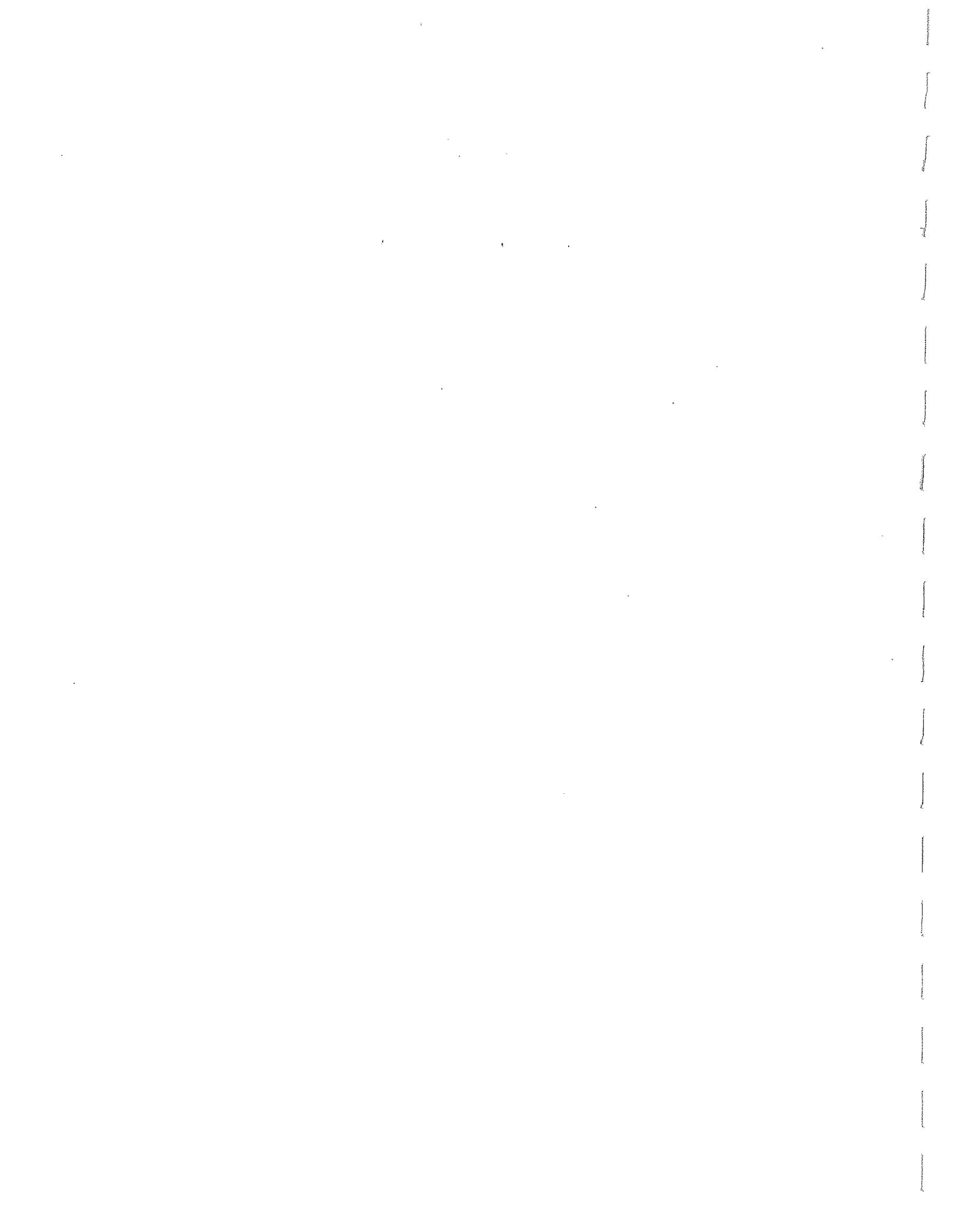


City of Key West Florida



Comprehensive Annual Financial Report

Fiscal Year Ended September 30, 2006



City of Key West, Florida

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

Fiscal Year Ended September 30, 2006

Prepared by:

**Department of Finance
City of Key West**



City of Key West, Florida
Comprehensive Annual Financial Report
Fiscal Year Ended September 30, 2006

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

March 31, 2007

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, 2006, 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.

State statutes require an annual audit by independent certified public accountants. 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, 2006.

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. As the statistics show tourism was down for the first time in many years mainly due to the 2005 hurricane seasons as discussed below.

The average hotel occupancy rate for the calendar year 2006 was 73.5%, down from 76.2% in 2005. The average hotel room rate increased from \$165 to \$180 for the same period. Tourists arriving at Key West International Airport for fiscal year 2006 were 276,000, compared to 313,000 for the preceding fiscal year.

A further economic indicator is cruise ship passenger disembarkments. For fiscal year 2006, 859,089 cruise ship passengers visited the city compared to 976,761 in 2005.

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.

The first three storms named below actually occurred in the city's fiscal year 2005 however recovery continued into fiscal year 2006. The fourth storm hurricane Wilma which was by far the worst actually occurred at the beginning of the fiscal year. The storm had an immediate impact on the city's 2006 budget and expenditures for clean up and repair. The majority of the costs associated with this storm are reflected in the 2006 financial statements.

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. Damage costs related to this storm are approximately \$1,600,000. It is anticipated that the city will be eligible to receive 87.5% in reimbursements from the Federal Emergency Management Agency (FEMA) and the State of Florida Department of Community Affairs (DCA).

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. Damage costs related to this storm are approximately \$1,900,000. It is anticipated that the city will be eligible to receive 87.5% in reimbursements from FEMA and DCA.

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. Damage costs related to this storm are approximately \$700,000. It is anticipated that the city will be eligible to receive 87.5% in reimbursements from FEMA and DCA.

On 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. The City alone lost 112 vehicles to the flood. Most fortunately, no lives were lost. Currently direct cost, including debris removal, damage to city buildings and properties - as well as destroyed equipment - is at \$7,700,000.

Recently the city received notice that FEMA and DCA will cover 95% of eligible cost related to this storm up from the standard 87.5%. This represents a significant amount of money that is a welcomed relief.

With the amount of damages incurred in this storm the city was able to pierce its self insured retention amount for wind and flood of \$1,500,000. The city was able to demonstrate insurance covered losses of just over \$1,800,000. However in the case of FEMA participation, in the same losses, the proceeds will have to be shared and or turned over to FEMA.

The impact of lost revenues to the city is somewhere around \$1,500,000. The loss of tourist related income both in sales tax dollars and charges for services revenues such as parking, cruiseships and fines contribute to this loss.

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.

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 is committed to 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, certificates of deposits, 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 two years 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 13.

Financial Planning

The City annually updates its five year strategic plan. This plan sets the goals and objectives for the coming fiscal year. Based upon citizen and commissioner input this documents sets the goals for the budgetary process.

The charter of the city requires voter approval for the issuance of debt. Therefore the city has not relied too heavily on long term debt financing for its major projects. The city uses its infrastructure tax proceeds to accumulate sufficient recourses to complete these major capital projects.

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, 2005. 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.

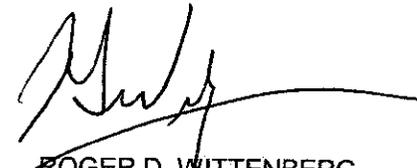
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and are submitting it to the GFOA to determine its eligibility for certification.

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,


JOHN JONES
Acting 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, 2005

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



President

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

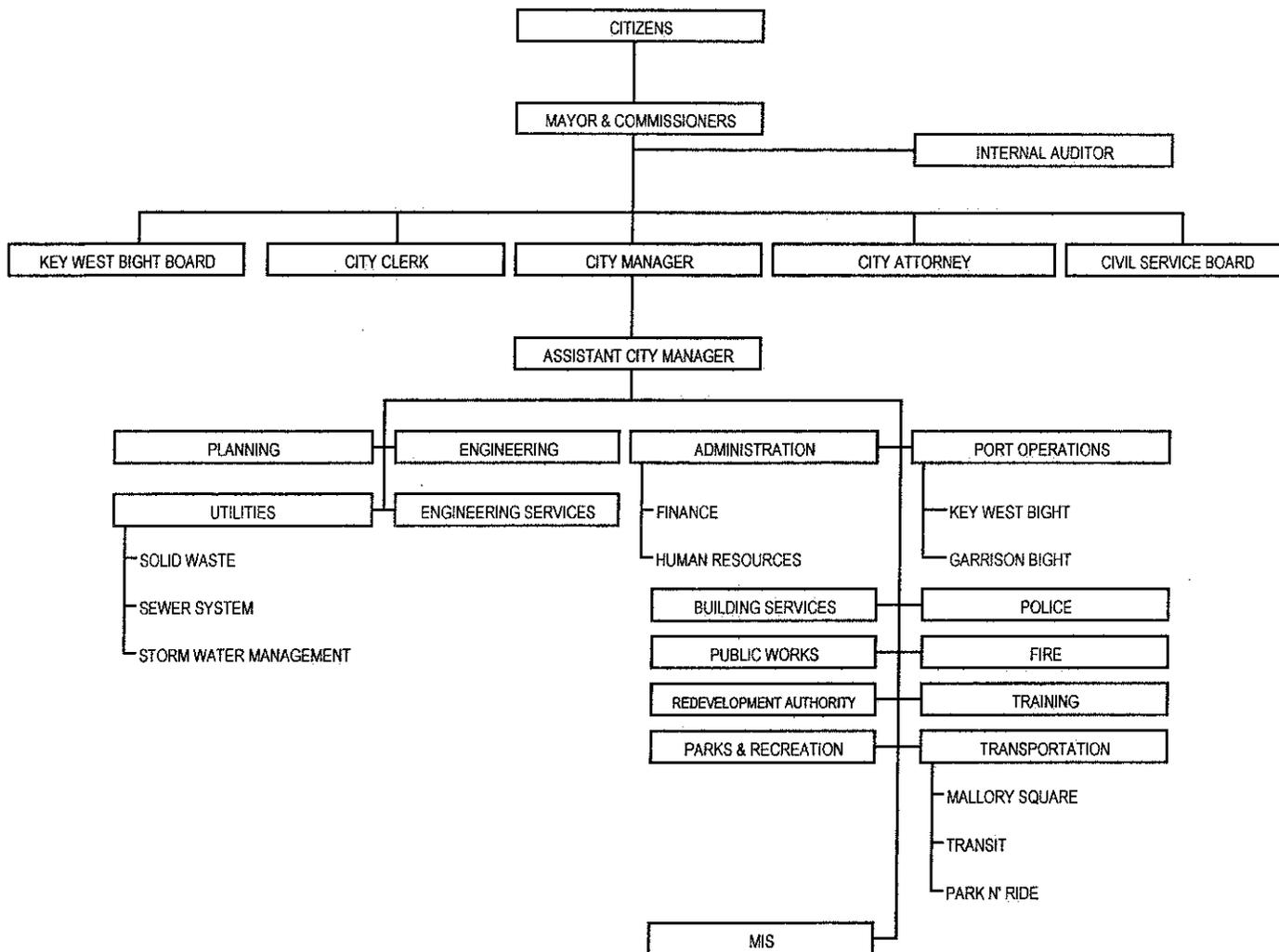
City Manager	Julio Avel
City Clerk	Cheryl Smith
City Attorney	Shawn Smith

Department Directors

Assistant City Manager	John Jones
Building & Zoning/Licensing	John Woodson
Police Chief	Bill Mauldin
Public Works	R.B. Havens
Engineering Services	Joe April
Finance	Roger Wittenberg
Fire Chief	David Fraga
Human Resources	Sandy Gilbert
Management Information Systems	Patti McLauchlin
Planning	Gail Kenson
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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JACK D. NILES, JR., C.P.A.
GUY A. WILLIS, C.P.A.
SHARON A. MOORE, C.P.A.

INDEPENDENT AUDITORS' REPORT

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

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, 2006, 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.

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, 2006, 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 May 31, 2007 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 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.

May 31, 2007

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, 2006. 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

- On October 24, 2005 Hurricane Wilma passed to the North and West of the Florida Keys. As a result of this storm Key West experienced extensive flooding throughout the City as storm surge from the passing hurricane rose as high as 5 feet in some areas of town. This resulted in a substantial hardship to the City of Key West and its residents. The hardest hit funds of the City were the General Fund and the Solid Waste Fund both funds experiencing millions of dollars in damage related costs.
- The assets of the City exceeded its liabilities at the close of fiscal year 2006 by \$225,125,000 a smaller than expected increase as a result of the Hurricane recovery expenditures and revenue short falls.
- During the year, the City had revenues of \$18,419,000 generated in program revenues and \$28,782,000 in general revenues for governmental activities resulting in a net assets increase of \$1,781,000. The majority of this increase coming from the City's special revenues funds.
- The General Fund reported an excess of expenditures over revenues of \$2,791,000 as a result of revenues shortfalls and significant vehicle replacement expenses caused by the hurricane.
- Business type net assets increased by \$4,560,000 or 7 percent. The largest contributor to the increase was the Stormwater Fund with capital projects funded with grant proceeds.

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 \$218,783,000 to \$225,117,000, or 2.9 percent. Total net assets are comprised of \$175,149,000 invested in capital assets, \$20,023,000 restricted for capital projects, transportation, recreation and other purposes, and \$29,944,000 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	
	FY06	FY05	FY06	FY05	FY06	FY05
Current and other assets	\$ 48,354	\$ 43,913	\$ 31,246	\$ 36,233	\$ 79,600	\$ 80,146
Capital assets	83,237	84,281	134,586	127,092	217,823	211,373
Total assets	<u>131,591</u>	<u>128,194</u>	<u>165,832</u>	<u>163,325</u>	<u>297,423</u>	<u>291,519</u>
Long-term debt outstanding	1,765	1,912	40,491	42,008	42,256	43,920
Other Liabilities	14,235	12,464	15,815	16,351	30,050	28,815
Total Liabilities	<u>16,000</u>	<u>14,376</u>	<u>56,306</u>	<u>58,359</u>	<u>72,306</u>	<u>72,735</u>
Net assets:						
Invested in capital assets, net of debt	83,047	84,281	92,102	83,682	175,149	167,963
Restricted	17,596	17,885	2,427	2,358	20,023	20,243
Unrestricted (deficit)	14,948	11,651	14,997	18,926	29,945	30,577
Total net assets	<u>\$ 115,591</u>	<u>\$ 113,817</u>	<u>\$ 109,526</u>	<u>\$ 104,966</u>	<u>\$ 225,117</u>	<u>\$ 218,784</u>

Net assets of the City's governmental activities are comprised of \$14,948,000 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 \$17,596,000 are restricted to comply with the requirements of the special revenue funds, or other legal requirements. Governmental activities also have \$83,047,000 invested in net capital assets.

Net assets of the City's business type activities increased by 4.3 percent, and are comprised of \$14,997,000 in unrestricted net assets, \$2,427,000 in assets restricted for capital projects and debt service, and \$92,102,000 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	
	FY06	FY05	FY06	FY05	FY06	FY05
Revenues						
Program revenues:						
Charges for services	\$ 13,257	\$ 13,868	\$ 31,255	\$ 28,296	\$ 44,512	\$ 42,164
Grants and Contributions	5,154	2,271	8,993	3,808	14,147	6,079
General Revenues						
Taxes: Property and other	26,352	25,727		-	26,352	25,727
Intergovernmental	343	362		-	343	362
Investment Income	1,436	701	1,347	711	2,783	1,412
Other revenues	651	293	217	408	868	701
Total Revenues	<u>47,193</u>	<u>43,222</u>	<u>41,812</u>	<u>33,223</u>	<u>89,005</u>	<u>76,445</u>
Program Expenses						
General Government	13,248	14,109		-	13,248	14,109
Public Safety	23,059	20,332		-	23,059	20,332
Physical environment	220	284		-	220	284
Transportation	3,249	2,901		-	3,249	2,901
Economic Environment	2,152	1,184		-	2,152	1,184
Culture and recreation	4,206	3,270		-	4,206	3,270
Human Services	432	438		-	432	438
Sewer		-	10,030	9,835	10,030	9,835
Solid Waste		-	11,895	8,953	11,895	8,953
Stormwater		-	3,031	853	3,031	853
Marinas		-	7,233	6,504	7,233	6,504
Transit		-	3,917	2,977	3,917	2,977
Total Expenses	<u>46,566</u>	<u>42,518</u>	<u>36,106</u>	<u>29,122</u>	<u>82,672</u>	<u>71,640</u>
Excess before transfers	627	704	5,706	4,101	6,333	4,805
Transfers	1,146	1,198	(1,146)	(1,198)	-	-
Change in Net Assets	<u>\$ 1,773</u>	<u>\$ 1,902</u>	<u>\$ 4,560</u>	<u>\$ 2,903</u>	<u>\$ 6,333</u>	<u>\$ 4,805</u>

The City's total revenues reported are \$89,005,000, which in part represents \$44,512,000 in charges for services, \$26,352,000 in property and other taxes. Total expenses of \$82,672,000 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 \$47,193,000 include \$13,257,000 in fees, fines and charges for services, as well as \$26,352,000 in property and state and local shared taxes.

Tax revenues were slightly more than budget and Intergovernmental income was substantially above budget as a result of Federal Emergency Management Agency (FEMA) reimbursements and Department of Community Affairs (DCA) Charges for services were \$1,371,000 less than projected. The decrease in Charges for Services and Fines were a direct result of a decrease in parking meter collections, fines and cruiseships disembarkation fees that were affected as a result of the hurricane. The City's other revenue sources all exceeded final budget estimates.

