

City of Key West, Florida

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

Fiscal Year Ended September 30, 2005

Prepared by:

**Department of Finance
City of Key West**

City of Key West, Florida

Comprehensive Annual Financial Report Fiscal Year Ended September 30, 2005

Table of Contents

Table of Contents	i
Introductory Section	
Letter of Transmittal	1
Certificate of Achievement for Excellence in Financial Reporting - 2004	6
List of Principal Officials	7
Organizational Chart	8
Vision and Mission Statements	9
Financial Section	
Independent Auditors' Report: Opinion of Certified Public Accountants	11
Management's Discussion and Analysis	13
Basic Financial Statements (The accompanying notes are an integral part of the financial statements)	23
Statement of Net Assets	24
Statement of Activities	26
Balance Sheet: Governmental Funds	28
Reconciliation of Balance Sheet to the Statement of Net Assets	29
Statement of Revenues, Expenditures and Changes in Fund Balances: Governmental Funds	30
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	31
Schedule of Revenues, Expenditures and Changes in Fund Balances, Budget and Actual:	
General Fund	32
Infrastructure Fund	33
Statement of Net Assets: Proprietary Funds	34
Statement of Revenues, Expenses and Changes in Fund Net Assets: Proprietary Funds	36
Statement of Cash Flows: Proprietary Funds	37
Statement of Fiduciary Net Assets: Fiduciary Funds	39
Statement of Changes in Fiduciary Net Assets: Fiduciary Funds	40

City of Key West, Florida
Table of Contents (cont'd.)

Notes to Financial Statements	41
Required Supplementary Information	
Analysis of Funding Progress:	
General Employees Pension Trust Fund	66
Police Officer's and Firemen's Pension Trust Fund	67
Combining and Individual Fund and Account Group Statements and Schedules	
Combined Statements Non Major Governmental Funds Overview	69
Combining Balance Sheet: Non Major Governmental Funds	70
Combining Statement of Revenues, Expenditures and Changes in Fund Balances: Non Major Governmental Funds	72
Schedule of Revenues, Expenditures and Changes in Fund Balances: Budget and Actual:	
Law Enforcement Trust Special Revenue Fund	74
Gas Tax Special Revenue Fund	75
Fort Taylor Special Revenue Fund	76
Community Development Office Special Revenue Fund	77
Affordable Housing Special Revenue Fund	78
Local Redevelopment Agency Special Revenue Fund	79
Bahama Village and Caroline Street Special Revenue Fund	80
Navy Pier Payments Special Revenue Fund	81
Capital Projects Special Revenue Fund	82
Overview: Non Major Enterprise Funds	83
Combining Statement of Net Assets: Non Major Enterprise Funds	84
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets: Non Major Enterprise Funds	86
Combining Statement of Cash Flows: Non Major Enterprise Funds	87
Overview: Fiduciary Funds	89
Combining Statement of Fiduciary Net Assets	90
Combining Statement of Changes in Fiduciary Net Assets	91
Capital Assets Used in the Operation of Governmental Funds	92
Schedule by Source	93
Schedule by Function and Activity	94
Schedule of Changes by Function and Activity	96

City of Key West, Florida
Table of Contents (cont'd.)

Statistical Section

Overview and Sources	97
Table 1 General Governmental Expenditures by Function	98
Table 2 General Governmental Revenues by Source	99
Table 3 Property Tax Levies and Collections	100
Table 4 Assessed and Estimated Actual Value of Taxable Property	101
Table 5 Property Tax Rates and Tax Levies: Direct and Overlapping Governments	102
Table 6 Principal Taxpayers	103
Table 7 Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt Per Capita	104
Table 8 Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Governmental Expenditures	105
Table 9 Computation of Direct and Estimated Overlapping Debt	106
Table 10 Revenue Bond Coverage: Sewer System Fund	107
Table 11 Revenue Bond Coverage: Key West Bight	108
Table 12 Demographic Statistics	109
Table 13 Property Value, Construction, and Bank Deposits	110
Table 14 Miscellaneous Statistics	111

Single Audit Section

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	113
Schedule of Expenditures of Federal Awards and State Financial Assistance	115
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.	117
Schedule of Findings and Questioned Costs Relating to Federal Awards	119
Summary Schedule of Prior Audit Findings	121
Schedule of Findings Relating to State Block Grant Program	122





THE CITY OF KEY WEST
Post Office Box 1409
Key West, FL 33041-1409

May 31, 2006

Honorable Mayor,
Members of the City Commission, and
Citizens of Key West

Ladies and Gentlemen:

The comprehensive annual financial report of the City of Key West, Florida, for the fiscal year ended September 30, 2005, is submitted herewith pursuant to the City Charter, Florida Statute Chapter 166.241(4), and Chapter 10.550 of the Rules of the Auditor General of the State of Florida. The comprehensive annual financial report was compiled by Finance Department staff with close cooperation of the independent auditors. It represents the official report of the City's financial operations and condition to the citizens, City Commission, management personnel of the City, rating agencies, and other interested parties.

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

The City of Key West's financial statements have been audited by the independent certified public accounting firm of Niles, Willis and Moore, C.P.A., P.A., and they have issued an unqualified opinion on the financial statements for the fiscal year ended September 30, 2005.

State statutes require an annual audit by independent certified public accountants. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the Single Audit Act and the related Federal OMB Circular A-133. The auditors' report on the general purpose financial statements is included in the Financial Section of this report. Auditors' reports related specifically to the single audit are in the Single Audit Section.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in

conjunction with it. The City of Key West's MD&A can be found immediately following the report of the independent accountants.

Financial Reporting Entity

This report includes all funds of the City. The City of Key West provides a full range of services outlined in the Florida Statutes or City Charter. These services include police and fire protection, the construction and maintenance of roads and infrastructure, recreational activities, planning, building and zoning. In addition to its general government activities, the City provides sewer, sanitation, stormwater, marina, parking and mass transit services through enterprise funds.

The City has ultimate responsibility for the Police Officers and Firefighters Retirement Plan, General Employees Retirement Plan, and the Local Redevelopment Agency (LRA). The Police and Fire and General Employees Pension Plan activities are included in the financial statements as fiduciary funds. The LRA was created by the City under Florida Statute 163. The LRA was originally created to facilitate the transfer of surplus naval property in the City of Key West. Subsequent to the transfer, the LRA manages the property in accordance with conveyance regulations. The LRA is presented in the financial statements as a special revenue fund.

The City does not have financial responsibility for the Key West Housing Authority; however, the City does appoint board members and provides approximately \$425,000 annually in free sewer, storm water and solid waste services, which constitutes a financial benefit/burden relationship. Given the materiality of the financial benefit/burden, the City has included the Housing Authority as a discretely presented component unit herein.

Keys Energy Services (formerly City Electric System) has not met the established criteria for inclusion in the reporting entity and is excluded from this report. Financial reports are available directly from that agency.

Overall Financial Condition

The City of Key West is a two mile by four mile island located at the southernmost tip of Florida and the continental United States. Tourism is the primary industry throughout all of the Keys that comprise most of inhabited Monroe County.

The average hotel occupancy rate for the calendar year 2005 was 76.5%, down from 78.9% in 2004. The average hotel room rate increased from \$156 to \$165 for the same period. Visitors entering the Fort Zachary Taylor Park during fiscal year 2005 numbered over 300,000, a decrease of 9% from the prior year. Tourists arriving at Key West International Airport for fiscal year 2005 exceeded 313,000, compared to 292,000 for the preceding fiscal year.

A further economic indicator is cruise ship passenger disembarkments. For fiscal year 2005, 1,008,076 cruise ship passengers visited the city compared to 929,790 in 2004.

Most community leaders agree that tourism is the current and future economic foundation of the local economy. City user fees, sales tax revenue, gas tax proceeds, and cruise ship disembarkation fees continue to provide a significant portion of total City government revenues (at least 67% of the General Fund). If Key West remains a desirable tourist destination, the revenue base will remain strong. However, if tourist volumes significantly decrease, the City could experience financial difficulties.

Although the indications point to a slight increase in tourist volumes in 2005, the overall increase is down from the sustained growth of prior years, due in large part to the very active hurricane seasons experienced in the past two years.

On, July 7th through 9th, the City sustained damage from Hurricane Dennis. Its path was projected to directly impact the City and an evacuation of Monroe County was ordered. The City spared a direct hit and structural damage from the hurricane was minimal. Actual damage included debris generation and beach erosion.

From August 11th through 13th, the City was impacted by Hurricane Katrina. Damage was minimal compared to that sustained by gulf coast communities and consisted mainly of additional debris.

From September 19th through 21st the City was impacted by Hurricane Rita. Again, damage was minimal compared to that sustained by gulf coast communities, consisting mainly of additional debris but including flood damage in low-lying areas.

In each case, the City activated its disaster response plan. The Emergency Operations Center was activated to monitor conditions during the height of the storm. An immediate post-storm assessment was conducted by City staff, and the City's emergency contractor was called upon to remove debris and clean the beaches. FEMA teams immediately responded to assist the City and its residents in the recovery effort. The teams assisted City staff in completing the applications for financial assistance. It is anticipated that Federal and State assistance will relieve the city of at least 87.5% of the burden of cleanup.

October 23rd and 24th the City was severely impacted by Hurricane Wilma. Damage was significant. It is estimated that 60% of the island was flooded causing severe flood damage to homes and vehicles, rendering many residents homeless and destroying many vehicles. Most fortunately, no lives were lost. The estimated direct cost, including debris removal, damage to city buildings and properties - as well as destroyed equipment - is initially estimated to be in excess of \$16,000,000. The impact of lost revenues to city businesses was estimated to be in the one hundred million dollar range. Citizens and City staff, many of whom lost their homes and vehicles, responded to begin the task of rebuilding the city and opening its doors to tourists. The city is committed to this task and will overcome this most difficult of hurricane seasons.

Financial Planning and Budgeting Controls

The City also maintains strict budgetary controls. The objective of these budgetary controls is to ensure compliance with Florida Statute Section 166.24(3) provisions embodied in the annual appropriated budget approved by the City Commission. Annual appropriated budgets are adopted for all governmental and proprietary funds except as noted below. These budgets are adopted using the modified accrual basis of accounting. The Capital Project Fund adopts a five-year capital improvements program. This program is readopted annually based on changes in priority and funding. The City is not legally required to, and does not, adopt budgets for the Pension Funds.

The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established under City of Key West Ordinance 1.261 at the major category level; i.e., Personal Services, Operating, Capital, Grants and Aids, and Transfers. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year end but are reappropriated from carryforward amounts only if the amounts encumbered are material and the current years' budget is insufficient to absorb these commitments.

Cash Management

Statutes authorize the City to invest in obligations of the U.S. Treasury agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, and the state treasurer's investment pool. The pension trust fund is also authorized to invest in corporate bonds in the top three rating categories as determined by a nationally recognized rating agency. In accordance with the Statutes, the City invested in government agency mortgage-backed securities with a maturity of one year or less to maximize yields. These securities are based on the cash flows from the payments on the underlying mortgages. The City minimized market risk by the short-term nature of these securities.

The City of Key West's investment policy is to minimize market risks while maintaining a competitive yield on its portfolio. Demand deposits were either insured by federal depository insurance or collateralized. Bank deposits are covered by federal depository insurance or by collateral held by the State trustee in the custodial bank's name. The City's investment in the State Board of Administration Investment Pool is secured by a pro rata ownership in pool assets.

Risk Management

The City of Key West has an established protected self-insurance program for property, general and automobile liability, public officials, employer's liability, and workers compensation exposures. The program requires the City to assume certain "per occurrence" self insured retention subject to an annual maximum amount. Specific and aggregate excess coverage is provided under the program. The Insurance fund is also used to fund monthly health insurance premiums. In April 1997 the City converted from a flexible funded health insurance program to a fully insured pay-as-you-go program. The insurance fund receives its health insurance contributions from bi-weekly payroll deductions and employer contributions, which are sufficient to meet its monthly premium requirements.

Debt Administration

The City has no general obligation debt thus providing a highly favorable legal debt margin. The City does have other debt backed by special revenues and the City's covenant to budget and appropriate sufficient non-ad valorem revenues to pay debt service when due. The City also has revenue bonds outstanding for the Key West Bight marina and the City's sewer system. For additional information refer to MD&A section starting on page 11.

Certificate of Achievement Award

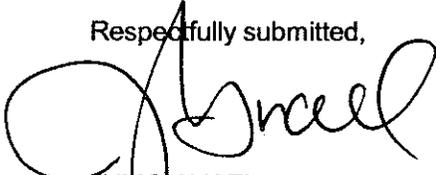
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Key West for its comprehensive annual financial report for the fiscal year ended September 30, 2004. This was the nineteenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America 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 meet the Certificate of Achievement Program's requirements, and are submitting it to the GFOA to determine its eligibility for certification.

Acknowledgments

The preparation of this report could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. We would like to express our sincere appreciation to all members of the department who assisted in and contributed to its preparation. We would also like to thank the members of the City Commission for their interest and support in planning and conducting the financial operations of the City in a reasonable, progressive manner.

Respectfully submitted,



JULIO AVAEL
City Manager



ROGER D. WITTENBERG
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Key West,
Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2004

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.



Carla E. Perry

President

Jeffrey R. Emer

Executive Director

City of Key West, Florida

List of Principal Officials

Elected Officials

Mayor	Morgan McPherson
Commissioner	Harry L. Bethel
Commissioner	Clayton Lopez
Commissioner	Jose Menendez
Commissioner	Mark Rossi
Commissioner	Bill Verge
Commissioner	Dan Kohlage

Appointed Officials

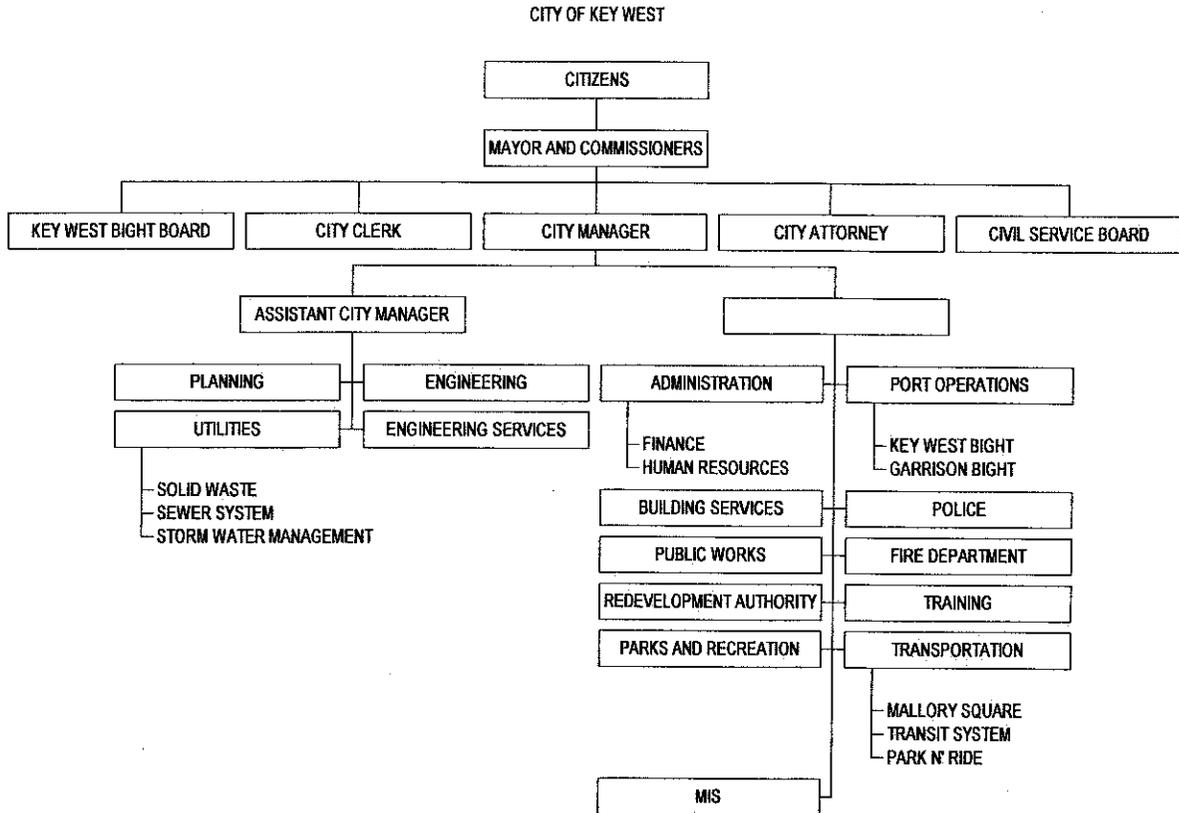
City Manager	Julio Avel
City Clerk	Cheryl Smith
City Attorney	Bob Tischenkel

Department Directors

Assistant City Manager	John Jones
Building & Zoning/Licensing	Joe April
Police Chief	Bill Mauldin
Public Works	R.B. Havens
Engineering Services	Roland Flowers
Finance	Roger Wittenberg
Fire Chief	Billy Wardlow
Human Resources	Sandy Gilbert
Management Information Systems	Patti McLaughlin
Planning	Ty Symroski
Port	Raymond Archer
Recreation	Randy Sterling
Transportation	Myra Hernandez-Wittenberg
Utilities	E. David Fernandez

City of Key West, Florida

Organizational Chart



City of Key West, Florida

VISION

A tropical island with unique community character in harmony with the diversity of its people and with its environment.

MISSION

To preserve and protect our island.

City of Key West, Florida

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor
and City Commissioners
City of Key West, Florida

Jack D. Niles, Jr., C.P.A.
Guy A. Willis, C.P.A.
Sharon A. Moore, C.P.A.

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Key West, Florida, as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Key West, Florida. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Key West Housing Authority, which is the sole discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Key West Housing Authority, is based on the report of the other auditors.

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Key West, FL 33040
305 • 294 • 6606
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We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Key West, Florida, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general and infrastructure funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2006 on our consideration of the City of Key West, Florida's 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 the analysis of funding progress are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 the City of Key West, Florida's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, 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 and state financial

Members:

American Institute of
Certified Public Accountants
Florida Institute of
Certified Public Accountants

assistance is presented for purposes of additional analysis as required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the rules of the Florida Auditor General - *Audits of State Grants and Aids Appropriations*, Chapter 10.550 and is not a required part of the financial statements of the City of Key West, Florida. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards and state financial assistance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory 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.

Niles Willis & Moore, P.A.
NILES, WILLIS & MOORE, P.A.

June 16, 2006

Management's Discussion and Analysis

On behalf of the City of Key West, management presents to the readers of the City's financial statements, this narrative overview and analysis of financial activities of the City of Key West for the fiscal year ended September 30, 2005. We are providing this discussion and analysis in order to provide the reader with a better understanding of the City's overall financial position. This should be considered in conjunction with the additional information in the transmittal letter on page 1 and the City's financial statements, which begin on page 24.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of fiscal year 2005 by \$218,784,000.
- During the year, the City had revenues of \$15,803,000 generated in program revenues for governmental activities (before special items). These revenues were less than the program expenditures by \$26,379,000.
- In the City's governmental activities, net assets increased by \$1,903,000.
- The General Fund reported an excess of expenditures over revenues of \$1,434,000, which exceeded budgeted expectations by \$2,352,000 mainly as the result of the recording of a contingent liability of \$1,500,000.
- Business type net assets increased by \$2,903,000 or 3 percent.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 24 and 26) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 28. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 24. One of the most important questions asked about the City's finances is, "Is the City, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. Net assets, the difference between assets and liabilities, is one way to measure the City's financial health, or financial position. Over

time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. However, it is also important to consider other non-financial factors, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

Based upon a review of these statements and in the following discussion you will see that the City's overall financial position has improved over the prior fiscal year.

In the Statement of Net Assets and the Statement of Activities, we divide the City into three kinds of activities:

- **Governmental activities:** Most of the City's basic services are reported here, including the police, fire, public works and parks departments as well as general administration. Property and other intergovernmental taxes, charges for services, and state and federal grants finance most of these activities.
- **Business-type activities:** The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's sewer, storm water, solid waste and transit systems as well as parking and marina facilities are reported here.
- **Component units:** The City includes one separate legal entity in its' report - the Key West Housing Authority (KWH). The Housing Authority Board has full administrative responsibilities. With the exception of providing free sewer, storm water and solid waste services, the City has no other obligation to the Housing Authority. KWH is considered a component unit of the City and is presented discretely in these financial statements.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 28. The fund financial statements begin on page 28 and provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law and/or by bond covenants. However, the City Commission establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds (governmental and proprietary) use different accounting approaches.

- **Governmental funds:** Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.
- **Proprietary funds:** When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use an internal service fund (the other component of proprietary

funds) to report the City's insurance fund, which provides a service to the City's other programs and activities.

The City as Trustee

The City is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 39 and 40. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The City as a Whole

The City's combined net assets increased from \$213,977,000 to \$218,783,000, or 2 percent. Total net assets are comprised of \$167,963,000 invested in capital assets, \$20,243,000 restricted for capital projects, transportation, recreation and other purposes, and \$30,577,000 in unrestricted funds. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business type activities.

Table 1
Net Assets
(in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY05	FY04	FY05	FY04	FY05	FY04
Current and other assets	\$ 43,913	\$ 40,023	\$ 36,233	\$ 31,846	\$ 80,146	\$ 71,869
Capital assets	84,281	83,988	127,092	129,363	211,373	213,351
Total assets	128,194	124,011	163,325	161,209	291,519	285,220
Long-term debt outstanding	1,912	2,205	42,008	45,172	43,920	47,377
Other Liabilities	12,464	9,891	16,351	13,974	28,815	23,865
Total Liabilities	14,376	12,096	58,359	59,146	72,735	71,242
Net assets:						
Invested in capital assets,						
net of debt	84,281	83,988	83,682	82,941	167,963	166,929
Restricted	17,885	14,850	2,358	2,663	20,243	17,513
Unrestricted (deficit)	11,651	13,076	18,926	16,458	30,577	29,534
Total net assets	\$ 113,817	\$ 111,914	\$ 104,966	\$ 102,062	\$ 218,783	\$ 213,977

Net assets of the City's governmental activities are comprised of \$11,651,000 in unrestricted net assets - the part of net assets that can be used to finance day-to-day operations of the general fund. Restricted net assets of \$17,885,000 are restricted to comply with the requirements of the special revenue funds, or other legal requirements. Governmental activities also has \$84,281,000 invested in net capital assets.

Net assets of the City's business type activities increased by 3 percent, and are comprised of \$18,926,000 in unrestricted net assets, \$2,358,000 in assets restricted for restricted for capital projects and debt service, and \$83,682,000 invested in net capital assets.

There are no restrictions, commitments, or other limitations that significantly affect the availability of fund resources for future use in any of the fund types.

**Table 2
City of Key West
Changes in Net Assets
(in Thousands)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY05	FY04	FY05	FY04	FY05	FY04
Revenues						
Program revenues:						
Charges for services	\$ 13,868	\$ 10,994	\$ 28,296	\$ 27,975	\$ 42,164	\$ 38,969
Grants and Contributions	866	911	2,106	442	2,972	1,353
General Revenues						
Taxes: Property and other	25,727	24,460	-	-	25,727	24,460
Payment in Lieu of Taxes	2,603	2,603	-	-	2,603	2,603
Intergovernmental	362	697	-	-	362	697
Investment Income	701	-	711	-	1,412	-
Other revenues	293	653	408	521	701	1,174
Total Revenues	44,420	40,318	31,521	28,938	75,941	69,256
Program Expenses						
General Government	14,109	12,689	-	-	14,109	12,689
Public Safety	20,332	15,985	-	-	20,332	15,985
Physical environment	284	160	-	-	284	160
Transportation	2,901	2,780	-	-	2,901	2,780
Economic Environment	1,184	1,372	-	-	1,184	1,372
Culture and recreation	3,270	3,400	-	-	3,270	3,400
Human Services	438	130	-	-	438	130
Sewer	-	-	10,885	17,991	10,885	17,991
Solid Waste	-	-	10,103	10,177	10,103	10,177
Stormwater	-	-	1,003	1,192	1,003	1,192
Marinas	-	-	6,647	5,617	6,647	5,617
Transit	-	-	3,087	3,152	3,087	3,152
Poinciana Housing	-	-	-	1,592	-	1,592
Total Expenses	42,518	36,516	31,725	39,721	74,243	76,237
Excess before contribution	1,902	3,802	(204)	(10,783)	1,698	(6,981)
Capital contributions	1,405	48,314	1,702	1,940	3,107	50,254
Transfers	(1,405)	(2,210)	1,405	2,210	-	-
Change in Net Assets	\$ 1,902	\$ 49,906	\$ 2,903	\$ (6,533)	\$ 4,805	\$ 43,273

The City's total revenues reported are \$75,941,000, which in part represents \$42,164,000 in charges for services, \$25,727,000 in property and other taxes. Total expenses of \$74,243,000 are reported. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Total Revenues for the City's governmental activities of \$44,420,000 include \$13,868,000 in fees, fines and charges for services, as well as \$25,727,000 in property and state and local shared taxes.

The City's management took aggressive action this year to control costs and minimize the impact of property taxes upon residents and businesses with the reduction of current and new budgeted programs, allowing property tax rates to remain slightly above the roll back rate.

Tax revenues were slightly less than budget, and charges for services were \$15,000 less than projected. The City's other revenue sources all exceeded final budget estimates.

