

City of Key West, Florida

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

Fiscal Year Ended September 30, 2007

Prepared by:

**Department of Finance
City of Key West**

City of Key West, Florida
Comprehensive Annual Financial Report
Fiscal Year Ended September 30, 2007

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

May 30, 2008

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, 2007, 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 the 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, P.A. and they have issued an unqualified opinion on the financial statements for the fiscal year ended September 30, 2007.

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 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 which comprise most of inhabited Monroe County. As evidenced below, tourism has remained relatively flat over the past fiscal year with little to no growth.

The average hotel occupancy rate for the calendar year 2007 was 75.5%, which is an increase from 73.5% in 2006. The average hotel room rate increased from \$180 to \$198 for the same period. Tourists arriving at Key West International Airport for fiscal year 2007 numbered 270,000, compared to 276,000 for the preceding fiscal year.

A further economic indicator is cruise ship passenger disembarkments. For fiscal year 2007, 831,000 cruise ship passengers visited the city compared to 859,000 in 2006.

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.

In 2007 the City began to see a leveling off of tourism activity. Most tourism related revenues showed little or no growth for the first time in many years. Contributing factors to this leveling off of activity appears to be the economic condition of the country as a whole and the price of fuel as many visitors to the Florida Keys drive down the scenic overseas highway.

In the past the City has always fared favorably from the effects of the national economy due to its strong tourism base. However, this time the effects must be closely monitored.

In addition to a downturn in the overall economy and a reduction in tourism, the City is faced with legislative mandates that affect the City's ability to levy ad valorem taxes. This legislation restricts the amount of millage that can be levied.

In the current year budget 07-08 the City was required to reduce its millage levy to 3% below the rolled-back rate. At rollback the millage rate is such that it generates the same amount of revenue as that of the prior year. Therefore at 3% less it would generate 3% less in taxes than it did in the prior year. This coupled with the economic downturn has put severe restraints on the City's ability to increase revenues in the General Fund.

For future fiscal years the City's ad valorem basis is rollback plus the percentage increase in personal per capital income. For fiscal year 08-09 this increase is 4%.

The ad valorem restrictions can be overridden by supermajority or a unanimous vote of the governing body depending upon the variation from the restriction.

The City has recovered from the physical effects of Hurricane Wilma but the financial recovery still continues. Throughout the year the City continues to meet with federal and state recovery personnel to close out projects. At year-end the City still has a receivable recorded related to hurricane recovery in excess of 2 million dollars.

During the year the City was notified that the Federal Emergency Management Agency's (FEMA's) participation in recovery would increase from 95 to 100 percent on the three major storms. This represents an amount over \$700,000 and is a welcome relief.

One major obstacle to overcome in the recovery effort is FEMA's stance on vehicle replacement. FEMA has indicated that they will participate in the recovery up to the appraised value of the vehicle at time of damage. With over 100 vehicles totaled during the storm, the City immediately began to replace vehicles. Due to availability and favorable pricing the City replaced all damaged vehicles with new vehicles. In some instances replacement cost and appraised value differed greatly, for example the difference in 3 replaced street sweepers was \$235,000 alone.

With the amount of damages incurred in this storm the City pierced its self-insured retention amount for wind and flood of \$1,500,000. The City was able to document covered losses of just over \$2,000,000. However, for claims in which FEMA participated in, the proceeds will have to be shared and/or turned over in total to FEMA.

After a wild 2005 hurricane season the last two have been much milder. The City hopes this trend will continue as a further dampening of the economy would be troublesome.

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 Law Enforcement Trust Fund, Navy Outer Mole Fund and 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 expire 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 funds are 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 document 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 resources to complete these major capital projects.

Certificate of Achievement Award

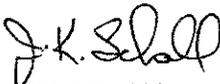
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Key West for its comprehensive annual financial report for the fiscal year ended September 30, 2006. This was the twenty-first consecutive 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,



JIM SCHOLL
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, 2006

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



Charles S. Cox

President

Jeffrey R. Enev

Executive Director

City of Key West, Florida

List of Principal Officials

Elected Officials

Mayor	Morgan McPherson
Commissioner	Barry Gibson
Commissioner	Teri Johnston
Commissioner	Dan Kohlage
Commissioner	Clayton Lopez
Commissioner	Mark Rossi
Commissioner	Bill Verge