The cost of all governmental activities this year was \$46,566,000. 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 \$13,778,000 because some of the cost was paid by those who directly benefited from the programs \$13,257,000, or by other governments and organizations that subsidized certain programs with grants and contributions \$5,154,000. The City paid for the remaining "public benefit" portion of governmental activities with \$14,377,000 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	
	FY06	FY05	FY06	FY05
General Government	\$ 13,195	\$ 13,692	\$ (8,492)	\$ (12,147)
Public Safety	23,059	20,332	(18,922)	(15,597)
Culture & recreation	4,206	3,357	(3,277)	(3,067)
Transportation	3,248	3,189	4,328	5,891
All Others	2,858	1,948	(1,783)	(1,459)
Totals	<u>\$ 46,566</u>	<u>\$ 42,518</u>	<u>\$ (28,146)</u>	<u>\$ (26,379)</u>

Business-type Activities

Revenues of the City's business-type activities (see Table 2) increased by 26 percent (\$41,812,000 in 2006 compared to \$33,223,000 in 2005) as a result of increased charges for services, grant income (FEMA and DCA) and investment income. Expenses increased by 19 percent, or \$6,984,000, primarily as a result of expenses related to hurricane recovery in the Solid Waste Fund.

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, 2006, governmental funds reported combined fund balances of \$34,324,000 which is an increase of \$2,625,000 in comparison with the prior fiscal year. The increase is a result of asset (cash), accumulations in the City's special revenue funds as a build up for capital projects.

The General Fund is the chief operating fund of the city. As of September 30, 2006 the unreserved fund balance account in the general fund was \$10,896,000, a decrease of \$221,681 from the previous year. All as a result of the 2005 hurricane season. This unreserved fund balance amount represents 29 percent of the total General Fund FY06 actual expenditures, a decrease from 31 percent from the previous year.

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>Assets (Deficit)</u>	
		<u>FY06</u>		<u>FY05</u>
Sewer	\$	2,555,000	\$	3,895,000
Solid Waste		10,922,000		14,073,000
Stormwater		(591,000)		(200,000)
Key West Bight		302,000		(154,000)
Garrison Bight		2,254,000		1,672,000
Transit		(445,000)		(359,000)

For the year ending September 30, 2006, the Sewer Fund net assets increased from \$60,638,000 to \$62,213,000 and can be attributed to a decrease in operating expenses and a sewer rates increase.

Solid Waste Fund net assets remained materially the same, with only a slight increase of \$29,000.

The Stormwater Fund is a relatively new user fee fund which began in August of 2002. The fund's net assets increased by \$1,809,000 mainly due to capital construction grants received from other agencies.

The Key West Bight Fund net assets increased by \$1,527,000 due to an increase in operating revenues as a result of the Ferry Terminal improving its operating results and an increase in dockage fees.

FY 05-06 Budgetary Highlights

HURRICANE IMPACTS

The budget for 05-06 was set prior to the substantial impact of hurricane Wilma in October of 2005. The original budget development is described below. The hurricane severely impacted the expenditure budgets of the General Fund through repair, employee housing and vehicle replacement costs and the Solid Waste Fund with debris clean up and disposal costs.

In addition as described below other revenues in the General Fund were increased to reach role back, specifically parking revenues. With the amount of damages incurred by the city, tourism was off for the first quarter of the year which severely handicapped our ability to receive tourist based revenues. Also with the amount of debris in the streets and the resultant clean up effort, parking collections were suspended for 2 months which resulted in the revenue shortfalls as described above.

ORIGINAL BUDGET DEVELOPMENT

Original budgets were developed to improve existing and add new services while maintaining overall expenditures at reasonable levels. The General Fund Ad Valorem property tax rate was set at rollback.

- The economy:
 - The Key West tourist based economy was strong and was experiencing record tourist volumes. Hurricane Dennis in July had a minor impact on the City economy.
 - The Key West military based economy was increasing due to increased Navy's and Coast Guard activity.

- The war in Iraq, the possibility of terrorist attacks on cruiseships and the resultant impact on the local tourist economy was of concern but had no negative impact on the economy.
- Ad Valorem taxes, 33% of revenues, were budgeted at rollback. To accomplish this, given increases in expenses, required the following actions below:
- Significant increases in other revenues had to take place This included:
 - \$868,910 in increases in payments from other funds, specifically the Enterprise Funds
 - \$1,027,193 in increases and changes in parking revenues. Parking rates were increased 50% in order to generate this increase in revenue.
 - \$515,520 in increases in parking fine revenues, based upon parking rate increase and stepped up enforcement.
 - Of particular note was the \$243,014 decrease in cruiseships gross revenues due to the reduction in the number of budgeted passengers.
- Wages and fringe benefits, 73% of total expenses, increased by 8.6%.
 - Health insurance rates did not increase over the prior year
 - Police and Fire pension contribution rates increased by 25%.
 - For the first time in, at least the past 10 years, a total of 8.85 positions budgeted at \$414,958 were deleted from the budget to reduce personnel costs.
- Operating expenses, 22% of total expenses, increased by 4.9%. These were budgeted as stringent as possible to reduce the increase. However, many of these expenses were either new programs or beyond the ability of the City to control. The following new programs have been implemented in recent years as noted below at their FY 05-06 budget level. They have added to expenses and make the achievement of rollback more difficult:

○ Citizen Review Board	\$ 137,469
○ School Crossing Guard	\$ 254,350
○ Tax Increment Fund Transfer	\$ 526,890
○ Homeless Center	<u>\$ 470,252</u>
○ Total	<u>\$1,388,961</u>
- Capital expenses, 0.2% of expenses decreased by 88%. As in recent years, most General Fund capital requests were transferred to the Infrastructure Tax Fund.
- New programs/business plan initiatives pursuant to the Strategic Plan were included in the preliminary FY 05-06 budget but could not be funded at the rollback level. These were excluded from the final budget.
- The approved rollback budget had no safety margin for events that could cause a reduction in tourism and in turn charges in services related to these revenues sources.

Capital Assets and Debt Administration

At the end of 2006, the City had \$217,106,000 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	
	FY06	FY05	FY06	FY05	FY06	FY05
Land	\$ 53,187	\$ 53,187	\$ 18,681	\$ 14,936	\$ 71,868	\$ 68,123
Buildings & improvements	33,088	32,503	153,138	144,012	186,226	176,515
Equipment	15,142	14,469	16,181	16,456	31,323	30,925
Infrastructure	7,022	7,022	-	-	7,022	7,022
Construction in progress	604	352	3,283	3,807	3,887	4,159
Depreciation	(25,807)	(23,252)	(57,413)	(52,119)	(83,220)	(75,371)
Totals	\$ 83,236	\$ 84,281	\$ 133,870	\$ 127,092	\$ 217,106	\$ 211,373

This year's major additions included:

- Land was purchased on Rockland Key. This land was purchased to construct the new Solid Waste Transfer Station at a cost of \$3,745,000.
- A second Deep Injection Well was placed in service in the Sewer Fund this year for \$4,153,000.
- Approximately 26 Stormwater gravity wells were placed in service this year at a cost of \$4,880,000.

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 \$42,256,000 in bonds and notes outstanding, including unamortized loss and premiums/discounts, as shown in Table 5:

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY06	FY05	FY06	FY05	FY06	FY05
Promissory note	\$ 1,765	\$ 2,059	\$ 4,204	\$ 4,427	\$ 5,969	\$ 6,486
Revenue Bonds and Notes	-	-	36,287	37,581	36,287	37,581
Totals	\$ 1,765	\$ 2,059	\$ 40,491	\$ 42,008	\$ 42,256	\$ 44,067

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 06-07 budget was developed in light of the following factors:

- The City's economy was still recovering from a devastating 2005 hurricane season.
- The City was financially healthy.
- The City had recently elected a new mayor and four commissioners that had never participated in the budget process.
- However, caution was exercised in budget preparation due to the following factors:
 - The vulnerability of the local tourist based economy, due 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:

During the first week of June, meetings were set up with department heads and commissioners. This allowed the Commissioners one on one time with department heads as the department heads presented their budget. Commissioners interacted by making recommendations of additions and cuts and were very supportive of the final budgets that came as a result of these workshops.

The recommended budget presented at the Commission Workshop on July 19, 2006 was balanced and represented an 8.3% increase in expenditures and revenues. The significant components were as follows:

REVENUES

- Ad Valorem Taxes at 28% or \$3,600,000 above rollback. This substantial increase was needed to balance the budget as other revenues sources had decreased. It was therefore necessary to balance the budget solely through the use of ad valorem taxes.
- Decreases in other revenues totaling \$321,708 as follows:
 - Charges for services decrease by \$1,522,000. This substantial decrease offset any other increase in other general fund revenue. This decrease was a result of a reassessment of parking collections in the wake of the past hurricane season and the 50% increase in parking rates in the previous fiscal year, which projected revenue appeared to be overstated.

EXPENDITURES

- Personal Services 7.8% increase in costs
 - Salary increase \$1,228,000, union contractual driven, Fire, Police and Teamsters
 - New positions \$499,000, many were add backs of ones deleted in 05-06 to reach rollback.
 - Health insurance and workers compensation were minimal at \$273,000 when compared to prior years inflation trends in health insurance.
- Operating 4.4% increase in costs, \$348,000
 - Amount budgeted to keep pace with increasing inflationary trends in consumer goods.
- Capital \$695,000 minimal increases the majority to be funded through Cemetery vault sales for a new \$360,000 Mausoleum.

The City Commission felt comfortable with the increases proposed in the the expenditure budget, as all these expenditures had been thoroughly explained to the commissioners in one on one meeting's at the beginning of the budget process.

The tentative millage rate and budget were approved by the commission and the millage rate was presented to property owners on August 19, 2006 in the Truth in Millage statement sent by the Property Appraiser.

On September 12, 2006 the City approved the first reading of the budget ordinance with a millage rate set at 27.07% above the rolled back rate.

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.

City of Key West, Florida

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Basic Financial Statements

**City of Key West, Florida
Statement of Net Assets
September 30, 2006**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Current assets				
Cash and cash equivalents	\$ 17,523,993	\$ 9,644,513	\$ 27,168,506	\$ 631,440
Cash and cash equivalents (restricted)	70,024	5,008,266	5,078,290	2,142,374
Investments	17,699,621	11,356,128	29,055,749	150,000
Investments (restricted)	552,278	-	552,278	-
Accounts receivable (net of allowances)	1,794,947	3,351,247	5,146,194	3,900,271
Intergovernmental	4,174,717	4,543,517	8,718,234	-
Interest	181,936	88,474	270,410	-
Internal balances	3,362,412	(3,362,412)	-	-
Inventories	12,286	594,861	607,147	75,056
Prepaid items	159,329	21,379	180,708	234,740
Mortgages	1,141,690	-	1,141,690	-
Total current assets	<u>46,673,233</u>	<u>31,245,973</u>	<u>77,919,206</u>	<u>7,133,881</u>
Noncurrent assets				
Net pension assets	1,537,898	-	1,537,898	-
Capital assets				
Land	53,186,804	18,681,033	71,867,837	8,002,207
Buildings	13,310,823	37,624,606	50,935,429	46,349,342
Improvements	19,777,415	115,512,967	135,290,382	-
Machinery, equipment and furniture	15,141,649	16,181,388	31,323,037	709,055
Accumulated depreciation	(25,806,612)	(57,412,920)	(83,219,532)	(16,146,700)
Infrastructure	7,022,159	-	7,022,159	1,167,752
Construction in progress	604,369	3,283,360	3,887,729	21,200
Other	143,584	716,043	859,627	2,736,787
Total noncurrent assets	<u>84,918,089</u>	<u>134,586,477</u>	<u>219,504,566</u>	<u>42,839,643</u>
Total assets	<u>131,591,322</u>	<u>165,832,450</u>	<u>297,423,772</u>	<u>49,973,524</u>

Continued

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

City of Key West, Florida
Statement of Net Assets
September 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Liabilities				
Current liability				
Accounts Payable and accrued expenses	2,788,069	2,953,422	5,741,491	471,464
Accrued Wages & Benefits	1,306,353	93,005	1,399,358	-
Unearned revenue	2,805,703	455,273	3,260,976	-
Intergovernmental	269,398	6,148,881	6,418,279	588,391
Deposits	171,720	-	171,720	275,181
Insurance claims payable	2,233,110	-	2,233,110	-
Compensated absences	1,421,150	170,389	1,591,539	-
Liabilities payable from restricted assets:				
Accrued interest	-	1,303,650	1,303,650	353,139
Bonds and notes payable	147,059	1,634,068	1,781,127	855,764
Unearned revenue	-	-	-	-
Other	34,578	40,000	74,578	62,345
Total current liabilities	<u>11,177,140</u>	<u>12,798,688</u>	<u>23,975,828</u>	<u>2,606,284</u>
Noncurrent liabilities				
Notes payable	1,764,706	4,203,640	5,968,346	32,691,775
Revenue bonds payable	-	36,287,273	36,287,273	-
Insurance claims payable	1,410,890	-	1,410,890	-
Accrued interest	-	2,015,704	2,015,704	-
Closure costs	-	343,333	343,333	-
Compensated absences	1,647,488	159,600	1,807,088	207,232
Other	-	498,011	498,011	2,233,635
Total noncurrent liabilities	<u>4,823,084</u>	<u>43,507,561</u>	<u>48,330,645</u>	<u>35,132,642</u>
Total liabilities	<u>16,000,224</u>	<u>56,306,249</u>	<u>72,306,473</u>	<u>37,738,926</u>
Net Assets				
Invested in capital assets, net of related debt	83,046,607	92,102,453	175,149,060	6,555,317
Restricted for:				
Capital projects	9,992,331	1,500,000	11,492,331	-
Debt service	-	926,982	926,982	-
Transportation	5,894,240	-	5,894,240	-
Recreation	313,494	-	313,494	-
Economic Environment	1,370,606	-	1,370,606	1,867,193
Public Safety	26,011	-	26,011	-
Unrestricted	14,947,810	14,996,766	29,944,576	3,812,088
Total net assets	<u>\$115,591,099</u>	<u>\$109,526,201</u>	<u>\$225,117,300</u>	<u>\$12,234,598</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, 2006

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	\$ 13,195,447	\$ 1,593,745	\$ 2,319,994	\$ 781,718
Public safety	23,058,545	4,077,057	30,943	28,468
Physical environment	219,781	119,958	3,651	244,856
Transportation	3,248,744	7,352,227	205,923	18,653
Economic environment	2,152,424	-	704,973	-
Human Services	432,052	-	-	-
Culture and recreation	4,206,004	114,393	703,616	111,443
Principal	-	-	-	-
Interest	52,655	-	-	-
Total governmental activities	<u>46,565,652</u>	<u>13,257,380</u>	<u>3,969,100</u>	<u>1,185,138</u>
Business Type Activities				
Sewer System	10,029,938	12,062,795	8,751	449,404
Solid Waste	11,895,040	8,590,544	3,827,265	403,761
Key West Bight	6,007,952	6,531,916	272,377	298,783
Stormwater	3,031,216	1,741,760	1,409,001	914,900
Garrison Bight	1,225,356	1,396,666	120,885	-
Transit	3,916,912	931,815	1,287,898	-
Total business-type activities	<u>36,106,414</u>	<u>31,255,496</u>	<u>6,926,177</u>	<u>2,066,848</u>
Total primary government	<u>\$ 82,672,066</u>	<u>\$ 44,512,876</u>	<u>\$ 10,895,277</u>	<u>\$ 3,251,986</u>
COMPONENT UNITS:				
Key West Housing Authority	<u>10,559,564</u>	<u>5,498,868</u>	<u>3,610,784</u>	<u>101,661</u>
Total Component Units	<u>\$ 10,559,564</u>	<u>\$ 5,498,868</u>	<u>\$ 3,610,784</u>	<u>\$ 101,661</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)				
Income on investments				
Transfers in (out)				
Insurance Proceeds				
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
\$ (8,499,990)	\$ -	\$ (8,499,990)	\$ -
(18,922,077)	-	(18,922,077)	-
148,684	-	148,684	-
4,328,059	-	4,328,059	-
(1,447,451)	-	(1,447,451)	-
(432,052)	-	(432,052)	-
(3,276,552)	-	(3,276,552)	-
-	-	-	-
<u>(52,655)</u>	<u>-</u>	<u>(52,655)</u>	<u>-</u>
<u>(28,154,034)</u>	<u>-</u>	<u>(28,154,034)</u>	<u>-</u>
-	2,491,012	2,491,012	-
-	926,530	926,530	-
-	1,095,124	1,095,124	-
-	1,034,445	1,034,445	-
-	292,195	292,195	-
-	<u>(1,697,199)</u>	<u>(1,697,199)</u>	<u>-</u>
-	<u>4,142,107</u>	<u>4,142,107</u>	<u>-</u>
<u>(28,154,034)</u>	<u>4,142,107</u>	<u>(24,011,927)</u>	<u>-</u>
			<u>(1,348,251)</u>
			<u>(1,348,251)</u>
12,468,733	-	12,468,733	-
2,029,889	-	2,029,889	-
1,241,372	-	1,241,372	-
6,009,809	-	6,009,809	-
3,342,178	-	3,342,178	-
1,259,438	-	1,259,438	-
343,341	-	343,341	-
1,436,300	1,347,019	2,783,319	48,385
1,146,091	<u>(1,146,091)</u>	-	-
442,094	-	442,094	-
<u>208,532</u>	<u>216,974</u>	<u>425,506</u>	<u>3,044,721</u>
<u>29,927,777</u>	<u>417,902</u>	<u>30,345,679</u>	<u>3,093,106</u>
1,773,743	4,560,009	6,333,752	1,744,855
<u>113,817,356</u>	<u>104,966,192</u>	<u>218,783,548</u>	<u>10,489,743</u>
<u>\$ 115,591,099</u>	<u>\$ 109,526,201</u>	<u>\$ 225,117,300</u>	<u>\$ 12,234,598</u>