The cost of all governmental activities this year was \$42,518,000. However, as shown in the Statement of Activities on page 26, the amount that our taxpayers ultimately financed for these activities through City Ad Valorem taxes was \$12,476,000 because some of the cost was paid by those who directly benefited from the programs (\$13,868,000) or by other governments and organizations that subsidized certain programs with grants and contributions (\$2,272,000). The City paid for the remaining "public benefit" portion of governmental activities with \$13,251,000 in taxes (some of which could only be used for certain programs) and with other revenues, such as interest and general entitlements.

Table 3 presents the cost of each of the City's four largest programs – general government, public safety, culture and recreation, and transportation - as well as each program's *net* cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

**Table 3
Governmental Activities
(in Millions)**

	Total Cost of Services		Net (Cost)Profit of Services	
	FY05	FY04	FY05	FY04
General Government	\$ 13,692	\$ 12,688	\$ (12,147)	\$ 36,976
Public Safety	20,332	15,985	(15,597)	(12,623)
Culture & recreation	3,357	3,400	(3,067)	(3,274)
Transportation	3,189	2,780	5,891	3,630
All Others	1,948	1,665	(1,459)	(1,007)
Totals	\$ 42,518	\$ 36,518	\$ (26,379)	\$ 23,702

Business-type Activities

Revenues of the City's business-type activities (see Table 2) increased by 9 percent (\$31,521,000 in 2005 compared to \$28,938,000 in 2004) as a result of increased charges for services. Expenses decreased by 20 percent, or \$7,996,000, primarily as a result of a prior year accrual of a contingent liability in the Sewer Fund of \$6,100,000 as the result of a FEMA audit which is under appeal.

Financial analysis of the City's funds

As stated previously, The City of Key West uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. The focus of the city's governmental funds is to provide information on near term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. For the City of Key West, as of September 30, 2005, governmental funds reported combined fund balances of \$30,199,000 which is an increase of \$906,000 in comparison with the prior fiscal year.

The General Fund is the chief operating fund of the city. As of September 30, 2005 the unreserved fund balance account in the general fund was \$9,618,000. This unreserved fund balance amount represents 26 percent of the total General Fund FY05 actual expenditures down from 30 percent in the previous year.

Unreserved fund balance for the City's General Fund had a net decrease of \$2,126,000 during the year due to the following key factors:

- An unfavorable verdict on an interstate commerce clause trial. The City recorded a liability of \$1,500,000 this year based on reasonableness and probability. It should be noted that the jury awarded \$13.5 million plus attorney's fees. The City is currently appealing this verdict in the appellate court.
- Three hurricanes in the 2005 fiscal year caused certain categories of expenses to be over budget and certain revenues to be under budget.
- Under funding of the police and firemen's pension has resulted in a catch up payment of over \$400,000.

The Infrastructure Surtax Fund is a special revenue fund that reports the activities of the one-cent sales tax increment. Revenues collected are restricted for capital projects throughout the city. During the year the fund's unreserved fund balance increased by \$800,000 to \$3,685,000.

Proprietary funds. The City of Key West proprietary fund statements provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of proprietary funds at year-end are as follows:

<u>Fund</u>	<u>Assets (Deficit)</u>	
	<u>FY05</u>	<u>FY04</u>
Sewer	\$ 3,895,000	\$ 3,018,000
Solid Waste	14,073,000	13,174,000
Stormwater	(200,000)	(304,000)
Key West Bight	(154,000)	(670,000)
Garrison Bight	1,672,000	1,363,000
Transit	(359,000)	(123,000)

For the year ending September 30, 2005, the sewer fund net assets remained materially the same from \$60,762,000 to \$60,638,000 the slight decrease can be attributed to hurricane related expenditures.

Solid Waste Fund net assets increased slightly by \$438,000, again the increase is less than normal due to the hurricane related debris expenditures.

The Stormwater Fund is a relatively new user fee fund which began in August of 2002. The funds net assets increased by \$2,072,000 mainly due to a capital grant of \$1,500,000.

The Key West Bight Fund net assets increased by \$1,246,000 due to an increase in operating revenue and capital grants.

FY 04-05 Budgetary Highlights

The FY 04-05 budget was developed to continue improvement programs in public service and the environment. It was implemented in a local economy that was strong due to increases in tourism and a strong military presence. Revenues and tourist volumes were monitored and were sound for all but the last three months of the fiscal year. While Key West did not suffer a direct hit, it did experience damaging

winds which caused debris generation and significant beach erosion. This in turn caused an interruption in the tourist economy resulting in less visitors. This translated in reduced sales tax and related revenues to the city.

The General Fund budget contained Ad Valorem tax revenues that were \$462,000 or 4.9% above rollback. The Ad Valorem tax increase allowed for the creation of 6.5 new positions with four being police officers. Other revenues were aggressively budgeted, included no safety factors and were insufficient to balance the budget. Expenses were held to a minimum.

Other funds budgets were developed to improve services while holding revenue and cost increases to a minimum. Of particular note, was a newly adopted Utility Funds rate policy that allowed moderate annual, less than the rate of inflation, increases in utility rates. The policy recognized that the City is not immune from inflationary cost increases and the continuance of service at acceptable levels requires sufficient revenues.

Budget performance was monitored during the year. Budgets were on track and no major problems were encountered during the year, except those caused by the hurricanes.

In the General Fund, significant budgetary changes from the original budget included the re-appropriation of reserves to the current year to enable the completion of the new mausoleum at the City cemetery.

The most significant budget variance was related to the General Fund. At the end of the fiscal year the General Fund expenditures exceeded the budgeted amount in both the personal services and operating categories. The overage of \$1,222,000 in the personal services line item was due to increasing salaries, overtime and related fringe benefit costs as a result of the three hurricanes the City experienced in Fiscal Year 2005.

The operating overage of \$1,964,000 was a direct result of an anti-trust lawsuit. The City recorded a contingent liability of \$1,500,000 and incurred \$200,000 in attorneys fees.

These overages were covered by the use of unappropriated reserves.

The general fund unreserved fund balance at the end of:

- FY 03-04 was \$11,744,000.
- FY 04-05 was \$9,618,000. This equates to 95 days in FY 04-06 operating expenses, significantly below the 135 days of the prior year. The Commission has adopted a policy that this level will never go below 90 days.

Capital Assets and Debt Administration

At the end of 2005, the City had \$211,373,000 invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water and sewer lines. (See Table 4 below.)

Table 4
Capital Assets at Year-end
(in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY05	FY04	FY05	FY04	FY05	FY04
Land	\$ 53,187	\$ 52,688	\$ 14,936	\$ 14,936	\$ 68,123	\$ 67,624
Buildings & improvements	32,503	32,004	144,012	144,012	176,515	176,016
Equipment	14,469	12,891	16,456	16,229	30,925	29,120
Infrastructure	7,022	6,095	-	-	7,022	6,095
Construction in progress	352	639	3,807	766	4,159	1,405
Depreciation	(23,252)	(20,329)	(52,119)	(46,580)	(75,371)	(66,909)
Totals	\$ 84,281	\$ 83,988	\$ 127,092	\$ 129,363	\$ 211,373	\$ 213,351

This year's major additions included:

- With the assistance of Transportation Security Administration grants the City was able to purchase over \$800,000 in port related security devices.
- Significant improvements were made to the storm water collection system as a result of FEMA and the South Florida Water District grants, allowing \$2,282,000 in construction projects relating to flood mitigation.

More detailed information about the City's capital assets is presented in Note 4 to the financial statements.

Debt

At year-end, the City had \$44,067,000 in bonds and notes outstanding, including unamortized loss and premiums/discounts, as shown in Table 5:

Table 5
Outstanding Debt at Year-end
(in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY05	FY04	FY05	FY04	FY05	FY04
Promissory note	\$ 2,059	\$ 2,206	\$ 4,427	\$ 4,852	\$ 6,486	\$ 7,058
Revenue Bonds and Notes	-	-	37,581	40,318	37,581	40,318
Totals	\$ 2,059	\$ 2,206	\$ 42,008	\$ 45,170	\$ 44,067	\$ 47,376

Other obligations include accrued vacation pay, sick leave and outstanding claims. More detailed information about the City's long-term liabilities is presented in Note 11 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The FY 05-06 budget was developed in light of the following factors:

- The City's economy was strong (tempered by hurricanes).
- The City was financially healthy.
- However, caution was exercised in budget preparation due to the following factors:
 - The vulnerability of the local tourist based economy to hurricanes which have effected our economy the last two years.
 - Increased post 9/11/01 Port Security requirements, hence cost increases, had to be included in budget plans.

The General Fund budget was developed as follows:

The recommended budget presented at the Commission Workshop on July 20, 2005 was balanced and included:

- Ad Valorem Taxes at 10.3% or \$1,207,311 above rollback.
- Increases in revenues totaling \$755,784 as follows:
 - Zoning fee increases at 30% generating an additional \$38,400.
 - Parking meter rate increases at 50% generating an additional \$500,000.
 - Smathers Beach parking meter rate increases at 100% generating an additional \$15,696.
 - Mallory Square Parking Permit rate increases at \$25% generating an additional \$19,800.
 - Residential and Commercial parking permit rate increases at \$25% generating an additional \$101,488.

The Commissioners directed management to revise the budget to the rollback property tax rate.

- The revised budget presented at the Commission Workshop on July 21, 2005 was balanced and included:
 - Ad Valorem Taxes at the rollback rate.
 - Additional increases in revenues totaling \$706,104 as follows:
 - A 25% increase in Key West Bight parking rate generating an additional \$135,010 to be transferred directly to the General Fund.
 - Increases in revenue estimates for the Half Cent Sales Surtax, Florida Municipal Revenue sharing allotment, and the Keys Energy System payment to levels that leave no safety margins generating an additional \$209,000.
 - An additional 0.07% increase to Solid Waste rates rate generating an additional \$80,000 to be transferred to the General Fund.
 - Increasing Mallory Square parking rates from \$3.00 to \$4.00 per hour and eliminating monthly reduced rate and free passes generating an additional \$456,420.
 - Decreasing parking fine projections by \$174,326 due to current experience.
 - An additional \$501,207 reduction in expenses including:
 - Elimination of 8.85 full time equivalent vacant and expiring contractual staff positions reducing personnel expenses by \$414,958. This was the first staff reduction in recent years.
 - Changing staff scheduling to reduce overtime by \$25,000.
 - Generating an additional \$61,249 in operating expense reductions.
 - \$43,818 of this was due to the reduction of health insurance rate increases from 1.7 to 0.0%
 - The tentative rollback millage rate and budget were approved by the commission.
 - The millage rate was presented to property owners on August 19, 2005 in the Truth in Millage statement sent by the Property Appraiser.
 - The approved rollback budget:

- Had no safety margin for events that could cause a reduction in tourist, in particular vehicle tourist, revenues.
- Supported the maintenance of services.
- Did not include additional services or major improvements to existing services. Therefore, most of the Strategic and Business Plans initiatives could not be initiated.
- Did not include funding for the settlement of pending lawsuits as discussed below.

The City granted two franchises to Historic Tours of America (HTA), a local firm, for the operation of the Conch Tour Train and Old Town Trolley tourist transport and education concessions. Recently, the operator of a marine tourist attraction sued the City claiming that the franchises with HTA were in violation of antitrust and interstate commerce laws.

The Duck Tours operator won a verdict from the City in the amount of \$13,500,000, plus attorney's fees and interest accruing during the appeal period. The franchises were found to be anti-competitive. The City will continue to appeal the decisions. However, it could be liable for payment of the above awards. This would require the full or partial use of General Fund reserves and possible debt funding. The budget does not contain contingencies for this.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Finance Office, City of Key West, PO Box 1409, Key West, FL 33041.

Basic Financial Statements

**City of Key West, Florida
Statement of Net Assets
September 30, 2005**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Current assets				
Cash and cash equivalents	\$ 17,837,550	\$ 14,818,721	\$ 32,656,271	\$ 2,066,418
Cash and cash equivalents (restricted)	83,489	5,564,628	5,648,117	1,904,908
Investments	16,451,811	12,224,004	28,675,815	150,000
Investments (restricted)	526,927	-	526,927	-
Accounts receivable (net of allowances)	1,284,095	2,860,307	4,144,402	540,983
Intergovernmental	2,498,247	2,015,155	4,513,402	-
Interest	112,007	97,664	209,671	-
Internal balances	2,723,447	(2,723,447)	-	16,641
Inventories	10,879	527,488	538,367	76,081
Prepaid items	11,979	21,380	33,359	141,279
Mortgages	1,135,271	-	1,135,271	-
Total current assets	42,675,702	35,405,900	78,081,602	4,896,310
Noncurrent assets				
Net pension assets	1,093,373	-	1,093,373	-
Capital assets				
Land	53,186,804	14,936,007	68,122,811	8,002,207
Buildings	13,120,823	37,624,606	50,745,429	34,439,266
Improvements	19,382,622	106,387,799	125,770,421	-
Machinery, equipment and furniture	14,468,902	16,455,741	30,924,643	1,275,653
Accumulated depreciation	(23,251,763)	(52,119,339)	(75,371,102)	(14,844,775)
Infrastructure	7,022,159	-	7,022,159	739,727
Construction in progress	351,880	3,806,987	4,158,867	11,693,001
Other	143,584	827,519	971,103	2,791,593
Total noncurrent assets	85,518,384	127,919,320	213,437,704	44,096,672
Total assets	128,194,086	163,325,220	291,519,306	48,992,982

Continued

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

City of Key West, Florida
Statement of Net Assets
September 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Liabilities				
Current liability				
Accounts Payable and accrued expenses	2,725,221	2,580,222	5,305,443	205,563
Accrued Wages & Benefits	1,002,534	97,161	1,099,695	132,047
Unearned revenue	2,718,827	402,656	3,121,483	-
Intergovernmental	261,884	6,148,881	6,410,765	235,823
Deposits	158,825	-	158,825	205,565
Insurance claims payable	1,154,353	-	1,154,353	-
Compensated Absences	1,463,403	158,225	1,621,628	1,452,237
Liabilities payable from restricted assets:				
Accrued interest	-	1,280,751	1,280,751	-
Bonds and notes payable	147,059	1,635,578	1,782,637	-
Unearned revenue	-	646,516	646,516	-
Other	27,843	40,000	67,843	-
Total current liabilities	<u>9,659,949</u>	<u>12,989,990</u>	<u>22,649,939</u>	<u>2,231,235</u>
Noncurrent liabilities				
Notes payable	1,911,765	4,427,054	6,338,819	33,817,205
Revenue bonds payable	-	37,581,393	37,581,393	-
Insurance claims payable	1,145,647	-	1,145,647	-
Accrued interest	-	2,321,920	2,321,920	-
Closure costs	-	383,333	383,333	-
Compensated Absences	1,659,370	174,240	1,833,610	-
Other	-	481,096	481,096	2,454,799
Total noncurrent liabilities	<u>4,716,782</u>	<u>45,369,036</u>	<u>50,085,818</u>	<u>38,503,239</u>
Total liabilities	<u>14,376,731</u>	<u>58,359,026</u>	<u>72,735,757</u>	<u>40,734,474</u>
Net Assets				
Invested in capital assets, net of related debt	84,281,426	83,682,290	167,963,716	6,782,805
Restricted for:				
Capital projects	11,381,255	1,500,000	12,881,255	-
Debt service	-	858,176	858,176	-
Transportation	3,223,997	-	3,223,997	-
Recreation	193,816	-	193,816	-
Economic Environment	3,042,590	-	3,042,590	1,733,161
Public Safety	43,405	-	43,405	-
Unrestricted	11,650,866	18,925,726	30,576,592	1,973,777
Total net assets	<u>\$113,817,355</u>	<u>\$104,966,192</u>	<u>\$218,783,547</u>	<u>\$10,489,743</u>

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

City of Key West, Florida
Statement of Activities
For the year ended September 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Fee, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government	\$ 14,067,796	\$ 1,519,878	\$ 355,543	\$ 45,412
Public safety	20,332,491	4,126,909	40,345	568,336
Physical environment	283,897	87,667	-	-
Transportation	2,901,011	8,000,740	-	791,658
Economic environment	1,184,787	-	400,327	-
Human Services	437,709	-	-	-
Culture and recreation	3,269,825	132,533	70,077	-
Principal	-	-	-	-
Interest	40,573	-	-	-
Total governmental activities	<u>42,518,089</u>	<u>13,867,727</u>	<u>866,292</u>	<u>1,405,406</u>
Business Type Activities				
Sewer System	10,885,286	10,498,788	-	-
Solid Waste	10,102,559	8,293,317	1,713,938	-
Key West Bight	5,451,322	5,932,144	10,385	192,109
Stormwater	1,002,954	1,516,495	-	1,499,631
Garrison Bight	1,196,022	1,318,440	6,780	-
Transit	3,086,929	736,719	385,448	-
Total business-type activities	<u>31,725,072</u>	<u>28,295,903</u>	<u>2,116,551</u>	<u>1,691,740</u>
Total primary government	<u>74,243,161</u>	<u>42,163,630</u>	<u>2,982,843</u>	<u>3,097,146</u>
COMPONENT UNITS:				
Key West Housing Authority	8,832,869	4,325,237	3,135,787	7,155
Total Component Units	<u>\$ 8,832,869</u>	<u>\$ 4,325,237</u>	<u>\$ 3,135,787</u>	<u>\$ 7,155</u>
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				
Franchise and communications taxes				
Municipal revenue sharing gas and cig. tax				
One cent sales tax				
Half cent sales tax				
Local option gas tax				
Intergovernmental (unrestricted)				
PILOT				
Income on investments				
Transfers in (out)				
Other				
Total general revenues, special items, and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

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

Continued

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business- type Activities	Total	Component Units
\$ (12,146,963)	\$ -	\$ (12,146,963)	\$ -
(15,596,901)	-	(15,596,901)	-
(196,230)	-	(196,230)	-
5,891,387	-	5,891,387	-
(784,460)	-	(784,460)	-
(437,709)	-	(437,709)	-
(3,067,215)	-	(3,067,215)	-
-	-	-	-
(40,573)	-	(40,573)	-
<u>(26,378,664)</u>	<u>-</u>	<u>(26,378,664)</u>	<u>-</u>
-	-	-	-
-	(386,498)	(386,498)	-
-	(95,304)	(95,304)	-
-	683,316	683,316	-
-	2,013,172	2,013,172	-
-	129,198	129,198	-
-	(1,964,762)	(1,964,762)	-
-	379,122	379,122	-
<u>(26,378,664)</u>	<u>379,122</u>	<u>(25,999,542)</u>	<u>-</u>
			(1,364,690)
			<u>(1,364,690)</u>
12,476,390	-	12,476,390	-
1,654,592	-	1,654,592	-
1,216,655	-	1,216,655	-
5,842,241	-	5,842,241	-
3,205,706	-	3,205,706	-
1,331,487	-	1,331,487	-
362,045	-	362,045	-
2,603,100	-	2,603,100	-
700,821	711,288	1,412,109	19,166
(1,404,602)	1,404,602	-	-
293,302	408,224	701,526	(1,516)
<u>28,281,737</u>	<u>2,524,114</u>	<u>30,805,851</u>	<u>17,650</u>
1,903,073	2,903,236	4,806,309	(1,347,040)
111,914,286	102,062,956	213,977,242	10,642,183
<u>\$ 113,817,355</u>	<u>\$ 104,966,192</u>	<u>\$ 218,783,547</u>	<u>\$ 10,489,743</u>

City of Key West, Florida
Balance Sheet
Governmental Funds
September 30, 2005

Assets	General Fund	Infrastructure Surtax Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 2,983,018	\$ 553,326	\$ 9,048,526	\$ 12,584,870
Cash and cash equivalents (restricted)	-	-	83,489	83,489
Investments	8,875,003	3,232,734	4,344,074	16,451,811
Investments (restricted)	-	-	526,927	526,927
Receivables:				
Accounts	753,285	-	186,455	939,740
Intergovernmental	696,522	683,291	455,562	1,835,375
Mortgages	-	-	1,278,855	1,278,855
Interfund	372,766	-	-	372,766
Interest	53,352	24,556	34,099	112,007
Inventories	10,879	-	-	10,879
Advance	2,572,842	-	-	2,572,842
Prepays	11,979	-	-	11,979
Total assets	<u>\$ 16,329,646</u>	<u>\$ 4,493,907</u>	<u>\$ 15,957,987</u>	<u>\$ 36,781,540</u>
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$ 562,567	\$ 201,588	\$ 155,927	\$ 920,082
Accrued payroll	511,224	3,377	16,176	530,777
Retainage payable	-	26,357	-	26,357
Accrued expenses	1,500,000	-	-	1,500,000
Interfund payable	464,574	-	1,015	465,589
Intergovernmental	-	-	261,884	261,884
Deposits	158,825	-	-	158,825
Deferred revenue	818,320	65,000	1,835,507	2,718,827
Total liabilities	<u>4,015,510</u>	<u>296,322</u>	<u>2,270,509</u>	<u>6,582,341</u>
Fund balances				
Reserved for:				
Inventory and prepaids	22,858	-	-	22,858
Receivables	-	-	145,170	145,170
Encumbrances	100,755	512,817	301,953	915,525
Advances	2,572,842	-	-	2,572,842
Unreserved, reported in:				
General fund	9,617,681	-	-	9,617,681
Special revenue	-	3,684,768	8,668,569	12,353,337
Capital projects	-	-	4,571,786	4,571,786
Total fund balances	<u>12,314,136</u>	<u>4,197,585</u>	<u>13,687,478</u>	<u>30,199,199</u>
Total liabilities and fund balances	<u>\$ 16,329,646</u>	<u>\$ 4,493,907</u>	<u>\$ 15,957,987</u>	<u>\$ 36,781,540</u>

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

City of Key West
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
September 30, 2005

Fund Balances - total governmental funds	\$ 30,199,199
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	84,281,427
Internal service funds are used by management to charge the costs of insurance. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	2,976,918
Fiduciary funds are used by management to account for pension assets. The Net Pension Asset is then recorded on the entity wide statements.	1,093,373
Receivables in governmental funds are susceptible to full accrual on the entity-wide statements. Intergovernmental	662,872
Payables in governmental funds are susceptible to full accrual on the entity-wide statements.	(218,991)
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds. These liabilities are comprised of the following:	
Notes payable \$ (2,058,824)	
Compensated absences <u>(3,118,619)</u> (Not created in connection with terminated employees)	
Long-term liabilities - net	(5,177,443)
 Net assets of governmental activities	 <u>\$ 113,817,355</u>

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

City of Key West, Florida
Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds
For the year ended September 30, 2005

	General	Infrastructure Surtax Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$13,551,986	\$5,842,241	\$1,910,482	\$ 21,304,709
Licenses and permits	2,667,164	-	-	2,667,164
Intergovernmental income	5,534,231	852,926	366,928	6,754,085
Payment in lieu of taxes	2,603,100	-	-	2,603,100
Charges for services	6,908,916	-	1,317,516	8,226,432
Fines and forfeitures	1,221,735	-	23,510	1,245,245
Investment earnings	357,781	88,886	254,154	700,821
Rental income	1,358,412	-	-	1,358,412
Contributions and other	148,513	31,895	198,908	379,316
Total revenues	<u>34,351,838</u>	<u>6,815,948</u>	<u>4,071,498</u>	<u>45,239,284</u>
Expenditures:				
Current:				
General government	13,006,947	806,107	348,630	14,161,684
Public safety	17,780,422	100,442	14,156	17,895,020
Physical environment	206,122	6,280	-	212,402
Transportation	1,132,120	245,174	948,467	2,325,761
Economic environment	103,300	-	1,004,935	1,108,235
Culture and recreation	2,406,903	166,925	191,020	2,764,848
Human Services	437,709	-	-	437,709
Capital outlay	711,977	2,543,782	579,138	3,834,897
Debt service:				
Principal	-	-	147,059	147,059
Interest	-	-	40,573	40,573
Total expenditures	<u>35,785,500</u>	<u>3,868,710</u>	<u>3,273,978</u>	<u>42,928,188</u>
Excess (deficiency) of revenues over (under) expenditures	(1,433,662)	2,947,238	797,520	2,311,096
Other financing sources (uses):				
Transfers in	206,799	482,510	5,042,901	5,732,210
Transfers out	(901,910)	(2,804,512)	(3,430,390)	(7,136,812)
Total other financing sources (uses)	<u>(695,111)</u>	<u>(2,322,002)</u>	<u>1,612,511</u>	<u>(1,404,602)</u>
Net change in fund balances	<u>(2,128,773)</u>	<u>625,236</u>	<u>2,410,031</u>	<u>906,494</u>
Fund balance, October 1	<u>14,442,909</u>	<u>3,572,349</u>	<u>11,277,447</u>	<u>29,292,705</u>
Fund balance, September 30	<u>\$ 12,314,136</u>	<u>\$ 4,197,585</u>	<u>\$ 13,687,478</u>	<u>\$ 30,199,199</u>

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

City of Key West
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances to the Statement of Activities
Governmental Funds
September 30, 2005

