

# Comprehensive Annual Financial Report



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

For the Fiscal Year Ended December 31, 2007

# Comprehensive Annual Financial Report

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

Fiscal Year Ended December 31, 2007

Prepared by: Finance Department  
1001 James Street, P.O. Box 6100  
Key West, Florida 33041-6100  
Phone: (305) 295-1000  
Fax: (305)295-1005

## Table of Contents

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



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

---

UTILITY BOARD OF THE CITY OF KEY WEST

June 10, 2008

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

The Comprehensive Annual Financial Report (CAFR) of the Retirement System for General Employees, Utility Board of the City of Key West (the Plan), for the fiscal year ended December 31, 2007, is submitted herewith, pursuant to Resolution No. 142 of the Utility Board, adopted December 15, 1953. The effective date was April 9, 1954, as amended and restated as of September 28, 1983, Article Eight, Section 8.07. The Utility Board is the sole participating employer. The Plan is a defined benefit pension plan covering all permanent employees and elected officials of the Utility Board, a governmental entity. The Plan does not cover any employees from any other government entity.

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

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

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

**Major Events and Initiatives**

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

## **Letter of Transmittal**

---

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

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

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

### **Accounting Systems and Reports**

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

### **Changes in Plan Net Assets**

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

### **Deductions to Plan Net Assets**

The sole purpose for which the Plan was created was to provide retirement annuities, survivor benefits, and total and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments as designated by the Plan, refunds of employee contributions to terminated employees, and costs of administering the Plan. Other postemployment benefits such as healthcare and life insurance, if applicable, are not administered through the Plan, they are provided by The Utility Board of the City of Key West, Florida. See note 7 in the Notes to Financial Statements.

### **Investments**

The Plan has established an investment policy based upon certain investment criteria and allows for the delegation of investment authority to professional investment managers. The objective of the policy is to invest in a mix of high quality stocks and bonds which allows the Plan to participate in rising markets while moderating risk on the downside. The statement of investment policy outlines the responsibility for the investment of the fund and the degree of risk that is deemed appropriate for the Plan. Investment Managers are asked to execute the investment policy in accordance with the respective policy guidelines, but are to use full

## **Letter of Transmittal**

---

discretion within the policy and guidelines. The objective of the Plan is that the overall annual return will meet or exceed the actuarial assumption of 8%.

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

### **Funding**

The Plan's funding policy provides for employer contributions at rates that, expressed as a percentage of annual covered payroll, are sufficient to provide resources to pay benefits when due. A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. The Plan's funding objective is to meet long-term benefit obligations through contributions that remain fairly consistent as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. The Plan continues to remain strong as evidenced by the ratio of the actuarial value of assets to the actuarial accrued liabilities. The funded ratio increased from 86.8% at January 1, 2007 to 88.0% at January 1, 2008. The Plan has been and continues to be funded on an actuarially sound basis.

### **Independent Audit**

Article Eight, Trust and Trustees, Section 8.07, Final Audit, states that the Utility Board shall engage the services of a Certified Public Accountant to perform a certified audit of the fund each year. The cost of such audit shall be the responsibility of the Utility Board. The Utility Board engaged the accounting firm of Cherry, Bekaert & Holland, L.L.P to perform the annual audits for 2006 and 2007. The Report of Independent Auditors is included in the Financial Section of this CAFR.

### **Professional Services**

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

### **Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Retirement System for General Employees of the Utility Board of the City of Key West for its CAFR for the fiscal year ended December 31, 2006.

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

A Certificate of Achievement is valid for a period of one year only. The Retirement System for General Employees/Utility Board of the City of Key West has received a Certificate of

## Letter of Transmittal

---

Achievement for the last eleven consecutive years (fiscal years 1996 – 2006). We believe our current CAFR continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **Acknowledgments**

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

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

Respectfully submitted,



Jack Wetzler  
Plan Secretary/Treasurer

Assistant General Manager & CFO  
Utility Board of the City of Key West

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

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

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2006

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



*Charles S. Cox*

President

*Jeffrey R. Enever*

Executive Director

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

**PENSION BOARD OF TRUSTEES**

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

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

Larry Thompson - Term Expires: 03/31/10

---

**COO/IT/COMM/MGMT. SVCS. – 1**

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

**FINANCE DEPARTMENT – 1**

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

**CUSTOMER SERVICES DEPT. – 2**

*Includes Dir. Office, BP  
Branch, Cust. Svcs. & Meter Svcs. Staff*  
Sylvia Adams - Term Expires 03/31/11  
Catherine Nix - Term Expires 03/31/10

**GENERATION DEPARTMENT – 2**

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

**ELECTRICAL OPERATIONS DEPARTMENT - 4**

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

---

**REQUIRED MEMBER – 1**

*General Manager & CEO*  
Lynne Tejada

---

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

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

**Administrative Organization**

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

Ronald J. Cohen, P.A.  
Plan Counsel

Gabriel, Roeder, Smith & Company  
Actuaries

Kim Free  
Plan Administrator

Jack Wetzler, Asst General Manager & CFO  
Plan Secretary/Treasurer

Bogdahn Consulting, LLC  
Investment Consultant

Bank of New York  
Plan Custodian

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

Benefit Factor	2.4%
Average Final Compensation	Highest 5 of the last 10 yrs of service
2007 Net Minimum Funding Payment	28.9% of payroll
Normal Retirement	30 yrs credited service (the max allowed)
Early Retirement	20 yrs credited service- any age, or 55 yrs of age with 10 years minimum credited service
Active plan members	153
Retirees and beneficiaries receiving benefits	150
Cost of living allowance	3% (January 1 <sup>st</sup> of each year)
Net assets held in trust for pension benefits	\$59,570,528

This page intentionally left blank