City of Key West, Florida
Balance Sheet
Governmental Funds
September 30, 2006

Assets	General Fund	Infrastructure Surtax Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 4,088,609	\$ 1,471,369	\$ 7,019,817	\$ 12,579,795
Cash and cash equivalents (restricted)	-	-	70,024	70,024
Investments	6,002,721	3,225,625	8,471,275	17,699,621
Investments (restricted)	-	-	552,278	552,278
Receivables:				
Accounts	1,016,086	-	2,085	1,018,171
Intergovernmental	1,837,903	860,873	419,587	3,118,363
Mortgages	-	-	1,285,274	1,285,274
Interfund	1,066,691	-	-	1,066,691
Interest	58,456	24,556	98,924	181,936
Inventories	12,286	-	-	12,286
Advance	2,491,829	-	-	2,491,829
Prepays	11,979	-	1,131	13,110
Total assets	<u>\$ 16,586,560</u>	<u>\$ 5,582,423</u>	<u>\$ 17,920,395</u>	<u>\$ 40,089,378</u>
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$ 775,631	\$ 231,848	\$ 180,649	\$ 1,188,128
Payroll payable	494,180	10,135	9,662	513,977
Retainage payable	-	13,482	15,662	29,144
Interfund payable	787,594	-	-	787,594
Intergovernmental	-	-	269,398	269,398
Deposits	171,720	-	-	171,720
Deferred revenue	812,454	-	1,993,249	2,805,703
Total liabilities	<u>3,041,579</u>	<u>255,465</u>	<u>2,468,620</u>	<u>5,765,664</u>
Fund balances				
Reserved for:				
Inventory and prepaids	24,265	-	-	24,265
Receivables	-	-	140,687	140,687
Encumbrances	121,004	240,453	932,512	1,293,969
Advances	2,491,829	-	-	2,491,829
Unreserved, reported in:				
General fund	10,907,883	-	-	10,907,883
Special revenue	-	5,086,505	8,570,024	13,656,529
Capital projects	-	-	5,808,552	5,808,552
Total fund balances	<u>13,544,981</u>	<u>5,326,958</u>	<u>15,451,775</u>	<u>34,323,714</u>
Total liabilities and fund balances	<u>\$ 16,586,560</u>	<u>\$ 5,582,423</u>	<u>\$ 17,920,395</u>	<u>\$ 40,089,378</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, 2006

Fund Balances - total governmental funds	\$ 34,323,714
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.	83,236,607
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.	2,004,058
Fiduciary funds are used by management to account for pension assets. The Net Pension Asset is then recorded on the entity wide statements.	1,537,898
Receivables in governmental funds are susceptible to full accrual on the entity-wide statements. Intergovernmental	1,056,354
Payables in governmental funds are susceptible to full accrual on the entity-wide statements.	(90,075)
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 \$ (1,911,765)	
Accrued expenses (1,500,000)	
Compensated absences <u>(3,065,692)</u> (Not created in connection with terminated employees)	
Long-term liabilities - net	(6,477,457)
 Net assets of governmental activities	 <u><u>\$ 115,591,099</u></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, 2006

	General	Infrastructure Surtax Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$13,778,074	\$6,009,809	\$1,979,986	\$ 21,767,869
Licenses and permits	2,734,730	-	-	2,734,730
Intergovernmental income	8,160,794	738,705	1,156,732	10,056,231
Charges for services	6,504,436	-	1,079,333	7,583,769
Fines and forfeitures	1,092,883	-	40,654	1,133,537
Investment earnings	606,043	192,919	637,338	1,436,300
Rental income	1,436,760	-	-	1,436,760
Contributions and other	557,876	-	92,751	650,627
Total revenues	<u>34,871,596</u>	<u>6,941,433</u>	<u>4,986,794</u>	<u>46,799,823</u>
Expenditures:				
Current:				
General government	11,935,946	837,708	-	12,773,654
Public safety	19,892,420	61,940	59,248	20,013,608
Physical environment	137,216	-	-	137,216
Transportation	1,162,165	438,874	1,295,855	2,896,894
Economic environment	101,500	-	2,127,476	2,228,976
Culture and recreation	2,439,103	1,214,063	-	3,653,166
Human Services	422,624	-	-	422,624
Capital outlay	1,571,707	1,409,475	14,364	2,995,546
Debt service:				
Principal	-	-	147,059	147,059
Interest	-	-	52,655	52,655
Total expenditures	<u>37,662,681</u>	<u>3,962,060</u>	<u>3,696,657</u>	<u>45,321,398</u>
Excess (deficiency) of revenues over (under) expenditures	(2,791,085)	2,979,373	1,290,137	1,478,425
Other financing sources (uses):				
Transfers in	3,472,008	-	2,800,078	6,272,086
Transfers out	(950,078)	(1,850,000)	(2,325,917)	(5,125,995)
Total other financing sources (uses)	<u>2,521,930</u>	<u>(1,850,000)</u>	<u>474,161</u>	<u>1,146,091</u>
Net change in fund balances	<u>(269,155)</u>	<u>1,129,373</u>	<u>1,764,298</u>	<u>2,624,516</u>
Fund balances:				
October 1, previously stated	12,314,136	4,197,585	13,687,478	30,199,199
Prior period adjustment	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>1,500,000</u>
October 1, restated	<u>13,814,136</u>	<u>4,197,585</u>	<u>13,687,478</u>	<u>31,699,199</u>
Fund balance, September 30	<u>\$ 13,544,981</u>	<u>\$ 5,326,958</u>	<u>\$ 15,451,776</u>	<u>\$ 34,323,715</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, 2006

Net change in fund balances - total governmental funds	\$ 2,624,516
<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	\$ 2,995,546
Less: loss on disposal	(321,585)
Less: current year depreciation	<u>(3,718,783)</u>
	(1,044,822)
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.	147,059
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	393,482
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.	128,916
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	52,927
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.	(972,860)
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.	444,525
Change in net assets of governmental activities	<u>\$ 1,773,743</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, 2006

	General Fund			Variance with Final Budget- Positive (Negative)
	General Fund Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues:				
Taxes	\$ 13,659,547	\$ 13,659,549	\$ 13,778,074	\$ 118,525
Licenses and permits	2,149,877	2,149,877	2,734,730	584,853
Intergovernmental income	4,999,107	4,999,109	8,160,794	3,161,685
Charges for services	7,875,823	7,875,821	6,504,436	(1,371,385)
Fines and forfeitures	1,548,433	1,548,433	1,092,883	(455,550)
Investment income	290,494	290,494	606,043	315,549
Rental income	1,402,970	1,402,970	1,436,760	33,790
Contributions and other	18,000	18,501	557,876	539,375
Total revenues	<u>31,944,251</u>	<u>31,944,754</u>	<u>34,871,596</u>	<u>2,926,842</u>
Expenditures:				
Personal services	26,127,828	26,123,831	26,814,853	(691,022)
Operating	7,880,897	7,939,997	9,174,621	(1,234,624)
Capital	88,150	88,150	1,571,707	(1,483,557)
Aid to private organizations	103,300	103,300	101,500	1,800
Total expenditures	<u>34,200,175</u>	<u>34,255,278</u>	<u>37,662,681</u>	<u>(3,407,403)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,255,924)</u>	<u>(2,310,524)</u>	<u>(2,791,085)</u>	<u>(480,561)</u>
Other financing sources (uses):				
Transfers in	3,472,008	3,472,008	3,472,008	-
Transfers (out)	940,100	(950,078)	(950,078)	-
Total other financing sources (uses)	<u>4,412,108</u>	<u>2,521,930</u>	<u>2,521,930</u>	<u>-</u>
Net change in fund balance	<u>2,156,184</u>	<u>211,406</u>	<u>(269,155)</u>	<u>(480,561)</u>
Fund balance:				
October 1 , previously stated	12,314,136	12,314,136	12,314,136	-
Prior period adjustment	-	-	1,500,000	1,500,000
October 1 , restated	<u>12,314,136</u>	<u>12,314,136</u>	<u>13,814,136</u>	<u>1,500,000</u>
Fund balance, September 30	<u>\$ 14,470,320</u>	<u>\$ 12,525,542</u>	<u>\$ 13,544,981</u>	<u>\$ 1,019,439</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, 2006

	Infrastructure Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Taxes	\$ 5,900,000	\$ 5,900,000	\$ 6,009,809	\$109,809
Intergovernmental income	1,330,000	1,330,000	738,705	(591,295)
Investment income	15,768	15,768	192,919	177,151
Contributions and other	-	65,000	-	(65,000)
Total revenues	<u>7,245,768</u>	<u>7,310,768</u>	<u>6,941,433</u>	<u>(479,144)</u>
Expenditures:				
Personal Service	-	-	362,657	(362,657)
Operating	-	2,328,346	2,189,928	138,418
Capital	5,375,090	3,176,745	1,409,475	1,767,270
Total expenditures	<u>5,375,090</u>	<u>5,505,091</u>	<u>3,962,060</u>	<u>1,543,031</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,870,678</u>	<u>1,805,677</u>	<u>2,979,373</u>	<u>1,063,887</u>
Other financing sources (uses):				
Transfers (out)	1,850,000	(1,850,000)	(1,850,000)	-
Total other financing sources (uses)	<u>1,850,000</u>	<u>(1,850,000)</u>	<u>(1,850,000)</u>	<u>-</u>
Net change in fund balance	<u>3,720,678</u>	<u>(44,323)</u>	<u>1,129,373</u>	<u>1,063,887</u>
Fund balance, October 1	<u>4,197,585</u>	<u>4,197,585</u>	<u>4,197,585</u>	<u>-</u>
Fund balance, September 30	<u>\$ 7,918,263</u>	<u>\$ 4,153,262</u>	<u>\$ 5,326,958</u>	<u>\$ 1,063,887</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, 2006

	<u>Sanitary Sewer System</u>	<u>Solid Waste</u>	<u>Key West Bight</u>	<u>Stormwater</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 857,386	\$ 2,630,549	\$ 2,758,062	\$ 906,119
Investments	5,000,000	6,356,128	-	-
Receivables, net of allowance for uncollectibles:				
Interest	83,425	-	5,049	-
Accounts	1,530,468	1,148,628	369,054	185,455
Intergovernmental	6,063	2,224,714	146,503	1,391,969
Interfund receivables	11,448	3,922	5,883	-
Prepaid expense	-	-	15,751	-
Inventory	423,946	77,995	55,255	23,401
Total	<u>7,912,736</u>	<u>12,441,936</u>	<u>3,355,557</u>	<u>2,506,944</u>
Restricted assets:				
Cash and cash equivalents	3,842,599	79,994	1,085,673	-
Total	<u>3,842,599</u>	<u>79,994</u>	<u>1,085,673</u>	<u>-</u>
Total current assets	<u>11,755,335</u>	<u>12,521,930</u>	<u>4,441,230</u>	<u>2,506,944</u>
Noncurrent assets				
Deferred Charges				
Unamortized bond cost, net	470,330	-	166,449	-
Property, plant and equipment:				
Land	6,480	3,745,026	14,879,527	-
Buildings	24,308,578	3,859,176	4,757,258	-
Improvements other than buildings	93,359,835	911,325	7,092,478	10,789,168
Machinery, equipment and furniture	9,895,268	981,126	380,759	96,221
Construction in progress	1,000,697	330,126	1,186,406	715,822
Total	<u>128,570,858</u>	<u>9,826,779</u>	<u>28,296,428</u>	<u>11,601,211</u>
Less accumulated depreciation	40,226,096	4,987,725	4,354,280	876,010
Net property, plant and equipment	<u>88,344,762</u>	<u>4,839,054</u>	<u>23,942,148</u>	<u>10,725,201</u>
Other noncurrent assets:				
Accounts receivable	68,310	10,955	-	-
Advance to other funds	45,158	-	292,696	-
Total other noncurrent assets	<u>113,468</u>	<u>10,955</u>	<u>292,696</u>	<u>-</u>
Total noncurrent assets	<u>88,928,560</u>	<u>4,850,009</u>	<u>24,401,293</u>	<u>10,725,201</u>
Total assets	<u>\$100,683,895</u>	<u>\$ 17,371,939</u>	<u>\$28,842,523</u>	<u>\$ 13,232,145</u>

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

<u>Other Enterprise Funds</u>	<u>Total</u>	<u>Governmental Activities Internal Service Funds</u>
\$ 2,492,397	\$ 9,644,513	\$ 4,944,198
-	11,356,128	-
-	88,474	-
117,642	3,351,247	776,776
774,268	4,543,517	-
15,689	36,942	-
5,628	21,379	146,219
14,264	594,861	-
<u>3,419,888</u>	<u>29,637,061</u>	<u>5,867,193</u>
-	5,008,266	-
-	5,008,266	-
<u>3,419,888</u>	<u>34,645,327</u>	<u>5,867,193</u>
-	636,779	-
50,000	18,681,033	-
4,699,594	37,624,606	-
3,360,161	115,512,967	-
4,828,013	16,181,387	-
50,309	3,283,360	-
<u>12,988,077</u>	<u>191,283,353</u>	-
<u>6,968,809</u>	<u>57,412,920</u>	-
<u>6,019,268</u>	<u>133,870,433</u>	-
-	79,265	-
-	337,854	-
-	417,119	-
<u>6,019,268</u>	<u>134,924,331</u>	-
<u>\$ 9,439,156</u>	<u>\$169,569,658</u>	<u>\$ 5,867,193</u>

City of Key West, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2006

	<u>Sanitary Sewer System</u>	<u>Solid Waste</u>	<u>Key West Bight</u>	<u>Stormwater</u>
Liabilities and Equity				
Liabilities:				
Current liabilities:				
Accounts payable	\$ 457,452	\$ 943,017	\$ 202,692	\$ 295,556
Accrued payroll and related expenses	30,294	47,006	53,598	10,058
Accrued expenses	-	120,734	211,016	-
Retainage payable	68,178	-	34,191	472,510
Interfund payable	-	-	200,000	-
Insurance claims payable	-	-	-	-
Intergovernmental payable	6,148,881	-	-	-
Deferred revenue	104,520	-	257,505	-
Total	<u>6,809,325</u>	<u>1,110,757</u>	<u>959,002</u>	<u>778,124</u>
Current liabilities:				
Payable from restricted assets:				
Closure costs payable, current	-	40,000	-	-
Accrued interest	566,737	-	736,913	-
Bonds and notes payable, current	1,138,414	-	495,654	-
Total	<u>1,705,151</u>	<u>40,000</u>	<u>1,232,567</u>	<u>-</u>
Total current Liabilities:	<u>8,514,476</u>	<u>1,150,757</u>	<u>2,191,569</u>	<u>-</u>
Noncurrent liabilities:				
Revenue bonds payable, net of discount	25,732,717	-	10,554,556	-
Note payable	4,203,640	-	-	-
Closure costs	-	343,333	-	-
Advance from other funds	-	-	395,360	2,096,469
Insurance claims payable	-	-	-	-
Customer deposits	1,000	-	139,686	212,706
Accrued interest	-	-	2,015,704	-
Accrued compensated absences	18,593	37,222	36,136	10,918
Total noncurrent liabilities	<u>29,955,950</u>	<u>380,555</u>	<u>13,141,442</u>	<u>2,320,093</u>
Total liabilities	<u>38,470,426</u>	<u>1,531,312</u>	<u>15,333,011</u>	<u>3,098,217</u>
Net Assets				
Invested in capital assets, net of related debt	57,334,642	4,839,054	13,184,290	10,725,201
Restricted for current debt service	823,928	79,994	23,059	-
Restricted for renewal & replacement	1,500,000	-	-	-
Unrestricted	2,554,899	10,921,579	302,163	(591,273)
Total net assets	<u>62,213,469</u>	<u>15,840,627</u>	<u>13,509,512</u>	<u>10,133,928</u>
Total liabilities and net assets	<u>\$ 100,683,895</u>	<u>\$ 17,371,939</u>	<u>\$ 28,842,523</u>	<u>\$ 13,232,145</u>

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

<u>Other Enterprise Funds</u>	<u>Total</u>	<u>Governmental Activities Internal Service Funds</u>
\$ 148,074	\$ 2,046,791	\$ 9,866
122,438	263,394	4,782
-	331,750	-
-	574,879	-
707,526	907,526	196,107
-	-	2,233,110
-	6,148,881	-
93,248	455,273	5,434
<u>1,071,286</u>	<u>10,728,494</u>	<u>2,449,299</u>
-	40,000	-
-	1,303,650	-
-	1,634,068	-
-	<u>2,977,718</u>	-
<u>1,071,286</u>	<u>13,706,212</u>	<u>2,449,299</u>
-	36,287,273	-
-	4,203,640	-
-	343,333	-
337,854	2,829,683	-
-	-	1,410,890
144,619	498,011	-
-	2,015,704	-
56,731	159,600	2,946
<u>539,204</u>	<u>46,337,244</u>	<u>1,413,836</u>
<u>1,610,490</u>	<u>60,043,456</u>	<u>3,863,135</u>
6,019,268	92,102,455	-
-	926,981	-
-	1,500,000	-
1,809,398	14,996,766	2,004,058
<u>7,828,666</u>	<u>109,526,202</u>	<u>2,004,058</u>
<u>\$ 9,439,156</u>	<u>\$ 169,569,658</u>	<u>\$ 5,867,193</u>

