,144.5	7,614,600	\$ 927,143
5	Winn Dixie Stores, Inc.	1,116.2	6,929,705	\$ 917,937
6	Key West HMA Inc.	1,139.0	6,691,617	\$ 894,617
7	Tannex Development Corporation	781.0	5,770,672	\$ 792,850
8	Wyndham Casa Marina Hotel	979.5	5,480,655	\$ 741,623
9	US Coast Guard	1,872.0	4,361,400	\$ 574,265
10	Pier House Joint Venture	714.0	3,712,800	\$ 498,357



**OROPEZA
& PARKS**

Certified Public Accountants

815 Peacock Plaza
Key West, Florida 33040
305.294.1049 / 305.294.1040
Fax: 305.294.3951

Scott G. Oropeza, C.P.A., P.A.
John G. Parks, Jr., C.P.A., P.A.

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

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

We have audited the 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 year ended September 30, 2006, which collectively comprise KEYS' basic financial statements and have issued our report thereon dated January 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered KEYS' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of KEYS, in a separate letter dated January 11, 2007.

This report is intended solely for the information and use of the audit committee, management, Utility Board, Florida Auditor General, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


OROPEZA & PARKS
CERTIFIED PUBLIC ACCOUNTANTS

January 11, 2007



815 Peacock Plaza
Key West, Florida 33040
305.294.1049 / 305.294.1040
Fax: 305.294.3951

Scott G. Oropeza, C.P.A., P.A.
John G. Parks, Jr., C.P.A., P.A.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the Utility Board of the City of Key West, Florida, d/b/a Keys Energy Services, ("KEYS") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. KEYS' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of KEYS' management. Our responsibility is to express an opinion on KEYS' compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about KEYS' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on KEYS' compliance with those requirements.

In our opinion, KEYS complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

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

Internal Control Over Compliance

The management of KEYS is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered KEYS' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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


OROPEZA & PARKS
CERTIFIED PUBLIC ACCOUNTANTS

January 11, 2007

UTILITY BOARD OF THE CITY OF KEY WEST
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>CFDA Number</u>	<u>Grant Identification Number</u>	<u>Expenditures</u>
<u>Federal Emergency Management Agency (FEMA)</u>			
Indirect Programs			
Passed through the State of Florida, Department of Community Affairs:			
Disaster Relief Funding Agreement	97.036	03-WL-&K-11-54-02-508	\$ 2,736,029
Total Federal Awards			<u><u>\$ 2,736,029</u></u>

UTILITY BOARD OF THE CITY OF KEY WEST
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of Keys Energy Services (KEYS) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

1. The auditor's report expresses an unqualified opinion on the financial statements of the Utility Board of the City of Key West, Florida.
2. There were no reportable conditions disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Utility Board of the City of Key West, Florida, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There were no reportable conditions disclosed during the audit of the major federal award programs.
5. The auditor's report on compliance for the major awards programs for the Utility Board of the City of Key West, Florida expresses an unqualified opinion on all major federal programs.
6. There were no audit findings relative to the major federal award programs for the Utility Board of the City of Key West, Florida.
7. The programs tested as major programs include:

<u>CFDA</u>	<u>Award Title</u>	<u>Annual Expenditures</u>
97.036	Disaster Relief Funding Agreement	\$ <u>2,736,029</u>
	Total	\$ <u>2,736,029</u>

8. The threshold used for distinguishing between Type A and Type B programs was \$500,000.
9. The Utility Board of the City of Key West, Florida qualifies as a low-risk auditee.

Findings – Financial Statement Audit

None

Findings and Questioned Costs – Major Federal Award Programs Audit

None

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Prior Year Findings and Questioned –
Major Federal Awards Programs

<u>Finding Number</u>	<u>Prior Audit Finding</u>
Finding 1	None

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED SEPTEMBER 30, 2006

Federal Emergency Management Agency
c/o Florida Department of Community Affairs
2555 Shumard Oak Boulevard
Tallahassee, FL 32399-2100
Attn: Office of Audit Services

RE: Auditor's Report
FEMA Disaster Relief Funding Agreements
06-WL-&K-11-54-02-508

The Utility Board of the City of Key West, Florida respectfully submits the following Corrective Action Plan for the year ended September 30, 2006.

Name and address of independent accounting firm:

Oropeza & Parks, Certified Public Accountants
815 Peacock Plaza
Key West, FL 33040

Audit Period: Year Ended September 30, 2006

The findings from the September 30, 2006 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Audit Results, does not include findings and is not addressed.

B. Findings – Financial Statement Audit

None noted

C. Findings – Federal Award Programs Audit

None noted