Appointed Officials

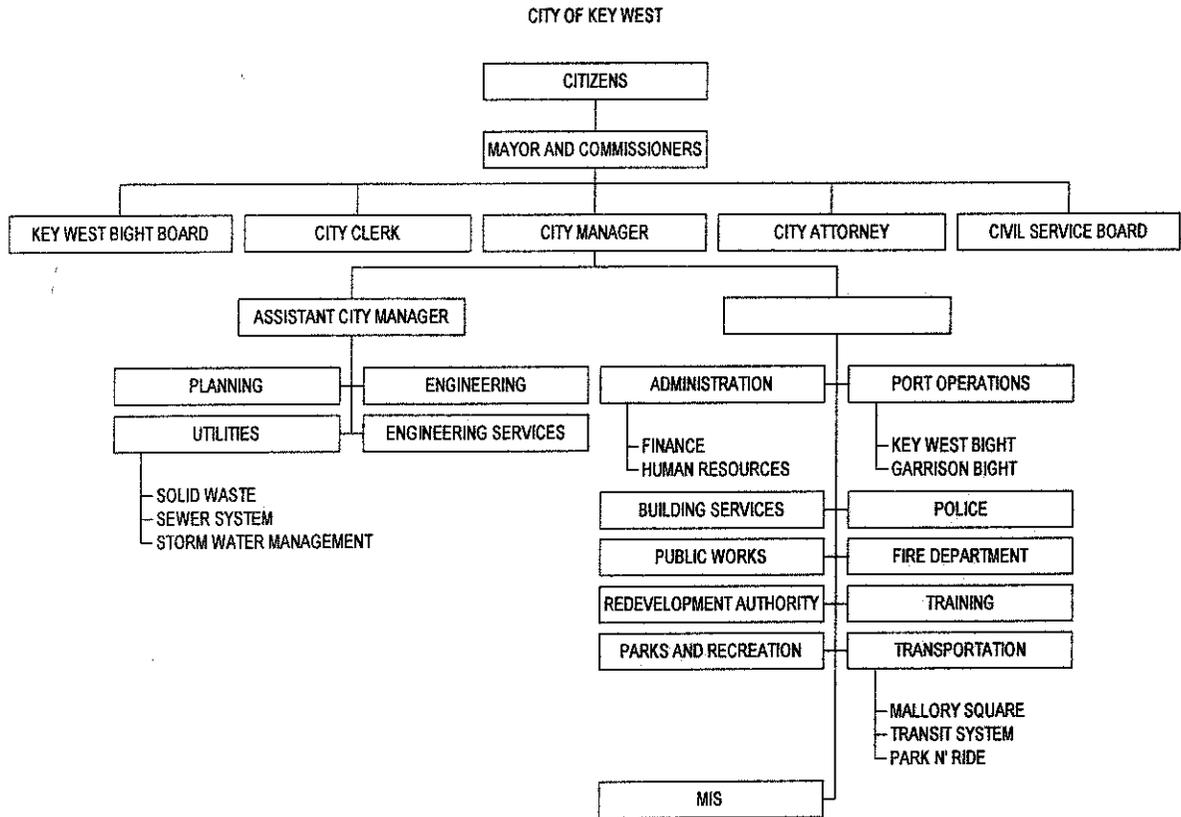
City Manager	Jim Scholl
City Clerk	Cheri Smith
City Attorney	Shawn Smith

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 McLaughlin
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, 2007, 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, 2007, 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 30, 2008 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 schedules, 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 schedules 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 30, 2008

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, 2007. 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 26.

Financial Highlights

- On October 24, 2005 Hurricane Wilma passed to the North and West of the Florida Keys. As a result of this storm the City experienced extensive flooding throughout, as storm surge from the passing hurricane rose as high as 5 feet in some areas. While the City for the most part has recovered from its physical damage the financial recovery continues. During the current year the City received over 2 million dollars in hurricane recovery aid. The majority of this revenue was received in the General Fund, for emergency protective measures, and in the Solid Waste Fund, for debris cleanup.
- Total assets of the City exceeded its liabilities at the close of fiscal year 2007 by \$238,672,000, an increase of \$13,555,000 from the prior year. The majority of this was generated in the City's enterprise funds.
- During the year, the City had revenues of \$18,012,000 in governmental activities generated by program revenues and \$32,094,000 in general revenues for governmental activities resulting in a net assets increase of \$2,572,000. The majority of this increase came from the City's special revenue funds as reserve for future capital projects in the Infrastructure Fund and the Navy Pier Fund.
- The General Fund reported an increase in fund balance of \$1,582,000 as a result of revenue surplus in charges for services (cruise ships and parking) and licenses and permits (building permits).
- Business type unrestricted net assets increased by \$5,443,000, or 36 percent, over the prior year's net assets. This increase is the result of all the major enterprise funds showing significant increases.
- In this fiscal year the City took the final step in the implementation of GASB 34, infrastructure reporting. By retroactively restating its general governmental infrastructure assets back to 1980 the City recognized an overall net asset increase of \$2,450,000.