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

For the year ended September 30, 2006

	<u>Sewer System</u>	<u>Solid Waste</u>	<u>Key West Bight</u>	<u>Stormwater</u>
Operating revenues:				
Charges for services	\$ 12,062,795	\$ 8,590,544	\$ 6,531,916	\$ 1,741,760
Total operating revenues	<u>12,062,795</u>	<u>8,590,544</u>	<u>6,531,916</u>	<u>1,741,760</u>
Operating expenses:				
Personal services	502,493	763,017	1,188,792	142,185
Other operating expenses	4,906,995	10,485,726	3,342,040	2,458,049
Depreciation and amortization	3,285,806	635,748	594,858	331,544
Total operating expenses	<u>8,695,294</u>	<u>11,884,491</u>	<u>5,125,690</u>	<u>2,931,778</u>
Operating income (loss)	<u>3,367,501</u>	<u>(3,293,945)</u>	<u>1,406,225</u>	<u>(1,190,018)</u>
Nonoperating revenues (expenses):				
Grant income	8,751	3,827,265	272,377	1,409,001
Investment earnings	422,693	578,379	179,985	61,250
Other income	1,407	44,000	63,935	-
Other expense	-	-	-	-
Interest expense	(1,319,186)	-	(831,098)	(99,438)
Loss on disposal	(15,458)	(10,549)	(51,164)	-
Net nonoperating revenues (expenses)	<u>(901,793)</u>	<u>4,439,095</u>	<u>(365,965)</u>	<u>1,370,813</u>
Income (loss) before contributions and transfers	<u>2,465,708</u>	<u>1,145,148</u>	<u>1,040,261</u>	<u>180,795</u>
Capital contributions	449,404	403,761	298,783	914,900
Transfers in	-	-	523,231	783,890
Transfers (out)	(1,340,000)	(1,520,000)	(335,008)	(70,000)
Total transfers and contributions	<u>(890,596)</u>	<u>(1,116,239)</u>	<u>487,006</u>	<u>1,628,790</u>
Change in net assets	1,575,112	28,909	1,527,267	1,809,585
Total net assets, October 1	<u>60,638,357</u>	<u>15,811,718</u>	<u>11,982,245</u>	<u>8,324,343</u>
Total net assets, September 30	<u>\$ 62,213,469</u>	<u>\$ 15,840,627</u>	<u>\$ 13,509,512</u>	<u>\$ 10,133,928</u>

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

<u>Other Enterprise Funds</u>	<u>Total</u>	<u>Governmental Activities Internal Service Funds</u>
\$ 2,328,480	\$ 31,255,495	\$ 7,186,680
<u>2,328,480</u>	<u>31,255,495</u>	<u>7,186,680</u>
2,466,185	5,062,672	140,309
1,618,982	22,811,792	8,224,882
971,530	5,819,486	-
<u>5,056,697</u>	<u>33,693,950</u>	<u>8,365,191</u>
-	-	-
<u>(2,728,217)</u>	<u>(2,438,455)</u>	<u>(1,178,510)</u>
-	-	-
1,408,783	6,926,177	-
104,712	1,347,019	205,650
107,632	216,974	-
-	-	-
(27,471)	(2,277,193)	-
<u>(58,100)</u>	<u>(135,271)</u>	<u>-</u>
1,535,556	6,077,706	205,650
<u>(1,192,661)</u>	<u>3,639,251</u>	<u>(972,860)</u>
-	2,066,848	-
1,025,316	2,332,437	-
<u>(213,520)</u>	<u>(3,478,528)</u>	<u>-</u>
811,796	920,757	-
(380,865)	4,560,008	(972,860)
<u>8,209,531</u>	<u>104,966,194</u>	<u>2,976,918</u>
<u>\$ 7,828,666</u>	<u>\$ 109,526,202</u>	<u>\$ 2,004,058</u>

City of Key West, Florida
Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2006

	<u>Sewer System</u>	<u>Solid Waste</u>	<u>Key West Bight</u>	<u>Stormwater</u>
Cash flows from operating activities:				
Cash received from customers	\$ 12,117,885	\$ 8,199,600	\$ 6,425,089	\$ 1,812,387
Cash paid to suppliers	(4,886,988)	(10,810,445)	(3,297,470)	(2,175,497)
Cash paid to employees	(501,915)	(774,111)	(1,173,241)	(141,305)
Other receipts	1,407	44,000	63,935	-
Net cash provided by (used in) operating activities	<u>6,730,389</u>	<u>(3,340,956)</u>	<u>2,018,313</u>	<u>(504,415)</u>
Cash flows from noncapital financing activities:				
Operating grants received	2,817	3,382,253	136,259	37,848
Advance/loan to other funds	7,526	-	-	-
Advance/loan from other funds	-	-	(104,492)	-
Interest paid on loan from other funds	-	-	(28,709)	(9,159)
Transfers in	-	-	523,231	783,890
Transfers (out)	(1,340,000)	(1,520,000)	(335,008)	(70,000)
Net cash flows from noncapital financing activities	<u>(1,329,657)</u>	<u>1,862,253</u>	<u>191,281</u>	<u>742,579</u>
Cash flows from capital and related financing activities:				
Proceeds of capital grants	-	-	462,645	914,900
Acquisition and construction of capital assets	(5,047,755)	(3,820,936)	(1,049,429)	(2,490,980)
Principal paid on revenue bonds	(895,000)	-	(524,294)	-
Interest paid	(1,256,207)	-	(1,032,151)	-
Payments on notes	(216,284)	-	-	-
Impact fees	91,162	82,838	-	-
Net cash flows from capital and related financing activities	<u>(7,324,084)</u>	<u>(3,738,098)</u>	<u>(2,143,229)</u>	<u>(1,576,080)</u>
Cash flows from investing activities:				
Investment earnings	356,393	522,294	168,747	61,251
Purchase of investment securities	(5,000,000)	(6,205,388)	-	-
Proceeds from sale and maturities of investment securities	-	12,235,000	-	-
Net cash flows from investing activities	<u>(4,643,607)</u>	<u>6,551,906</u>	<u>168,747</u>	<u>61,251</u>
Net increase (decrease) in cash and cash equivalents	(6,566,959)	1,335,105	235,111	(1,276,665)
Cash & equivalents, October 1	<u>11,266,944</u>	<u>1,375,440</u>	<u>3,608,624</u>	<u>2,182,784</u>
Cash & equivalents, September 30	<u>\$ 4,699,985</u>	<u>\$ 2,710,543</u>	<u>\$ 3,843,735</u>	<u>\$ 906,119</u>

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

Other Enterprise Funds	Total	Governmental Activities Internal Service Funds
\$ 2,323,422	\$ 30,878,383	\$ 7,165,590
(1,545,312)	(22,715,712)	(7,535,804)
(2,472,827)	(5,063,399)	(143,917)
107,632	216,974	-
<u>(1,587,085)</u>	<u>3,316,246</u>	<u>(514,131)</u>
742,816	4,301,993	-
-	7,526	-
637,474	532,982	-
(14,867)	(52,735)	-
1,025,316	2,332,437	-
(213,520)	(3,478,528)	-
<u>2,177,219</u>	<u>3,643,675</u>	<u>-</u>
-	1,377,545	-
(152,005)	(12,561,105)	-
-	(1,419,294)	-
-	(2,288,358)	-
-	(216,284)	-
-	174,000	-
<u>(152,005)</u>	<u>(14,933,496)</u>	<u>-</u>
104,712	1,213,397	205,650
-	(11,205,388)	-
-	12,235,000	-
<u>104,712</u>	<u>2,243,009</u>	<u>205,650</u>
542,840	(5,730,568)	(308,482)
<u>1,949,557</u>	<u>20,383,349</u>	<u>5,252,680</u>
<u>\$ 2,492,397</u>	<u>\$ 14,652,781</u>	<u>\$ 4,944,198</u>

Continued

City of Key West, Florida
Proprietary Funds
Statement of Cash Flows (Continued)
For the year ended September 30, 2006

	<u>Sewer System</u>	<u>Solid Waste</u>	<u>Key West Bight</u>	<u>Stormwater</u>
Cash and cash equivalents at End of Year	<u>\$ 4,699,985</u>	<u>\$ 2,710,543</u>	<u>\$ 3,843,735</u>	<u>\$ 906,119</u>
Classified as:				
Current	\$ 857,386	\$ 2,630,549	\$ 2,758,062	\$ 906,119
Restricted	3,842,599	79,994	1,085,673	-
Total	<u>\$ 4,699,985</u>	<u>\$ 2,710,543</u>	<u>\$ 3,843,735</u>	<u>\$ 906,119</u>
Reconciliation of operating income (loss) to net cash provided by (applied to) operating activities:				
Operating income (loss)	<u>\$ 3,367,501</u>	<u>\$ (3,293,945)</u>	<u>\$ 1,406,225</u>	<u>\$ (1,190,018)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (applied to) operating activities:				
Other nonoperating revenues	1,407	44,000	63,935	-
Depreciation and amortization	3,285,806	635,748	594,858	331,543
Decrease (increase) in assets:				
Accounts receivable	52,798	(390,944)	(143,561)	61,467
Interfund receivables	501	501	2,963	-
Prepaid items	-	-	-	-
Inventories	(85,098)	5,152	17,304	(2,491)
Increase (decrease) in liabilities:				
Accounts payable	105,105	(289,873)	30,928	285,045
Accrued items	(6,721)	(738)	8,762	2,125
Interfund payables	-	-	-	-
Customer deposits	-	-	(3,547)	9,159
Deferred benefits and claims payat	-	-	-	-
Closure costs payable, noncurrent	-	(40,000)	-	-
Accrued compensated absences, noncurrent	6,798	(10,857)	165	(1,245)
Deferred revenue	2,292	-	40,281	-
Total adjustments	<u>3,362,888</u>	<u>(47,011)</u>	<u>612,088</u>	<u>685,603</u>
Net cash provided by (applied to) operating activities	<u>\$ 6,730,389</u>	<u>\$ (3,340,956)</u>	<u>\$ 2,018,313</u>	<u>\$ (504,415)</u>
Schedule of noncash investing, capital, and financing activities:				
Change in valuation of investments	<u>\$ -</u>	<u>\$ (161,736)</u>	<u>\$ -</u>	<u>\$ -</u>

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

<u>Other Enterprise Funds</u>	<u>Total</u>	<u>Governmental Activities Internal Service Funds</u>
<u>\$ 2,492,397</u>	<u>\$14,652,781</u>	<u>\$ 4,944,198</u>
\$ 2,492,397	\$ 9,644,513	\$ 4,944,198
-	5,008,266	-
<u>\$ 2,492,397</u>	<u>\$14,652,779</u>	<u>\$ 4,944,198</u>
<u>\$ (2,728,217)</u>	<u>\$ (2,438,455)</u>	<u>\$ (1,178,510)</u>
107,632	216,974	-
971,530	5,819,485	-
(26,405)	(446,645)	(432,421)
4,215	8,180	-
-	-	(146,219)
(2,239)	(67,372)	-
75,909	207,114	(76,283)
(1,357)	2,071	(6,554)
-	-	(25,038)
11,303	16,915	-
-	-	1,344,000
-	(40,000)	-
(9,501)	(14,640)	2,946
10,044	52,617	3,948
<u>1,141,131</u>	<u>5,754,699</u>	<u>664,379</u>
<u>\$ (1,587,086)</u>	<u>\$ 3,316,244</u>	<u>\$ (514,131)</u>
<u>\$ -</u>	<u>\$ (161,736)</u>	<u>\$ -</u>

City of Key West, Florida
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2006

	Total 2006
Assets	
Cash	\$ 1,489,808
Corporate Bonds	13,163,692
US Government Securities	15,192,436
Marketable Equity Securities	51,125,462
Receivables:	
Interest and dividends	381,474
Interfund receivables	992,618
Intergovernmental	173,650
Equipment	2,705
Accumulated depreciation	(1,340)
Total assets	\$ 82,520,505
 Liabilities:	
Accrued Expenses	\$ 107,493
Interfund Payable	205,024
Benefits Payable	65,055
Total liabilities	377,572
 Net Assets	
Assets held in trust for pension benefits	82,142,933
Total net assets	82,142,933
 Total liabilities and net assets	 \$ 82,520,505

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, 2006

	Total 2006
Additions	
Contributions	
Employer	\$ 3,173,940
Member	1,517,438
State Police and Fire	640,961
Total contributions	5,332,339
Net investment income	
Net appreciation in fair value of investments	4,394,597
Interest	2,144,124
Dividends	1,015,953
Other	170
	7,554,844
Less investment expense	331,919
	7,222,925
Total additions	12,555,264
Deductions	
Benefits paid	3,741,577
Administrative expense	242,279
Contributions refunded	427,570
Depreciation	502
Total deductions	4,411,928
Changes in net assets	8,143,336
Net assets - beginning	73,999,597
Net assets - ending	\$ 82,142,933

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, 2005 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, 2006, the City received payment in the amount of \$343,341. 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 90 days.

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

City of Key West, Florida

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 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 principal 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.

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

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 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 nor does it adopt a budget for the Law Enforcement Trust Fund.

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 as 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 changes as follows:

City of Key West, Florida

- 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, 2006 were as follows:

- The Monroe County tax certificate sale for delinquent properties was held on May 31, 2005.
- The City Manager submitted proposed budgets to the Commission for public input at workshops held as follows:
 - General Fund Review July 12 & 13, 2005.
 - Adoption of Tentative Ad Valorem July 13, 2005.
- Property Tax Millage Rate and Budget July 13, 2005.
- Other Funds Review July 20, 2005.
- Utility Funds Review August 9, 2005.
- The Property Appraiser advised the taxpayers of the tentative millage rate and the dates of the public hearings and final adoption on August 19, 2005.
- The first reading to obtain public comments on the Millage and Budget ordinances was held on September 12, 2005.
- A public notice containing the proposed property tax rate, summary of all budgets and notice of second reading was published on September 15, 2005.
- The second formal reading was scheduled for September 20, 2005. 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, 2005 advertising the rescheduled reading on September 27, 2005.
- The property tax (millage) rate and budget were enacted through the passage of ordinances on September 27, 2005.

At the end of the fiscal year the General Fund expenditures exceeded the budgeted amount in personal services, operating and capital categories largely due to costs associated with Hurricane Wilma. These overages were covered by the receipt of federal and state grant funds and the use of unappropriated reserves. Charges for service revenue was under budget by \$1,371,385 also as a result of the Hurricane which caused parking and cruiseship revenue to be off.

The Infrastructure Fund reports expenditures in excess of budget of \$362,658 for personal services. All activities of this fund are budgeted on a projects basis and do not include a specific line item allocation for salaries. These expenditures are covered by the overages in operating and capital expenditures.

The Community Development Special Revenue Fund received in excess of \$750,000 in unanticipated grant revenue, which is a direct result of the over budget expenditures in operating and capital.

F. Cash and Cash Equivalents

Cash and cash equivalents consist of amounts in demand deposits 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 SunTrust Overnight Repo account. 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, 2006 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 an 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 \$2,329,848. 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. Amounts of vested or accumulated vacation and sick leave related to governmental funds 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 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

City of Key West, Florida

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, 2006 the carrying value of the City's investments, was as follows:

	Market Value	Investment Maturities (in Months)				Credit Rating
		Less than 3 *	4 - 6	7 - 12	12 - 24	
US Government Agencies	\$ 22,958,026	\$ -	\$ 11,245,458	\$ 5,556,353	\$ 6,156,215	AAA, A-1+
Certificate of Deposit	8,000,000	1,500,000	6,500,000	-	-	Not Rated
State Investment Pool	21,781,062	21,781,062	-	-	-	Not Rated
	<u>\$ 52,739,088</u>	<u>\$ 23,281,062</u>	<u>\$ 17,745,458</u>	<u>\$ 5,556,353</u>	<u>\$ 6,156,215</u>	

- Investments maturing in 90 days or less from their purchase dates are classified as cash equivalents for financial reporting purposes.

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

City of Key West, Florida

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, 2006, the portion of the investment portfolio invested in Federal instrumentalities is as follows:

<u>Issue</u>	<u>Percent of Investment Portfolio</u>
US Government Agency	44%
State Investment Pool	41%
Certificates of Deposit	15%

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, 2006 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, 2006, 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, 2005 deposits for KWHH totaled \$2,773,814.