Net change in fund balances - total governmental funds	\$ 906,494
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives. This is the amount by which capital outlay exceeded depreciation expense and loss on disposal for the current period.</p>	
Expenditures for capital assets	\$ 3,834,897
Less: loss on disposal	(44,082)
Less: current year depreciation	<u>(3,497,512)</u>
	293,303
Repayment of a loan is an expenditure in the governmental funds, but the repayment is a reduction of a liability in the statement of net assets.	147,058
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	586,480
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available.	(211,835)
The change in compensated absences not created by employee termination does not require adjustment of current financial resources and therefore is not reported in the governmental funds	(27,519)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net of the internal service fund is reported with governmental funds.	(7,735)
Fiduciary funds are used to account for the assets of the City's Pension plans. Therefore these assets are not reported in the governmental funds.	216,830
Change in net assets of governmental activities	<u>\$ 1,903,073</u>

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

City of Key West, Florida
Statement of Revenues, Expenditures, and
Changes in Fund Balance
Budget and Actual - General and Infrastructure Funds
For the year ended September 30, 2005

	General Fund			Variance with Final Budget- Positive (Negative)
	General Fund Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues:				
Taxes	\$ 13,738,016	\$ 13,738,016	\$ 13,551,986	\$ (186,030)
Licenses and permits	2,100,834	2,320,834	2,667,164	346,330
Intergovernmental income	4,790,423	5,285,163	5,534,231	249,068
Payment in lieu of taxes	2,603,100	2,603,100	2,603,100	-
Charges for services	6,923,833	6,923,833	6,908,916	(14,917)
Fines and forfeitures	1,012,914	1,012,913	1,221,735	208,822
Investment earning	300,250	300,250	357,781	57,531
Rental income	1,346,333	1,346,333	1,358,412	12,079
Contributions and other	16,130	56,430	148,513	92,083
Total revenues	<u>32,831,833</u>	<u>33,586,872</u>	<u>34,351,838</u>	<u>764,966</u>
Expenditures:				
Personal services	24,220,252	24,080,127	25,301,679	(1,221,552)
Operating	7,454,528	7,704,332	9,668,544	(1,964,212)
Capital	149,924	756,128	711,977	44,151
Debt service	-	-	-	-
Aid to private organizations	103,300	128,402	103,300	25,102
Total expenditures	<u>31,928,004</u>	<u>32,668,989</u>	<u>35,785,500</u>	<u>(3,116,511)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>903,829</u>	<u>917,883</u>	<u>(1,433,662)</u>	<u>(2,351,545)</u>
Other financing sources (uses):				
Proceeds from promissory note	-	-	-	-
Transfers in	200,634	200,634	206,799	6,165
Transfers (out)	(401,441)	(896,910)	(901,910)	(5,000)
Total other financing sources (uses)	<u>(200,807)</u>	<u>(696,276)</u>	<u>(695,111)</u>	<u>1,165</u>
Net change in fund balance	<u>703,022</u>	<u>221,607</u>	<u>(2,128,773)</u>	<u>(2,350,380)</u>
Fund balance, October 1	<u>14,442,909</u>	<u>14,442,909</u>	<u>14,442,909</u>	<u>-</u>
Fund balance, September 30	<u>\$ 15,145,931</u>	<u>\$ 14,664,516</u>	<u>\$ 12,314,136</u>	<u>\$ (2,350,380)</u>

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

City of Key West, Florida
Statement of Revenues, Expenditures, and
Changes in Fund Balance
Budget and Actual - General and Infrastructure Funds (Continued)
For the year ended September 30, 2005

	Infrastructure Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Taxes	\$ 5,400,000	\$ 5,400,000	\$ 5,842,241	\$442,241
Intergovernmental income	1,189,645	1,313,645	852,926	(460,719)
Investment earning	12,562	12,562	88,886	76,324
Contributions and other	-	30,965	31,895	930
Total revenues	<u>6,602,207</u>	<u>6,757,172</u>	<u>6,815,948</u>	<u>(383,465)</u>
Expenditures:				
Personal Service	-	273,000	273,000	-
Operating	2,678,000	1,270,768	1,051,928	218,840
Capital	3,567,679	3,251,727	2,543,782	707,945
Total expenditures	<u>6,245,679</u>	<u>4,795,495</u>	<u>3,868,710</u>	<u>926,785</u>
Excess (deficiency) of revenues over (under) expenditures	<u>356,528</u>	<u>1,961,677</u>	<u>2,947,238</u>	<u>543,320</u>
Other financing sources (uses):				
Proceeds from capital lease	-	-	-	-
Transfers in	508,986	482,510	482,510	-
Transfers (out)	(1,435,310)	(2,806,324)	(2,804,512)	1,812
Total other financing sources (uses)	<u>(926,324)</u>	<u>(2,323,814)</u>	<u>(2,322,002)</u>	<u>1,812</u>
Net change in fund balance	<u>(569,796)</u>	<u>(362,137)</u>	<u>625,236</u>	<u>545,132</u>
Fund balance, October 1	<u>3,572,349</u>	<u>3,572,349</u>	<u>3,572,349</u>	<u>-</u>
Fund balance, September 30	<u>\$ 3,002,553</u>	<u>\$ 3,210,212</u>	<u>\$ 4,197,585</u>	<u>\$ 545,132</u>

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

City of Key West, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2005

	<u>Sanitary Sewer System</u>	<u>Solid Waste</u>	<u>Key West Bight</u>	<u>Other Enterprise Funds</u>	<u>Total</u>	<u>Governmental Activities Internal Service Funds</u>
Assets						
Current assets						
Cash and cash equivalents	\$ 7,141,625	\$ 988,738	\$ 2,556,017	\$ 4,132,341	\$ 14,818,721	\$ 5,252,680
Investments	-	12,224,004	-	-	12,224,004	-
Receivables, net of allowance for uncollectibles:						
Interest	-	90,127	6,415	1,122	97,664	-
Accounts	1,553,691	744,086	225,493	337,037	2,860,307	344,355
Intergovernmental	-	1,713,938	174,247	126,970	2,015,155	-
Interfund receivables	11,949	4,423	8,846	19,903	45,121	-
Prepaid expense	-	-	15,751	5,629	21,380	-
Inventory	338,848	83,147	72,558	32,935	527,488	-
Total	<u>9,046,113</u>	<u>15,848,463</u>	<u>3,059,327</u>	<u>4,655,937</u>	<u>32,609,840</u>	<u>5,597,035</u>
Restricted assets:						
Cash and cash equivalents	4,125,319	386,702	1,052,607	-	5,564,628	-
Investments	-	-	-	-	-	-
Interest receivable	-	-	-	-	-	-
Total	<u>4,125,319</u>	<u>386,702</u>	<u>1,052,607</u>	<u>-</u>	<u>5,564,628</u>	<u>-</u>
Total current assets	<u>13,171,432</u>	<u>16,235,165</u>	<u>4,111,934</u>	<u>4,655,937</u>	<u>38,174,468</u>	<u>5,597,035</u>
Noncurrent assets						
Deferred Charges						
Unamortized bond cost, net	511,331	-	193,751	-	705,082	-
Property, plant and equipment:						
Land	6,480	-	14,879,527	50,000	14,936,007	-
Buildings	24,308,578	3,859,176	4,757,258	4,699,594	37,624,606	-
Improvements other than buildings	89,206,838	911,325	7,066,476	9,203,160	106,387,799	-
Machinery, equipment and furniture	9,958,390	1,061,612	302,849	5,132,889	16,455,740	-
Construction in progress	218,147	255,965	188,191	3,144,684	3,806,987	-
Total	<u>123,698,433</u>	<u>6,088,078</u>	<u>27,194,301</u>	<u>22,230,327</u>	<u>179,211,139</u>	<u>-</u>
Less accumulated depreciation	37,089,376	4,430,588	3,790,647	6,808,728	52,119,339	-
Net property, plant and equipment	<u>86,609,057</u>	<u>1,657,490</u>	<u>23,403,654</u>	<u>15,421,599</u>	<u>127,091,800</u>	<u>-</u>
Other noncurrent assets:						
Accounts receivable	97,885	24,553	-	-	122,438	-
Advance to other funds	52,684	-	280,092	-	332,776	-
Total other noncurrent assets	<u>150,569</u>	<u>24,553</u>	<u>280,092</u>	<u>-</u>	<u>455,214</u>	<u>-</u>
Total noncurrent assets	<u>87,270,957</u>	<u>1,682,043</u>	<u>23,877,497</u>	<u>15,421,599</u>	<u>128,252,096</u>	<u>-</u>
Total assets	<u>\$100,442,389</u>	<u>\$ 17,917,208</u>	<u>\$27,989,431</u>	<u>\$ 20,077,536</u>	<u>\$166,426,564</u>	<u>\$ 5,597,035</u>

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

City of Key West, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2005

	Sanitary Sewer System	Solid Waste	Key West Bight	Other Enterprise Funds	Total	Governmental Activities Internal Service Funds
Liabilities and Equity						
Liabilities:						
Current liabilities:						
Accounts payable	\$ 468,312	\$ 1,280,935	\$ 99,838	\$ 294,989	\$ 2,144,074	\$ 86,148
Accrued payroll and related expenses	36,886	47,744	41,175	129,581	255,386	11,336
Accrued expenses	-	-	213,010	-	213,010	-
Retainage payable	4,000	-	-	219,138	223,138	-
Interfund payable	-	-	133,200	62,526	195,726	221,146
Insurance claims payable	-	-	-	-	-	1,154,353
Intergovernmental payable	6,148,881	-	-	-	6,148,881	-
Deferred revenue	102,228	-	217,224	83,204	402,656	1,486
Total	<u>6,760,307</u>	<u>1,328,679</u>	<u>704,447</u>	<u>789,438</u>	<u>9,582,871</u>	<u>1,474,469</u>
Current liabilities:						
Payable from restricted assets:						
Closure costs payable, current	-	40,000	-	-	40,000	-
Accrued interest	576,574	-	704,177	-	1,280,751	-
Bonds and notes payable, current	1,111,284	-	524,294	-	1,635,578	-
Deferred revenue	341,117	305,399	-	-	646,516	-
Total	<u>2,028,975</u>	<u>345,399</u>	<u>1,228,471</u>	<u>-</u>	<u>3,602,845</u>	<u>-</u>
Total current Liabilities:	<u>8,789,282</u>	<u>1,674,078</u>	<u>1,932,918</u>	<u>789,438</u>	<u>13,185,716</u>	<u>1,474,469</u>
Noncurrent liabilities:						
Revenue bonds payable, net of discount	26,574,901	-	11,006,492	-	37,581,393	-
Note payable	4,427,054	-	-	-	4,427,054	-
Closure costs	-	383,333	-	-	383,333	-
Advance from other funds	-	-	566,652	2,338,966	2,905,618	-
Insurance claims payable	-	-	-	-	-	1,145,647
Customer deposits	1,000	-	143,233	336,863	481,096	-
Accrued interest	-	-	2,321,920	-	2,321,920	-
Accrued compensated absences	11,795	48,079	35,971	78,395	174,240	-
Total noncurrent liabilities	<u>31,014,750</u>	<u>431,412</u>	<u>14,074,268</u>	<u>2,754,224</u>	<u>48,274,654</u>	<u>1,145,647</u>
Total liabilities	<u>39,804,032</u>	<u>2,105,490</u>	<u>16,007,186</u>	<u>3,543,662</u>	<u>61,460,370</u>	<u>2,620,116</u>
Net Assets						
Invested in capital assets, net of related debt	54,466,464	1,657,490	12,136,739	15,421,599	83,682,292	-
Restricted for current debt service	776,873	81,303	-	-	858,176	-
Restricted for renewal & replacement	1,500,000	-	-	-	1,500,000	-
Unrestricted	3,895,020	14,072,925	(154,494)	1,112,275	18,925,726	2,976,919
Total net assets	<u>60,638,357</u>	<u>15,811,718</u>	<u>11,982,245</u>	<u>16,533,874</u>	<u>104,966,194</u>	<u>2,976,919</u>
Total liabilities and net assets	<u>\$100,442,389</u>	<u>\$ 17,917,208</u>	<u>\$ 27,989,431</u>	<u>\$ 20,077,536</u>	<u>\$ 166,426,564</u>	<u>\$ 5,597,035</u>

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

City of Key West, Florida
Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Funds

For the year ended September 30, 2005

	Sanitary Sewer System	Solid Waste	Key West Bight	Other Enterprise Funds	Total	Governmental Activities Internal Service Funds
Operating revenues:						
Charges for services	\$ 10,498,788	\$ 8,293,317	\$ 5,932,144	\$ 3,571,654	\$ 28,295,903	\$ 7,794,788
Total operating revenues	<u>10,498,788</u>	<u>8,293,317</u>	<u>5,932,144</u>	<u>3,571,654</u>	<u>28,295,903</u>	<u>7,794,788</u>
Operating expenses:						
Personal services	560,463	608,483	888,819	2,108,922	4,166,687	202,098
Other operating expenses	5,714,675	8,834,900	3,103,263	1,806,170	19,459,008	7,714,562
Depreciation and amortization	3,263,765	659,176	586,204	1,308,027	5,817,172	-
Total operating expenses	<u>9,538,903</u>	<u>10,102,559</u>	<u>4,578,286</u>	<u>5,223,119</u>	<u>29,442,867</u>	<u>7,916,660</u>
Operating income (loss)	<u>959,885</u>	<u>(1,809,242)</u>	<u>1,353,858</u>	<u>(1,651,465)</u>	<u>(1,146,964)</u>	<u>(121,872)</u>
Nonoperating revenues (expenses):						
Grant income	-	1,713,938	10,385	392,228	2,116,551	-
Investment earnings	255,655	267,706	79,146	108,781	711,288	114,138
Other income	6,700	266,057	62,941	72,526	408,224	-
Other expense	-	-	-	-	-	-
Interest expense	(1,346,383)	-	(873,036)	(62,786)	(2,282,205)	-
Loss on disposal/abandonment	-	-	-	-	-	-
Net nonoperating revenues (expenses)	<u>(1,084,028)</u>	<u>2,247,701</u>	<u>(720,564)</u>	<u>510,749</u>	<u>953,858</u>	<u>114,138</u>
Income (loss) before contributions and transfers	<u>(124,143)</u>	<u>438,459</u>	<u>633,294</u>	<u>(1,140,716)</u>	<u>(193,106)</u>	<u>(7,734)</u>
Capital contributions	-	-	192,109	1,499,631	1,691,740	-
Transfers in	-	-	420,266	984,336	1,404,602	-
Transfers (out)	-	-	-	-	-	-
Total transfers and contributions	<u>-</u>	<u>-</u>	<u>612,375</u>	<u>2,483,967</u>	<u>3,096,342</u>	<u>-</u>
Change in net assets	<u>(124,143)</u>	<u>438,459</u>	<u>1,245,669</u>	<u>1,343,251</u>	<u>2,903,236</u>	<u>(7,734)</u>
Total net assets, October 1	<u>60,762,500</u>	<u>15,373,259</u>	<u>10,736,576</u>	<u>15,190,621</u>	<u>102,062,956</u>	<u>2,984,653</u>
Total net assets, September 30	<u>\$ 60,638,357</u>	<u>\$ 15,811,718</u>	<u>\$ 11,982,245</u>	<u>\$ 16,533,872</u>	<u>\$104,966,192</u>	<u>\$ 2,976,919</u>

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

City of Key West, Florida
Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2005

	Sanitary Sewer System	Solid Waste	Key West Bight	Other Enterprise Funds	Total	Governmental Activities Internal Service Funds
Cash flows from operating activities:						
Cash received from customers	\$ 10,541,040	\$ 8,315,253	\$ 6,029,248	\$ 3,664,713	\$ 28,550,254	\$ 7,860,876
Cash paid to suppliers	(5,583,245)	(8,185,730)	(3,111,197)	(1,955,458)	(18,835,630)	(8,143,941)
Cash paid to employees	(574,281)	(748,382)	(908,727)	(2,164,488)	(4,395,878)	(213,129)
Other receipts	6,700	7,200	62,941	71,408	148,249	662,344
Net cash provided by (used in) operating activities	4,390,214	(611,659)	2,072,265	(383,825)	5,466,995	166,150
Cash flows from noncapital financing activities:						
Operating grants received	-	-	-	528,721	528,721	-
Advance/loan to other funds	7,526	-	-	-	7,526	-
Advance/loan from other funds	-	-	(2,556,919)	(7,526)	(2,564,445)	-
Transfers in	-	-	420,266	984,336	1,404,602	-
Transfers (out)	-	-	-	-	-	-
Net cash flows from noncapital financing activities	7,526	-	(2,136,653)	1,505,531	(623,596)	-
Cash flows from capital and related financing activities:						
Proceeds of capital grants	-	-	113,192	1,500,000	1,613,192	-
Acquisition and construction of capital assets	(411,614)	(284,135)	(315,143)	(2,041,416)	(3,052,308)	-
Principal paid on revenue bonds	(885,000)	-	(559,520)	-	(1,444,520)	-
Interest paid	(1,280,907)	-	(999,099)	(3,547)	(2,283,553)	-
Payments on notes	(209,381)	-	-	-	(209,381)	-
Impact fees	106,592	60,225	-	-	166,817	-
Net cash flows from capital and related financing activities	(2,680,310)	(223,910)	(1,760,570)	(544,963)	(5,209,753)	-
Cash flows from investing activities:						
Investment earnings	262,872	392,048	70,216	108,781	833,917	114,138
Purchase of investment securities	-	(12,349,823)	-	-	(12,349,823)	-
Proceeds from sale and maturities of investment securities	-	-	-	-	-	-
	-	8,832,000	-	-	8,832,000	-
Net cash flows from investing activities	262,872	(3,125,775)	70,216	108,781	(2,683,906)	114,138
Net increase (decrease) in cash and cash equivalents	1,980,302	(3,961,344)	(1,754,743)	685,524	(3,050,261)	280,288
Cash & equivalents, October 1	9,286,642	5,336,784	5,363,366	3,446,817	23,433,609	4,972,392
Cash & equivalents, September 30	\$ 11,266,944	\$ 1,375,438	\$ 3,608,623	\$ 4,132,341	\$ 20,383,348	\$ 5,252,680

Continued

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

City of Key West, Florida
Proprietary Funds
Statement of Cash Flows (Continued)
For the year ended September 30, 2005

	Sanitary Sewer System	Solid Waste	Key West Bight	Other Enterprise Funds	Total	Governmental Activities Internal Service Funds
Cash and cash equivalents at End of Year	<u>\$11,266,944</u>	<u>\$ 1,375,440</u>	<u>\$ 3,608,624</u>	<u>\$ 4,132,341</u>	<u>\$20,383,348</u>	<u>\$ 5,252,680</u>
Classified as:						
Current	\$ 7,141,625	\$ 988,738	\$ 2,556,017	\$ 4,132,341	\$14,818,721	\$ 5,252,680
Restricted	4,125,319	386,702	1,052,607	-	5,564,628	-
Total	<u>\$11,266,944</u>	<u>\$ 1,375,440</u>	<u>\$ 3,608,624</u>	<u>\$ 4,132,341</u>	<u>\$20,383,349</u>	<u>\$ 5,252,680</u>
Reconciliation of operating income (loss) to net cash provided by (applied to) operating activities:						
Operating income (loss)	<u>\$ 959,885</u>	<u>\$(1,809,242)</u>	<u>\$ 1,353,858</u>	<u>\$(1,651,465)</u>	<u>\$(1,146,964)</u>	<u>\$ (121,872)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (applied to) operating activities:						
Other nonoperating revenues	6,700	7,200	62,941	79,310	156,151	-
Depreciation and amortization	3,263,765	659,176	586,204	1,308,027	5,817,172	-
Decrease (increase) in assets:						
Accounts receivable	30,405	21,936	98,139	(111,449)	39,031	(178,123)
Interfund receivables	(1,322)	1,779	(4,194)	49,052	45,315	-
Intergovernmental receivables	-	-	-	(6,780)	(6,780)	-
Prepaid items	-	-	-	-	-	-
Inventories	(22,363)	19,374	(22,858)	(3,838)	(29,685)	-
Increase (decrease) in liabilities:						
Accounts payable	153,793	669,796	5,349	(200,450)	628,488	55,072
Accrued items	2,987	(70,031)	(4,557)	(29,509)	(101,110)	(11,020)
Interfund payables	-	-	-	-	-	66,093
Customer deposits	1,000	-	(3,540)	202,386	199,846	-
Deferred benefits and claims payable	-	-	-	-	-	(262,813)
Closure costs payable, noncurrent	-	(40,000)	-	-	(40,000)	-
Accrued compensated absences, noncurrent	(15,483)	(71,647)	(1,582)	(20,109)	(108,821)	-
Deferred benefits and claims payable noncurrent	-	-	-	-	-	618,813
Deferred revenue	10,847	-	2,505	1,002	14,354	-
Total adjustments	<u>3,430,329</u>	<u>1,197,583</u>	<u>718,407</u>	<u>1,267,642</u>	<u>6,613,961</u>	<u>288,022</u>
Net cash provided by (applied to) operating activities	<u>\$ 4,390,214</u>	<u>\$ (611,659)</u>	<u>\$ 2,072,265</u>	<u>\$ (383,823)</u>	<u>\$ 5,466,997</u>	<u>\$ 166,150</u>
Schedule of noncash investing, capital, and financing activities:						
Change in valuation of investments	<u>\$ -</u>	<u>\$ 154,625</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 154,625</u>	<u>\$ -</u>

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

City of Key West, Florida
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2005

	Pension Trust Funds		Total 2005
	Police and Fire	General Employees	
Assets			
Cash	\$ 3,664,380	\$ 2,654,926	\$ 6,319,306
Corporate Bonds	6,861,477	4,677,728	11,539,205
US Government	6,499,701	2,902,239	9,401,940
US Government Agencies	3,243,076	1,447,075	4,690,151
Marketable Equity Securities	26,782,312	15,170,043	41,952,355
Receivables:			
Interest	168,555	105,301	273,856
Interfund receivables	464,574	-	464,574
Intergovernmental	168,555	-	168,555
Equipment	2,705	5,221	7,926
Accumulated depreciation	(841)	(5,221)	(6,062)
Total assets	<u>\$ 47,854,494</u>	<u>\$ 26,957,312</u>	<u>\$ 74,811,806</u>
Liabilities:			
Accrued Expenses	\$ 49,489	\$ 35,473	\$ 84,962
Total liabilities	<u>49,489</u>	<u>35,473</u>	<u>84,962</u>
Net Assets			
Assets held in trust for pension benefits	<u>47,768,768</u>	<u>26,921,838</u>	<u>74,690,606</u>
Total net assets	<u>47,768,768</u>	<u>26,921,838</u>	<u>74,690,606</u>
Total liabilities and net assets	<u>\$ 47,818,257</u>	<u>\$ 26,957,311</u>	<u>\$ 74,775,568</u>

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

City of Key West, Florida
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the year ended September 30, 2005

	Pension Trust Funds		Total 2005
	Police and Fire	General Employees	
Additions			
Contributions			
Employer	\$ 1,334,782	\$ 1,147,792	\$ 2,482,574
Member	659,715	633,086	1,292,801
State Police and Fire	549,690	-	549,690
Total contributions	<u>2,544,187</u>	<u>1,780,878</u>	<u>4,325,065</u>
Net investment Income			
Net appreciation in fair value of investments	3,064,694	2,133,174	5,197,868
Interest	826,727	471,666	1,298,393
Dividends	533,451	290,194	823,645
Other	5,925	3,147	9,072
	<u>4,430,797</u>	<u>2,898,181</u>	<u>7,328,978</u>
Less investment expense	123,012	99,516	222,528
	<u>4,307,785</u>	<u>2,798,665</u>	<u>7,106,450</u>
Total additions	<u>6,851,972</u>	<u>4,579,543</u>	<u>11,431,515</u>
Deductions			
Benefits paid	2,224,092	944,286	3,168,378
Administrative expense	223,475	64,157	287,632
Contributions refunded	96,420	254,162	350,582
Depreciation	502	-	502
Total deductions	<u>2,544,489</u>	<u>1,262,605</u>	<u>3,807,094</u>
Changes in net assets	<u>4,307,483</u>	<u>3,316,938</u>	<u>7,624,421</u>
Net assets - beginning	<u>43,461,285</u>	<u>23,604,900</u>	<u>67,066,185</u>
Net assets - ending	<u>\$ 47,768,768</u>	<u>\$ 26,921,838</u>	<u>\$ 74,690,606</u>

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

City of Key West, Florida

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The City of Key West, Florida, was incorporated in 1828. The City operates under a commission-manager form of government and provides services authorized by its charter, including public safety, public welfare, public improvements, planning and zoning, and general administrative services. The City of Key West complies with United States Generally Accepted Accounting Principles (GAAP).

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis-for State and Local Governments. Certain of the significant changes in the Statement include the following:

- The financial statements now include:
 - A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
 - Financial statements prepared using full accrual accounting for all of the city's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The City has elected to retroactively report infrastructure (assets acquired prior to 10/01/02 in the fiscal year ending 9/30/07).

A. Reporting Entity

In defining the City for financial reporting purposes, management has considered all potential component units. Component units are generally legally separate entities for which the primary government (the City) is financially accountable. A primary government is financially accountable for the potential component unit if it appoints a voting majority of the units governing board and is able to impose its will upon the potential component unit, or there is a possibility for the potential component unit to provide specific financial benefits or impose specific financial burdens on the primary government. The following paragraphs briefly review each potential component unit addressed in defining the City's reporting entity.