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 26 and 28) 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 30. 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.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 26. 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) are 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, stormwater, 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 (KWA). The Housing Authority Board has full administrative responsibilities. With the exception of providing free sewer, stormwater and solid waste services, the City has no other obligation to the Housing Authority. KWA 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 30. The fund financial statements begin on page 30 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 46 and 47. 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 \$225,117,000 to \$238,672,000, or 6.0 percent. Contributing to this increase was a restatement of net assets of \$2,450,000 due to retroactive reporting of infrastructure assets and a \$938,000 prior period adjustment to the stormwater enterprise fund for assets discovered that should have been captured when the fund was initially set up in 2002. Total net assets are comprised of \$178,931,000 invested in capital assets, \$26,899,000 restricted for capital projects, transportation, recreation and other purposes, and \$32,842,000 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	
	FY07	FY06	FY07	FY06	FY07	FY06
Current and other assets	\$ 54,391	\$ 48,354	\$ 34,647	\$ 31,246	\$ 89,038	\$ 79,600
Capital assets	84,400	83,237	134,671	134,586	219,071	217,823
Total assets	<u>138,791</u>	<u>131,591</u>	<u>169,318</u>	<u>165,832</u>	<u>308,109</u>	<u>297,423</u>
Long-term debt outstanding	1,618	1,765	38,968	40,491	40,586	42,256
Other Liabilities	14,573	14,235	14,277	15,815	28,850	30,050
Total Liabilities	<u>16,191</u>	<u>16,000</u>	<u>53,245</u>	<u>56,306</u>	<u>69,436</u>	<u>72,306</u>
Net assets:						
Invested in capital assets, net of debt	84,399	83,047	94,532	92,102	178,931	175,149
Restricted	24,409	17,596	2,489	2,427	26,898	20,023
Unrestricted (deficit)	13,791	14,948	19,052	14,997	32,843	29,945
Total net assets	<u>\$ 122,599</u>	<u>\$ 115,591</u>	<u>\$ 116,073</u>	<u>\$ 109,526</u>	<u>\$ 238,672</u>	<u>\$ 225,117</u>

Net assets of the City's governmental activities are comprised of \$13,791,000 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 \$24,409,000 are restricted to comply with the requirements of the special revenue funds, or other legal requirements. Governmental activities also have \$84,399,000 invested in net capital assets.

Net assets of the City's business type activities increased by 5.9 percent, and are comprised of \$19,052,000 in unrestricted net assets, \$2,489,000 in assets restricted for capital projects and debt service, and \$94,532,000 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	
	FY07	FY06	FY07	FY06	FY07	FY06
Revenues						
Program revenues:						
Charges for services	\$ 13,806	\$ 13,257	\$ 31,843	\$ 31,255	\$ 45,649	\$ 44,512
Operating Grants and Contributions	3,560	3,969	1,588	6,926	5,148	10,895
Capital Grants and Contributions	646	1,185	2,081	2,067	2,727	3,252
General Revenues						
Taxes: Property and other	29,333	26,352	-	-	29,333	26,352
Intergovernmental	373	343	-	-	373	343
Investment Income	2,194	1,436	1,397	1,347	3,591	2,783
Other revenues	194	651	561	217	755	868
Total Revenues	<u>50,106</u>	<u>47,193</u>	<u>37,470</u>	<u>41,812</u>	<u>87,576</u>	<u>89,005</u>
Program Expenses						
General Government	13,613	13,248			13,613	13,248
Public Safety	22,278	23,059			22,278	23,059
Physical environment	321	220			321	220
Transportation	3,354	3,249			3,354	3,249
Economic Environment	2,074	2,152			2,074	2,152
Culture and recreation	5,403	4,206			5,403	4,206
Human Services	491	432			491	432
Sewer			10,120	10,030	10,120	10,030
Solid Waste			6,727	11,895	6,727	11,895
Stormwater			1,757	3,031	1,757	3,031
Marinas			7,437	7,233	7,437	7,233
Transit			3,819	3,917	3,819	3,917
Total Expenses	<u>47,534</u>	<u>46,566</u>	<u>29,860</u>	<u>36,106</u>	<u>77,394</u>	<u>82,672</u>
Excess before transfers	2,572	627	7,610	5,706	10,182	6,333
Transfers	2,002	1,146	(2,002)	(1,146)	-	-
Change in Net Assets	<u>\$ 4,574</u>	<u>\$ 1,773</u>	<u>\$ 5,608</u>	<u>\$ 4,560</u>	<u>\$ 10,182</u>	<u>\$ 6,333</u>