City of Key West, Florida

3. Receivables

Receivables at September 30, 2006 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	\$ 58,456	\$ 123,480	\$ -	\$ 88,474	\$ -	\$ 381,474	\$ 651,884
Accounts	1,016,086	2,085	-	4,075,230	776,776	-	5,870,177
Mortgages	-	2,402,092	-	-	-	-	2,402,092
Intergovernmental	1,837,903	1,280,460	-	4,543,517	-	173,650	7,835,530
Gross receivables	2,912,445	3,808,117	-	8,707,221	776,776	555,124	16,759,683
Less allowance for uncollectible	-	1,116,818	-	723,983	-	-	1,840,801
Net receivables	<u>\$ 2,912,445</u>	<u>\$ 2,691,299</u>	<u>\$ -</u>	<u>\$ 7,983,238</u>	<u>\$ 776,776</u>	<u>\$ 555,124</u>	<u>\$ 14,918,882</u>

Property taxes are levied November 1st on property valued as of the previous 1st of January. 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, 2006, was 2.0863 per \$1,000 of assessed taxable property value. The taxable value amounted to \$6,290,865,000. 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 60 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, 2006, 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)	\$ 168,457
Douglas School (HODAG)	<u>2,233,635</u>
Gross Mortgages Receivable	\$2,402,092
Less allowance for uncollectible mortgages	<u>(1,116,818)</u>
Net mortgages receivable	<u>\$1,285,274</u>

Intergovernmental receivables are comprised of the following:

City of Key West, Florida

	General	Special Revenue	Enterprise	Fiduciary	Total
Federal Grants and Entitlements:					
Dept. of Transportation	\$ -	\$ 80,585	\$ 236,109	\$ -	\$ 316,694
Dept. Justice	235,712	-	-	-	235,712
TSA	-	-	-	-	-
Fed Emergency Mgt.	1,186,385	344,692	3,663,343	-	5,194,420
Housing & Urban Dev	-	-	-	-	-
FHWA	-	-	-	-	-
State Grants - Florida					
Dept. of Transportation	-	-	371,264	-	371,264
DCA	2,819	26,039	195,974	-	224,832
State Shared Revenues:					
Infrastructure Surtax	-	444,604	-	-	444,604
Sales Tax	229,569	-	-	-	229,569
Local Communications Tax	140,574	-	-	-	140,574
Local Option Gas Tax	-	97,041	-	-	97,041
Other	59	4,916	-	173,650	178,625
Local Units:					
Monroe County	42,785	45,538	76,827	-	165,150
Key West Housing Auth.	-	237,045	-	-	237,045
Totals	\$ 1,837,903	\$ 1,280,460	\$ 4,543,517	\$ 173,650	\$ 7,835,530

4. Changes in Capital Assets

Capital Asset activity for fiscal year ending September 30, 2006 is as follows:

	Beginning Balance	Increases	(Decrease)	CIP Increase (Decrease)	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 53,186,804	-	-	-	\$ 53,186,804
Construction in progress	351,881	604,367	-	(351,879)	604,369
Total capital assets, not being depreciated	53,538,685	604,367	-	(351,879)	53,791,173
Capital assets, being depreciated:					
Buildings	13,120,823	138,000	-	52,000	13,310,823
Improvements other than buildings	19,382,620	155,453	(60,537)	299,879	19,777,415
Machinery and equipment	14,468,905	2,097,726	(1,424,982)	-	15,141,649
Infrastructure	7,022,159	-	-	-	7,022,159
Total capital assets, being depreciated	53,994,507	2,391,179	(1,485,519)	351,879	55,252,046
Less accumulated depreciation for:					
Buildings	3,879,230	505,849	-	-	4,385,079
Improvements other than buildings	10,808,121	1,337,322	(60,537)	-	12,084,906
Machinery and equipment	8,114,113	1,690,652	(1,103,399)	-	8,701,366
Infrastructure	450,301	184,960	-	-	635,261
Total accumulated depreciation:	23,251,765	3,718,783	(1,163,936)	-	25,806,612
Total capital assets, being depreciated, net	30,742,742	(1,327,604)	(321,583)	351,879	29,445,434
Governmental activities capital assets, net	\$ 84,281,427	\$ (723,237)	\$ (321,583)	\$ -	\$ 83,236,607

City of Key West, Florida

	Beginning Balance	Increases	(Decrease)	CIP Increase (Decrease)	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 14,936,007	\$ 3,745,026	\$ -	\$ -	18,681,033
Construction in progress	3,806,987	4,578,900	(39,397)	(5,063,130)	3,283,360
Total capital assets, not being depreciated	18,742,994	8,323,926	(39,397)	(5,063,130)	21,964,393
Capital assets, being depreciated:					
Buildings and system	37,624,606	-	-	-	37,624,606
Improvements other than buildings	106,387,799	4,062,038	-	5,063,130	115,512,967
Machinery and equipment	16,455,740	279,122	(553,475)	-	16,181,387
Total capital assets, being depreciated	160,468,145	4,341,160	(553,475)	5,063,130	169,318,960
Less accumulated depreciation for:					
Buildings and system	18,232,613	1,685,766	-	-	19,918,379
Improvements other than buildings	21,154,532	3,129,469	-	-	24,284,001
Machinery and equipment	12,932,194	935,947	(457,601)	-	13,410,540
Total accumulated depreciation:	52,319,339	5,751,182	(457,601)	-	57,612,920
Total capital assets, being depreciated, net	100,836,934	(1,410,022)	(95,874)	5,063,130	99,331,038
Business-type activities capital assets, net	\$ 127,091,800	\$ 6,913,904	\$ (135,271)	\$ -	\$ 133,870,432

Total depreciation expense for the current fiscal year amounted to \$9,469,965. 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	\$ 1,967,784
Public safety	1,058,515
Physical environment	62,836
Transportation	304,635
Recreation	325,013
Total depreciation expense - governmental activities	\$ 3,718,783
Business-type activities:	
Sewer	\$ 3,244,805
Solid waste	635,748
Key West Bight	567,555
Garrison Bight	193,752
Transit	777,778
Stormwater	331,544
Total depreciation expense - business-type activities	\$ 5,751,182

City of Key West, Florida

COMPONENT UNIT:

The following summarizes fixed assets from Key West Housing Authority's enterprise funds at December 31, 2005:

Land	\$ 8,002,207
Structures	47,517,094
Equipment	709,055
Construction-in-progress	<u>21,200</u>
Total fixed assets	\$56,249,556
Less accumulated depreciation	<u>16,146,700</u>
Net fixed assets	<u>\$40,102,856</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 \$3,842,599 and \$1,085,673 respectively. The Solid Waste Fund has restricted assets of \$79,994 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 \$622,302. 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 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, 2006 and related information for each plan is as follows:

City of Key West, Florida

	<u>General Employees Retirement Plan</u>	<u>Police & Fire Retirement Plan</u>
Contribution rates:		
City	11.0%	20.5%
State	0.0%	4.2%
Plan members	6.0%	7.0%
Annual pension cost	\$717,901	\$1,727,007
Contributions made	\$1,147,792	\$1,741,641
Annual Required Contribution	\$713,397	\$1,722,112
Net Pension Obligation(Asset)	(\$941,155)	(\$596,743)
Increase (Decrease) in Net Pension Obligation(Asset)	\$429,891	\$14,634
Interest on Net Pension Obligation(Asset)	(\$40,901)	(\$48,024)
Adjustment to ARC	\$45,405	\$52,919
Actuarial valuation date	10/01/05	10/01/05
Actuarial cost method	Entry Age Normal	Entry Age Normal Actuarial Cost Method
Amortization method	Level dollar amount, closed	Level payment, closed
Remaining amortization period	30 years	30 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

Three-Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent of APC Contributed</u>
<u>General Employees Retirement Plan:</u>		
9/30/04	\$ 761,000	131%
9/30/05	\$ 717,901	160%
9/30/06	\$ 1,145,214	105%
<u>Police & Fire Retirement Plan:</u>		
9/30/04	\$ 1,444,626	99%
9/30/05	\$ 1,727,007	101%
9/30/06	\$ 2,386,641	100%

City of Key West, Florida

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded / (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<u>General Employees Retirement Plan (dollars in thousands):</u>						
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%)
10/1/05	\$ 25,673	\$ 26,954	\$ 1,281	95.2	\$ 10,387	12.3%
<u>Police & Fire Retirement Plan (dollars in thousands):</u>						
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%
10/1/05	\$ 40,679	\$ 51,732	\$ 11,053	78.6	\$ 9,611	115.0%

A net pension asset has been recorded in the governmental wide statements in accordance with the net pension valuation dated 10/1/05.

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.

Funding Policy and Annual Pension Cost - The contribution requirements of plan members and KWAH are established and may be amended by the KWAH Board of Commissioners. Plan members may not make any

contributions to the Plan. KWAH is required to contribute at an actuarially determined rate; the current rate is 13.7% of covered payroll. Administrative costs of the Plan are financed through investment earnings. KWAH's annual pension cost for the year ended December 31, 2005 and related information for each plan is as follows:

	<u>Housing Authority Employees Retirement Plan</u>
Contribution rates:	
KWAH	13.7%
Annual pension cost	\$280,666

City of Key West, Florida

Contributions made	\$280,666
Net Pension Obligation (Asset)	(\$96,239)
Increase (Decrease) in Net Pension Obligation	(\$935)
Actuarial valuation date	01/01/05
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>			
12/31/02	\$ 337,329	91%	\$98,040
12/31/03	\$ 320,377	99%	\$97,174
12/31/04	\$ 280,666	100%	\$96,239

<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>Housing Authority Employees Retirement Plan (dollars in thousands):</u>						
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%
1/1/05	\$ 3,273	\$ 3,971	\$ 698	82.4%	\$ 2,049	34.1%

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.

8. Risk Management

Liability and Worker Compensation Claims -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 2006, a total of \$1,475,000 was incurred in benefits and claims. In fiscal year 2006, the fund provided coverage up to \$325,000 for each worker's compensation claim, \$100,000 for each general liability claim, and \$100,000 for each property claim. The City purchases commercial insurance for claims in excess of coverage

City of Key West, Florida

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 \$3,644,000 is reported in the fund at September 30, 2006. 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, 2006 are as follows (in thousands):

Fiscal Year	Beginning Liability	Claims Incurred	Estimates for Prior Claims	Claim Payments	Ending Liability
2004	\$ 2,097	\$ 750	(\$ 740)	(\$ 221)	\$ 1,886
2005	\$ 1,886	\$ 750	\$ 1,150	(\$ 1,154)	\$ 2,632
2006	\$ 2,632	\$ 1,706	\$ 1,257	(\$ 1,475)	\$ 4,120

The significant increase in Fiscal Year 2006 ending liability is primarily due to, higher than usual reported losses for 2006 for both Worker's Compensation and Liability coverage's and an increase in ultimate losses for accident years 2003 to 2005.

Property Claims – On October 24, 2005 hurricane Wilma passed to the northwest side of Key West. High winds and flooding caused insurance claims in excess of \$1,900,000. Based upon these claims and the City's self insured retention amount of \$1,500,000 a receivable for insurance proceeds has been recorded in the General Fund for \$442,094 at year end.

Health Insurance -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, 2006 include accrued compensated absences based on actual earned hours times pay rates in effect at year end. These amounts are not recorded 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 current long term. In the proprietary funds the amount expected to 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, 2006 was \$3,398,627 for all funds. The General Fund is used to liquidate the liability for compensated absences in the governmental activities.

City of Key West, Florida

10. Construction and Other Significant Commitments

The following table presents the significant commitments outstanding at September 30, 2006:

	Remaining Construction Commitment
Sanitary Sewer System Fund:	
Ultra Violet disinfection system	\$ 782,400
Storm Water Fund:	
Well engineering	\$ 174,487
Well construction	\$ 540,706
Solid Waste Fund:	
Transfer Station Engineering	\$ 168,500
Key West Bight:	
Ferry terminal ramp construction	\$ 296,356
Transit Fund:	
Bus facility engineering	\$ 968,432

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 \$79,994. 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 \$343,333 as long-term costs at September 30, 2006.

The City is a lessee in a non-cancelable operating lease for office space. Minimum future rentals are as follow:

Fiscal Year	
2007	\$111,204
2008	115,650
2009	120,273
2010	125,085
2011	31,575
Total Future Rents	\$503,787

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)

City of Key West, Florida

	<u>10/1/2005</u>	<u>Additions</u>	<u>Amortization/ Retirements</u>	<u>9/30/2006</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Promissory note	\$ 2,059		\$ 147	\$ 1,912	\$ 147
Claims Payable	2,300	1,344		3,644	2,233
Accrued compensated absences	3,123	1,365	1,419	3,069	1,418
Total Governmental Activities	<u>\$ 7,482</u>	<u>\$ 2,709</u>	<u>\$ 1,566</u>	<u>\$ 8,625</u>	<u>\$ 3,798</u>
<u>Business-type Activities</u>					
Sewer Revenue Bonds, Series 2003	27,470	-	822	26,648	915
Marina Rev. Bonds, Series 1993 & 1997	11,531	-	481	11,050	496
Promissory note	4,643	-	216	4,427	223
Accrued compensated absences	332	178	180	330	171
Total Business-Type Activities	<u>\$ 43,976</u>	<u>\$ 178</u>	<u>\$ 1,699</u>	<u>\$ 42,455</u>	<u>\$ 1,805</u>
Total Long-Term Debt	<u>\$ 51,458</u>	<u>\$ 2,887</u>	<u>\$ 3,265</u>	<u>\$ 51,080</u>	<u>\$ 5,603</u>

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 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:

<u>Sewer System Bonds</u>	<u>Series 2003</u>
Total bond obligation as of September 30, 2006	\$27,535,000
Less current portion	(915,000)
Less loss on early retirement	(1,120,957)
Plus unamortized bond premium	233,674
Total long-term sewer system revenue bonds	<u>\$25,732,717</u>

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:

<u>State Revolving Loan</u>	<u>Total</u>
Total loan balance as of Sept. 30, 2006	\$4,427,054
Less current portion	(223,414)
Total long-term state revolving loan balance	<u>\$4,203,640</u>

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

City of Key West, Florida

Fiscal Year	Principal	Interest	Total
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>\$ 4,390,120</u>	<u>\$ 1,227,504</u>	<u>\$ 5,617,624</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, 2006	\$1,915,903	\$9,255,000	\$11,170,903
Less current portion	(440,654)	(55,000)	(495,654)
Less loss on early retirement	-	(74,485)	(74,485)
Less unamortized bond discount	(5,151)	(41,057)	(46,208)
Total long-term marina revenue bonds	<u>\$1,470,098</u>	<u>\$9,084,458</u>	<u>\$10,554,556</u>

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

City of Key West, Florida

<u>Fiscal Year</u>	<u>Sewer Principal</u>	<u>Sewer Interest</u>	<u>Marina Principal</u>	<u>Marina Interest</u>	<u>Total</u>
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>\$ 26,620,000</u>	<u>\$ 13,641,593</u>	<u>\$ 10,757,858</u>	<u>\$ 6,656,910</u>	<u>\$ 57,676,361</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, 2006, the City is in compliance with all reporting and disclosure requirements. Required disclosures as of September 30, 2006, 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:

	2005	2006	2007
Base Charge	\$ 20.06	\$ 20.76	\$ 21.63
Commodity Charge	\$ 3.97	\$ 4.11	\$ 4.28

- 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 percent interest, no 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

City of Key West, Florida

Development. The purchase closed on 1/06/04. At September 30, 2006, \$15,100,000 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, 2005:

	1/1/05	Additions	Retirements	12/31/05
Accrued compensation	\$ 277,572	\$ -	\$ 18,534	\$ 259,038
Mortgages payable	16,312,274	63,267	599,002	15,776,539
Revenue Note	16,000,000	-	439,000	15,561,000
Promissory Note-Land	2,210,000	-	-	2,210,000
Loans Payable	227,322	-	227,322	-
Total Long-Term Debt	\$35,027,168	\$ 63,267	\$ 1,283,858	\$33,806,577

Mortgages payable as of December 31, 2005, is composed of the following:

Mortgage Description	12/31/05
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 January 11, 2011, interest at 4%.	11,667,198
Second mortgage due to governmental agency, collateralized by land, improvements, and fixtures, principal and interest at 3.0% due December 31, 2006.	167,067
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.	240,000
Mortgage due to governmental agency, collateralized by land, payable in full May 2031, interest free.	1,500,000
	<u>\$ 15,776,539</u>

12. Deferred Revenue

The City has recognized deferred revenue as follows. All balances remain unearned at September 30, 2006 from the sources described below.

General Fund - Occupational license renewals are sent out in August for the license year beginning October 1st. Revenues of \$732,741 collected in advance of the licensing year are reported as deferred revenue at year-end. There are also grant proceeds of \$14,713 that have not yet been recognized as revenue, as well as a \$65,000 donation that has not been recognized as the project has not been completed.

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. 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
Local Redevelopment Agency	\$ 148,890
Community Development	1,222,057
Internal Improvements	622,302
Totals	\$ 1,993,249

Sanitary Sewer System - Customer prepayments of \$104,520 for utility bills are reported as deferred.

Key West Bight - Tenant advance billings and payments of \$257,505 are reported as deferred revenue.

Garrison Bight - Tenant advance billings and payments of \$93,248 are reported as deferred revenue.

13. Interfund Assets and Liabilities

Individual funds with interfund receivable/payable balances at September 30, 2006 are as follows:

Interfund items (current)	Receivable	Payable
Governmental Funds:		
General Fund	\$ 1,066,691	\$ 787,594
Nonmajor Governmental	-	-
Enterprise Funds:		
Sanitary Sewer System	11,448	-
Solid Waste	3,922	-
Key West Bight	5,883	200,000
Stormwater	-	-
Nonmajor Enterprise Funds	15,689	707,526
Internal Service Fund:		
Insurance Programs	-	196,107
Pension Funds:		
	787,594	
Totals	\$ 1,891,227	\$ 1,891,227

The receivable in the General Fund is a result of funding a \$700,000 year-end operating deficit in the Transit Fund. The other side of this transaction is evidenced in the Nonmajor Enterprise Funds. At year end the Transit Fund had a receivable from federal and state agencies of \$684,000 that will help to fund this deficiency. 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.

The Police and Firemen's Pension Fund was under funded and requires a catch up payment of \$787,594 from the General Fund.

City of Key West, Florida

<u>Advances (long-term)</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:	\$ 2,491,829	\$ -
Enterprise Funds:		
Sanitary Sewer System	45,158	-
Solid Waste	-	-
Key West Bight	292,696	395,360
Stormwater	-	2,096,469
Nonmajor Enterprise Funds		337,854
Totals	<u>\$ 2,829,683</u>	<u>\$ 2,829,683</u>

The advance in the General Fund is owed by the Key West Bight Fund and the Stormwater Fund, with Stormwater being \$2,096,469 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 Fund. The General Fund receives transfers from the Enterprise Funds for payment in lieu of taxes.

The Infrastructure Fund collects the one-cent sales tax used for capital projects. Projects that are not accounted for in the Infrastructure Fund, or those with a duration of over one year are transferred and funded in the Capital Projects Fund. The Infrastructure Fund also made an annual transfer to the Gas Tax fund to help fund street and sidewalk improvements in the amount of \$400,000. Also transferred was \$450,000 for the establishment of the Truman Waterfront Fund, and \$1,000,000 to the Capital Projects Fund for the City Hall Project.

The nonmajor governmental fund transfers in are the result of the transfers mentioned above into the Capital Projects, Gas Tax Fund, Truman Waterfront and Bahama Village and Caroline Street Fund. The transfer out is from the Gas Tax Fund is to subsidize the Transit Fund and to the Stormwater Fund for sidewalk improvements.