B. Individual Component Unit Disclosures

Discretely presented component unit:

The Key West Housing Authority (KWA) was created by Florida Statute Chapter 421 and by resolution of the City in 1938. The primary purpose of KWA is to provide affordable housing to low income and elderly families in Key West. Programs are administered through the Department of Housing and Urban Development. The Key West Housing Authority Board, appointed by the City Commission as required by statute, has full administrative responsibilities. The City provides approximately \$425,000 of free sewer, solid waste and storm water services annually to substantially all public housing facilities within the city limits. Except for these free services, the City has no other obligations to the Housing Authority. KWA is considered a component unit of the City and is presented discretely in these financial statements. Financial information presented herein regarding KWA reflects a December 31, 2004 year-end. Further information regarding KWA, their financial statements, and their operations may be obtained by contacting them directly at: Key West Housing Authority, 1400 Kennedy Drive, Key West, Florida 33040.

Other organizations:

The Utility Board of the City of Key West, Florida, or Keys Energy Services, is an independent utility board created by Florida Statute Chapter 21 to manage, operate, and maintain the electric utility servicing the

City of Key West, Florida

citizens of Key West and the lower keys. The Board is elected by the voters of the community. In accordance with bond resolution requirements, the City annually receives a return on the City's equity in the System 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. For the fiscal year ending September 30, 2005, the City received payment in the amount of \$340,548. Keys Energy Services is not considered a component unit of the City.

Blended Component unit:

The City under Florida Statute 163 created the Key West Local Redevelopment Agency (LRA). The City commission sits as the governing body of the LRA. The LRA was created to facilitate the transfer of surplus naval property in the City of Key West. The LRA coordinated with the various agencies interested in acquiring the naval property to reach a consensus in the City's effort to acquire the property. The LRA continues to monitor the terms of the transfers. The LRA is presented as a Special Revenue Fund in these financial statements.

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect costs are included in the program expenses reported for individual functions and activities. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual by being both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within 90 days of the end of the current fiscal period and property taxes if collected within 60 days.

City of Key West, Florida

Intergovernmental revenues are considered measurable when in the hands of an intermediate government agency. Generally, expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due, or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Deferred revenues are reported on the City's combined balance sheet when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the City receives resources before it has a legal claim to them, as when grant monies are received before the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their enterprise funds, subject to this same limitation. The city has elected not to follow subsequent private sector guidance.

As a general rule the effect of city interfund activities has been eliminated from the government-wide statements. Exceptions to this general rule are payments-in-lieu-of taxes and other charges between the government's sewer, solid waste functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods, services, or privileges, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. The city recognizes as operating revenue the portion of impact fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the costs of sales and services, administration expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Infrastructure Surtax Fund accounts for the local government discretionary sales surtax, used for the development of infrastructure, acquisition of land, or protection of natural resources.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the City's sewer treatment plant, sewerage pumping stations and collection system.

The Solid Waste Fund accounts for the activities of the City's solid waste collection and disposal system.

The Key West Bight Fund accounts for the operations of the area known as the Key West Bight, which includes marina service, restaurants, and retail shops.

City of Key West, Florida

Additionally, the City reports the following fund types:

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources, other than expendable trusts or major capital projects, that are legally restricted to expenditures for specified purposes. These funds include the Law Enforcement Trust, Gas Tax, Fort Taylor, Community Development, Affordable Housing Escrow, Local Redevelopment Agency, Bahama Village & Caroline Street, and Navy Outer Pier Payments Funds.

Capital Projects Fund - This fund was established to account for financial resources expended on acquisition or construction of major capital facilities, other than those financed by proprietary funds and trust funds.

Enterprise Funds - These funds are used to account for operations that are (1) financed primarily through user charges or (2) where the City has decided that the determination of net income is appropriate. These Funds include Stormwater, Garrison Bight and Transit System.

Internal Service Fund - This fund is used to account for goods or services provided by one department to other departments of the City on a cost measurement basis, in particular, the City's insurance fund.

Pension Trust Funds - These funds are used to account for assets held by the City in a trustee capacity as an agent of the Pension Trust Board. Pension trust funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical.

E. Budgets and Budgetary Accounting

Annual appropriated budgets are adopted for all governmental and proprietary funds except as noted below. All budgets are adopted using the modified accrual basis of accounting. All appropriations lapse at the end of the fiscal year, except those associated with the 5-year Capital Improvements Program described below. The City is not legally required to, and does not, adopt budgets for the pension funds.

Annually, the 5-year Capital Improvements Program is reviewed and updated for changes in projects and project funding. The Capital Improvements Program forms the basis for the capital projects fund. Some projects in the Capital Improvements Program are accounted for in the City's enterprise funds. In these cases, the project budget is adopted only once and remains a viable appropriation until the completion of the project.

Encumbrances represent commitments related to unperformed contracts or purchase orders for goods or services. Encumbrance accounting (under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Budgetary Process:

Certain procedures are followed in establishing the budgetary data reflected in the financial statements:

Not later than 60 days prior to the end of the fiscal year, the City Manager submits to the Commission a proposed operating budget for the fiscal year commencing October 1. The budget is prepared by fund and major category (Personal Service, Operating, Capital, Debt Service, Grants & Aids and Transfers) and includes the proposed expenditures and the means of financing them.

Two public hearings are conducted to obtain taxpayer comments. Prior to October 1, the budget is legally enacted through passage of an ordinance, unless an extension of time is authorized by the Florida Department of Revenue. The Budget Ordinance grants the City Manager discretion to effect certain budget

City of Key West, Florida

changes as follows:

- The City Manager may increase the total fund budget by an amount not to exceed \$20,000. Beyond that, the City Commission must approve the increase by resolution.
- The City Manager may make unlimited transfers within a category within a fund.
- The City Manager may make transfers among categories up to \$20,000. Beyond that, the City Commission must approve the transfers by resolution.
- Any of the above actions must maintain a balanced budget.

The City Commission through the resolution process can amend the budget for any amount.

Key dates affecting the annual budget for the fiscal year ended September 30, 2005 were as follows:

- The Monroe County tax certificate sale for delinquent properties was held on May 31, 2004.
- The City Manager submitted proposed budgets to the Commission for public input at workshops held as follows:
 - General Fund Review July 12 & 13, 2004.
 - Adoption of Tentative Ad Valorem
- Property Tax Millage Rate and Budget July 13, 2004.
- Other Funds Review July 20, 2004.
- Utility Funds Review August 9, 2004.
- The Property Appraiser advised the taxpayers of the tentative millage rate and the dates of the public hearings and final adoption on August 19, 2004.
- The first reading to obtain public comments on the Millage and Budget ordinances was held on September 12, 2004.
- A public notice containing the proposed property tax rate, summary of all budgets and notice of second reading was published on September 15, 2004.
- The second formal reading was scheduled for September 20, 2004. It was cancelled due to Hurricane Rita. Public notices regarding the cancellation and rescheduled reading were posted at New and Old City Hall. A newspaper notice was published on September 25, 2004 advertising the rescheduled reading on September 27, 2004.
- The property tax (millage) rate and budget were enacted through the passage of ordinances on September 27, 2004.

At the end of the fiscal year the General Fund expenditures exceeded the budgeted amount in both the personal services and operating categories. The overage of \$1,222,000 in the personal services line item was due to increasing salaries, overtime and related fringe benefit costs as a result of the three hurricanes the City experienced in Fiscal Year 2005.

The operating overage of \$1,964,000 was a direct result of an anti-trust lawsuit. The City recorded a contingent liability of \$1,500,000 and incurred \$200,000 in attorneys fees.

These overages were covered by the use of unappropriated reserves.

F. Cash and Cash Equivalents

Cash and cash equivalents consist of amounts in demand deposits, certificates of deposit, and other investments with original maturity dates of 90 days or less, along with cash invested in the State Board of Administration Investment Pool. Cash balances from the individual funds are combined to form a pool of cash, and, to the extent available, invested in the State investment pool and certificates of deposit. Earnings from these investments are allocated monthly to each fund based on the average daily cash balance, or to specifically designated funds.

City of Key West, Florida

G. Investments

The City adheres to the guidance provided in GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" in its recording of investments. As a governmental entity other than an external investment pool, the City's investments are stated at fair value. Fair value is based on quoted market price as of the valuation date.

The City invests in the Local Government Surplus Funds Trust Fund Investment Pool (the Pool). Chapter 19-7 of the Florida Administrative Code, which identifies the Rules of the State Board of Administration, governs this fund. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Funds Trust Fund. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the State Board of Administration.

The Local Government Surplus Funds Trust Fund is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating procedures consistent with the requirements for a 2a-7 fund.

The portfolio did not hold investments in any of the following:

- a) Items subject to involuntary participation in an external pool.
- b) Items associated with a fund other than the fund to which the income is assigned.

H. Receivables

The City of Key West recognizes receivables in its various funds based on the accounting basis required for that fund. Allowances are provided for possible uncollectible accounts.

I. Short-Term Interfund Receivables/Payables

During the course of operations, transactions occur which result in amounts owed to a particular fund by another fund, other than for goods provided or services rendered. These receivables and payables are due within a year and are classified as "interfund receivables/payables" on the balance sheet.

J. Long-Term Advances to/from Other Funds

Non-current portions of interfund loans receivable/payable are reported as advances. Advances receivable in the governmental funds are offset equally by a fund balance reserve, which indicates that the amounts reserved do not constitute expendable available resources and are therefore not available for appropriation.

K. Prepaid Items

Payments made to vendors for goods or services that will benefit periods beyond September 30, 2005 are recorded as prepaid items.

L. Inventories

Inventories are valued at cost, using the first-in/first-out (FIFO) method. Inventories for governmental and proprietary fund types are accounted for using the consumption method. A reservation of fund balance has been made for inventories in the General Fund as the purchase method is used for budgetary purposes.

City of Key West, Florida

M. Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Impact fees also are classified as restricted due to statutory limitations on their usage. Other cash accounts are restricted by local ordinance or other regulatory requirements.

N. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, drainage improvements, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Infrastructure assets are reported prospectively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and a estimated useful life in excess of two years. All assets are depreciated using the straight-line method of depreciation. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repair that does not add to the value of the asset or materially extend asset life is not capitalized. The estimated useful lives of the City's fixed assets are as follows:

Buildings and other improvements	10-30 years
Sewer system components.....	50 years
Machinery, equipment, and other	3-10 years
Infrastructure.....	30-50 years

Major outlays for capital assets and improvements are capitalized as construction progresses. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the asset constructed. Interest incurred by the city during the current fiscal year was \$2,282,205. There was no capitalized interest during the year.

O. Compensated Absences

Under terms of Civil Service regulations, labor contracts, and administrative policy, regular, full-time, permanent employees are granted vacation and sick leave in varying amounts, which may be accumulated and paid upon separation from City service. Vacation time accrues at 10 to 20 days per year depending on years of service. Up to 240 hours of vacation time may be accumulated. Sick leave may be accumulated at a rate of 12 days per year up to a maximum of 720 hours. Both types of leave are payable at pay rates in effect at the date of separation. The City reports the liability for compensated absences in the applicable governmental or business-type activities column in the government-wide financial statements. In the governmental funds statements, vested or accumulated vacation and sick leave that is owed to terminated employees is recorded as an expenditure and current liability of the relevant fund. Amounts of vested or accumulated vacation and sick leave related to governmental funds that are not expected to be liquidated with expendable available financial resources are not reported. In the case of proprietary fund statements, vested or accumulated vacation and sick leave, both current and non-current, is recorded as an expense and liability of the relevant proprietary fund as the benefits accrue to employees. No liability is recorded for non-vesting rights to personal leave.

P. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Long-term debt is

City of Key West, Florida

recognized as a liability in the governmental fund statements when due or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability in the governmental fund statements. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

The City is currently in compliance with all federal arbitrage regulations.

Q. Bond Discount, Premium and Issuance Cost

Discounts and premiums on revenue bonds payable and bond issuance costs within the proprietary funds are amortized using the interest method over the life of the bonds. Bond discounts and premiums are presented as an adjustment of the face amount of bonds payable whereas issuance costs are recorded as deferred charges.

R. Fund Equity

Presentation of fund equity complies with the provisions of GASB Statement No. 33. Reserves of fund balances represent those portions of fund equity not appropriable for expenditure or amounts legally segregated for a specific future use.

S. Statement of Cash Flows

Certain highly liquid investments with an original maturity date of 90 days or less are considered cash equivalents for the purpose of the statement of cash flows. The City prepares its statement of cash flows using the direct method.

2. Deposits and Investments

PRIMARY GOVERNMENT

The City maintains a cash and investment pool that is available for use by all funds.

As of September 30, 2005 the carrying value of the City's investments, was as follows:

	Market Value	Investment Maturities (in Months)			
		Less than 3 *	4 - 6	7 - 9	10 - 24
US Government Agencies	\$ 25,106,177	\$ -	\$ 1,986,875	\$ 7,180,688	\$ 15,938,614
US Treasuries	3,946,564	-	-	-	3,946,564
Repurchase Agreements	3,833,740	3,833,740	-	-	-
Certificate of Deposit	150,000	150,000	-	-	-
State Investment Pool	23,654,944	23,654,944	-	-	-
	<u>\$ 56,691,425</u>	<u>\$ 27,638,684</u>	<u>\$ 1,986,875</u>	<u>\$ 7,180,688</u>	<u>\$ 19,885,178</u>

- Investments maturing in three months or less from their purchase dates are classified as cash equivalents for financial reporting purposes.

City of Key West, Florida

Interest Rate Risk – The policy limits the investment of current operating funds to no greater than 24 months. Investments of reserves and other non-operating funds shall not exceed five years.

Credit Risk – The City's Investment Policy limits risk by restricting authorized investments to the following: Florida Local Government Surplus Funds Trust Fund (SBA), direct obligations of the United States or its agencies and instrumentalities, interest bearing time deposits , repurchase agreement, commercial paper, bankers acceptances, State or local taxable or tax exempt debt, and mutual funds. The policy requires that investments in federal instrumentality debt be guaranteed by the full faith and credit of the US government sponsored agency, commercial paper and bankers' acceptance be rated A-1 by Standard & Poor's(S&P), State and local government debt be rated at least AA by S&P and mutual funds be rated AAm or better by S&P.

Concentration of Credit Risk – The policy establishes limitations on portfolio composition, both by investment type and by issuer, in order to control concentration of credit risk. The policy provides the following maximum limits of the portfolio, with limits in any one issuer of the portfolio invested:

<u>Investment Type:</u>	<u>Portfolio Maximum</u>
State Investment Pool	100%
US Treasury Securities	100%
US Government Agency	50%
Federal Instrumentalities	80%
Certificates of Deposit	50%
Repurchase Agreements	50%
Commercial Paper	25%
Corporate Notes	0%
Mortgage Backed Securities	25%
Bankers Acceptances	25%
State and/or Local Government Debt	20%
Money Market Mutual Funds	50%
Intergovernmental Investment Pool	25%

At September 30, 2005, the portion of the investment portfolio invested in Federal instrumentalities is as follows:

<u>Issue</u>	<u>Percent of Investment Portfolio</u>
US Treasury Securities	6.5%
US Government Agency	44.5%
Repurchase Agreements	6.8%
State Investment Pool	41.9%
Certificates of Deposit	.3%

Custodial Credit Risk – The Policy requires bank deposits secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida, and create the Public Deposits Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. Demand deposits are insured by the FDIC up to \$100,000 at each financial institution, and amounts in excess of \$100,000 are secured by Public Deposits Trust Fund. At September 30, 2005 all of the City's bank deposits were in qualified public depositories.

The policy requires execution of a third-party custodial safekeeping agreement for all purchased securities and requires that securities be held in the City's name. As of September 30, 2005, all of the City's investments are held in a bank's trust department in the City's name.

COMPONENT UNIT:

Deposits - Demand and time deposits classified as cash and cash equivalents are fully insured in accordance with Florida Statute 280, which established the multiple financial institution collateral pool, and are in compliance with HUD Investment Policies. At December 31, 2004 deposits for KWHHA totaled \$4,095,702.

City of Key West, Florida

3. Receivables

Receivables at September 30, 2005 consist of the following:

<u>Receivable Type</u>	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Fiduciary</u>	<u>Total</u>
Interest	\$ 53,352	\$ 33,740	\$ 24,915	\$ 97,664	\$ -	\$ 273,856	\$ 483,527
Accounts	753,285	186,455	-	3,691,988	354,355	-	4,986,083
Mortgages	-	2,395,673	-	-	-	-	2,395,673
Intergovernmental	<u>696,522</u>	<u>1,138,853</u>	<u>-</u>	<u>2,015,155</u>	<u>-</u>	<u>132,318</u>	<u>3,982,848</u>
Gross receivables	1,503,159	3,754,721	24,915	5,804,807	354,355	406,174	11,848,131
Less allowance for uncollectible	<u>-</u>	<u>1,116,818</u>	<u>-</u>	<u>709,243</u>	<u>10,229</u>	<u>-</u>	<u>1,836,290</u>
Net receivables	<u>\$ 1,503,159</u>	<u>\$ 2,637,903</u>	<u>\$ 24,915</u>	<u>\$ 5,095,564</u>	<u>\$ 344,126</u>	<u>\$ 406,174</u>	<u>\$ 10,011,841</u>

Property taxes are levied each November 1 on property valued as of the previous January 1. The Tax Collector of Monroe County, Florida, bills and collects property taxes on behalf of the City. The tax rate, to finance general governmental services for the fiscal year ended September 30, 2005, was 2.6003 per \$1,000 of assessed taxable property value. The taxable value amounted to \$5,359,053,000. Property tax revenues are recognized when they become available. Available means 1) when due, or past due and receivable within the current period, and 2) collected within the current period, or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Taxes relating to the current budget and collected within 90 days after the fiscal year end are recognized as revenue currently. Property taxes are due for payment on March 31st and become delinquent on April 1st. At September 30, 2005, there were no material property tax receivables.

Accrued interest receivable consists of interest on investments earned but not received at the end of the year in both governmental and proprietary funds. General fund accounts receivable consist mainly of rents. The enterprise funds reflect customer accounts receivable for services rendered.

The Community Development special revenue funds exist to account for grant revenues available to finance the development of the City's economic environment. Mortgage receivables under these programs are presented in more detail below. The allowance for uncollectible accounts of \$1,116,818 shown above under Special Revenue Funds is related to Community Development grant provisions allowing for contractual forgiveness of repayment.

Detailed information on Community Development mortgages receivable appears below:

Mayor's Revolving Loan Fund (low-interest)	\$ 162,038
Douglas School (HODAG)	<u>2,233,363</u>
Gross Mortgages Receivable	\$2,395,674
Less allowance for uncollectible mortgages	<u>(1,116,818)</u>
Net mortgages receivable	<u>\$1,278,856</u>

Intergovernmental receivables are comprised of the following:

City of Key West, Florida

	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Fiduciary</u>	<u>Total</u>
Federal Grants and Entitlements:					
Dept. of Transportation	\$ -	\$ -	\$ 94,060	\$ -	\$ 94,060
Dept. Justice	40,450	124,010	-	-	164,460
TSA	-	-	163,862	-	163,862
Fed. Emergency Mgt.	213,111	-	1,414,397	-	1,627,508
Housing & Urban Dev.	-	42,367	-	-	42,367
FHWA	-	-	110,097	-	110,097
State Grants - Florida					
Dept. of Transportation	-	-	5,029	-	5,029
DCA	11,828	-	227,710	-	239,538
State Shared Revenues:					
Infrastructure Surtax	-	462,886	-	-	462,886
Sales Tax	227,680	-	-	-	227,680
Local Communications Tax	157,815	-	-	-	157,815
Local Option Gas Tax	-	151,843	-	-	151,843
Other	-	5,385	-	132,318	137,703
Local Units:					
Monroe County	45,638	96,395	-	-	142,033
Key West Housing Auth.	-	255,967	-	-	255,967
Totals	<u>\$ 696,522</u>	<u>\$ 1,138,853</u>	<u>\$ 2,015,155</u>	<u>\$ 132,318</u>	<u>\$ 3,982,848</u>

4. Changes in Capital Assets

Capital Asset activity for fiscal year ending September 30, 2005 is as follows:

City of Key West, Florida

	Beginning Balance	Increases	(Decrease)	CIP and Reclassifications Increase (Decrease)	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 52,686,785	\$ 500,019	\$ -	\$ -	\$ 53,186,804
Construction in progress	639,275	400,542	(24,397)	(663,540)	351,880
Total capital assets, not being depreciated	<u>53,326,060</u>	<u>900,561</u>	<u>(24,397)</u>	<u>(663,540)</u>	<u>53,538,684</u>
Capital assets, being depreciated:					
Buildings	13,549,894	123,750	-	(562,821)	13,120,823
Improvements other than buildings	18,454,399	678,707	-	249,516	19,382,622
Machinery and equipment	12,891,733	2,131,879	(594,476)	39,766	14,468,902
Infrastructure	6,095,080	-	-	927,079	7,022,159
Total capital assets, being depreciated	<u>50,991,106</u>	<u>2,934,336</u>	<u>(594,476)</u>	<u>663,540</u>	<u>53,994,506</u>
Less accumulated depreciation for:					
Buildings	3,846,135	498,571	-	(465,477)	3,879,229
Improvements other than buildings	9,126,976	1,337,913	-	343,236	10,808,125
Machinery and equipment	7,214,935	1,494,361	(574,786)	(20,400)	8,114,110
Infrastructure	140,992	166,666	-	142,641	450,299
Total accumulated depreciation	<u>20,329,038</u>	<u>3,497,511</u>	<u>(574,786)</u>	<u>-</u>	<u>23,251,763</u>
Total capital assets, being depreciated, net	<u>30,662,068</u>	<u>(563,175)</u>	<u>(19,690)</u>	<u>663,540</u>	<u>30,742,743</u>
Governmental activities capital assets, net	<u>\$ 83,988,128</u>	<u>\$ 337,386</u>	<u>\$ (44,087)</u>	<u>\$ -</u>	<u>\$ 84,281,427</u>

	Beginning Balance	Increases	(Decrease)	CIP and Reclassifications Increase (Decrease)	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 14,936,007	\$ -	\$ -	\$ -	\$ 14,936,007
Construction in progress	765,610	3,077,535	-	(36,158)	3,806,987
Total capital assets, not being depreciated	<u>15,701,617</u>	<u>3,077,535</u>	<u>-</u>	<u>(36,158)</u>	<u>18,742,994</u>
Capital assets, being depreciated:					
Buildings and system	37,624,606	-	-	-	37,624,606
Improvements other than buildings	106,387,799	-	-	-	106,387,799
Machinery and equipment	16,229,445	398,458	(208,320)	36,158	16,455,741
Total capital assets, being depreciated	<u>160,241,850</u>	<u>398,458</u>	<u>(208,320)</u>	<u>36,158</u>	<u>160,468,146</u>
Less accumulated depreciation for:					
Buildings and system	16,530,690	1,701,923	-	-	18,232,613
Improvements other than buildings	18,097,803	3,056,729	-	-	21,154,532
Machinery and equipment	11,951,937	988,577	(208,320)	-	12,732,194
Total accumulated depreciation	<u>46,580,430</u>	<u>5,747,229</u>	<u>(208,320)</u>	<u>-</u>	<u>52,119,339</u>
Total capital assets, being depreciated, net	<u>106,185,705</u>	<u>(5,348,771)</u>	<u>-</u>	<u>36,158</u>	<u>100,836,934</u>
Business-type activities capital assets, net	<u>\$ 129,363,037</u>	<u>\$ (2,271,236)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 127,091,800</u>

City of Key West, Florida

Total depreciation expense for the current fiscal year amounted to \$9,244,740. The estimated useful lives of the City's fixed assets are as follows:

Buildings and other improvements.....	10-30 years
Sewer system components.....	50 years
Machinery, equipment, and other.....	3-10 years

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 1,711,258
Public safety	1,003,454
Physical environment	57,354
Transportation	405,064
Recreation	320,381
Total depreciation expense - governmental activities	<u>\$ 3,497,511</u>
Business-type activities:	
Sewer	\$ 3,221,327
Solid waste	659,176
Key West Bight	558,699
Garrison Bight	190,934
Transit	806,239
Stormwater	310,854
Total depreciation expense - business-type activities	<u>\$ 5,747,229</u>

COMPONENT UNIT:

The following summarizes fixed assets from Key West Housing Authority's enterprise funds at December 31, 2004:

Land	\$ 8,002,207
Structures	35,178,993
Equipment	1,275,653
Construction-in-progress	<u>11,693,001</u>
Total fixed assets	\$56,149,854
Less accumulated depreciation	<u>14,844,775</u>
Net fixed assets	<u>\$41,305,079</u>

5. Restricted Assets

The use of certain assets of the Sewer and Key West Bight Funds are restricted by specific provisions of bond ordinances. These amounts are \$4,125,319 and \$1,052,607 respectively. The Solid Waste Fund has restricted assets of \$386,702 as part of its post closure care requirements. The use of certain assets of the Gas Tax Fund is restricted by specific impact fee usage restrictions, these assets total \$610,416. Assets so designated are identified as restricted assets on the balance sheet.

6. Pension Plans

PRIMARY GOVERNMENT:

General Employees Retirement Plan and Police Officers and Firefighters Retirement Plan

Plan Descriptions - The City of Key West contributes to two single-employer defined benefit pension plans: the General Employees Retirement Plan and the Police Officers and Firefighters Retirement Plan. Each plan provides

City of Key West, Florida

retirement, disability, and death benefits to plan members and beneficiaries. Part II of the Code of Ordinances, Title I (Administration), Section 5 (Pension) assigns the sole and exclusive administration of and the responsibility for the proper effective operation of the retirement plans to the Board of Trustees of each retirement plan. All changes recommended by the board are subject to Commission approval. Both retirement boards issue a publicly available report that includes financial statements and required supplementary information. Either financial report may be obtained by writing to Pension Plan Administrator, Post Office Box 1409, Key West, Florida 33041-1409.