The City's total revenues reported are \$87,576,000, which in part represents \$45,649,000 in charges for services, \$29,333,000 in property and other taxes. Total expenses of \$77,394,000 are reported. As shown above both the City's total expenditures and total revenues are less than the prior year. This is due to less hurricane recovery activity in the current year. As shown above less FEMA aid was recognized as revenue (Grants) and less debris processing expenses (Solid Waste Fund) were recognized. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Total revenues for the City's governmental activities of \$50,106,000 include \$13,806,000 in fees, fines and charges for services, as well as \$29,333,000 in property and state and local shared taxes.

Licenses and Permits were significantly more than the budgeted \$725,000 as fueled by hurricane recovery and the hotel to condominium conversions that took place in 2007. The increase in Charges for Services and Fines were a direct result of increases in parking meter collections and cruiseships disembarkation fees that have recovered as a result of the hurricane effects in the prior year. Fines and Forfeitures were significantly less than budgeted as the City was too aggressive in its budget estimate for the year coupled with a slight decrease in collections. The City's other revenue sources all exceeded final budget estimates.

The cost of all governmental activities this year was \$47,534,000. However, as shown in the Statement of Activities on page 28, the amount that our taxpayers ultimately financed for these activities through City Ad Valorem taxes was \$15,774,000 because some of the cost was paid by those who directly benefited from the programs, \$13,806,000, or by other governments and organizations that subsidized certain programs with grants and contributions of \$3,900,000. The City paid for the remaining "public benefit" portion of governmental activities with \$13,929,000 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. As you can see the only profit-making program is transportation due to the inclusion of cruise ship and parking revenues.

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

	Total Cost of Services		Net (Cost)Profit of Services	
	FY07	FY06	FY07	FY06
General Government	\$ 13,613	\$ 13,195	\$ (12,182)	\$ (8,492)
Public Safety	22,278	23,059	(17,656)	(18,922)
Culture & recreation	5,403	4,206	(2,976)	(3,277)
Transportation	3,354	3,248	4,401	4,328
All Others	2,886	2,858	(1,538)	(1,783)
Totals	\$ 47,534	\$ 46,566	\$ (29,951)	\$ (28,146)

Business-type Activities

Revenues of the City's business-type activities (see Table 2) decreased by 10.3 percent (\$37,470,000 in 2007 compared to \$41,812,000 in 2006) as a result of decreased grant income (FEMA). Expenses decreased by 17 percent, or \$6,246,000, primarily as a result of the decline in expenses in the Solid Waste Fund related to hurricane debris disposal.

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, 2007, governmental funds reported combined fund balances of \$40,857,000, which is an increase of \$6,533,000 in comparison with the prior fiscal year. This substantial increase is a result of asset (cash) accumulations in the City's special revenue funds as a buildup for capital projects, a "non hurricane year" and collections of grants related to calendar year 2005 hurricanes in the general fund.

The General Fund is the chief operating fund of the City. As of September 30, 2007 the unreserved fund balance account in the general fund was \$11,819,000, an increase of \$910,000 from the previous year. The major contributing factor being the building and reconstruction boom that followed the 2005 hurricane season. This unreserved fund balance amount represents 30 percent of the total General Fund FY07 actual expenditures, a slight increase from 29 percent represented in 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>FY07</u>	<u>FY06</u>
Sewer	\$ 2,814,000	\$ 2,555,000
Solid Waste	12,232,000	10,922,000
Stormwater	(524,000)	(591,000)
Key West Bight	2,022,000	302,000
Garrison Bight	2,986,000	2,254,000
Transit	(478,000)	(445,000)

For the year ending September 30, 2007, the Sewer Fund net assets increased from \$62,213,000 to \$63,217,000 and can be attributed to a decrease in operating expenses and a sewer rate increase.

Solid Waste Fund net assets increased by \$1,473,000 as a result of the hurricane recovery and an increase in rates by CPI.