Key West Bight Fund receives its annual transfers from the special revenue tax increment fund, Bahama Village and Caroline Street 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	\$ 3,472,008	\$ 950,078
Infrastructure	-	1,850,000
Nonmajor Governmental	2,800,078	2,325,917
Enterprise Funds:		
Sanitary Sewer System	-	1,340,000
Solid Waste	-	1,520,000
Key West Bight	523,231	335,008
Stormwater	783,890	70,000
Nonmajor Enterprise Funds:	1,025,316	213,520
Totals	<u>\$ 8,604,523</u>	<u>\$ 8,604,523</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, 2006.

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. Prior Period Adjustment

The General Fund's fund balance, at October 1, 2005, has been increased \$1,500,000. to correct the improper reporting of a contingency relating to a law suit as of September 30, 2005. If the obligation had been properly recorded, the current portion of the liability would have decreased by \$1,500,000 and Net Assets increased by the same amount in the Governmental Funds statement only.

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**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)
10/01/96	\$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%)
10/01/05	\$25,673	\$26,954	\$1,281	95.2%	\$10,387	12.3%

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

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**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)
10/01/96	\$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%
10/01/05	\$40,679	\$51,732	\$11,053	78.6%	\$9,611	115.0%

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

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, 2006

Special Revenue Funds

	Law Enforcement Trust Fund	Gas Tax Fund	Fort Taylor Fund	Community Development Office Fund
Assets				
Cash and cash equivalents	\$ 26,011	\$ 90,206	\$ 308,578	\$ 601,859
Cash and cash equivalents (restricted)	-	70,024	-	-
Investment (unrestricted)	-	1,931,946	-	150,000
Investments (restricted)	-	552,278	-	-
Receivables (net of allowance for uncollectibles):				
Accounts	-	1,678	-	407
Mortgages	-	-	-	1,285,274
Intergovernmental	-	177,626	4,916	237,045
Interest	-	66,042	-	-
Prepays	-	-	-	1,131
Total assets	\$ 26,011	\$ 2,889,800	\$ 313,494	\$ 2,275,716
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ 155,199	\$ -	\$ 4,840
Payroll payable	-	4,236	-	-
Retainage payable	-	15,662	-	-
Intergovernment	-	-	-	168,365
Deferred revenue	-	622,302	-	1,222,057
Total liabilities	-	797,399	-	1,395,262
Fund balances				
Reserved for encumbrances	5,487	675,544	-	-
Reserved for receivables	-	538	-	140,149
Unreserved	20,524	1,416,319	313,494	740,305
Total	26,011	2,092,401	313,494	880,454
Total liabilities and fund balances	\$ 26,011	\$ 2,889,800	\$ 313,494	\$ 2,275,716

<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>
\$ 5,276	\$ 2,184,523	\$ 485,153	\$ 2,268,957	\$ 1,049,254	\$ 7,019,817
-	-	-	-	-	70,024
-	-	-	1,500,000	4,889,329	8,471,275
-	-	-	-	-	552,278
-	-	-	-	-	2,085
-	-	-	-	-	1,285,274
-	-	-	-	-	419,587
-	-	-	32,882	-	98,924
-	-	-	-	-	1,131
<u>\$ 5,276</u>	<u>\$ 2,184,523</u>	<u>\$ 485,153</u>	<u>\$ 3,801,839</u>	<u>\$ 5,938,583</u>	<u>\$17,920,395</u>
\$ -	\$ 20,610	\$ -	\$ -	-	\$ 180,649
-	5,149	277	-	-	9,662
-	-	-	-	-	15,662
-	1,519	-	-	99,514	269,398
-	148,890	-	-	-	1,993,249
-	<u>176,168</u>	<u>277</u>	-	<u>99,514</u>	<u>2,468,620</u>
-	220,964	-	-	30,517	932,512
-	-	-	-	-	140,687
5,276	1,787,391	484,876	3,801,839	5,808,552	14,378,576
<u>5,276</u>	<u>2,008,355</u>	<u>484,876</u>	<u>3,801,839</u>	<u>5,839,069</u>	<u>15,451,775</u>
<u>\$ 5,276</u>	<u>\$ 2,184,523</u>	<u>\$ 485,153</u>	<u>\$ 3,801,839</u>	<u>\$ 5,938,583</u>	<u>\$17,920,395</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, 2006

	Special Revenue Funds			
	Law Enforcement Trust Fund	Gas Tax Fund	Fort Taylor Fund	Community Development Office Fund
Revenues:				
Tax	\$ -	\$ 1,259,438	\$ -	\$ -
Intergovernmental income	-	149,983	107,953	877,351
Charges for Services	-	-	-	-
Fines and forfeitures	40,654	-	-	-
Investment earning (loss)	1,200	116,268	11,725	7,317
Contributions and other	-	60,000	-	32,751
Total revenues	<u>41,854</u>	<u>1,585,689</u>	<u>119,678</u>	<u>917,419</u>
Expenditures:				
Current:				
Public safety	59,248	-	-	-
Transportation	-	1,295,855	-	-
Economic environment	-	-	-	838,785
Capital outlay	-	12,224	-	-
Debt service	-	-	-	-
Total expenditures	<u>59,248</u>	<u>1,308,079</u>	<u>-</u>	<u>838,785</u>
Excess (deficiency) of revenues over expenditures	<u>(17,394)</u>	<u>277,610</u>	<u>119,678</u>	<u>78,634</u>
Other financing sources (uses):				
Transfers in	-	400,000	-	-
Transfers (out)	-	(1,809,206)	-	-
Total other financing sources (uses)	<u>-</u>	<u>(1,409,206)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(17,394)	(1,131,596)	119,678	78,634
Fund balances, October 1	<u>43,405</u>	<u>3,223,997</u>	<u>193,816</u>	<u>801,820</u>
Fund balances, September 30	<u>\$ 26,011</u>	<u>\$ 2,092,401</u>	<u>\$ 313,494</u>	<u>\$ 880,454</u>

Affordable Housing Escrow Fund	Local Redevelopment Agency Fund	Bahama Village & Caroline Street	Navy Pier Payments	Capital Projects	Total
\$ -	\$ -	\$ 720,548	\$ -	\$ -	\$ 1,979,986
-	21,445	-	-	-	1,156,732
-	-	-	1,079,333	-	1,079,333
-	-	-	-	-	40,654
245	95,590	27,088	156,165	221,740	637,338
-	-	-	-	-	92,751
<u>245</u>	<u>117,035</u>	<u>747,636</u>	<u>1,235,498</u>	<u>221,740</u>	<u>4,986,794</u>
-	-	-	-	-	59,248
-	-	-	-	-	1,295,855
-	765,949	522,742	-	-	2,127,476
-	-	2,140	-	-	14,364
-	-	199,714	-	-	199,714
-	<u>765,949</u>	<u>724,596</u>	-	-	<u>3,696,657</u>
<u>245</u>	<u>(648,914)</u>	<u>23,040</u>	<u>1,235,498</u>	<u>221,740</u>	<u>1,290,137</u>
-	863,212	536,866	-	1,000,000	2,800,078
-	-	(516,711)	-	-	(2,325,917)
-	<u>863,212</u>	<u>20,155</u>	-	<u>1,000,000</u>	<u>474,161</u>
245	214,298	43,195	1,235,498	1,221,740	1,764,298
<u>5,031</u>	<u>1,794,057</u>	<u>441,682</u>	<u>2,566,341</u>	<u>4,617,329</u>	<u>13,687,478</u>
<u>\$ 5,276</u>	<u>\$ 2,008,355</u>	<u>\$ 484,877</u>	<u>\$ 3,801,839</u>	<u>\$ 5,839,069</u>	<u>\$ 15,451,776</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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Fines and forfeitures	\$ -	\$ -	\$ 40,654	\$ 40,654
Investment income	-	-	1,200	1,200
Total revenues	<u>-</u>	<u>-</u>	<u>41,854</u>	<u>41,854</u>
Expenditures:				
Personal services	-	-	17	(17)
Operating	-	-	59,231	(59,231)
Total expenditures	<u>-</u>	<u>-</u>	<u>59,248</u>	<u>(59,248)</u>
Excess (deficiency) of revenues over expenditures	-	-	(17,394)	(17,394)
Other financing sources (uses):				
Transfers (out)	-	-	-	-
Net change in fund balance	<u>-</u>	<u>-</u>	<u>(17,394)</u>	<u>(17,394)</u>
Fund balance, October 1	<u>43,405</u>	<u>43,405</u>	<u>43,405</u>	<u>-</u>
Fund balance, September 30	<u>\$ 43,405</u>	<u>\$ 43,405</u>	<u>\$ 26,011</u>	<u>\$ (17,394)</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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 1,280,000	\$ 1,280,000	\$ 1,259,438	\$ (20,562)
Intergovernmental income		\$ 500,000	\$ 149,983	(350,017)
Investment income	71,974	71,974	116,268	44,294
Contributions and other	-	-	60,000	60,000
Total revenues	<u>1,351,974</u>	<u>1,851,974</u>	<u>1,585,689</u>	<u>(266,285)</u>
Expenditures:				
Personal Services	-	90,000	89,459	541
Operating	3,849,899	3,663,785	1,206,396	2,457,389
Capital	-	12,224	12,224	-
Total expenditures	<u>3,849,899</u>	<u>3,766,009</u>	<u>1,308,079</u>	<u>2,457,930</u>
Excess (deficiency) of revenues over expenditures	<u>(2,497,925)</u>	<u>(1,914,035)</u>	<u>277,610</u>	<u>2,191,645</u>
Other financing sources (uses):				
Transfers in	400,000	400,000	400,000	-
Transfers (out)	(1,302,911)	(1,609,206)	(1,809,206)	(200,000)
Total other financing sources (uses)	<u>(902,911)</u>	<u>(1,209,206)</u>	<u>(1,409,206)</u>	<u>(200,000)</u>
Net change in fund balance	<u>(902,911)</u>	<u>(3,123,241)</u>	<u>(1,131,596)</u>	<u>1,991,645</u>
Fund balance, October 1	<u>3,223,997</u>	<u>3,223,997</u>	<u>3,223,997</u>	<u>-</u>
Fund balance, September 30	<u>\$ 2,321,086</u>	<u>\$ 100,756</u>	<u>\$ 2,092,401</u>	<u>\$ 1,991,645</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, 2006

	<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	\$ 147,095	\$ 147,095	\$ 107,953	\$ (39,142)
Investment income	6,956	6,956	11,725	4,769
Total revenues	<u>154,051</u>	<u>154,051</u>	<u>119,678</u>	<u>(34,373)</u>
Expenditures:				
Personal services	-	-	-	-
Operating	-	-	-	-
Capital	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>154,051</u>	<u>154,051</u>	<u>119,678</u>	<u>(34,373)</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>154,051</u>	<u>154,051</u>	<u>119,678</u>	<u>(34,373)</u>
Fund balance, October 1	<u>193,816</u>	<u>193,816</u>	<u>193,816</u>	<u>-</u>
Fund balance, September 30	<u>\$ 347,867</u>	<u>\$ 347,867</u>	<u>\$ 313,494</u>	<u>\$ (34,373)</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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental income	\$ 93,466	\$ 93,466	\$ 877,351	\$ 783,885
Investment income	-	-	7,317	7,317
Contributions and other	-	-	32,751	32,751
Total revenues	<u>93,466</u>	<u>93,466</u>	<u>917,419</u>	<u>823,953</u>
Expenditures:				
Operating	93,466	93,466	416,989	(323,523)
Aid to private organizations	-	-	421,796	(421,796)
Total expenditures	<u>93,466</u>	<u>93,466</u>	<u>838,785</u>	<u>(745,319)</u>
Excess (deficiency) of revenues over expenditures	-	-	78,634	78,634
Other financing sources (uses):				
Transfers in (out)	-	-	-	-
Net change in fund balance	-	-	78,634	78,634
Fund balance, October 1	<u>801,820</u>	<u>801,820</u>	<u>801,820</u>	<u>-</u>
Fund balance, September 30	<u>\$ 801,820</u>	<u>\$ 801,820</u>	<u>\$ 880,454</u>	<u>\$ 78,634</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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Investment income	\$ -	\$ -	\$ 245	\$ 245
Contributions and other	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>245</u>	<u>245</u>
Expenditures:				
Personal services	-	-	-	-
Operating	-	-	-	-
Capital	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	-	-	245	245
Other financing sources (uses):				
Transfers (out)	-	-	-	-
Net change in fund balance	<u>-</u>	<u>-</u>	<u>245</u>	<u>245</u>
Fund balance, October 1	<u>5,031</u>	<u>5,031</u>	<u>5,031</u>	<u>-</u>
Fund balance, September 30	<u>\$ 5,031</u>	<u>\$ 5,031</u>	<u>\$ 5,276</u>	<u>\$ 245</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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 600,000	\$ 600,000	\$ 21,445	\$ (578,555)
Investment income	13,456	-	-	-
Contributions and other	-	-	-	-
Total revenues	<u>613,456</u>	<u>600,000</u>	<u>21,445</u>	<u>(578,555)</u>
Expenditures:				
Personal services	303,489	303,488	249,067	54,421
Operating	1,302,790	1,302,790	516,883	785,907
Capital	700,000	700,000	-	700,000
Total expenditures	<u>2,306,279</u>	<u>2,306,278</u>	<u>765,950</u>	<u>1,540,328</u>
Excess (deficiency) of revenues over expenditures	(1,692,823)	(1,706,278)	(744,505)	961,773
Other financing sources (uses):				
Transfers in	791,278	791,278	863,212	71,934
Transfers (out)	-	-	-	-
Total other financing sources (uses)	<u>791,278</u>	<u>791,278</u>	<u>863,212</u>	<u>71,934</u>
Net change in fund balance	<u>(901,545)</u>	<u>(915,000)</u>	<u>118,707</u>	<u>1,033,707</u>
Fund balance, October 1	<u>1,794,057</u>	<u>1,794,057</u>	<u>1,794,057</u>	<u>-</u>
Fund balance, September 30	<u>\$ 892,512</u>	<u>\$ 879,057</u>	<u>\$ 1,912,764</u>	<u>\$ 1,033,707</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, 2006

	<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	\$ 622,718	\$ 720,548	\$ 720,548	\$ -
Investment income	7,181	6,007	27,088	21,081
Other income	-	-	-	-
Total revenues	<u>629,899</u>	<u>726,555</u>	<u>747,636</u>	<u>21,081</u>
Expenditures:				
Personal services	350,000	363,000	362,990	10
Operating	-	66,011	175	65,836
Capital	-	395,988	2,140	393,848
Debt service	-	200,309	199,714	595
Aid to private organizations	-	159,578	159,578	-
Total expenditures	<u>350,000</u>	<u>1,184,886</u>	<u>724,597</u>	<u>460,289</u>
Excess (deficiency) of revenues over expenditures from operations	<u>279,899</u>	<u>(458,331)</u>	<u>23,039</u>	<u>481,370</u>
Other financing sources (uses):				
Proceeds from financing	-	-	-	-
Transfers in	526,890	536,866	536,866	-
Transfers (out)	-	(516,711)	(516,711)	-
Total other financing sources (uses)	<u>526,890</u>	<u>20,155</u>	<u>20,155</u>	<u>-</u>
Net change in fund balance	<u>806,789</u>	<u>(438,176)</u>	<u>43,194</u>	<u>481,370</u>
Fund balance, October 1	<u>441,682</u>	<u>441,682</u>	<u>441,682</u>	<u>-</u>
Fund balance, September 30	<u>\$ 1,248,471</u>	<u>\$ 3,506</u>	<u>\$ 484,876</u>	<u>\$ 481,370</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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Charges for Services	\$1,381,074	\$1,381,074	\$ 1,079,333	\$ (301,741)
Investment income	83,845	83,845	156,165	72,320
Other income	-	-	-	-
Total revenues	<u>1,464,919</u>	<u>1,464,919</u>	<u>1,235,498</u>	<u>(229,421)</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>1,464,919</u>	<u>1,464,919</u>	<u>1,235,498</u>	<u>(229,421)</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>1,464,919</u>	<u>1,464,919</u>	<u>1,235,498</u>	<u>(229,421)</u>
Fund equity (deficit), October 1	<u>2,566,341</u>	<u>2,566,341</u>	<u>2,566,341</u>	<u>-</u>
Fund equity, September 30	<u><u>\$4,031,260</u></u>	<u><u>\$4,031,260</u></u>	<u><u>\$ 3,801,839</u></u>	<u><u>\$ (229,421)</u></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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental income	\$ -	\$ -	\$ -	\$ -
Investment income	58,448	58,448	221,740	163,292
Other income	-	-	-	-
Total revenues	<u>58,448</u>	<u>58,448</u>	<u>221,740</u>	<u>163,292</u>
Expenditures:				
Personal services	-	-	-	-
Operating	-	-	-	-
Capital	4,792,718	4,792,718	-	4,792,718
Total expenditures	<u>4,792,718</u>	<u>4,792,718</u>	<u>-</u>	<u>4,792,718</u>
Excess (deficiency) of revenues over expenditures from operations	<u>(4,734,270)</u>	<u>(4,734,270)</u>	<u>221,740</u>	<u>4,956,010</u>
Other financing sources (uses):				
Proceeds from financing	-	-	-	-
Transfers in	1,000,000	1,000,000	1,000,000	-
Transfers (out)	-	-	-	-
Total other financing sources (uses)	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>-</u>
Net change in fund balance	<u>(3,734,270)</u>	<u>(3,734,270)</u>	<u>1,221,740</u>	<u>4,956,010</u>
Fund equity (deficit), October 1	<u>4,617,329</u>	<u>4,617,329</u>	<u>4,617,329</u>	<u>-</u>
Fund equity, September 30	<u>\$ 883,059</u>	<u>\$ 883,059</u>	<u>\$ 5,839,069</u>	<u>\$ 4,956,010</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:

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, 2006

	<u>Garrison Bight</u>	<u>Transit System</u>	<u>Total Nonmajor Enterprise Funds</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 2,448,967	\$ 43,430	\$ 2,492,397
Investments	-	-	-
Receivables, net of allowance for uncollectibles:			
Accounts	91,401	26,241	117,642
Intergovernmental	90,068	684,200	774,268
Interfund receivables	3,923	11,766	15,689
Prepaid expense	4,235	1,393	5,628
Inventory	-	14,264	14,264
Total	<u>2,638,594</u>	<u>781,294</u>	<u>3,419,888</u>
Restricted assets:			
Total restricted assets	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	<u>2,638,594</u>	<u>781,294</u>	<u>3,419,888</u>
Noncurrent assets			
Property, plant and equipment:			
Land	-	50,000	50,000
Buildings	188,301	4,511,293	4,699,594
Improvements other than buildings	3,140,816	219,345	3,360,161
Machinery, equipment and furniture	358,883	4,469,130	4,828,013
Construction in progress	13,225	37,084	50,309
Total	<u>3,701,225</u>	<u>9,286,852</u>	<u>12,988,077</u>
Less accumulated depreciation	<u>2,280,471</u>	<u>4,688,338</u>	<u>6,968,809</u>
Net property, plant and equipment	<u>1,420,754</u>	<u>4,598,514</u>	<u>6,019,268</u>
Other noncurrent assets:			
Total other assets	<u>-</u>	<u>-</u>	<u>-</u>
Noncurrent assets	<u>1,420,754</u>	<u>4,598,514</u>	<u>6,019,268</u>
Total assets	<u>\$ 4,059,348</u>	<u>\$ 5,379,808</u>	<u>\$ 9,439,156</u>

City of Key West, Florida
Combining Statement of Net Assets
Nonmajor Enterprise Funds
September 30, 2006

	<u>Garrison Bight</u>	<u>Transit System</u>	<u>Total Nonmajor Enterprise Funds</u>
Liabilities and Equity			
Liabilities:			
Current liabilities:			
Accounts payable	\$ 57,262	\$ 90,812	\$ 148,074
Accrued payroll and related expenses	26,914	95,524	122,438
Interfund payable	7,526	700,000	707,526
Deferred revenue	93,248	-	93,248
Total	<u>184,950</u>	<u>886,336</u>	<u>1,071,286</u>
Current liabilities:			
Payable from restricted assets:			
Total	<u>-</u>	<u>-</u>	<u>-</u>
Noncurrent liabilities:			
Revenue bonds payable, net of discount	-	-	-
Note payable	-	-	-
Closure costs	-	-	-
Advance from other funds	45,158	292,696	337,854
Deferred revenues	-	-	-
Customer deposits	140,019	4,600	144,619
Accrued compensated absences	14,188	42,543	56,731
Total noncurrent liabilities	<u>199,365</u>	<u>339,839</u>	<u>539,204</u>
Total liabilities	<u>384,315</u>	<u>1,226,175</u>	<u>1,610,490</u>
Net Assets			
Invested in capital assets, net of related debt	1,420,754	4,598,514	6,019,268
Unreserved	2,254,279	(444,881)	1,809,398
Total	<u>3,675,033</u>	<u>4,153,633</u>	<u>7,828,666</u>
Total liabilities and net assets	<u>\$ 4,059,348</u>	<u>\$ 5,379,808</u>	<u>\$ 9,439,156</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, 2006

	<u>Garrison Bight</u>	<u>Transit System</u>	<u>Total Nonmajor Enterprise Funds</u>
Operating revenues:			
Charges for services	\$ 1,396,665	\$ 931,815	\$ 2,328,480
Total operating revenues	<u>1,396,665</u>	<u>931,815</u>	<u>2,328,480</u>
Operating expenses:			
Personal services	458,360	2,007,825	2,466,185
Other operating expenses	573,244	1,045,738	1,618,982
Depreciation and amortization	193,752	777,778	971,530
Total operating expenses	<u>1,225,356</u>	<u>3,831,341</u>	<u>5,056,697</u>
Operating income (loss)	<u>171,309</u>	<u>(2,899,526)</u>	<u>(2,728,217)</u>
Nonoperating revenues (expenses):			
Grant income	120,885	1,287,898	1,408,783
Investment earnings	104,567	145	104,712
Other income	93,543	14,089	107,632
Interest expense	-	(27,471)	(27,471)
Loss on disposal	-	(58,100)	(58,100)
Net nonoperating revenues (expenses)	<u>318,995</u>	<u>1,216,561</u>	<u>1,535,556</u>
Income (loss) before contributions and transfers	<u>490,304</u>	<u>(1,682,965)</u>	<u>(1,192,661)</u>
Transfers in	-	1,025,316	1,025,316
Transfers (out)	(73,520)	(140,000)	(213,520)
Total transfers and contributions	<u>(73,520)</u>	<u>885,316</u>	<u>811,796</u>
Change in net assets	416,784	(797,649)	(380,865)
Total net assets, October 1	<u>3,258,249</u>	<u>4,951,282</u>	<u>8,209,531</u>
Total net assets, September 30	<u>\$ 3,675,033</u>	<u>\$ 4,153,633</u>	<u>\$ 7,828,666</u>

City of Key West, Florida
Nonmajor Enterprise Funds
Combining Statement of Cash Flows
For the year ended September 30, 2006

	<u>Garrison Bight</u>	<u>Transit System</u>	<u>Total Nonmajor Enterprise Funds</u>
Cash flows from operating activities:			
Cash received from customers	\$ 1,416,726	\$ 906,696	\$ 2,323,422
Cash paid to suppliers	(563,732)	(981,580)	(1,545,312)
Cash paid to employees	(459,598)	(2,013,229)	(2,472,827)
Other receipts	93,543	14,089	107,632
Net cash provided by (used in) operating activities	<u>486,939</u>	<u>(2,074,024)</u>	<u>(1,587,085)</u>
Cash flows from noncapital financing activities:			
Operating grants received	37,597	705,219	742,816
Advance/loan from other funds	(7,526)	645,000	637,474
Interest paid on loan from other funds	-	(14,867)	(14,867)
Transfers in		1,025,316	1,025,316
Transfers (out)	(73,520)	(140,000)	(213,520)
Net cash flows from noncapital financing activities	<u>(43,449)</u>	<u>2,220,668</u>	<u>2,177,219</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(28,200)	(123,805)	(152,005)
Net cash flows from capital and related financing activities	<u>(28,200)</u>	<u>(123,805)</u>	<u>(152,005)</u>
Cash flows from investing activities:			
Investment income	104,567	145	104,712
Net cash flows from investing activities	<u>104,567</u>	<u>145</u>	<u>104,712</u>
Net increase (decrease) in cash and cash equivalents	519,857	22,983	542,840
Cash & equivalents, October 1	<u>1,929,110</u>	<u>20,447</u>	<u>1,949,557</u>
Cash & equivalents, September 30	<u><u>\$ 2,448,967</u></u>	<u><u>\$ 43,430</u></u>	<u><u>\$ 2,492,397</u></u>

City of Key West, Florida
Nonmajor Enterprise Funds
Combining Statement of Cash Flows (Continued)
For the year ended September 30, 2006

	<u>Garrison Bight</u>	<u>Transit System</u>	<u>Total Nonmajor Enterprise Funds</u>
Cash and cash equivalents at End of Year	<u>\$ 2,448,967</u>	<u>\$ 43,430</u>	<u>\$ 2,492,397</u>
Classified as:			
Current	2,448,967	43,430	2,492,397
Total	<u>2,448,967</u>	<u>43,430</u>	<u>2,492,397</u>
Reconciliation of operating income (loss) to net cash provided by (applied to) operating activities:			
Operating income (loss)	<u>171,309</u>	<u>(2,899,525)</u>	<u>(2,728,216)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (applied to) operating activities:			
Other nonoperating revenues	93,543	14,089	107,632
Depreciation and amortization	193,752	777,778	971,530
Decrease (increase) in assets:			
Accounts receivable	(1,286)	(25,119)	(26,405)
Interfund receivable	501	3,714	4,215
Inventories	-	(2,239)	(2,239)
Increase (decrease) in liabilities:			
Accounts payable	9,512	66,397	75,909
Accrued items	2,559	(3,916)	(1,357)
Customer deposits	11,303	-	11,303
Accrued compensated absences, noncurrent	(4,298)	(5,203)	(9,501)
Deferred revenue	10,044	-	10,044
Total adjustments	<u>315,630</u>	<u>825,501</u>	<u>1,141,131</u>
Net cash provided by (applied to) operating activities	<u>486,939</u>	<u>(2,074,024)</u>	<u>(1,587,085)</u>
Schedule of noncash investing, capital, and financing activities			
Contribution to other government of remaining assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Assumption by other government of remaining liabilities	<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, 2006

	Pension Trust Funds		
	Police and Fire	General Employees	Total
Assets			
Cash	\$ 928,547	\$ 561,261	\$ 1,489,808
Corporate Bonds	9,658,351	3,505,341	13,163,692
US Government Securities	7,349,571	7,842,865	15,192,436
Marketable Equity Securites	32,873,739	18,251,723	51,125,462
Receivables:			
Interest and dividends	227,954	153,520	381,474
Interfund receivables	992,618	-	992,618
Intergovernmental	173,650	-	173,650
Equipment	2,705	-	2,705
Accumulated depreciation	(1,340)	-	(1,340)
Total assets	<u>\$ 52,205,795</u>	<u>\$ 30,314,710</u>	<u>\$ 82,520,505</u>
Liabilities:			
Accrued Expenses	\$ 27,039	\$ 80,454	\$ 107,493
Interfund payable	-	205,024	205,024
Benefits payable	34,634	30,421	65,055
Total liabilities	<u>61,673</u>	<u>315,899</u>	<u>377,572</u>
Net Assets			
Assets held in trust for pension benefits	<u>52,144,122</u>	<u>29,998,811</u>	<u>82,142,933</u>
Total net assets	<u>52,144,122</u>	<u>29,998,811</u>	<u>82,142,933</u>
Total liabilities and net assets	<u>\$ 52,205,795</u>	<u>\$ 30,314,710</u>	<u>\$ 82,520,505</u>

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

For the year ended September 30, 2006

	Pension Trust Funds		Total
	Police and Fire	General Employees	
Additions			
Contributions			
Employer	\$ 1,974,764	\$ 1,199,176	\$ 3,173,940
Member	855,905	661,533	1,517,438
State Police and Fire	640,961	-	640,961
Total contributions	<u>3,471,630</u>	<u>1,860,709</u>	<u>5,332,339</u>
Net investment income			
Net appreciation in fair value of investments	2,574,749	1,819,848	4,394,597
Interest	873,328	579,787	1,453,115
Dividends	691,009	324,944	1,015,953
Other	170	-	170
	<u>4,139,256</u>	<u>2,724,579</u>	<u>6,863,835</u>
Less investment expense	219,223	112,696	331,919
	<u>3,920,033</u>	<u>2,611,883</u>	<u>6,531,916</u>
Total additions	<u>7,391,663</u>	<u>4,472,592</u>	<u>11,864,255</u>
Deductions			
Benefits paid	2,678,591	1,062,986	3,741,577
Administrative expense	169,081	73,198	242,279
Contributions refunded	168,135	259,435	427,570
Depreciation	502	-	502
Total deductions	<u>3,016,309</u>	<u>1,395,619</u>	<u>4,411,928</u>
Changes in net assets	<u>4,375,354</u>	<u>3,076,973</u>	<u>7,452,327</u>
Net assets - beginning	<u>47,768,768</u>	<u>26,921,838</u>	<u>74,690,606</u>
Net assets - ending	<u>\$ 52,144,122</u>	<u>\$ 29,998,811</u>	<u>\$ 82,142,933</u>

**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, 2006

Governmental funds capital assets	<u>Total</u>
Land	\$ 53,186,804
Buildings	13,310,823
Improvements other than buildings	19,777,415
Machinery and equipment	15,141,649
Infrastructure	7,022,159
Construction in progress	<u>604,368</u>
 Total governmental funds capital assets	 \$ 109,043,218
 Investment in governmental funds capital assets by source:	
General fund	\$ 16,619,653
Special revenue funds	18,575,807
Capital projects fund	25,668,292
Donations	<u>48,179,466</u>
	 <u>\$ 109,043,218</u>

City of Key West, Florida
Schedule of Capital Assets used in the Operation of
Governmental Funds - By Function and Activity
September 30, 2006

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	\$ -	\$ -	\$ -	\$ 14,446	\$ -
Manager	-	-	-	70,605	-
Clerk	-	127,586	-	39,941	-
Finance	-	-	-	68,098	-
Information Technologies	-	-	-	1,882,979	-
Garage	-	4,063	4,256	693,442	-
Public Works	-	6,425	19,023	746,963	-
General Government	50,611,091	3,278,802	446,615	684,025	89,250
Total general government	<u>50,611,091</u>	<u>3,416,876</u>	<u>469,894</u>	<u>4,200,499</u>	<u>89,250</u>
Public safety:					
Police	-	4,494,029	84,575	5,299,561	-
Fire	-	2,591,718	1,076,978	2,594,491	-
Other	-	-	28,693	766,939	-
Total public safety	<u>-</u>	<u>7,085,747</u>	<u>1,190,246</u>	<u>8,660,991</u>	<u>-</u>
Physical environment	482,320	127,893	834,261	75,710	-
Transportation	-	123,750	7,016,053	1,401,828	6,932,909
Human Services	-	-	-	9,122	-
Culture and recreation	<u>2,093,393</u>	<u>2,556,557</u>	<u>10,266,961</u>	<u>793,499</u>	<u>-</u>
Total governmental funds capital assets	<u>\$53,186,804</u>	<u>\$ 13,310,823</u>	<u>\$ 19,777,415</u>	<u>\$ 15,141,649</u>	<u>\$ 7,022,159</u>

<u>Construction in Progress</u>	<u>Total</u>
\$ -	\$ 14,446
-	70,605
-	167,527
-	68,098
272,200	2,155,179
-	701,761
-	772,411
-	55,109,783
<u>272,200</u>	<u>59,059,810</u>
-	9,878,165
284,432	6,547,619
-	795,632
<u>284,432</u>	<u>17,221,416</u>
-	1,520,184
-	15,474,540
-	9,122
<u>47,736</u>	<u>15,758,146</u>
<u>\$ 604,368</u>	<u>\$ 109,043,218</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, 2006

	<u>October 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30, 2006</u>
Function and Activity				
General government:				
Commission	\$ 14,446	\$ -	\$ -	\$ 14,446
Manager	65,722	4,883	-	70,605
Clerk	167,527	-	-	167,527
Finance	66,010	2,088	-	68,098
Information Technologies	1,780,479	388,477	13,778	2,155,178
Garage	442,447	629,706	-	1,072,153
Public Works	764,471	7,940	-	772,411
General Government	54,535,866	406,788	203,262	54,739,392
Total general government	<u>57,836,968</u>	<u>1,439,882</u>	<u>217,040</u>	<u>59,059,810</u>
Public safety:				
Police	10,390,440	320,121	832,396	9,878,165
Fire	6,265,152	296,272	13,805	6,547,619
Other	277,319	618,013	99,700	795,632
Total public safety	<u>16,932,911</u>	<u>1,234,406</u>	<u>945,901</u>	<u>17,221,416</u>
Physical environment	1,520,184	-	-	1,520,184
Transportation	15,600,294	69,634	195,388	15,474,540
Human Services	-	9,122	-	9,122
Culture and recreation:	15,642,834	242,502	127,190	15,758,146
Total governmental funds capital assets	<u>\$107,533,191</u>	<u>\$ 2,995,546</u>	<u>\$ 1,485,519</u>	<u>\$109,043,218</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 Net Assets by Component

For the last ten fiscal years*
Accrual basis
(in thousands)

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities				
Invested in capital assets, net of related debt	\$ 35,962	\$ 35,936	\$ 84,281	\$ 83,047
Restricted	5,183	14,850	17,885	17,596
Unrestricted	19,986	61,128	11,651	14,948
Total governmental activities net assets	<u>\$ 61,131</u>	<u>\$ 111,914</u>	<u>\$ 113,817</u>	<u>\$ 115,591</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 87,514	\$ 82,941	\$ 83,682	\$ 92,102
Restricted	2,494	2,664	2,358	2,427
Unrestricted	18,689	16,458	18,926	14,997
Total business-type activities net assets	<u>\$ 108,697</u>	<u>\$ 102,063</u>	<u>\$ 104,966</u>	<u>\$ 109,526</u>
Primary government				
Invested in capital assets, net of related debt	\$ 123,476	\$ 118,877	\$ 167,963	\$ 175,149
Restricted	7,677	17,514	20,243	20,023
Unrestricted	38,675	77,586	30,577	29,945
Total primary government net assets	<u>\$ 169,828</u>	<u>\$ 213,977</u>	<u>\$ 218,783</u>	<u>\$ 225,117</u>

* Net asset information is available from fiscal year 2003 forward.