Summary of Significant Accounting Policies - The financial statements of the plans are prepared using the accrual basis of accounting. The City's and plan member's contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Plan investments are presented at their fair value. Fair value is defined as the amount the plan would realize from a current sale to a willing buyer and is based on market values.

The plans have no long-term contract for contributions to the plan. Neither pension plan has investments greater than 5% of plan assets in any one entity other than their investments in U.S. Government Securities.

Funding Policy and Annual Pension Cost - The Board of Trustees of each plan establishes and may amend the contribution requirements of plan members and the City. The City's annual pension cost for the year ended September 30, 2004 and related information for each plan is as follows:

	<u>General Employees Retirement Plan</u>	<u>Police & Fire Retirement Plan</u>
Contribution rates:		
City	7.8%	17.2%
State	0.0%	5.0%
Plan members	6.0%	7.0%
Annual pension cost	\$717,901	\$1,802,261
Contributions made	\$714,738	\$1,315,253
Annual Required Contribution	\$713,397	\$1,797,366
Net Pension Obligation(Asset)	(\$511,000)	(\$582,109)
Increase (Decrease) in Net Pension Obligation(Asset)	\$234,000	(\$17,039)
Interest on Net Pension Obligation(Asset)	(\$40,901)	(\$48,024)
Adjustment to ARC	\$45,405	\$52,919
Actuarial valuation date	10/01/04	10/01/04
Actuarial cost method	Entry Age Normal	Entry Age
Amortization method	Level dollar amount, closed	Level payment, closed
Remaining amortization period	40 years	40 years
Asset valuation method	Five year smoothed market	Five year smoothed market
Actuarial assumptions:		
Investment rate of return	8.00%	8.25%
Projected salary increases	7.00%	5.50%
Includes inflation at	4.00%	4.00%
Cost-of-living adjustment	None	None

City of Key West, Florida

Three-Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent of APC Contributed</u>	<u>Net Pension Asset</u>
<u>General Employees Retirement Plan:</u>			
9/30/03	\$ 770,305	112%	\$ 279,863
9/30/04	\$ 970,221	100%	\$ 277,397
9/30/05	\$ 761,426	131%	\$ 511,264
<u>Police & Fire Retirement Plan:</u>			
9/30/03	\$ 811,294	149%	\$ 530,961
9/30/04	\$ 1,272,940	105%	\$ 599,148
9/30/05	\$ 1,444,626	99%	\$ 582,109

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded / (Overfunded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
<u>General Employees Retirement Plan (dollars in thousands):</u>						
10/1/02	\$ 17,619	\$ 20,226	\$ 2,607	87.1	\$ 7,885	33.1%
10/1/03	\$ 22,407	\$ 21,964	(\$ 443)	102.0	\$ 8,689	(5.1%)
10/1/04	\$ 23,847	\$ 22,850	(\$ 997)	104.4	\$ 9,190	(10.8%)
<u>Police & Fire Retirement Plan (dollars in thousands):</u>						
10/1/02	\$ 38,430	\$ 40,335	\$ 1,905	95.3	\$ 7,153	26.6%
10/1/03	\$ 39,160	\$ 43,515	\$ 4,355	90.0	\$ 7,464	58.3%
10/1/04	\$ 39,488	\$ 45,713	\$ 6,225	86.4	\$ 8,089	77.0%

A net pension asset has been recorded in the governmental wide statements in accordance with the net pension valuation dated 10/1/04.

COMPONENT UNIT:

Plan Description - On May 20, 1996, the Board of Commissioners adopted a resolution to change the defined contribution retirement plan to a defined benefit retirement plan, now known as the Retirement System for Employees of the Housing Authority of the City of Key West (the Plan). The Plan is a single-employer defined benefit plan administered by a Board of Trustees consisting of the Executive Director of the Housing Authority, three employees, and the Chairman of the Key West Housing Authority Board. Retirement, disability, and death benefits are provided to plan members and beneficiaries. KWAH holds the authority to establish and amend benefit provisions. The Plan has issued a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Pension Plan Administrator, P.O. Box 2476, Key West, Florida 33041-2476.

Summary of Significant Accounting Policies - The plan uses the accrual basis of accounting. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates.

Loans to participants are valued at the amount due, which is not deemed to be significantly different from the discounted value of future principal and interest payments. Investments that do not have an established market are reported at estimated fair value.

City of Key West, Florida

Funding Policy and Annual Pension Cost -The contribution requirements of plan members and KWA are established and may be amended by the KWA Board of Commissioners. Plan members may not make any contributions to the Plan. KWA is required to contribute at an actuarially determined rate; the current rate is 13.2% of covered payroll. Administrative costs of the Plan are financed through investment earnings. KWA's annual pension cost for the year ended December 31, 2004 and related information for each plan is as follows:

<u>Housing Authority Employees Retirement Plan</u>	
Contribution rates:	
KWA	13.2%
Annual pension cost	\$320,377
Contributions made	\$307,447
Net Pension Obligation (Asset)	(\$98,040)
Increase (Decrease) in Net Pension Obligation	(\$29,882)
Actuarial valuation date	01/01/04
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed
Remaining amortization period	30 years
Asset valuation method	Five year smoothed market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	4.50%
Includes inflation at	3.50%
Cost-of-living adjustment	1.50%

Three-Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent of APC Contributed</u>	<u>Net Pension Obligation</u>
<u>Housing Authority Employees Retirement Plan:</u>			
12/31/01	\$ 301,147	100%	\$97,199
12/31/02	\$ 331,556	100%	\$127,922
12/31/03	\$ 337,329	91%	\$98,040

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) (b)</u>	<u>Unfunded / (Overfunded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage Of Covered Payroll ((b-a)/c)</u>
<u>Housing Authority Employees Retirement Plan (dollars in thousands):</u>						
1/1/02	\$ 2,559	\$ 2,958	\$ 399	86.5	\$ 2,713	14.7%
1/1/03	\$ 2,389	\$ 3,115	\$ 726	76.7	\$ 2,453	29.6%
1/1/04	\$ 3,189	\$ 3,827	\$ 638	83.3	\$ 2,424	26.3%

7. Deferred Compensation Plans

The City offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. All assets and income of Internal Revenue Code Section 457 deferred compensation plans are held in trust, custodial accounts, or annuity contracts, for the exclusive benefit of the participants and their beneficiaries. Private corporations under contracts with the City administer the assets of the City's plans. Consequently, those plans' assets and liabilities are not recorded on the City's financial statements.

City of Key West, Florida

8. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On February 1, 1978, the City established a self-insurance program for workers' compensation. The Insurance Programs Fund, an internal service fund, was created to account for and finance uninsured risks of loss. On October 1, 1988, the Insurance Programs Fund was expanded to include the City's liability and property insurance. During fiscal year 2005, a total of \$1,154,353 was incurred in benefits and claims. In fiscal year 2005, the fund provided coverage up to \$175,000 for each worker's compensation claim, \$50,000 for each general liability claim, and \$50,000 for each property claim. The City purchases commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate.

All funds of the City participate in the program and make payments to the Insurance Programs Fund based on estimates of the amounts needed to pay prior and current year claims, establish reserves for future claims and provide for administrative costs of the program. Interfund premiums are based upon the insured funds' number of employees and value of facilities and are reported as quasi-external interfund transactions. A liability for worker's compensation and general liability claims of \$2,300,000 is reported in the fund at September 30, 2005. This amount has been discounted to present value at an assumed investment rate of 4.5%, and a 50% probability level. Changes in the fund's workers compensation and property claims liability on an undiscounted basis during the past three years ended September 30, 2005 are as follows (in thousands):

Fiscal Year	Beginning Liability	Claims Incurred	Estimates for Prior Claims	Claim Payments	Ending Liability
2003	\$ 2,400	\$ 750	(\$ 964)	(\$ 89)	\$ 2,097
2004	\$ 2,097	\$ 750	(\$ 740)	(\$ 221)	\$ 1,886
2005	\$ 1,886	\$ 750	\$ 1,150	(\$ 1,154)	\$ 2,632

The insurance fund is also used to fund monthly health insurance premiums. In April 1997, the City converted from a flexible funded health insurance program to a fully insured pay-as-you-go program. The insurance fund receives its health insurance contributions from bi-weekly payroll deductions and employer contributions, which are sufficient to meet its monthly premium requirements.

9. Accrued Compensated Absences

Accrued expenditures/expenses at September 30, 2005 include accrued compensated absences based on actual earned hours times pay rates in effect at year end. The amount that is due at year-end and payable at year end for employee termination is recorded as a current liability in the Governmental funds statements. There was no current portion due at year-end in the Governmental funds statements. The portion expected to be paid in the following period is recorded as a current liability in the statement of net assets for the Governmental Activities. The balance is classified as long term. In the proprietary funds the amount expected

City of Key West, Florida

be paid in the following fiscal year is classified as current; the balance is classified as a non-current liability. Total accrual at September 30, 2005 was \$3,454,973 for all funds. The General Fund is used to liquidate the liability for compensated absences in the Governmental activities.

10. Construction and Other Significant Commitments

The following table presents the significant commitments outstanding at September 30, 2005:

	Remaining Construction Commitment
Sanitary Sewer System Fund:	
Engineering deep well injection	\$ 275,470
Sewer management fee	250,500
Storm Water Fund:	
Well engineering	248,660
Well construction	2,027,762
Solid Waste Fund:	
Solid waste collections	511,156

The City received notification from the Florida Department of Environmental Protection that its landfill has been considered officially closed as of April 26, 1996. In accordance with the landfill long-term care escrow agreement between the City of Key West and the State of Florida, the City has set aside in restricted cash account the amount of \$81,303. There were no deposits or withdraws from this account during the year other than earned interest. The City recognizes approximately \$40,000 per year in landfill closure expenses and has recorded \$383,333 as long-term costs at September 30, 2005.

11. Long-Term Liabilities

PRIMARY GOVERNMENT:

The following is a summary of changes in long-term liabilities. Bonds, notes and compensated absences have changed as follows: (in thousands)

	10/1/2004	Additions	Amortization/ Retirements	9/30/2005	Due Within One Year
<u>Governmental Activities</u>					
Promissory note	\$ 2,206		\$ 147	\$ 2,059	\$ 147
Claims Payable	1,944	356	-	2,300	1,154
Accrued compensated absences	3,092	1,494	1,463	3,123	1,463
Total Governmental Activities	\$ 7,242	\$ 1,850	\$ 1,610	\$ 7,482	\$ 2,764
<u>Business-type Activities</u>					
Sewer Revenue Bonds, Series 2003	28,279	-	809	27,470	895
Marina Revenue Bonds, Series 1993 & 1997	12,039		508	11,531	524
Promissory note	4,852		209	4,643	216
Accrued compensated absences	384	120	172	332	158
Total Business-Type Activities	\$ 45,554	\$ 120	\$ 1,698	\$ 43,976	\$ 1,793
Total Long-Term Debt	\$ 52,796	\$ 1,970	\$ 3,308	\$ 51,458	\$ 4,557

General Obligation - A promissory note was issued for the acquisition and rehabilitation of affordable housing in the City's redevelopment district. The note is to be repaid by tax increment funding. Issued at not to

City of Key West, Florida

exceed \$2,500,000, total drawn down at year end was \$2,500,000, variable interest rate of 52.5% of Citibank's published prime rate payable, semiannually. On 10/1/03 the City converted the line of credit to a term loan at an interest rate of 3.195%. The maturity date of the loan is 10/1/20, with call options that accelerate maturity to 10/1/10.

Revenue Obligation – Provisions for the repayment of revenue bonds are set forth in the respective ordinance with accumulation of resources for the repayment being reflected in the accounts of the Sanitary Sewer Fund. The limitations and restrictions of the bond ordinance are summarized later in this note. The Sewer System Revenue Bonds, Series 2003, were issued for \$29,315,000 on July 15, 2003. Annual installments of \$2,020,000 are due through October 1, 2026, with interest payable semi-annually at 2.0% to 5.25%. The purpose for this issue was to refund the Series 1993 Sewer System Revenue Bonds. Summary information on the Sewer System bonds appears below:

Sewer System Bonds	Series 2003
Total bond obligation as of September 30, 2005	\$28,430,000
Less current portion	(895,000)
Less loss on early retirement	(1,212,950)
Plus unamortized bond premium	252,851
Total long-term sewer system revenue bonds	\$26,574,901

Of the total net proceeds of this bond issue, \$29,612,037 plus an additional \$1,042,957 of Series 93 sinking fund monies were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on a prior bond issue, the 1993 Series Sewer System Revenue Bonds. As a result, the 1993 Series Bonds are considered to be defeased and the liability for those bonds has been removed. The defeased bonds were irrevocably called for early redemption on October 1, 2003 at par plus a 2% redemption premium. There is no outstanding debt related to this issue at September 30, 2005. The transactions resulted in a \$3,249,270 net present value savings, and in effect reduced the annual debt service payments by \$211,000. The overall aggregate difference in debt service between the refunding debt and the refunded debt was \$6,049,074. The final maturity date of the 2003 Sewer Bonds is Oct. 1, 2026.

The City's Advanced Wastewater project qualified for the Florida State Revolving Loan Fund program. Total principal draws were \$5,055,417. The City will pay annual installments of \$366,367 through 2022, with interest payable at 3.26%. Summary information on the State Revolving Loan appears below:

State Revolving Loan	Total
Total loan balance as of Sept. 30, 2005	\$4,643,338
Less current portion	(216,284)
Total long-term state revolving loan balance	\$4,427,054

State Revolving Loan debt service requirements to maturity are as follows:

City of Key West, Florida

Fiscal Year	Principal	Interest	Total
2006	217,463	148,905	366,367
2007	224,632	141,735	366,367
2008	232,037	134,330	366,367
2009	239,686	126,681	366,367
2010	247,589	118,777	366,366
2011	255,751	110,615	366,367
2012	264,182	102,185	366,367
2013	272,892	93,474	366,366
2014	281,889	84,478	366,366
2015	291,181	75,186	366,367
2016	300,780	65,587	366,367
2017	310,696	55,670	366,366
2018	320,939	45,428	366,367
2019	331,519	34,847	366,367
2020	342,448	23,918	366,366
2021	353,738	12,628	366,366
2022	120,163	1,964	122,127
	<u>\$ 4,607,582</u>	<u>\$ 1,376,409</u>	<u>\$ 5,983,991</u>

The Marina Revenue Bonds, Series A & B 1993, were issued for \$18,498,024 on January 15, 1993. The City will pay annual installments of \$780,000 to \$1,030,000 through December 1, 2010, with interest payable semi-annually at 5.75% to 7.6% on the Series 1993 bonds. The purpose of this issue was for the cost of acquiring certain real property known as the Key West Bight.

On October 12, 1997, the City issued \$9,495,000 in Marina Revenue Bonds dated October 1, 1997. The bonds were issued to provide funds for a partial advance refunding of the City's Tax-Exempt Capital Improvement/

Marina Revenue Bonds 1993 Series A and to pay the cost of issuance of the Series 1997 bonds, including premiums for the issuance policy and the Reserve Account Credit Facility. The City will pay annual installments of \$45,000 to \$1,485,000 through December 1, 2017, with interest payable semi-annually at 4.1% to 5.25% on the Series 1997 bonds.

Summary information on the Marina bonds appears below:

Marina Bonds	Series 1993	Series 1997	Total
Total bond obligation as of Sept. 30, 2005	\$2,390,197	\$9,305,000	\$11,695,197
Less current portion	(474,294)	(50,000)	(524,294)
Less loss on early retirement	-	(111,760)	(111,760)
Less unamortized bond discount	(6,461)	(46,190)	(52,651)
Total long-term marina revenue bonds	<u>\$1,909,442</u>	<u>\$9,097,050</u>	<u>\$11,006,492</u>

Revenue bond debt service requirements to maturity, including interest are as follows:

City of Key West, Florida

Fiscal <u>Year</u>	<u>Sewer Principal</u>	<u>Sewer Interest</u>	<u>Marina Principal</u>	<u>Marina Interest</u>	<u>Total</u>
2006	915,000	1,097,172	500,428	1,059,450	3,572,050
2007	935,000	1,078,872	468,943	1,089,385	3,572,200
2008	950,000	1,060,172	444,833	1,115,196	3,570,201
2009	975,000	1,038,797	419,398	1,138,752	3,571,947
2010	1,000,000	1,013,447	398,766	1,160,741	3,572,954
2011	1,030,000	984,697	978,418	578,852	3,571,967
2012	1,060,000	952,767	1,145,000	416,125	3,573,892
2013	1,095,000	918,318	1,200,833	358,875	3,573,026
2014	1,130,000	881,088	1,260,000	298,833	3,569,921
2015	1,175,000	841,538	1,324,167	233,188	3,573,893
2016	1,235,000	779,850	1,397,500	163,669	3,576,019
2017	1,295,000	715,013	1,472,500	90,300	3,572,813
2018	1,365,000	647,025	247,500	12,994	2,272,519
2019	1,440,000	575,363	-	-	2,015,363
2020	1,500,000	514,163	-	-	2,014,163
2021	1,570,000	450,413	-	-	2,020,413
2022	1,630,000	383,688	-	-	2,013,688
2023	1,695,000	314,413	-	-	2,009,413
2024	1,765,000	242,375	-	-	2,007,375
2025	1,845,000	165,156	-	-	2,010,156
2026	1,930,000	84,438	-	-	2,014,438
	<u>\$ 27,535,000</u>	<u>\$ 14,738,765</u>	<u>\$ 11,258,286</u>	<u>\$ 7,716,360</u>	<u>\$ 61,248,411</u>

Continuing Disclosure – In accordance with authorizing Ordinance's and to comply with the continuing disclosure requirements of the Securities and Exchange Commission, the following disclosure is provided for the Sanitary Sewer Systems Revenue Bonds and the Key West Bight Marina Revenue Bonds. At September 30, 2005, the City is in compliance with all reporting and disclosure requirements. Required disclosures as of September 30, 2005, are presented below:

Sanitary Sewer System:

- A. During the year there has been no material modification to, or termination of, the Navy agreement which determines the contractual obligation of the Navy as it relates to the Sewer System.
- B. During the year the City did not issue any additional Parity Obligations and/or Subordinated Indebtedness
- C. Current and proposed rate schedules:

	2004	2005	2006
Base Charge	\$ 19.57	\$ 20.06	\$ 20.76
Commodity Charge	\$ 3.97	\$ 3.97	\$ 4.11

- D. The payable to FEMA is discussed in the Commitment and Contingencies section of the Footnotes.

Key West Bight Marina:

- A. Required historical information and debt service coverage are presented the Statistical section of this report.

The City through the LRA entered into an agreement to purchase certain housing facilities from the Navy known as Poinciana Plaza. This agreement was subsequently assigned to the Housing Authority. To finance the purchase and rehabilitation of the housing units, the Housing Authority received a zero interest rate, no

City of Key West, Florida

payment 30-year loan from the Monroe County Comprehensive Land Authority in the amount of \$2,210,000, and borrowed \$16,000,000 under the section 108 loan program from the department of Housing and Urban Development. The purchase closed on 1/06/04. At September 30, 2005 the entire amount remains outstanding.

The City is not liable on the loan, as repayment of the loan is the responsibility of the Housing Authority and is secured by a mortgage on the housing facility. The loan will be repaid from revenues generated from the operation of the development. However, the City does have the responsibility to refund any withdrawals from the debt service reserve account if the Housing Authority cannot meet the requirement. The City maintains recourse against the Housing Authority. Based on these circumstances, the City considers this to be conduit debt and accordingly, it is not recorded on the City's books.

COMPONENT UNIT:

The following is a summary of changes in long-term debt for the year ended December 31, 2004:

	1/1/04	Additions	Retirements	12/31/04
Accrued compensation	\$ 341,061	\$ -	\$ 63,489	\$ 277,572
Mortgages payable	16,352,274	-	40,000	16,312,274
Revenue Note	-	16,000,000	-	16,000,000
Promissory Note-Land	-	2,210,000	-	2,210,000
Loans Payable	227,322	-	-	227,322
Total Long-Term Debt	\$16,920,657	\$ 18,210,000	\$ 103,489	\$35,027,128

Mortgages payable as of December 31, 2004, is composed of the following:

Mortgage Description	12/31/04
Mortgage due to governmental agency, collateralized by land, payable in full April 2025, interest free.	\$ 382,554
Construction loan agreement due to governmental agency, collateralized by land, project, improvements, and all other fixtures and personal property located on the land, due December 31, 2004, interest at 4%.	11,850,000
Second mortgage due to governmental agency, collateralized by land, improvements, and fixtures, principal and interest at 3.0% due December 31, 2006.	500,000
Second mortgage due to governmental agency, collateralized by land, project, improvements, and all other fixtures and personal property located on the land, due in fifty years from the date that the first residential unit in the project is occupied, interest free.	1,819,720
Mortgage due to local government, collateralized by land, principal to be forgiven in \$20,000 increments until December 2017, interest free.	260,000
Mortgage due to governmental agency, collateralized by land, payable in full May 2031, interest free.	1,500,000
	\$ 16,312,274

12. Deferred Revenue

The City has recognized deferred revenue as follows. All balances remain unearned at September 30, 2005 from the sources described below.

General Fund - Occupational license renewals are sent out in August for the license year beginning October 1. Revenues of \$779,393 collected in advance of the licensing year are reported as deferred revenue at year-end. There is also grant proceeds of \$38,927 that have not yet been recognized as revenue.

City of Key West, Florida

Special Revenue Funds - Certain special revenue funds are used to account for grant and loan activity. Grants and loans which have been received yet remain unspent or obligated are deferred. The infrastructure surtax fund received a donation that has not been recognized as the project is not completed. In October 1985, the City enacted Ordinance No. 85-45, pursuant to Florida Statutes Chapters 180 and 166, which required new developments to pay traffic impact fees to be used exclusively for capital improvements to city streets. Fees are deferred until a qualified project is identified, and fees which are not spent within six years on a qualified project are to be refunded to the fee payer.

Special Revenue Funds	Total
Community Development	\$ 1,222,057
Infrastructure Surtax	65,000
Internal Improvements	613,450
Totals	\$ 1,900,507

Sanitary Sewer System - Customer prepayments of \$102,228 for utility bills are reported as deferred. In addition, the sewer system fund carried \$341,117 of collected but deferred impact fees.

Solid Waste - Impact fees of \$305,399 are reported as deferred revenue.

Key West Bight - Tenant advance billings and payments of \$217,224 are reported as deferred revenue.

Garrison Bight - Tenant advance billings and payments of \$83,204 are reported as deferred revenue.

13. Interfund Assets and Liabilities

Individual funds with interfund receivable/payable balances at September 30, 2005 are as follows:

Interfund items (current)	Receivable	Payable
Governmental Funds:		
General Fund	\$ 372,766	\$ 464,574
Nonmajor Governmental	-	1,015
Enterprise Funds:		
Sanitary Sewer System	11,949	-
Solid Waste	4,423	-
Key West Bight	8,846	133,200
Nonmajor Enterprise Funds	19,903	62,526
Internal Service Fund:		
Insurance Programs	-	221,146
Pension Funds:	464,574	
Totals	\$ 882,461	\$ 882,461

The receivable in the General Fund is a result of funding a year-end operating deficit in the Key West Bight Fund as a result of a transfer from pledged revenue posted after year-end. The balance is owed from the Key West Bight Fund and is a result of the funding of start up operating costs.

The Insurance Fund owes the other funds a return of premiums on the employer paid portion, for over billing of health insurance premium for employees.

City of Key West, Florida

The Police and Firemen's Pension Fund was under funded and requires a catch up payment of \$464,574 from the General Fund.

<u>Advances (long-term)</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:	\$ 2,572,842	\$ -
Enterprise Funds:		
Sanitary Sewer System	52,684	-
Solid Waste	-	-
Key West Bight	280,092	566,652
Nonmajor Enterprise Funds		2,338,966
Totals	<u>\$ 2,905,618</u>	<u>\$ 2,905,618</u>

The advance in the General Fund is owed by the Key West Bight Fund and the Stormwater Fund and both are the result of the funding by the General Fund of start up costs.

The Transit Fund owes the Key West Bight Fund for rent as a result of a portion of its Park-n-Ride built on bight property.

14. Interfund Transfers

The General Fund makes annual transfers to the special revenue Truman Waterfront Fund to fund improvements and operating costs, as well as the annual transfer to the Bahama Village and Caroline Street Trust.

The Infrastructure Fund collects the one-cent sales tax used for capital projects. Projects that aren't accounted for in the Infrastructure Fund, or those with a duration of over one year are transferred and funded in the Capital Projects Fund, including funds for the renovation of City Hall. The Infrastructure Fund also made an annual transfer to the Gas Tax fund to help fund street and sidewalk improvements in the amount of \$1,234,676. Also transferred was \$566,014 for the establishment of the Truman Waterfront Fund, and \$200,364 for a fire department engine truck.

The nonmajor governmental fund transfers in are the result of the transfers mentioned above into the Capital Projects and Gas Tax fund. The transfer out in the Gas Tax Fund is to subsidize the Transit Fund.

Key West Bight Fund receives its annual transfers from the special revenue tax increment fund for capital projects at the bight.