The Stormwater Fund is a relatively new user fee fund which began in August of 2002. The fund's net assets increased by \$1,327,000 mainly due to capital construction grants received from other agencies.

The Key West Bight Fund net assets increased by \$1,842,000 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 06-07 General Fund Budgetary Highlights

During the year there was approximately a \$2 million dollar increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- Hurricane season of 2005 continued to impact the City's budget. During the year the City learned that FEMA would participate in recovery costs up to 100% for three out of the four storms that affected the City during that season. While this was welcome news, FEMA's stance on vehicle reimbursements still remains an area of concern. FEMA has indicated to the City that it will reimburse the City appraised value at time of loss. Because of the number of vehicles lost (over 100), and the immediate need and availability of vehicles under favorable pricing condition (state contract) the City had no other choice but to replace lost vehicles with new. This has required the City to appropriate general fund reserves in excess of \$235,000 to cover the cost of some of these replacement vehicles.
- The City was the recipient of a federal grant for \$1,250,000 passed through from the State of Florida. This grant was passed through to a not for profit agency to aid in the sinking of the Vandenberg as an artificial reef in the Atlantic Ocean off the shore of Key West. This required intergovernmental revenue and grants and aids expense to be increased by \$1,250,000.

- During 06 -07 the City received \$226,000 in contributions from private sources to rebuild its deteriorated skate park. To record these contributions and the related capital outlay the City increase both contribution revenue and capital outlay expense by this same amount.

Capital Assets and Debt Administration

At the end of 2007, the City had \$219,072,000 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	
	FY07	FY06	FY07	FY06	FY07	FY06
Land	\$ 53,187	\$ 53,187	\$ 18,681	\$ 18,681	\$ 71,868	\$ 71,868
Buildings & improvements	33,242	33,088	158,980	153,138	192,222	186,226
Equipment	15,509	15,142	15,772	16,181	31,281	31,323
Infrastructure	10,595	7,022	-	-	10,595	7,022
Construction in progress	128	604	4,541	3,283	4,669	3,887
Depreciation	(28,261)	(25,807)	(63,302)	(57,413)	(91,563)	(83,220)
Totals	<u>\$ 84,400</u>	<u>\$ 83,236</u>	<u>\$ 134,672</u>	<u>\$ 133,870</u>	<u>\$ 219,072</u>	<u>\$ 217,106</u>

This year's major additions included:

- The only major change in the governmental fixed assets was the implementation of GASB 34 infrastructure restatement to 1980. As a result of this restatement infrastructure's beginning balance was increased by \$3,516,000 and the related accumulated depreciation on these assets increased the beginning balance of accumulated depreciation by \$1,067,000 for a net increase in net assets of \$2,450,000.
- In the Sewer Fund an upgrade to the disinfectant process was undertaken. An Ultraviolet lighting disinfectant system was installed at a cost of \$1,594,000. By installing this system the City was able to discontinue the hazardous chorine gas system that it had used in the past.
- Also in the Sewer Fund a complete rebuild of the clarifiers was completed totaling \$947,000 as the plant is now 20 years old and beginning to show signs of wear.
- The Stormwater Fund has begun Gravity Well project phase two aimed at reducing flooding and standing water. This project added \$1,331,000 to construction in progress this year.
- Also in the Stormwater Fund a prior period adjustment was recognized. This adjustment increased improvements other than buildings by \$1,881,251 and increased its related accumulated depreciation by \$943,000. This adjustment was a result of identifying assets through the City's GASB 34 project that should have been recorded at the time the fund was established in 2002.

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 \$40,586,000 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	
	FY07	FY06	FY07	FY06	FY07	FY06
Promissory note	\$ 1,618	\$ 1,765	\$ 3,973	\$ 4,204	\$ 5,591	\$ 5,969
Revenue Bonds and Notes	-	-	34,995	36,287	34,995	36,287
Totals	\$ 1,618	\$ 1,765	\$ 38,968	\$ 40,491	\$ 40,586	\$ 42,256

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

Budget Preparation

The following factors effected the development of the FY 07-08 budget.

In April of 07 the Florida legislation made sweeping changes to the state's statutes governing ad valorem taxation. In these changes the legislation limits the governing body's ability to raise ad valorem tax revenues by restricting the governing body's ability to raise the millage rate.