City of Key West, Florida

**Table 2
Changes in Net Assets**

For the last ten fiscal years*
Accrual basis
(in thousands)

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Expenses				
Governmental activities:				
General government	\$ 9,131	\$ 12,689	\$ 14,068	\$ 13,195
Public safety	16,871	15,985	20,332	23,059
Physical environment	128	160	284	220
Transportation	3,400	2,780	2,901	3,249
Economic environment	1,944	1,293	1,185	2,152
Human Services	-	131	438	432
Culture and recreation	3,285	3,400	3,270	4,206
Capital outlay	-	-	-	-
Principal	-	-	-	-
Interest	42	79	40	53
Total governmental activities expenses	34,801	36,517	42,518	46,566
Business type activities:				
Sewer system	11,384	17,991	10,885	10,030
Solid waste	7,750	10,177	10,103	11,895
Key West bight	3,780	4,520	5,451	6,008
Stormwater	850	1,192	1,003	3,031
Garrison bight	1,040	1,097	1,196	1,225
Transit	2,658	3,152	3,087	3,917
Poinciana	1,520	1,594	-	-
Total business-type activities expenses	28,982	39,723	31,725	36,106
Total primary government expenses	\$ 63,783	\$ 76,241	\$ 74,243	\$ 82,672
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$ 3,283	\$ 1,394	\$ 1,520	\$ 1,594
Public safety	1,390	3,182	4,127	4,077
Physical environment	30	38	88	120
Transportation	6,831	6,368	8,000	7,352
Economic environment	-	-	-	-
Human Services	-	-	-	-
Culture and recreation	139	12	133	114
Operating grants and contributions	1,421	911	866	3,969
Capital grants and contributions	2,118	48,314	1,405	1,185
Total governmental activities program revenues	15,212	60,219	16,139	18,412

(continued)

Business type activities:

Charges for services:

Sewer system	10,521	10,503	10,499	12,063
Solid waste	8,025	8,274	8,293	8,591
Key West bight	4,571	5,236	5,932	6,531
Stormwater	1,450	1,642	1,516	1,742
Garrison bight	1,102	1,204	1,318	1,397
Transit	589	754	737	932
Poinciana	1,438	362	-	-
Operating grants and contributions	449	442	2,117	6,926
Capital grants and contributions	5,944	1,940	1,692	2,067
Total business type activities program revenues	34,089	30,357	32,104	40,248
Total primary government program revenues	\$ 49,301	\$ 90,576	\$ 48,243	\$ 58,660

Net (expense)/revenue

Governmental activities	\$ (19,589)	\$ 23,702	\$ (26,379)	\$ (28,154)
Business type activities	5,107	(9,366)	379	4,142
Total primary government net expense	\$ (14,482)	\$ 14,336	\$ (26,000)	\$ (24,012)

General Revenues and Other Changes in Net Assets

Governmental activities:

Taxes				
Property taxes	\$ 11,172	\$ 11,777	\$ 12,476	\$ 12,469
Sales taxes	8,032	9,177	9,048	9,352
Franchise taxes	1,024	927	1,655	2,030
Motor fuel taxes	2,017	2,580	2,548	2,500
Investment earnings	509	357	700	1,436
Miscellaneous	3,230	3,596	3,259	994
Transfers	(2,474)	(2,210)	(1,405)	1,146
Total governmental activities	23,510	26,204	28,281	29,927

Business type activities:

Investment earnings	403	323	711	1,347
Transfers	2,474	2,210	1,405	(1,146)
Miscellaneous	84	199	408	217
Total business type activities	2,961	2,732	2,524	418
Total primary government	\$ 26,471	\$ 28,936	\$ 30,806	\$ 30,345

Change in Net Assets

Governmental activities	\$ 3,921	\$ 49,906	\$ 1,903	\$ 1,773
Business type activities	8,068	(6,633)	2,903	4,560
Total primary government	\$ 11,989	\$ 43,273	\$ 4,806	\$ 6,333

* Net asset information is available from fiscal year 2003 forward.

City of Key West, Florida

**Table 3
Fund Balances of Governmental Funds**

**For the last ten fiscal years
Modified accrual basis
(in thousands)**

	Fiscal Year									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund										
Reserved	\$ 123	\$ 685	\$ 452	\$ 251	\$ 1,140	\$ 1,349	\$ 2,761	\$ 2,699	\$ 2,696	\$ 2,637
Unreserved	3,323	4,923	5,847	8,623	10,664	12,071	10,926	11,744	9,618	10,908
Total general fund	<u>\$ 3,446</u>	<u>\$ 5,608</u>	<u>\$ 6,299</u>	<u>\$ 8,874</u>	<u>\$ 11,804</u>	<u>\$ 13,420</u>	<u>\$ 13,687</u>	<u>\$ 14,443</u>	<u>\$ 12,314</u>	<u>\$ 13,545</u>
All other governmental funds										
Reserved	\$ 3,365	\$ 3,440	\$ 2,432	\$ 1,622	\$ 4,410	\$ 2,715	\$ 2,422	\$ 1,367	\$ 960	\$ 1,314
Unreserved, reported in:										
Special revenue funds	5,123	3,402	3,732	4,378	3,686	7,559	5,005	7,857	12,353	13,656
Capital projects funds	1,043	1,152	2,648	4,275	2,388	1,183	4,191	5,625	4,572	5,808
Total all other governmental funds	<u>\$ 9,531</u>	<u>\$ 7,994</u>	<u>\$ 8,812</u>	<u>\$ 10,275</u>	<u>\$ 10,484</u>	<u>\$ 11,457</u>	<u>\$ 11,618</u>	<u>\$ 14,849</u>	<u>\$ 17,885</u>	<u>\$ 20,778</u>

City of Key West, Florida

Table 4
Changes in Fund Balances of Governmental Funds

For the last ten fiscal years
Modified accrual basis
(in thousands)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues										
Taxes	\$ 8,244	\$ 8,487	\$ 9,998	\$10,566	\$11,198	\$12,287	\$12,196	\$20,296	\$21,305	\$21,768
Licenses and permits	1,406	1,590	1,785	2,110	2,162	1,960	2,163	2,139	2,667	2,735
Intergovernmental income	11,776	10,563	14,971	13,647	14,614	16,658	13,607	6,481	6,754	10,056
Payment in lieu of taxes	2,356	2,456	2,461	2,453	2,880	2,470	2,603	2,603	2,603	-
Charges for services	3,975	4,739	5,030	5,727	4,584	6,004	7,104	6,565	8,226	7,584
Fines and forfeitures	573	641	674	916	832	1,060	1,044	1,035	1,245	1,134
Investment earnings	734	869	782	1,204	1,295	826	509	302	701	1,436
Rental income	875	1,015	991	1,107	1,065	1,315	1,336	1,306	1,359	1,437
Contributions and other	1,075	579	562	728	175	331	263	48,488	379	650
Total Revenues	31,014	30,939	37,254	38,458	38,805	42,911	40,825	89,215	45,239	46,800
Expenditures										
General government	6,923	9,013	7,679	9,549	9,460	8,685	9,791	10,928	14,162	12,774
Public safety	10,482	10,720	11,781	11,748	12,343	14,025	14,857	15,995	17,895	20,014
Physical environment	42	43	238	46	49	46	72	100	212	137
Transportation	2,323	2,539	2,655	3,045	4,613	2,236	2,897	2,307	2,326	2,897
Economic environment	1,265	705	891	1,294	1,241	1,348	1,925	1,293	1,108	2,229
Culture and recreation	1,194	1,175	1,375	1,536	1,637	1,852	2,128	2,644	2,765	3,653
Human Services	-	-	-	-	-	-	-	131	438	423
Capital outlay	6,113	2,594	7,191	4,472	2,303	9,440	5,997	51,265	3,835	2,996
Debt service:										
Principal	135	143	519	241	625	-	-	294	147	147
Interest	25	16	159	69	60	-	42	79	40	53
Total expenditures	28,502	26,948	32,488	32,000	32,331	37,632	37,709	85,036	42,928	45,323
Excess (deficiency) of revenues over (under) expenditures	2,512	3,991	4,766	6,458	6,474	5,279	3,116	4,179	2,311	1,478
Other financing sources (uses):										
Proceeds from financing	-	1,500	853	-	-	-	650	-	-	-
Transfers in	2,074	3,390	2,552	3,330	3,576	1,555	5,277	4,162	5,732	6,272
Transfers out	(2,626)	(3,864)	(3,434)	(4,270)	(4,611)	(4,247)	(9,221)	(5,902)	(7,137)	(5,126)
Total other financing sources (uses)	(552)	1,026	(29)	(940)	(1,035)	(2,692)	(3,294)	(1,740)	(1,405)	1,146
Net change in fund balances	\$ 1,960	\$ 5,017	\$ 4,737	\$ 5,517	\$ 5,439	\$ 2,587	\$ (178)	\$ 2,439	\$ 906	\$ 2,624

City of Key West, Florida

**Table 5
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
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
2006	\$11,935,946	\$19,892,420	\$137,216	\$1,162,165	\$101,500	\$2,439,103	\$422,624	\$36,090,974

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

City of Key West, Florida

**Table 6
General Governmental Revenues and
Other Financing by Source (1)
For the last ten fiscal years**

Fiscal Year	Taxes	Licenses and Permits	Inter-governmental	Payments in Lieu of Taxes	Charges for Services	Fines and Forfeitures	Investment Earnings and Other	Total
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
2006	\$ 13,778,074	\$ 2,734,730	\$ 8,160,794	\$ 3,472,008	\$ 6,504,436	\$ 1,092,883	\$ 2,600,679	\$ 38,343,604

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

City of Key West, Florida

Table 7
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
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
2006	\$ 12,146,013	\$ 11,752,575	96.8	N/A	\$ 11,752,575	96.8	\$ 21,954	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 8
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
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
2006	\$10,718,386	\$360,504	\$4,227,713	\$6,851,177	\$6,851,177	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 9
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>
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
2006	2.0863	6.8871	3.3820	6.9855	19.3409

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 10
Principal Taxpayers**

<u>Name of Taxpayer</u>	<u>Type of Business</u>	<u>2006 Assessed Value</u>	<u>Percent of Total Assessed Valuation</u>
Casa Marina	Resort Hotel	\$74,743,668	2.21
Windward Point	Resort Hotel	46,260,850	1.37
Tannex Development Corp.	Condominium	26,980,355	0.79
Galleon Condominium Assoc Inc	Condominium	56,782,806	1.68
Pier House	Resort Hotel	20,867,546	0.61
Parrot Key	Timeshare	28,000,000	0.82
Seaboard Associates	Hotel	20,009,513	0.58
Lower FI Keys Hospital Dist	Health Care	18,495,031	0.54
Hyatt Vacation Management	Timeshare	39,279,331	1.16
Key West Reach Owner LLC	Resort Hotel	34,763,904	1.02
	Totals	\$366,183,004	10.78

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

City of Key West, Florida

Table 11
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	Popula- tion (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
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	-	-	-	-	-
2006	23,935	\$6,851,177	-	-	-	-	-

- (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 12
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>
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	-
2006	-	-	-	\$36,090,974	-

- (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 13
Computation of Direct and Estimated Overlapping Debt
September 30, 2006**

	<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>\$ 26,716,000</u>	26.41% (3)	<u>\$ 7,055,257</u>
Total ad valorem tax supported debt	<u>\$ 26,716,000</u>		<u>\$ 7,055,257</u>
 <u>Ratios:</u>			
Overall debt to 2006 taxable valuation			0.21%
Overall debt per capita			\$ 272.90

(1) City of Key West direct debt does not include revenue bonds.

(2) Monroe County School Board debt is as of June 30, 2006, and does not include revenue bonds.

(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 14
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	
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
2006	\$12,062	\$5,409	\$6,653	\$915	\$1,110	\$2,025	3.29

- (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 15
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
2006	\$2,182,372	\$3,342,178	\$392,780	\$5,917,330	\$1,562,963	3.79

City of Key West, Florida

Table 16
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)
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
2006	23,935	\$26,316	39	N/A	4,056	2.3%

(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 17
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	
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
2006	\$11,078,890	\$4,227,713	\$6,851,177	7,003	\$149,062	\$1,220,538

(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 18 Miscellaneous Statistics September 30, 2006

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

JACK D. NILES, JR., C.P.A.

GUY A. WILLIS, C.P.A.

SHARON A. MOORE, C.P.A.

**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

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, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 31, 2007. 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

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 May 31, 2007.

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.

May 31, 2007

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City of Key West, Florida
Schedule of Expenditures of Federal Awards
and State Financial Assistance
For the Year Ended September 30, 2006

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	371,565
Pass-through Florida Department of Community Affairs				
Community Development Block Grant - State Program	14.228	N/A	04DB-1Q-11-54-02-H02	346,156
<u>U.S. DEPARTMENT OF JUSTICE</u>				
Direct Programs:				
Local Law Enforcement Block Grant	16.592	N/A	2003-LB-BX-2518	23,161
Bulletproof Vest Partnership Program	16.607	N/A	N/A	952
Bulletproof Vest Partnership Program	16.607	N/A	N/A	3,781
Public Safety Partnership & Community Policing	16.710	N/A	2004CKWX0340	34,003
Public Safety Partnership & Community Policing	16.710	N/A	2005CKWX0323	218,908
Edward Byrne Memorial Justice Assistance	16.738	N/A	2006DJBX1032	8,650
Pass through South Florida HIDTA:				
High Intensity Drug Trafficking	N/A	N/A	I4PMIP5114	11,275
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Pass through Florida Department of Transportation:				
Highway Planning and Construction	20.205	N/A	ANT08	205,923
Highway Planning and Construction	20.205	N/A	AOC27	260,468
Formula Grants for Other Than Urbanized Areas	20.509	N/A	AO596	235,756
Formula Grants for Other Than Urbanized Areas	20.509	N/A	AI254	91,102
Job Access-Reverse Commute	20.516	N/A	41517318402	230,480
<u>U.S. DEPARTMENT OF ENVIRONMENTAL PROTECTION</u>				
Direct Program:				
Surveys - Studies - Investigations and Special Purpose	66.606	N/A	XP-96424305	914,900
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Direct Program:				
Port Security	97.056	N/A	HSTS04-04-G-GPS379	(14,425)
Port Security	97.056	N/A	HSTS04-04-G-GPS556	298,783
Pass through Florida Department of Community Affairs:				
Public Assistance Grants	97.036	N/A	06-DN-@G-11-54-01-529	71,446
Public Assistance Grants	97.036	N/A	06-KT-B&-11-54-02-592	1,357,532
Public Assistance Grants	97.036	N/A	06-RT-&W-11-54-02-517	242,828
Public Assistance Grants	97.036	N/A	06-WL-&K-11-54-02-539	6,504,125
Total Federal Awards Expenditures				<u>\$11,417,369</u>

City of Key West, Florida
Schedule of Expenditures of Federal Awards
and State Financial Assistance
For the Year Ended September 30, 2006

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	DIG-00-05	1,110
<u>FLORIDA DEPARTMENT OF TRANSPORTATION</u>				
Seaport Grants	N/A	55.005	ANS44	18,653
Public Transit Block Grant Program	N/A	55.010	AO042	171,443
Public Transit Block Grant Program	N/A	55.010	AOC34	162,031
Public Transit Block Grant Program	N/A	55.010	AN184	18,000
Total State Financial Assistance Expenditures				<u>\$ 371,237</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 \$350,988 from the Housing Opportunities for Persons with AIDS federal program. Other federal programs did not utilize subrecipients. There were no subrecipients from state financial assistance programs.
- (3) The U.S. Department of Transportation grant #AOC27 covers the first push for hurricane debris pick up and disposal on federal aid routes. The balance of the debris pick up and disposal is covered by the U.S. Department of Homeland Security Public Assistance Grants. A clear delineation of the coverage under the DOT grant is still in progress.

See independent auditor's report.

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SHARON A. MOORE, C.P.A.

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

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, 2006. 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 \$3,815,713 in federal awards during their year ended December 31, 2005, which is not included in the City's schedule during the year ended September 30, 2006. 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, 2006.

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.

May 31, 2007

**City of Key West, Florida
 Schedule of Findings and Questioned Costs
 Relating to Federal Awards
 For the Year Ended September 30, 2006**

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)? No

Identification of major programs:	<u>CFDA Number</u>	<u>Name of Federal Program</u>
	14.228	U.S. Department of Housing and Urban Development passed through Florida Department of Community Affairs Community Development Block Grants/ State's Program
	14.241	U.S. Department of Housing and Urban Development Housing Opportunities for Persons with AIDS
	20.205	U.S. Department of Transportation passed through Florida Department of Transportation Highway Planning and Construction
	66.606	U.S. Environmental Protection Agency Surveys - Studies - Investigations and Special Purpose Grants
	97.036	U.S. Department of Homeland Security Passed through the Florida Department of Community Affairs Public Assistance Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$342,521

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
Summary Schedule of Prior Audit Findings
Relating to Federal Awards
For the Year Ended September 30, 2006

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.

Recommendation--Supporting documentation sufficient to prove that all compliance issues relating to procurement requirements are adhered to should be attached to the requisition to purchase goods and services. These should be reviewed for accuracy and completeness prior to the issuance of a purchase order.

Current Status--The grant funds associated with this payment were returned to the grantor. The vendor did not return the excess amount charged over the GSA price quote.

City of Key West, Florida
Schedule of Findings and Questioned Costs
Relating to State Financial Assistance
Not Needed For the Year Ended September 30, 2006

Section I -- Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:
 Reportable condition(s) identified? No
 Reportable condition(s) identified considered to be material weaknesses? None

Noncompliance material to financial statements noted? No

State Financial Assistance Awards

Internal control over major projects:
 Reportable condition(s) identified? No
 Reportable condition(s) identified considered to be material weaknesses? None

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

Any audit findings disclosed that are required to be reported in accordance with
Rules of the Auditor General, Chapter 10.554 (1) (j) (4)? No

Findings required to be reported in a management letter pursuant to
Rules of the Auditor General, Chapter 10.554 (1) (g)? None reported

Identification of major projects:	<u>CSFA Number</u> 37.039	<u>Name of State Project</u> Florida Department of Environmental Protection Surface Water Restoration and Wastewater projects
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Dollar threshold used to distinguish between Type A and Type B projects: \$300,000

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 -- State Financial Assistance Findings and Questioned Costs

We noted no matters involving noncompliance that are required to be reported in accordance with *Rules of the Auditor General*, Chapter 10.554 (1) (j) (4).