The nonmajor enterprise fund transfers refer to the above mentioned Transit Fund subsidy, as well as the annual transfer from the Bahama Village Trust to the bight.

<u>Transfers</u>	<u>In</u>	<u>Out</u>
Governmental Funds:		
General Fund	\$ 206,801	\$ 901,910
Infrastructure	482,510	2,804,512
Nonmajor Governmental	5,042,901	3,430,390
Enterprise Funds:		
Key West Bight	420,266	
Nonmajor Enterprise Funds:	984,336	-
Totals	<u>\$ 7,136,812</u>	<u>\$ 7,136,812</u>

During the fiscal year, no interfund transfers took place between the City of Key West and its Component Unit, The Key West Housing Authority.

City of Key West, Florida

15. Commitments and Contingencies

The City is a defendant in several personal injury and other litigation incidental to its routine operations. In the opinion of the City Attorney, based upon the amount of damages alleged in the various cases and facts currently known, the potential liabilities in these cases is \$300,000. The City has established a general liability account within the Insurance Internal Service Fund and has reflected its best estimates of such liabilities.

Due to Land Use Plan and Rate of Growth Ordinance restrictions, the City is involved in actions for limiting the ability to use certain properties. Due to the uncertainty of the outcome, and the inability to estimate potential losses, no provision has been recorded in the financial statements.

In the spring of 2003, the city underwent an audit of FEMA Disaster No. 1306-R-FL grant otherwise known as Hurricane Irene. In January 2004 the city received official notification from the Florida Department of Community Affairs de-obligating \$6,148,881 in claimed costs as a result of their audit. Due to the denial of the appeal, this amount is recorded in the financial statements. FEMA's basis for disallowing these costs is that the damage to the sewer system was preexisting and not a result of the storm. The city strongly disagrees with FEMA's finding. The appeal is still ongoing.

The City receives other significant financial assistance from numerous Federal, State, and local governmental agencies in the form of grants and revenue sharing. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at September 30, 2005.

On May 23, 2005 a jury found in favor of the plaintiff on the Commerce Clause aspect of the case and awarded damages in the amount of \$13.5 million plus attorney fees. The City plans to vigorously defend the outcome of this case in an appellate court and is confident in its appeal. The best estimate of liability at this time is \$1,500,000 and has been recorded in the General Fund at fiscal year end.

Estimates have been used in determining the accrual for landfill post closure care. The potential for change exists due to inflation, deflation, technology, and changes in applicable laws and regulations.

16. Subsequent Events

October 23rd and 24th the City was severely impacted by Hurricane Wilma. Damage was significant. It is estimated that 60% of the island was flooded causing severe flood damage to homes and vehicles rendering many residents homeless and destroying many vehicles. Most fortunately, no lives were lost. The estimated direct cost including debris removal, damage to city buildings and properties, as well as destroyed equipment is initially estimated to be in excess of \$10,000,000. The impact of lost revenues to city businesses was estimated to be in the one hundred million dollar range. Citizens and City staff, many of whom lost their homes and vehicles, responded to begin the task of rebuilding the city and opening its doors to tourists. The city is committed to this task and will overcome this most difficult of hurricane seasons.

City of Key West, Florida

**Required Supplementary Information
(Unaudited)
Analysis of Funding Progress -
General Employee's Pension
(In Thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Percentage Funded (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
10/01/92	\$5,666	\$7,404	\$1,738	76.5%	\$4,423	39.3%
10/01/93	\$6,855	\$8,263	\$1,408	83.0%	\$4,440	31.7%
10/01/94	\$7,568	\$9,326	\$1,758	81.1%	\$4,659	37.7%
10/01/95	\$9,279	\$10,760	\$1,481	86.2%	\$5,266	28.1%
10/01/96	\$10,649	\$11,646	\$997	91.4%	\$5,708	17.5%
10/01/97	\$13,308	\$13,343	\$35	99.7%	\$6,275	0.6%
10/01/98	\$14,411	\$16,063	\$1,652	89.7%	\$6,060	27.3%
10/01/99	\$17,138	\$17,149	\$11	99.9%	\$7,118	0.2%
10/01/00	\$19,304	\$18,249	(\$1,055)	105.8%	\$7,413	(14.2%)
10/01/01	\$18,534	\$18,935	\$401	97.9%	\$7,827	5.1%
10/01/02	\$17,619	\$20,226	\$2,607	87.1%	\$7,885	33.1%
10/01/03	\$22,407	\$21,964	(\$443)	102.0%	\$8,689	(5.1%)
10/01/04	\$23,847	\$22,850	(\$997)	104.4%	\$9,190	(10.8%)

Note: Financial report may be obtained by writing to the Pension Plan Administrator, PO Box 1409, Key West, FL 33041-1409

City of Key West, Florida

**Required Supplementary Information
(Unaudited)
Analysis of Funding Progress -
Police Officers' and Fireman's Pension
(In Thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
10/01/93	\$15,076	\$17,454	\$2,378	86.4%	\$6,070	39.2%
10/01/94	\$16,264	\$19,190	\$2,926	84.8%	\$6,100	48.0%
10/01/95	\$18,799	\$21,548	\$2,749	87.2%	\$5,809	47.3%
10/01/96	\$20,718	\$22,445	\$1,727	92.3%	\$6,201	27.9%
10/01/97	\$25,668	\$24,811	(\$857)	103.5%	\$6,404	(13.4%)
10/01/98	\$28,686	\$30,493	\$1,807	94.1%	\$5,794	31.2%
10/01/99	\$32,543	\$33,489	\$946	97.2%	\$6,174	15.3%
10/01/00	\$36,211	\$35,286	(\$925)	102.6%	\$6,156	(15.0%)
10/01/01	\$38,270	\$36,873	(\$1,397)	103.8%	\$5,849	(23.9%)
10/01/02	\$38,430	\$40,334	\$1,904	95.3%	\$7,153	26.6%
10/01/03	\$39,160	\$43,515	\$4,355	90.0%	\$7,464	58.3%
10/01/04	39,488	45,713	\$6,225	86.4%	8,089	77.0%

Note: Financial report may be obtained by writing to the Pension Plan Administrator, PO Box 1409, Key West, FL 33041-1409

City of Key West, Florida

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City of Key West, Florida

Non-major Governmental

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are restricted to expenditures for particular purposes as authorized by statutory or charter provisions. The City maintains seven special revenue funds to track the following revenues and related expenditures:

Law Enforcement Trust Fund - To account for the proceeds from confiscated property, designated for purchase of technical equipment for the police department.

Gas Tax/Internal Improvement Fund - To account for county and state gasoline tax revenue sharing, designated for the capital improvements of streets and sidewalks.

Fort Taylor Fund - To account for State of Florida shared revenues, Department of Natural Resources grants, together with donations, restricted for the acquisition of salt ponds.

Community Development Fund - To account for proceeds and disbursements of Housing Economic, and Urban development grants.

Affordable Housing Escrow Fund - To account for proceeds and disbursements associated with the acquisition, rehabilitation or any other element associated with the development of affordable housing.

Local Redevelopment Agency Fund - To account for proceeds and disbursements related to the Naval Air Station Key West Base Reuse Plan.

Bahama Village and Caroline Street - To account for proceeds and disbursements associated with the acquisition of property or establishment of community development programs within the redevelopment area.

Navy Outer Mole Pier Payments - To account for lease payments held in reserve.

Capital Projects Fund

Utilized when accounting for financial resources used in the acquisition or construction of major capital facilities, other than those capital items financed by proprietary funds and trust funds.

City of Key West, Florida
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2005

Special Revenue Funds

	Law Enforcement Trust Fund	Gas Tax Fund	Fort Taylor Fund	Community Development Office Fund
Assets				
Cash and cash equivalents	\$ 53,005	\$ 1,183,460	\$ 189,446	\$ 319,037
Cash and cash equivalents (restricted)	-	83,489	-	-
Investment (unrestricted)	-	1,941,823	-	150,000
Investments (restricted)	-	526,927	-	-
Receivables (net of allowance for uncollectibles):				
Accounts	-	2,685	-	183,770
Mortgages	-	-	-	1,278,855
Intergovernmental	-	151,843	4,370	298,334
Interfund receivables	-	-	-	-
Interest	-	9,184	-	-
Inventory	-	-	-	-
Prepays	-	-	-	-
Advance to other funds	-	-	-	-
Total assets	\$ 53,005	\$ 3,899,411	\$ 193,816	\$ 2,229,996
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 9,600	\$ 60,581	\$ -	\$ 38,794
Accrued payroll	-	1,383	-	-
Retainage payable	-	-	-	-
Intergovernment	-	-	-	167,325
Interfund payables	-	-	-	-
Notes payable	-	-	-	-
Deferred revenue	-	613,450	-	1,222,057
Total liabilities	9,600	675,414	-	1,428,176
Fund balances				
Reserved for encumbrances	-	32,000	-	-
Reserved for advances	-	-	-	-
Reserved for inventory	-	-	-	-
Reserved for receivables	-	1,586	-	143,584
Unreserved	43,405	3,190,411	193,816	658,236
Total	43,405	3,223,997	193,816	801,820
Total liabilities and fund balances	\$ 53,005	\$ 3,899,411	\$ 193,816	\$ 2,229,996

<u>Affordable Housing Escrow Fund</u>	<u>Local Redevelopment Agency Fund</u>	<u>Bahama Village & Caroline Street</u>	<u>Navy Pier Payments</u>	<u>Capital Projects</u>	<u>Total</u>
\$ 5,031	\$ 1,806,918	\$ 486,759	\$ 2,566,341	\$ 2,438,529	\$ 9,048,526
-	-	-	-	-	83,489
-	-	-	-	2,252,251	4,344,074
-	-	-	-	-	526,927
-	-	-	-	-	186,455
-	1,015	-	-	-	1,278,855
-	-	-	-	-	455,562
-	-	-	-	24,915	34,099
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 5,031</u>	<u>\$ 1,807,933</u>	<u>\$ 486,759</u>	<u>\$ 2,566,341</u>	<u>\$ 4,715,695</u>	<u>\$15,957,987</u>
\$ -	\$ 8,364	\$ 35,448	\$ -	\$ 3,140	\$ 155,927
-	4,497	9,629	-	667	16,176
-	-	-	-	-	-
-	1,015	-	-	94,559	261,884
-	-	-	-	-	1,015
-	-	-	-	-	-
-	-	-	-	-	1,835,507
<u>-</u>	<u>13,876</u>	<u>45,077</u>	<u>-</u>	<u>98,366</u>	<u>2,270,509</u>
-	224,410	-	-	45,543	301,953
-	-	-	-	-	-
-	-	-	-	-	-
5,031	1,569,647	441,682	2,566,341	4,571,786	145,170
<u>5,031</u>	<u>1,794,057</u>	<u>441,682</u>	<u>2,566,341</u>	<u>4,617,329</u>	<u>13,240,355</u>
<u>\$ 5,031</u>	<u>\$ 1,807,933</u>	<u>\$ 486,759</u>	<u>\$ 2,566,341</u>	<u>\$ 4,715,695</u>	<u>\$15,957,987</u>

City of Key West, Florida
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds

For the year ended September 30, 2005

	Special Revenue Funds			
	Law Enforcement Trust Fund	Gas Tax Fund	Fort Taylor Fund	Community Development Office Fund
Revenues:				
Tax	\$ -	\$ 1,331,487	\$ -	\$ -
Intergovernmental income	-	-	126,212	177,330
Charges for Services	-	-	-	-
Fines and forfeitures	23,510	-	-	-
Investment earning (loss)	1,238	56,025	14,358	13,530
Contributions and other	-	2,438	-	186,020
Total revenues	<u>24,748</u>	<u>1,389,950</u>	<u>140,570</u>	<u>376,880</u>
Expenditures:				
Current:				
General Government	-	-	-	-
Public safety	14,156	-	-	-
Transportation	-	948,467	-	-
Economic environment	-	-	-	218,383
Culture and recreation	-	-	-	191,020
Capital outlay	537	-	500,019	-
Debt service	-	-	-	-
Total expenditures	<u>14,693</u>	<u>948,467</u>	<u>500,019</u>	<u>409,403</u>
Excess (deficiency) of revenues over expenditures	<u>10,055</u>	<u>441,483</u>	<u>(359,449)</u>	<u>(32,523)</u>
Other financing sources (uses):				
Proceeds from capital lease / financing	-	-	-	-
Transfers in	-	1,234,676	-	91,356
Transfers (out)	-	(984,336)	-	(543)
Total other financing sources (uses)	<u>-</u>	<u>250,340</u>	<u>-</u>	<u>90,813</u>
Net change in fund balances	10,055	691,823	(359,449)	58,290
Fund balances (deficit), October 1	33,349	2,532,174	553,265	743,530
Residual equity transfer (out)	-	-	-	-
Fund balances (deficit), September 30	<u>\$ 43,404</u>	<u>\$ 3,223,997</u>	<u>\$ 193,816</u>	<u>\$ 801,820</u>

Affordable Housing Escrow Fund	Local Redevelopment Agency Fund	Bahama Village & Caroline Street	Navy Pier Payments	Capital Projects	Total
\$ -	\$ -	\$ 578,995	\$ -	\$ -	\$ 1,910,482
-	63,386	-	-	-	366,928
-	-	-	1,317,516	-	1,317,516
-	-	-	-	-	23,510
30	-	22,650	50,715	95,608	254,154
10,000	450	-	-	-	198,908
<u>10,030</u>	<u>63,836</u>	<u>601,645</u>	<u>1,368,231</u>	<u>95,608</u>	<u>4,071,498</u>
-	-	348,630	-	-	348,630
-	-	-	-	-	14,156
-	-	-	-	-	948,467
-	688,089	98,463	-	-	1,004,935
-	-	-	-	-	191,020
-	-	52,385	-	26,197	579,138
-	-	187,632	-	-	187,632
-	<u>688,089</u>	<u>687,110</u>	<u>-</u>	<u>26,197</u>	<u>3,273,978</u>
<u>10,030</u>	<u>(624,253)</u>	<u>(85,465)</u>	<u>1,368,231</u>	<u>69,411</u>	<u>797,520</u>
-	-	-	-	-	-
-	2,445,445	474,401	-	797,023	5,042,901
(90,813)	-	(415,266)	-	(1,939,432)	(3,430,390)
<u>(90,813)</u>	<u>2,445,445</u>	<u>59,135</u>	<u>-</u>	<u>(1,142,409)</u>	<u>1,612,511</u>
(80,783)	1,821,192	(26,330)	1,368,231	(1,072,998)	2,410,031
85,814	(27,135)	468,012	1,198,110	5,690,328	11,277,447
-	-	-	-	-	-
<u>\$ 5,031</u>	<u>\$ 1,794,057</u>	<u>\$ 441,682</u>	<u>\$ 2,566,341</u>	<u>\$ 4,617,330</u>	<u>\$ 13,687,478</u>

City of Key West, Florida
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Law Enforcement Trust Special Revenue Fund
For the year ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Fines and forfeitures	\$ -	\$ 15,000	\$ 23,510	\$ 8,510
Investment earning	-	1,709	1,238	(471)
Contributions and other	-	-	-	-
Total revenues	<u>-</u>	<u>16,709</u>	<u>24,748</u>	<u>8,039</u>
Expenditures:				
Personal services	-	-	-	-
Operating	-	14,400	14,156	244
Capital	-	600	537	63
Total expenditures	<u>-</u>	<u>15,000</u>	<u>14,693</u>	<u>307</u>
Excess (deficiency) of revenues over expenditures	-	1,709	10,055	8,346
Other financing sources (uses):				
Transfers (out)	-	-	-	-
Net change in fund balance	<u>-</u>	<u>1,709</u>	<u>10,055</u>	<u>8,346</u>
Fund balance, October 1	<u>33,349</u>	<u>33,349</u>	<u>33,349</u>	<u>-</u>
Fund balance, September 30	<u>\$ 33,349</u>	<u>\$ 35,058</u>	<u>\$ 43,404</u>	<u>\$ 8,346</u>

City of Key West, Florida
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Gas Tax Special Revenue Fund
For the year ended September 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental income	\$ 1,280,000	\$ 1,280,000	\$ 1,331,487	\$ 51,487
Investment earning	61,220	61,220	56,025	(5,195)
Contributions and other	-	-	2,438	2,438
Total revenues	<u>1,341,220</u>	<u>1,341,220</u>	<u>1,389,950</u>	<u>48,730</u>
Expenditures:				
Personal Services	-	128,000	127,207	793
Operating	3,654,145	3,527,345	821,260	2,706,085
Capital	17,000	-	-	-
Total expenditures	<u>3,671,145</u>	<u>3,655,345</u>	<u>948,467</u>	<u>2,706,878</u>
Excess (deficiency) of revenues over expenditures	<u>(2,329,925)</u>	<u>(2,314,125)</u>	<u>441,483</u>	<u>2,755,608</u>
Other financing sources (uses):				
Transfers in	1,234,676	1,234,676	1,234,676	-
Transfers (out)	-	(984,336)	(984,336)	-
Total other financing sources (uses)	<u>1,234,676</u>	<u>250,340</u>	<u>250,340</u>	<u>-</u>
Net change in fund balance	<u>1,234,676</u>	<u>(2,063,785)</u>	<u>691,823</u>	<u>2,755,608</u>
Fund balance, October 1	<u>2,532,174</u>	<u>2,532,174</u>	<u>2,532,174</u>	<u>-</u>
Fund balance, September 30	<u>\$ 3,766,850</u>	<u>\$ 468,389</u>	<u>\$ 3,223,997</u>	<u>\$ 2,755,608</u>

City of Key West, Florida
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Fort Taylor Special Revenue Fund
For the year ended September 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental income	\$ 140,000	\$ 140,000	\$ 126,212	\$ (13,788)
Investment earning	11,373	11,373	14,358	2,985
Contributions and other	-	-	-	-
Total revenues	<u>151,373</u>	<u>151,373</u>	<u>140,570</u>	<u>(10,803)</u>
Expenditures:				
Personal services	-	-	-	-
Operating	-	-	-	-
Capital	-	501,000	500,019	981
Total expenditures	<u>-</u>	<u>501,000</u>	<u>500,019</u>	<u>981</u>
Excess (deficiency) of revenues over expenditures	<u>151,373</u>	<u>(349,627)</u>	<u>(359,449)</u>	<u>(9,822)</u>
Other financing sources:				
Proceeds from capital financing	-	-	-	-
Transfers in	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>151,373</u>	<u>(349,627)</u>	<u>(359,449)</u>	<u>(9,822)</u>
Fund balance, October 1	<u>553,265</u>	<u>553,265</u>	<u>553,265</u>	<u>-</u>
Fund balance, September 30	<u>\$ 704,638</u>	<u>\$ 203,638</u>	<u>\$ 193,816</u>	<u>\$ (9,822)</u>

City of Key West, Florida
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Community Development Office Special Revenue Fund
For the year ended September 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental income	\$ 216,379	\$ 216,379	\$ 177,330	\$ (39,049)
Investment earning	-	-	13,530	13,530
Contributions and other	-	-	186,020	186,020
Total revenues	<u>216,379</u>	<u>216,379</u>	<u>376,880</u>	<u>160,501</u>
Expenditures:				
Personal	-	-	-	-
Operating	216,379	216,379	218,383	(2,004)
Aid to private organizations	-	-	191,020	(191,020)
Total expenditures	<u>216,379</u>	<u>216,379</u>	<u>409,403</u>	<u>(193,024)</u>
Excess (deficiency) of revenues over expenditures	-	-	(32,523)	(32,523)
Other financing sources (uses):				
Transfers in (out)	-	-	90,813	90,813
Net change in fund balance	-	-	58,290	58,290
Fund balance, October 1	<u>743,530</u>	<u>743,530</u>	<u>743,530</u>	<u>-</u>
Fund balance, September 30	<u>\$ 743,530</u>	<u>\$ 743,530</u>	<u>\$ 801,820</u>	<u>\$ 58,290</u>

City of Key West, Florida
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Affordable Housing Special Revenue Fund
For the year ended September 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Investment earning	\$ 1,709	\$ 1,709	\$ 30	\$ (1,679)
Contributions and other	-	-	10,000	10,000
Total revenues	<u>1,709</u>	<u>1,709</u>	<u>10,030</u>	<u>8,321</u>
Expenditures:				
Personal services	-	-	-	-
Operating	-	-	-	-
Capital	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	1,709	1,709	10,030	8,321
Other financing sources (uses):				
Transfers (out)	-	-	(90,813)	(90,813)
Net change in fund balance	<u>1,709</u>	<u>1,709</u>	<u>(80,783)</u>	<u>(82,492)</u>
Fund balance, October 1	<u>85,814</u>	<u>85,814</u>	<u>85,814</u>	<u>-</u>
Fund balance, September 30	<u>\$ 87,523</u>	<u>\$ 87,523</u>	<u>\$ 5,031</u>	<u>\$ (82,492)</u>

City of Key West, Florida
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Local Redevelopment Agency Special Revenue Fund
For the year ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ -	\$ -	\$ 63,386	\$ 63,386
Investment earning	-	-	-	-
Contributions and other	-	-	450	450
Total revenues	<u>-</u>	<u>-</u>	<u>63,836</u>	<u>63,836</u>
Expenditures:				
Personal services	120,036	297,069	297,009	60
Operating	128,799	1,332,939	391,080	941,859
Capital	3,500	303,500	-	303,500
Total expenditures	<u>252,335</u>	<u>1,933,508</u>	<u>688,089</u>	<u>1,245,419</u>
Excess (deficiency) of revenues over expenditures	(252,335)	(1,933,508)	(624,253)	1,309,255
Other financing sources (uses):				
Transfers in	-	2,464,271	2,445,445	(18,826)
Transfers (out)	-	(566,763)	-	566,763
Total other financing sources (uses)	<u>-</u>	<u>1,897,508</u>	<u>2,445,445</u>	<u>547,937</u>
Net change in fund balance	<u>(252,335)</u>	<u>(36,000)</u>	<u>1,821,192</u>	<u>1,857,192</u>
Fund balance, October 1	<u>(27,135)</u>	<u>(27,135)</u>	<u>(27,135)</u>	<u>-</u>
Fund balance, September 30	<u>\$ (279,470)</u>	<u>\$ (63,135)</u>	<u>\$ 1,794,057</u>	<u>\$ 1,857,192</u>

City of Key West, Florida
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Bahama Village and Caroline Street
For the year ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental income	\$ 472,773	\$ 578,995	\$ 578,995	\$ -
Investment earning	7,264	5,953	22,650	16,697
Other income	-	-	-	-
Total revenues	<u>480,037</u>	<u>584,948</u>	<u>601,645</u>	<u>16,697</u>
Expenditures:				
Personal services	350,000	350,000	348,630	1,370
Operating	5,175	99,176	98,463	713
Capital	405,071	393,156	52,385	340,771
Debt service	185,065	188,065	187,632	433
Aid to private organizations	-	-	-	-
Total expenditures	<u>945,311</u>	<u>1,030,397</u>	<u>687,110</u>	<u>343,287</u>
Excess (deficiency) of revenues over expenditures from operations	<u>(465,274)</u>	<u>(445,449)</u>	<u>(85,465)</u>	<u>359,984</u>
Other financing sources (uses):				
Proceeds from financing	-	-	-	-
Transfers in	401,441	474,401	474,401	-
Transfers (out)	(410,395)	(415,678)	(415,266)	412
Total other financing sources (uses)	<u>(8,954)</u>	<u>58,723</u>	<u>59,135</u>	<u>412</u>
Net change in fund balance	<u>(474,228)</u>	<u>(386,726)</u>	<u>(26,330)</u>	<u>360,396</u>
Fund balance, October 1	<u>468,012</u>	<u>468,012</u>	<u>468,012</u>	<u>-</u>
Fund balance, September 30	<u>\$ (6,216)</u>	<u>\$ 81,286</u>	<u>\$ 441,682</u>	<u>\$ 360,396</u>

City of Key West, Florida
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Navy Pier Payments Special Revenue Fund
For the year ended September 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for Services	\$1,395,252	\$1,395,252	\$ 1,317,516	\$ (77,736)
Investment earning	40,266	40,266	50,715	10,449
Other income	-	-	-	-
Total revenues	<u>1,435,518</u>	<u>1,435,518</u>	<u>1,368,231</u>	<u>(67,287)</u>
Expenditures:				
Personal services	-	-	-	-
Operating	-	-	-	-
Capital	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures from operations	<u>1,435,518</u>	<u>1,435,518</u>	<u>1,368,231</u>	<u>(67,287)</u>
Other financing sources (uses):				
Proceeds from financing	-	-	-	-
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>1,435,518</u>	<u>1,435,518</u>	<u>1,368,231</u>	<u>(67,287)</u>
Fund equity (deficit), October 1	<u>1,198,110</u>	<u>1,198,110</u>	<u>1,198,110</u>	<u>-</u>
Fund equity, September 30	<u>\$2,633,628</u>	<u>\$2,633,628</u>	<u>\$ 2,566,341</u>	<u>\$ (67,287)</u>

City of Key West, Florida
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Capital Projects Fund

For the year ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental income	\$ -	\$ -	\$ -	\$ -
Investment earning (loss)	108,746	108,746	95,608	(13,138)
Other income	-	-	-	-
Total revenues	<u>108,746</u>	<u>108,746</u>	<u>95,608</u>	<u>(13,138)</u>
Expenditures:				
Personal services	-	-	-	-
Operating	-	-	-	-
Capital	600,000	200,000	26,197	173,803
Total expenditures	<u>600,000</u>	<u>200,000</u>	<u>26,197</u>	<u>173,803</u>
Excess (deficiency) of revenues over expenditures from operations	<u>(491,254)</u>	<u>(91,254)</u>	<u>69,411</u>	<u>160,665</u>
Other financing sources (uses):				
Proceeds from financing	-	-	-	-
Transfers in	-	-	797,023	797,023
Transfers (out)	(508,986)	(1,939,432)	(1,939,432)	-
Total other financing sources (uses)	<u>(508,986)</u>	<u>(1,939,432)</u>	<u>(1,142,409)</u>	<u>797,023</u>
Net change in fund balance	<u>(1,000,240)</u>	<u>(2,030,686)</u>	<u>(1,072,998)</u>	<u>957,688</u>
Fund equity (deficit), October 1	<u>5,690,328</u>	<u>5,690,328</u>	<u>5,690,328</u>	<u>-</u>
Fund equity, September 30	<u>\$4,690,088</u>	<u>\$ 3,659,642</u>	<u>\$ 4,617,330</u>	<u>\$ 957,688</u>

City of Key West, Florida

Non-major Enterprise Funds

Enterprise funds are used to account for the acquisition, operation, and maintenance of governmental facilities and services which are entirely or predominantly supported by user charges. All activities necessary to provide such services are accounted for in this fund, including (but not limited to) administration, operations, maintenance, financing, and related debt service (where applicable). The significant characteristics of enterprise funds are that the accounting system must be structured to reflect whether the activity is operated at a profit or loss, similar to comparable activities in private enterprise. Thus, the reports of enterprise funds are self-contained, and creditors, legislators, or the general public can evaluate the performance of the particular municipal enterprise on the same basis as they can the performance of an investor-owned enterprise in the same industry. The City maintains seven enterprise funds to account for the following activities:

Stormwater Fund – Accounts for the activities of the City's storm water collection and disposal system.

Garrison Bight Fund - To account for the provision of marina services to the residents of the City.

Transit System Fund - To account for the provision of mass transit services within the City limits to the residents of the City.

City of Key West, Florida
Combining Statement of Net Assets
Nonmajor Enterprise Funds
September 30, 2005

	<u>Garrison Bight</u>	<u>Transit System</u>	<u>Stormwater</u>	<u>Total Nonmajor Enterprise Funds</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,929,110	\$ 20,447	\$ 2,182,784	\$ 4,132,341
Investments	-	-	-	-
Receivables, net of allowance for uncollectibles:				
Interest	-	1,122	-	1,122
Accounts	90,115	-	246,922	337,037
Intergovernmental	6,780	99,374	20,816	126,970
Interfund receivables	4,423	15,480	-	19,903
Prepaid expense	4,236	1,393	-	5,629
Inventory	-	12,025	20,910	32,935
Total	<u>2,034,664</u>	<u>149,841</u>	<u>2,471,432</u>	<u>4,655,937</u>
Restricted assets:				
Cash and cash equivalents	-	-	-	-
Investments	-	-	-	-
Interest receivable	-	-	-	-
Total restricted assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	<u>2,034,664</u>	<u>149,841</u>	<u>2,471,432</u>	<u>4,655,937</u>
Noncurrent assets				
Deferred Charges				
Unamortized bond cost, net	-	-	-	-
Property, plant and equipment:				
Land	-	50,000	-	50,000
Buildings	188,301	4,511,293	-	4,699,594
Improvements other than buildings	3,026,282	219,345	5,957,533	9,203,160
Machinery, equipment and furniture	343,908	4,698,342	90,639	5,132,889
Construction in progress	114,534	9,150	3,021,000	3,144,684
Total	<u>3,673,025</u>	<u>9,488,130</u>	<u>9,069,172</u>	<u>22,230,327</u>
Less accumulated depreciation	<u>2,086,719</u>	<u>4,177,543</u>	<u>544,466</u>	<u>6,808,728</u>
Net property, plant and equipment	<u>1,586,306</u>	<u>5,310,587</u>	<u>8,524,706</u>	<u>15,421,599</u>
Other noncurrent assets:				
Accounts receivable	-	-	-	-
Advance to other funds	-	-	-	-
Total other assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Noncurrent assets	<u>1,586,306</u>	<u>5,310,587</u>	<u>8,524,706</u>	<u>15,421,599</u>
Total assets	<u>\$ 3,620,970</u>	<u>\$ 5,460,428</u>	<u>\$ 10,996,138</u>	<u>\$ 20,077,536</u>

City of Key West, Florida
Combining Statement of Net Assets
Nonmajor Enterprise Funds
September 30, 2005

	<u>Garrison Bight</u>	<u>Transit System</u>	<u>Stormwater</u>	<u>Total Nonmajor Enterprise Funds</u>
Liabilities and Equity				
Liabilities:				
Current liabilities:				
Accounts payable	\$ 47,750	\$ 24,415	\$ 222,824	\$ 294,989
Accrued payroll and related expenses	24,355	97,293	7,933	129,581
Accrued expenses	-	-	-	-
Retainage payable	-	-	219,138	219,138
Interfund payable	7,526	55,000	-	62,526
Deferred revenue	83,204	-	-	83,204
Total	<u>162,835</u>	<u>176,708</u>	<u>449,895</u>	<u>789,438</u>
Current liabilities:				
Payable from restricted assets:				
Accounts payable	-	-	-	-
Retainage payable	-	-	-	-
Closure costs payable, current	-	-	-	-
Accrued interest	-	-	-	-
Bonds and notes payable, current	-	-	-	-
Deferred revenue	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Noncurrent liabilities:				
Revenue bonds payable, net of discount	-	-	-	-
Note payable	-	-	-	-
Closure costs	-	-	-	-
Advance from other funds	52,684	280,092	2,006,190	2,338,966
Deferred revenues	-	-	-	-
Customer deposits	128,716	4,600	203,547	336,863
Accrued interest	-	-	-	-
Accrued compensated absences	18,486	47,746	12,163	78,395
Total noncurrent liabilities	<u>199,886</u>	<u>332,438</u>	<u>2,221,900</u>	<u>2,754,224</u>
Total liabilities	<u>362,721</u>	<u>509,146</u>	<u>2,671,795</u>	<u>3,543,662</u>
Net Assets				
Invested in capital assets, net of related debt	1,586,306	5,310,587	8,524,706	15,421,599
Reserved for revenue bond	-	-	-	-
Current debt service	-	-	-	-
Renewal & replacement	-	-	-	-
Unreserved	1,671,943	(359,305)	(200,363)	1,112,275
Total	<u>3,258,249</u>	<u>4,951,282</u>	<u>8,324,343</u>	<u>16,533,874</u>
Total liabilities and net assets	<u>\$ 3,620,970</u>	<u>\$ 5,460,428</u>	<u>\$10,996,138</u>	<u>\$ 20,077,536</u>

City of Key West, Florida
Combining Statement of Revenues, Expenses and
Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the year ended September 30, 2005

	<u>Garrison Bight</u>	<u>Transit System</u>	<u>Stormwater</u>	<u>Total Nonmajor Enterprise Funds</u>
Operating revenues:				
Charges for services	\$ 1,318,440	\$ 736,719	\$ 1,516,495	\$ 3,571,654
Total operating revenues	<u>1,318,440</u>	<u>736,719</u>	<u>1,516,495</u>	<u>3,571,654</u>
Operating expenses:				
Personal services	416,586	1,569,752	122,584	2,108,922
Other operating expenses	588,502	703,681	513,987	1,806,170
Depreciation and amortization	190,934	806,239	310,854	1,308,027
Total operating expenses	<u>1,196,022</u>	<u>3,079,672</u>	<u>947,425</u>	<u>5,223,119</u>
Operating income (loss)	<u>122,418</u>	<u>(2,342,955)</u>	<u>569,070</u>	<u>(1,651,465)</u>
Nonoperating revenues (expenses):				
Grant income	6,780	385,448	-	392,228
Investment earnings	45,215	4,682	58,884	108,781
Other income	58,477	14,053	-	72,530
Other expense	-	-	-	-
Interest expense	-	(7,257)	(55,529)	(62,786)
Loss on disposal/abandonment	-	-	-	-
Net nonoperating revenues (expenses)	<u>110,472</u>	<u>396,926</u>	<u>3,355</u>	<u>510,753</u>
Income (loss) before contributions and transfers	<u>232,890</u>	<u>(1,946,029)</u>	<u>572,425</u>	<u>(1,140,712)</u>
Capital contributions	-	-	1,499,631	1,499,631
Transfers in	-	984,336	-	984,336
Transfers (out)	-	-	-	-
Total transfers and contributions	<u>-</u>	<u>984,336</u>	<u>1,499,631</u>	<u>2,483,967</u>
Change in net assets	<u>232,890</u>	<u>(961,693)</u>	<u>2,072,056</u>	<u>1,343,257</u>
Total net assets, October 1	<u>3,025,359</u>	<u>5,912,975</u>	<u>6,252,287</u>	<u>15,190,621</u>
Total net assets, September 30	<u>\$ 3,258,249</u>	<u>\$ 4,951,282</u>	<u>\$ 8,324,343</u>	<u>\$ 16,533,874</u>

City of Key West, Florida
Nonmajor Enterprise Funds
Combining Statement of Cash Flows
For the year ended September 30, 2005

	<u>Garrison Bight</u>	<u>Transit System</u>	<u>Stormwater</u>	<u>Total Nonmajor Enterprise Funds</u>
Cash flows from operating activities:				
Cash received from customers	\$ 1,300,455	\$ 736,717	\$ 1,627,541	\$ 3,664,713
Cash paid to suppliers	(584,653)	(841,772)	(529,033)	(1,955,458)
Cash paid to employees	(432,495)	(1,621,480)	(110,513)	(2,164,488)
Other receipts	58,477	12,931	-	71,408
Net cash provided by (used in) operating activities	<u>341,784</u>	<u>(1,713,604)</u>	<u>987,995</u>	<u>(383,825)</u>
Cash flows from noncapital financing activities:				
Operating grants received	-	528,721	-	528,721
Advance/loan from other funds	(7,526)	-	-	(7,526)
Transfers in (out)	-	984,336	-	984,336
Net cash flows from noncapital financing activities	<u>(7,526)</u>	<u>1,513,057</u>	<u>-</u>	<u>1,505,531</u>
Cash flows from capital and related financing activities:				
Proceeds of capital grants	-	-	1,500,000	1,500,000
Acquisition and construction of capital assets	(114,885)	(87,778)	(1,838,753)	(2,041,416)
Interest paid	-	-	(3,547)	(3,547)
Net cash flows from capital and related financing activities	<u>(114,885)</u>	<u>(87,778)</u>	<u>(342,300)</u>	<u>(544,963)</u>
Cash flows from investing activities:				
Investment earnings	45,215	4,682	58,884	108,781
Net cash flows from investing activities	<u>45,215</u>	<u>4,682</u>	<u>58,884</u>	<u>108,781</u>
Net increase (decrease) in cash and cash equivalents	264,588	(283,646)	704,579	685,521
Cash & equivalents, October 1	<u>1,664,522</u>	<u>304,090</u>	<u>1,478,205</u>	<u>3,446,817</u>
Cash & equivalents, September 30	<u>\$ 1,929,110</u>	<u>\$ 20,447</u>	<u>\$ 2,182,784</u>	<u>\$ 4,132,338</u>

City of Key West, Florida
Nonmajor Enterprise Funds
Combining Statement of Cash Flows (Continued)
For the year ended September 30, 2005

	<u>Garrison Bight</u>	<u>Transit System</u>	<u>Stormwater</u>	<u>Total Nonmajor Enterprise Funds</u>
Cash and cash equivalents at End of Year	<u>\$ 1,929,110</u>	<u>\$ 20,447</u>	<u>\$ 2,182,784</u>	<u>\$ 4,132,338</u>
Classified as:				
Current	<u>1,929,110</u>	<u>20,447</u>	<u>2,182,784</u>	<u>4,132,341</u>
Total	<u>1,929,110</u>	<u>20,447</u>	<u>2,182,784</u>	<u>4,132,341</u>
Reconciliation of operating income (loss) to net cash provided by (applied to) operating activities:				
Operating income (loss)	<u>122,418</u>	<u>(2,342,955)</u>	<u>569,070</u>	<u>(1,651,465)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (applied to) operating activities:				
Other nonoperating revenues	65,257	14,053	-	79,310
Depreciation and amortization	190,934	806,239	310,854	1,308,027
Decrease (increase) in assets:				
Accounts receivable	(17,826)	(1,122)	(92,501)	(111,449)
Interfund receivables	(1,322)	50,374	-	49,052
Intergovernmental receivables	(6,780)	-	-	(6,780)
Prepaid items	-	-	-	-
Inventories	-	(3,231)	(607)	(3,838)
Increase (decrease) in liabilities:				
Accounts payable	3,849	(189,860)	(14,439)	(200,450)
Accrued items	(11,054)	(25,308)	6,853	(29,509)
Interfund payables	-	-	-	-
Customer deposits	(1,161)	-	203,547	202,386
Accrued compensated absences, noncurrent	(3,533)	(21,794)	5,218	(20,109)
Deferred revenue	1,002	-	-	1,002
Total adjustments	<u>219,366</u>	<u>629,351</u>	<u>418,925</u>	<u>1,267,642</u>
Net cash provided by (applied to) operating activities	<u>341,784</u>	<u>(1,713,604)</u>	<u>987,995</u>	<u>(383,823)</u>
Schedule of noncash investing, capital, and financing activities				
Contribution to other government of remaining assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Assumption by other government of remaining liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Key West, Florida

Fiduciary Funds

Fiduciary funds are used to account for assets held by the City in a trustee capacity. Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds. The City maintains three trust funds:

Pension Trust Funds - To account for the accumulation of resources for pension benefit payments to qualified employees. There are two funds for the City's two retirement plans—the Police Officers' and Firefighters' Retirement Plan and the General Employees' Retirement Plan.

City of Key West, Florida
Combining Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2005

	Pension Trust Funds		
	Police and Fire	General Employees	Total 2005
Assets			
Cash	\$ 3,664,380	\$ 2,654,926	\$ 6,319,306
Corporate Bonds	6,861,477	4,677,728	11,539,205
US Government	6,499,701	2,902,239	9,401,940
US Government Agencies	3,243,076	1,447,075	4,690,151
Marketable Equity Securites	26,782,312	15,170,043	41,952,355
Receivables:			
Interest	168,555	105,301	273,856
Interfund receivables	464,574	-	464,574
Intergovernmental	168,555	-	168,555
Equipment	2,705	5,221	7,926
Accumulated depreciation	(841)	(5,221)	(6,062)
Total assets	<u>\$ 47,854,494</u>	<u>\$ 26,957,312</u>	<u>\$ 74,811,806</u>
Liabilities:			
Accrued Expenses	\$ 49,489	\$ 35,473	\$ 84,962
Interfund payable	-	-	-
Deferred compensation	-	-	-
Benefits payable	-	-	-
Total liabilities	<u>49,489</u>	<u>35,473</u>	<u>84,962</u>
Net Assets			
Assets held in trust for pension benefits	<u>47,768,768</u>	<u>26,921,838</u>	<u>74,690,606</u>
Total net assets	<u>47,768,768</u>	<u>26,921,838</u>	<u>74,690,606</u>
Total liabilities and net assets	<u>\$ 47,818,257</u>	<u>\$ 26,957,311</u>	<u>\$ 74,775,568</u>

City of Key West, Florida
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

For the year ended September 30, 2005

	<u>Pension Trust Funds</u>		<u>Total 2005</u>
	<u>Police and Fire</u>	<u>General Employees</u>	
Additions			
Contributions			
Employer	\$ 1,334,782	\$ 1,147,792	\$ 2,482,574
Member	659,715	633,086	1,292,801
State Police and Fire	549,690	-	549,690
Total contributions	<u>2,544,187</u>	<u>1,780,878</u>	<u>4,325,065</u>
Net investment Income			
Net appreciation in fair value of investments	3,064,694	2,133,174	5,197,868
Interest	826,727	471,666	1,298,393
Dividends	533,451	290,194	823,645
Other	5,925	3,147	-
	<u>4,430,797</u>	<u>2,898,181</u>	<u>7,319,906</u>
Less investment expense	123,012	99,516	222,528
	<u>4,307,785</u>	<u>2,798,665</u>	<u>7,106,450</u>
Total additions	<u>6,851,972</u>	<u>4,579,543</u>	<u>11,431,515</u>
Deductions			
Benefits paid	2,224,092	944,286	3,168,378
Administrative expense	223,475	64,157	287,632
Contributions refunded	96,420	254,162	350,582
Depreciation	502	-	502
Total deductions	<u>2,544,489</u>	<u>1,262,605</u>	<u>3,807,094</u>
Changes in net assets	<u>4,307,483</u>	<u>3,316,938</u>	<u>7,624,421</u>
Net assets - beginning	<u>43,461,285</u>	<u>23,604,900</u>	<u>67,066,185</u>
Net assets - ending	<u>\$ 47,768,768</u>	<u>\$ 26,921,838</u>	<u>\$ 74,690,606</u>

City of Key West, Florida

**Capital Assets Used in the Operation of Governmental
Funds**

City of Key West, Florida
Schedule of Capital Assets used in the Operation of
Governmental Funds - By Source
September 30, 2005

Governmental funds capital assets	<u>Total</u>
Land	\$ 53,186,804
Buildings	13,673,644
Improvements other than buildings	19,738,362
Machinery and equipment	14,487,421
Infrastructure	6,095,080
Construction in progress	<u>351,879</u>
 Total governmental funds capital assets	 <u><u>\$ 107,533,190</u></u>
 Investment in governmental funds capital assets by source:	
General fund	\$ 16,586,757
Special revenue funds	17,098,675
Capital projects fund	25,668,292
Donations	<u>48,179,466</u>
	 <u><u>\$ 107,533,190</u></u>

City of Key West, Florida
Schedule of Capital Assets used in the Operation of
Governmental Funds - By Function and Activity
September 30, 2005

Function and Activity	<u>Land</u>	<u>Buildings</u>	<u>Improvements Other Than Buildings</u>	<u>Machinery and Equipment</u>	<u>Infrastructure</u>
General government:					
Commission Manager	\$ -	\$ -	\$ -	\$ 14,446	\$ -
Clerk	-	-	-	65,722	-
Finance	-	127,586	-	39,941	-
Information Technologies	-	-	-	66,010	-
Garage	-	4,063	-	1,780,479	-
Public Works	-	6,425	4,256	434,128	-
General Government	50,611,091	3,779,623	433,335	739,023	-
Total general government	<u>50,611,091</u>	<u>3,917,697</u>	<u>456,614</u>	<u>3,689,394</u>	<u>89,250</u>
Public safety:					
Police	-	4,494,029	84,575	5,811,836	-
Fire	-	2,591,718	1,076,978	2,596,456	-
Other	-	-	28,693	248,626	-
Total public safety	<u>-</u>	<u>7,085,747</u>	<u>1,190,246</u>	<u>8,656,918</u>	<u>-</u>
Physical environment	482,320	127,893	834,261	75,710	-
Transportation	-	123,750	6,969,991	1,278,551	6,005,830
Culture and recreation	<u>2,093,393</u>	<u>2,418,557</u>	<u>10,287,250</u>	<u>786,848</u>	<u>-</u>
Total governmental funds capital assets	<u>\$53,186,804</u>	<u>\$ 13,673,644</u>	<u>\$ 19,738,362</u>	<u>\$ 14,487,421</u>	<u>\$ 6,095,080</u>

<u>Construction in Progress</u>	<u>Total</u>
\$ -	\$ 14,446
-	65,722
-	167,527
-	66,010
-	1,780,479
-	442,447
-	764,471
-	<u>55,462,944</u>
-	<u>58,764,046</u>
-	10,390,440
-	6,265,152
-	277,319
-	<u>16,932,911</u>
-	1,520,184
295,093	14,673,215
<u>56,786</u>	<u>15,642,834</u>
<u>\$ 351,879</u>	<u>\$ 107,533,190</u>

City of Key West, Florida
Schedule of Changes in Capital Assets used in the Operation
of Governmental Funds - By Function and Activity
For the year ended September 30, 2005

Function and Activity	October 1, 2004	Additions	Deletions	September 30, 2005
General government:				
Commission	\$ 14,446	\$ -	\$ -	\$ 14,446
Manager	65,025	697	-	65,722
Clerk	167,527	-	-	167,527
Finance	67,804	0	1,794	66,010
Information Technologies	1,587,803	252,715	60,039	1,780,479
Garage	608,685	-	166,238	442,447
Public Works	938,238	3,602	177,369	764,471
General Government	54,965,288	532,054	34,398	55,462,944
Total general government	<u>58,414,816</u>	<u>789,068</u>	<u>439,838</u>	<u>58,764,046</u>
Public safety:				
Police	9,451,876	975,943	37,379	10,390,440
Fire	6,279,761	115,062	129,671	6,265,152
Other	286,948	2,357	11,986	277,319
Total public safety	<u>16,018,585</u>	<u>1,093,362</u>	<u>179,036</u>	<u>16,932,911</u>
Physical environment	1,275,373	244,811	-	1,520,184
Transportation	13,589,634	1,083,581	-	14,673,215
Culture and recreation:	15,018,758	624,076	-	15,642,834
Total governmental funds capital assets	<u>\$104,317,166</u>	<u>\$ 3,834,898</u>	<u>\$ 618,874</u>	<u>\$107,533,190</u>

City of Key West, Florida

Statistical Section

Overview and Sources

Statistical information is different from financial statements in that the statistics usually cover more than one fiscal year and may present non-accounting information. The following tables present social and economic information, financial trends, and the fiscal capacity of the government, as necessary for complete disclosure of the City's financial activity. The information presented in these tables is not required for fair presentation in conformity with generally accepted accounting principles and is therefore not covered by the auditors' opinion.

There have been no special assessments authorized during the last ten fiscal years.

The City's charter does not provide for a General Obligation Legal Debt Margin.

Sources of Data:

City of Key West Audited Financial Statements (and supporting records)

City of Key West Planning Department

City of Key West Building and Zoning Department

Monroe County Tax Collector

Monroe County Property Appraiser

Monroe County School Board

Florida Keys Aqueduct Authority

Keys Energy Services

City of Key West, Florida

**Table 1
General Governmental Expenditures and
Other Uses by Function (1)
For the last ten fiscal years**

Fiscal Year	General Government	Public Safety	Physical Environment	Transportation (2)	Economic Environment	Culture and Recreation	Other	Total
1996	\$6,180,996	\$10,263,055	\$44,820	\$727,381	\$84,075	\$1,081,426	\$824,488	\$19,206,241
1997	\$6,868,746	\$10,465,094	\$42,351	\$1,513,040	\$84,300	\$1,190,873	\$624,893	\$20,789,297
1998	\$8,535,877	\$10,694,276	\$43,476	\$1,634,772	\$82,300	\$1,165,380	\$1,005,284	\$23,161,365
1999	\$7,631,220	\$11,769,777	\$238,054	\$1,873,907	\$98,160	\$1,369,816	\$1,455,189	\$24,436,123
2000	\$9,377,707	\$11,722,345	\$45,943	\$2,003,693	\$84,250	\$1,536,339	\$747,847	\$25,518,124
2001	\$8,410,884	\$12,297,822	\$49,129	\$1,331,922	\$84,165	\$1,633,428	\$770,957	\$24,578,307
2002	\$8,513,067	\$14,006,103	\$45,942	\$1,608,593	\$194,969	\$1,850,504	\$384,884	\$26,604,062
2003	\$9,455,008	\$14,778,086	\$71,623	\$1,909,772	\$148,675	\$2,124,501	\$293,407	\$28,781,072
2004	\$10,548,284	\$15,802,101	\$100,236	\$1,023,054	\$2,492,250	\$2,505,438	\$352,232	\$32,823,595
2005	\$13,006,947	\$17,780,422	\$206,122	\$1,132,120	\$103,300	\$2,406,903	\$1,149,686	\$35,785,500

(1) Expenditures and other uses include General Fund only.

City of Key West, Florida

Table 2
General Governmental Revenues and
Other Financing by Source (1)
For the last ten fiscal years

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Licenses and Permits</u>	<u>Inter-governmental</u>	<u>Payments in Lieu of Taxes</u>	<u>Charges for Services</u>	<u>Fines and Forfeitures</u>	<u>Investment Earnings and Other</u>	<u>Total</u>
1996	\$8,009,980	\$1,532,884	\$3,877,128	\$2,311,100	\$2,720,044	\$397,052	\$1,266,549	\$20,114,737
1997	\$8,244,138	\$1,405,888	\$4,279,982	\$2,356,100	\$3,974,965	\$512,042	\$1,306,320	\$22,079,435
1998	\$8,487,497	\$1,590,253	\$4,470,296	\$2,456,099	\$4,739,393	\$585,539	\$3,215,594	\$25,544,671
1999	\$9,998,381	\$1,785,303	\$4,990,222	\$2,461,276	\$5,030,529	\$625,800	\$1,496,610	\$26,388,121
2000	\$10,566,144	\$2,109,864	\$5,220,328	\$2,453,100	\$5,726,942	\$872,021	\$1,951,911	\$28,900,310
2001	\$11,198,006	\$2,162,492	\$4,820,611	\$2,879,700	\$4,584,258	\$713,580	\$1,944,046	\$28,302,693
2002	\$12,287,197	\$1,960,006	\$4,389,928	\$2,470,200	\$6,003,909	\$961,811	\$2,030,944	\$30,103,995
2003	\$12,196,152	\$2,163,112	\$4,706,826	\$2,603,100	\$7,103,614	\$1,000,347	\$1,880,122	\$31,653,273
2004	\$12,293,708	\$2,138,922	\$4,933,486	\$2,603,100	\$7,477,406	\$985,764	\$2,192,871	\$32,625,257
2005	\$13,551,986	\$2,667,164	\$5,534,231	\$2,603,100	\$6,908,916	\$1,221,735	\$1,864,706	\$34,351,838

(1) Revenues and other sources include General Fund only.

City of Key West, Florida

Table 3 Property Tax Levies and Collections For the last ten fiscal years

Total Fiscal Year	Tax Levy	Current Tax	Percent of Levy	Collections Delinquent Tax	Total Tax	Percent of Levy	Outstanding Delinquent Taxes	Percent of Levy
1996	\$7,623,882	\$7,388,505	96.9	\$36,311	\$7,424,816	97.4	\$21,114	0.3
1997	\$7,786,956	\$7,546,928	96.9	\$13,186	\$7,560,114	97.1	\$7,362	0.1
1998	\$8,065,917	\$7,812,087	96.9	\$24,914	\$7,837,001	97.2	\$14,648	0.2
1999	\$9,658,019	\$8,859,877	91.7	\$11,716	\$8,871,593	91.9	\$9,382	0.1
2000	\$10,211,992	\$9,825,364	96.2	\$17,565	\$9,842,929	96.4	\$16,171	0.2
2001	\$10,873,760	\$10,410,929	95.7	\$13,570	\$10,424,499	95.9	\$21,822	0.2
2002	\$11,467,257	\$11,024,265	96.1	\$45,436	\$11,069,701	96.5	\$23,909	0.2
2003	\$11,482,644	\$11,145,859	97.1	\$22,652	\$11,168,511	97.3	\$31,357	0.3
2004	\$11,812,058	\$11,354,751	96.1	\$12,724	\$11,367,475	96.2	\$22,833	0.2
2005	\$12,248,266	\$11,901,020	97.2	N/A	\$11,901,020	97.2	\$23,063	0.2

Note: Fiscal year information presented above is for the previous calendar year for the tax levy.
Source: Danise Henriquez, Tax Collector, Monroe County, Florida.

City of Key West, Florida

Table 4
Assessed and Estimated Value of Property
For the last ten fiscal years
(In Thousands)

Fiscal Year	Real Property Assessed Value	Personal Property Assessed Value	Exemptions Allowed for Real/Personal Property	Total Net Assessed Value	Total Net Estimated True Value	Ratio Net Assessed to True Value
1996	\$3,296,619	\$285,263	\$1,776,548	\$1,805,334	\$1,805,334	1.0
1997	\$3,409,443	\$284,015	\$1,623,827	\$2,069,631	\$2,069,631	1.0
1998	\$3,821,369	\$263,274	\$1,921,844	\$2,162,799	\$2,162,799	1.0
1999	\$4,198,557	\$271,155	\$2,083,045	\$2,386,667	\$2,386,668	1.0
2000	\$5,344,327	\$282,994	\$2,939,300	\$2,688,021	\$2,688,021	1.0
2001	\$5,800,494	\$281,045	\$3,087,068	\$2,994,471	\$2,994,471	1.0
2002	\$5,873,413	\$326,466	\$2,836,850	\$3,363,029	\$3,363,029	1.0
2003	\$6,290,554	\$321,668	\$2,631,664	\$3,651,348	\$3,651,348	1.0
2004	\$6,752,625	\$318,063	\$2,730,286	\$3,961,783	\$3,961,783	1.0
2005	\$9,273,128	\$322,287	\$4,236,380	\$5,359,035	\$5,359,035	1.0

Note: Fiscal year information presented above is for the previous calendar year for the tax levy.

Also Note: The significant increases in recent years in net assessed value result from reassessments.

Source: Ervin Higgs, Property Appraiser, Monroe County, Florida.

City of Key West, Florida

Table 5
Property Tax Rates
Direct and Overlapping Governments
For the last ten fiscal years

<u>Fiscal Year</u>	<u>City</u>	<u>County</u>	<u>School Board</u>	<u>Other</u>	<u>Total</u>
1996	4.2172	8.6879	6.4330	3.9661	23.3042
1997	4.1097	8.4094	6.2530	3.9690	22.7411
1998	3.7220	8.5193	5.9040	4.5450	22.6903
1999	4.0402	8.3660	6.0730	7.1077	25.5869
2000	3.7912	8.1068	5.6550	6.7669	24.3199
2001	3.6246	8.1247	5.1840	9.4483	26.3816
2002	3.4098	7.4576	4.9890	9.2989	25.1553
2003	3.1612	7.1602	4.7130	9.9673	25.0017
2004	2.9815	8.1621	4.4422	8.9781	24.5639
2005	2.6003	9.2572	3.9320	8.0324	23.8219

Note: Fiscal year information presented above is for the previous calendar year for the tax levy.

Also Note: Tax rates shown above are per \$1,000 of assessed valuation.

Source: Danise Henriquez, Tax Collector, Monroe County, Florida.

City of Key West, Florida

**Table 6
Principal Taxpayers**

<u>Name of Taxpayer</u>	<u>Type of Business</u>	<u>2005 Assessed Value</u>	<u>Percent of Total Assessed Valuation</u>
Casa Marina	Resort Hotel	\$45,887,445	1.35
Windward Point	Resort Hotel	45,004,450	1.33
Tannex Development Corp.	Condominium	32,915,760	0.97
Galleon Condominium Assoc Inc	Condominium	29,106,700	0.86
Pier House	Resort Hotel	28,085,697	0.83
Bellsouth	Utility	27,915,437	0.82
Spottswood Partners II LTD	Partnership	25,234,811	0.74
Lower FI Keys Hospital Dist	Health Care	22,077,947	0.65
Key West Suites LTD PTNSHIP	Resort Hotel	22,000,000	0.64
Spottswood John M JR	Development	20,568,827	0.60
	Totals	<u>\$298,797,074</u>	<u>8.79</u>

Source: Ervin Higgs, Property Appraiser, Monroe County, Florida.

City of Key West, Florida

Table 7
Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt Per Capita
For the last ten fiscal years

Fiscal Year	Population (1)	Net Assessed Value (2) (000's)	Gross Bonded Debt (3)	Debt Service Monies Available	Net Bonded Debt	Ratio of Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1996	27,009	\$1,805,334	-	-	-	-	-
1997	27,305	\$2,069,631	-	-	-	-	-
1998	27,522	\$2,162,799	-	-	-	-	-
1999	27,698	\$2,386,667	-	-	-	-	-
2000	25,478	\$2,688,021	-	-	-	-	-
2001	25,478	\$2,994,471	-	-	-	-	-
2002	25,853	\$3,363,029	-	-	-	-	-
2003	25,811	\$3,651,348	-	-	-	-	-
2004	25,811	\$3,961,783	-	-	-	-	-
2005	25,811	\$5,359,035	-	-	-	-	-

- (1) Source: City of Key West Planning Department.
- (2) Figures are from Table 4 of this Statistical Section.
- (3) Gross bonded debt amount here excludes revenue bonds.

City of Key West, Florida

Table 8
Ratio of Annual Debt Service Expenditures for
General Obligation Bonded Debt
to Total General Governmental Expenditures (1)
For the last ten fiscal years

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total General Expenditures</u>	<u>Ratio of Debt Service to Total General Expenditure</u>
1996	-	-	-	\$19,206,241	-
1997	-	-	-	\$20,789,297	-
1998	-	-	-	\$23,161,365	-
1999	-	-	-	\$24,436,123	-
2000	-	-	-	\$25,518,124	-
2001	-	-	-	\$24,578,307	-
2002	-	-	-	\$26,604,062	-
2003	-	-	-	\$28,781,072	-
2004	-	-	-	\$32,242,001	-
2005	-	-	-	\$35,785,500	-

(1) Gross bonded debt service here excludes debt service on revenue bonds.

(2) General expenditures include General Fund only.

City of Key West, Florida

Table 9 Computation of Direct and Estimated Overlapping Debt September 30, 2005

	<u>Debt Outstanding</u>	<u>Applicable to City of Key West</u>	
		<u>Percentage</u>	<u>Amount</u>
Direct debt:			
City of Key West (1)	\$ -	100.00%	\$ -
Estimated overlapping debt:			
Monroe County, District School Board (2)	<u>\$ 21,525,000</u>	26.93% (3)	<u>\$ 5,795,635</u>
Total ad valorem tax supported debt	<u><u>\$ 21,525,000</u></u>		<u><u>\$ 5,795,635</u></u>
 <u>Ratios:</u>			
Overall debt to 2005 taxable valuation			0.17%
Overall debt per capita			\$ 224.18

- (1) City of Key West direct debt does not include revenue bonds.
- (2) Monroe County School Board debt is as of June 30, 2005
- (3) Overlapping debt percentage was determined by a ratio of the assessed value of property subject to taxation in the City of Key West to the total assessed value of property subject to taxation in the overlapping unit.

City of Key West, Florida

**Table 10
Revenue Bond Coverage
Sanitary Sewer System Fund
For the last ten fiscal years
(In Thousands)**

Fiscal Year	Gross Revenues (1)	Cost of Operation and Maintenance (2)	Net Revenue Available for Debt Service	Debt Service Requirements (3)			Coverage
				Principal	Interest	Total	
1996	\$8,624	\$4,544	\$4,080	\$435	\$1,792	\$2,227	1.83
1997	\$11,090	\$4,908	\$6,182	\$445	\$1,776	\$2,221	2.78
1998	\$10,742	\$3,804	\$6,938	\$465	\$1,749	\$2,214	3.13
1999	\$11,246	\$3,905	\$7,341	\$485	\$1,729	\$2,214	3.32
2000	\$14,190	\$5,254	\$8,936	\$505	\$1,707	\$2,212	4.04
2001	\$12,859	\$5,435	\$7,424	\$525	\$1,683	\$2,208	3.36
2002	\$10,753	\$4,944	\$5,809	\$550	\$1,658	\$2,208	2.63
2003	\$10,588	\$6,448	\$4,140	\$575	\$1,732	\$2,307	1.79
2004	\$10,503	\$7,227	\$3,276	\$885	\$1,132	\$2,017	1.62
2005	\$10,499	\$6,275	\$4,224	\$895	\$1,115	\$2,010	2.10

- (1) Gross revenues exclude impact fees, connection fees and federal and state grants. Rates and charges were decreased by \$3.00 per BCU commencing in fiscal year 2001.
- (2) Total operating expenses exclude payments in lieu of taxes, depreciation and amortization, principal and interest expenses, and loss on the disposal of assets.
- (3) Debt service shown above includes principal and interest of refunded bonds only.
- (4) Excludes operating transfers in and out.
- (5) Effective 10/01/02 the base charge was reduced from \$23.09 to \$19.09 which resulted in a gross revenue decrease.

City of Key West, Florida

**Table 11
Revenue Bond Coverage
Key West Bight
For the last eight fiscal years (Debt issued in FY98)
(In Thousands)**

<u>Fiscal Year</u>	<u>Net Revenue of Facilities</u>	<u>Local Government Half Cent Tax Revenues</u>	<u>Guaranteed Entitlement</u>	<u>Total Pledge Revenues</u>	<u>Maximum Annual Debt Service on Bonds</u>	<u>Pro Forma Debt Service Coverage</u>
1998	\$1,522,204	\$2,664,315	\$392,780	\$4,579,299	\$1,562,963	2.93
1999	\$2,008,839	\$2,592,683	\$392,780	\$4,994,302	\$1,562,963	3.20
2000	\$2,202,055	\$3,037,208	\$392,780	\$5,632,043	\$1,562,963	3.60
2001	\$2,173,931	\$2,864,063	\$392,780	\$5,430,774	\$1,562,963	3.47
2002	\$2,135,051	\$2,909,065	\$392,780	\$5,436,896	\$1,562,963	3.48
2003	\$2,231,122	\$3,044,041	\$392,780	\$5,667,943	\$1,562,963	3.63
2004	\$2,072,275	\$3,309,692	\$392,780	\$5,774,747	\$1,562,963	3.69
2005	\$2,003,005	\$3,205,706	\$392,780	\$5,601,491	\$1,562,963	3.58

City of Key West, Florida

Table 12
Demographic Statistics
For the last ten fiscal years

Fiscal Year	Population (1)	Per Capita Income (1)	Median Age (1)	Education Level (2)	Public School Enrollment (3)	Unemployment Rate (4)
1996	27,009	\$15,547	34	N/A	4,085	2.7%
1997	27,305	\$22,421	34	N/A	4,285	2.4%
1998	27,522	\$28,959	40	N/A	4,087	2.2%
1999	27,698	\$29,657	40	N/A	4,073	2.0%
2000	25,478	N/A	39	N/A	4,027	2.0%
2001	N/A	N/A	N/A	N/A	4,063	N/A
2002	25,853	\$35,423	43	N/A	4,063	N/A
2003	25,811	\$35,423	39	N/A	4,056	2.3%
2004	N/A	N/A	N/A	N/A	N/A	N/A
2005	N/A	N/A	N/A	N/A	N/A	N/A

(1) Sources: City of Key West Planning Department and Bureau of Economic and Business Research, University of Florida.

(2) No Data was available for the City of Key West or Monroe County.

(3) Source: Monroe County School Board.

(4) Source: FDLES, Bureau of Labor. Market information was calculated by calendar year.

Note: Fiscal year 2001, 2004 and 2005 information was unavailable.

City of Key West, Florida

Table 13
Property Value, Construction, and Bank Deposits
For the last ten fiscal years
(Dollars in Thousands)

Fiscal Year	Property Value (1)			Construction (2)		Bank Deposits (3)
	Real/Personal Property Assessed Value	Exemptions Allowed for Real/Personal Property	Total Net Assessed Value	Number of Permits	Value	
1996	\$3,581,882	\$1,776,548	\$1,805,334	5,322	\$79,070	\$371,261
1997	\$3,693,458	\$1,623,827	\$2,069,631	4,740	\$85,649	\$364,913
1998	\$4,084,643	\$1,921,844	\$2,162,799	4,847	\$73,331	\$396,620
1999	\$4,469,712	\$2,083,045	\$2,386,667	5,779	\$114,175	\$410,398
2000	\$5,627,321	\$2,939,300	\$2,688,021	5,423	\$247,173	\$454,990
2001	\$6,081,539	\$3,087,068	\$2,994,471	6,308	\$769,332	\$515,952
2002	\$6,199,879	\$2,836,850	\$3,363,029	5,251	\$253,354	\$566,652
2003	\$6,612,222	\$2,631,664	\$3,980,558	6,484	\$86,694	\$626,458
2004	\$7,070,688	\$2,730,286	\$4,340,402	6,012	\$67,899	\$741,979
2005	\$9,595,415	\$4,236,380	\$5,359,035	5,306	\$96,236	\$737,931

- (1) Figures here are derived from Table 4 of this Statistical Section.
- (2) Source: City of Key West Building and Zoning Department.
- (3) Source: Florida Bankers Association

City of Key West, Florida

Table 14
Miscellaneous Statistics
September 30, 2005

Date of incorporation	1828
Form of government	Commission-Manager
Number of employees (excluding fire and police)	339
Area in square miles	5
City of Key West facilities and services:	
Miles of streets	85
Number of street lights	2,566
Number of traffic lights	61
Culture and recreation:	
Parks	8
Golf courses	1
Community swimming pools	1
Tennis courts	6
Ball fields	9
Museums	8
Libraries	1
Number of volumes	70,000
Fire protection:	
Number of stations	4
Number of fire trucks	6
Number of fire personnel	68
Police protection:	
Number of stations	1
Number of patrol units (including motorcycles)	100
Number of police personnel	78
Sewerage system:	
Miles of sanitary sewers	57
Miles of storm sewers	10
Number of treatment plants, operational 1990	1
Permitted sewage treatment capacity (annual average)	10.0 MGD
Water system:	
Miles of water mains	98
Number of service connections	12,116
Number of fire hydrants	311
Daily average consumption in gallons	12.9 MGD
Education:	
Number of public elementary schools	5
Number of public middle schools	1
Number of public secondary schools	1
Number of private schools	4
Public school enrollment	4,056
Hospitals:	
Number of hospitals	1
Number of patient beds	167
Ambulance services:	
Number of providers	1
Number of units	5

City of Key West, Florida

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INDEPENDENT AUDITORS' 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

The Honorable Mayor
and City Commissioners
City of Key West, Florida

Jack D. Niles, Jr., C.P.A.
Guy A. Willis, C.P.A.
Sharon A. Moore, C.P.A.

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Key West, Florida, as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 16, 2006. We did not audit the financial statements of the Key West Housing Authority, which is the sole discretely presented component unit. Those financial statements were audited by other auditors. 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

2432 Flagler Avenue
Key West, FL 33040
305 • 294 • 6606
Fax 305 • 294 • 0328

In planning and performing our audit, we considered City of Key West, Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion 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.

Compliance and Other Matters

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

We noted certain matters that we have reported to the management of City of Key West, Florida in a separate letter dated June 16, 2006.

This report is intended solely for the information and use of the Mayor, City Commission members and management of the City of Key West, Florida, the Auditor General, State of Florida, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Niles, Willis & Moore, P.A.
NILES, WILLIS & MOORE, P.A.

June 16, 2006

City of Key West, Florida
Schedule of Expenditures of Federal Awards
and State Financial Assistance
For the Year Ended September 30, 2005

Federal or State Grantor/Pass-Through Grantor/Program Title	CFDA Number	CSFA Number	Federal or State Grant Contract Number	Expenditures
FEDERAL AWARDS				
<u>U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT</u>				
Direct Program:				
Housing Opportunities for Persons with AIDS	14.241	N/A	FLH010021	145,932
Pass-through Florida Department of Community Affairs				
Community Development Block Grant - Small Cities	14.219	N/A	99DB-4Z-11-54-02-E74	1,581
Community Development Block Grant - State Program	14.228	N/A	04DB-1Q-11-54-02-H02	191,030
<u>U.S. DEPARTMENT OF JUSTICE</u>				
Direct Programs:				
Local Law Enforcement Block Grant	16.592	N/A	2003-LB-BX-2518	5,643
Bulletproof Vest Partnership Program	16.607	N/A	N/A	4,118
Bulletproof Vest Partnership Program	16.607	N/A	N/A	498
Public Safety Partnership & Community Policing	16.710	N/A	2004CKWX0340	369,708
Pass through South Florida HIDTA:				
High Intensity Drug Trafficking	16.592	N/A	I3PMIP5114	3,018
High Intensity Drug Trafficking	16.592	N/A	I4PMIP5114	33,574
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Pass through Florida Department of Transportation:				
Highway Planning and Construction	20.205	N/A	AL108	26,666
Highway Planning and Construction	20.205	N/A	AOC27	110,907
Formula Grants for Other Than Urbanized Areas	20.509	N/A	ANP78	222,390
Formula Grants for Other Than Urbanized Areas	20.509	N/A	AI254	64,166
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Direct Program:				
Port Security	97.056	N/A	HSTS04-04-G-GPS379	673,668
Port Security	97.056	N/A	HSTS04-04-G-GPS556	163,862
Pass through Florida Fish & Wildlife Conservation Commission:				
State Domestic Preparedness Equipment Support	97.004	N/A	FWC04096	124,010
Pass through Florida Department of Law Enforcement:				
State Domestic Preparedness Equipment Support	97.004	N/A	05-CJL3-07-54-02-004	20,289
Pass through Florida Department of Community Affairs:				
Public Assistance Grants	97.036	N/A	06-DN-@G-11-54-01-529	1,085,002
Public Assistance Grants	97.036	N/A	06-KT-B&-11-54-02-592	287,297
Public Assistance Grants	97.036	N/A	06-RT-&W-11-54-02-517	282,190
Public Assistance Grants	97.036	N/A	06-WL-&K-11-54-02-539	16,447
Total Federal Awards Expenditures				\$ 3,831,996

City of Key West, Florida
Schedule of Expenditures of Federal Awards
and State Financial Assistance
For the Year Ended September 30, 2005

Federal or State Grantor/Pass-Through Grantor/Program Title	CFDA Number	CSFA Number	Federal or State Grant Contract Number	Expenditures
STATE FINANCIAL ASSISTANCE				
<u>FLORIDA DEFENSE INFRASTRUCTURE</u>				
Enterprise Florida, Inc.	N/A	31.003	CDG-01-11	50,639
<u>FLORIDA DEPARTMENT OF TRANSPORTATION</u>				
Seaport Grants	N/A	55.005	AM950	161,106
Public Transit Block Grant Program	N/A	55.010	AN184	45,092
Public Transit Block Grant Program	N/A	55.010	AO042	157,359
Public Transit Service Development Program	N/A	55.012	AM090	53,515
Total State Financial Assistance Expenditures				<u>\$ 467,711</u>

NOTES:

- (1) The Schedule of Expenditures of Federal Awards and State Financial Assistance was prepared on the full accrual basis of accounting.
- (2) Total amount paid to subrecipients with federal funds was \$128,920 from the Housing Opportunities for Persons with AIDS federal program. Other federal programs do not utilized subrecipients. There were no subrecipients from state financial assistance programs.

See independent auditor's report.

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

Jack D. Niles, Jr., C.P.A.
Guy A. Willis, C.P.A.
Sharon A. Moore, C.P.A.

The Honorable Mayor
and City Commissioners
City of Key West, Florida

Compliance

We have audited the compliance of the City of Key West, Florida 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, 2005. The City of Key West, Florida's major federal programs are identified in the summary of auditors' 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 the City of Key West, Florida's management. Our responsibility is to express an opinion on the City of Key West, Florida's compliance based on our audit.

The City of Key West, Florida's financial statements include the operations of the Key West Housing Authority, the City's sole discretely presented component unit, which expended \$2,914,686 in federal awards during their year ended December 31, 2004, which is not included in the City's schedule during the year ended September 30, 2005. Our audit, described below, did not include the operations of Key West Housing Authority because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance 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; and 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 the City of Key West, Florida's 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 the City of Key West, Florida's compliance with those requirements.

In our opinion, the City of Key West, Florida 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, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and is described in the accompanying schedule of findings and questioned costs as item 2005-1.

Members:

American Institute of
Certified Public Accountants

Florida Institute of
Certified Public Accountants

Internal Control Over Compliance

The management of the City of Key West, Florida 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 the City of Key West, Florida's 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 Mayor, City Commission members and management of the City of Key West, Florida, the Auditor General, State of Florida, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Niles, Willis & Moore, P.A.
NILES, WILLIS & MOORE, P.A.

June 16, 2006

City of Key West, Florida
Schedule of Findings and Questioned Costs
Relating to Federal Awards
For the Year Ended September 30, 2005

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

Reportable condition(s) identified not considered to be material weaknesses? None

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Reportable condition(s) identified not considered to be material weaknesses? None

Type of auditors' report issued on compliance for major programs? Unqualified

Any audit findings disclosed that are required to be reported in accordance with
OMB Circular A-133, Section .510(a)? Yes

Identification of major programs:	<u>CFDA Number</u>	<u>Name of Federal Program</u>
	16.710	U.S. Department of Justice Public Safety Partnership and Community Policing
	97.036	U.S. Department of Homeland Security Passed through the Florida Department of Community Affairs Public Assistance Grants
	97.056	U.S. Department of Homeland Security Port Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

Section II – Financial Statement Findings

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Section III – Federal Award Findings and Questioned Costs

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

City of Key West, Florida
Schedule of Findings and Questioned Costs
Relating to Federal Awards (Continued)
For the Year Ended September 30, 2005

Section III – Federal Award Findings and Questioned Costs

DEPARTMENT OF HOMELAND SECURITY

2005-1

Port security grant program—CFDA number 97.056—Grant number HSTS04-04-G-GPS379—
Grant period February 25, 2004 through July 1, 2006

Criteria—Procurement procedures

Statement of Condition—A purchase was made from a GSA vendor using a list price quotation rather than a GSA price quotation. The vendor provided a quotation at list price and one at GSA contract price. The list price quotation was used in error to prepare the purchase order for the equipment and was ultimately the amount used to pay the vendor.

Questioned Costs—\$16,263

Perspective Information—Staff believed that they could rely on a vendor's representation that the prices provided were those under a GSA contract as long as it could be documented that a vendor had been awarded a GSA contract. As soon as staff became aware of the situation, steps were taken to remedy it.

Cause—This occurred because there is no procedure in place to confirm that the prices provided by GSA vendors are at or below the GSA contract amounts.

Effect—The amount in excess of the GSA contract price is considered a questioned cost.

City of Key West, Florida
Summary Schedule of Prior Audit Findings
Relating to Federal Awards
For the Year Ended September 30, 2005

DEPARTMENT OF TRANSPORTATION

2004-1

Statement of Condition--The retainage paid for work done prior to the start date of the contract was billed to the contract.

Recommendation--The procedures relating to the billing of construction contracts that utilize retainage to grants need to be modified. They should include a reconciliation of the work performed from the pay applications to the amounts billed to the grantor.

Current Status--This was corrected.

**City of Key West, Florida
Schedule of Findings
Relating to State Block Grant Program
For the Year Ended September 30, 2005**

Section I – State Block Grant Procedures

The City complied with the block grant program limitations outlined in Chapter 341.052 of the Florida Statutes.