In the last ten years Florida has seen property values escalate consistently in double-digit percentages. Florida also has a constitutional amendment called "Save our Homes" that was passed a number of years ago. This amendment restricts the assessment on properties that have homestead exemption status by limiting the increase in the homes assessment annually to 3.5% or less. Because non-homesteaded property has no cap on property assessment it has caused a great disparity between residential "homesteaded" property and commercial, rental and other properties that do not enjoy this status.

With this great disparity commercial and residential property owners looked for relief. In an effort to limit property tax increases this legislation was passed.

In the first year the legislation requested that City's and County's reduce their ad valorem collection to below rollback. At rollback the amount of tax revenue generated is equal to the amount collected in the prior fiscal year. At rollback the City would generate no new revenue. In order to help provide taxpayers immediate relief the legislation required Cities and Counties rollback to a specific percentage below rollback.

Based upon the actual millage rate assessed over the past five years, when compared to the rollback for those years, Cities and Counties were "penalized" up to 7 percent. Those City's and County's that had significantly exceeded rollback over the last five years were requested to go to rollback less 7%. Others who were close to rollback each year were assessed a lesser percent. The City of Key West was requested to go 3% below rollback. Any variation from these percentages required a supermajority to unanimous vote by the governing body depending upon the percent of deviation from the requirement.

With this restriction the City anticipates receiving \$400,000 less in ad valorem revenue in the 07-08 budget year. This reduction and a slowdown in the economy both on a national level and City level would prove to make the 07-08 budget process very challenging.

Because of the slowdown in the economy the City is beginning to see reduced collection of sales tax, cruise ship revenues and other tourist generated revenues. This reduction made the budget that much more difficult to balance.

In preparation for the budget process, 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 for approval by the commission. The Commissioners interact with department heads by providing guidance on key intended outcomes and make suggestions to enhance budget performance in the coming physical year.

In order to achieve a balanced budget for fiscal year 07-08 the City was required to freeze 7 positions and transfer 3 to the Gas Tax Fund. In addition the proposed budget did not include an increase for employee raises.

During the final reading of the budget the commission expressed a desire to fund an employee cost of living increase up to 4.2%. The proposed budget was adopted as presented. In its first meeting of the new fiscal year the commission approved an appropriation from reserves of approximately \$450,000 to allow for these requested increases.

Economic Outlook

The economy of Key West has slowed along with the rest of the country. In the 06-07 fiscal year the City benefited from a significant increase in building permit fees. The fee increase resulted from significant hurricane recovery rebuilding and numerous large hotels that have gone through conversion to condominium. As these conversions begin to slowdown and hurricane recovery is concluded the City is experiencing significant declines in these revenues and other revenues.

In addition with the current slowdown in the housing market the residential home turnover has slowed to a crawl. This has affected the sales of the above-mentioned redevelopments. Most of these conversions have been completed while a few remain under construction. These conversions began when the Florida housing market was still on the rise and the economy was favorable.

Tourism is the lifeblood of the City of Key West's economy. Visitors drive Key West's economy and therefore contribute significantly to City revenues. Parking meters, parking fines, parking lots, sales tax collections, and cruise ships disembarkation make up a large portion of the City operating budget. Currently the City is experiencing a slow down in all these categories. Contributing to this slow down is the national economy and the price of gas.

The same legislation that required the City to roll back to 3% in the current year 07-08 also places limitations on the City's ability to raise taxes in future years.

Beginning in 08-09 the maximum allowable ad valorem increase without a supermajority vote is rollback plus per capital personal income growth. For the 08-09 fiscal year this looks to be around 4%. With ad valorem taxes representing a little over one third of the City budget this "authorized" increase contributes very little to the overall budget.

With the City experiencing practically no growth in tourism and other related revenues and its ability to levy ad valorem tax severely limited, it has nowhere else to focus than the expenditure side of the budget.

With contractually obligated wages and benefit increases and significant increases in fuel cost and other contractual obligations the City is faced with the necessity of significant reduction in expenditures.

Unfortunately the City's General Fund budget is over 70% personnel costs, therefore in order to significantly affect expenditures personnel costs is an area that must be carefully reviewed.

The City is the defendant in two similar anti-trust cases. In one of the cases a \$13,500,000 damage verdict was reversed. However, the court affirmed the finding of liability and returned the case to the trial court for a reassessment of true damages. The other case is in its early stages but an adverse ruling could result in a damage award. The City has recorded their best estimate of these liabilities at year-end.

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 visit the City's web site at www.keywestcity.com or by contacting the Finance Department, 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, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Current assets				
Cash and cash equivalents	\$ 16,724,607	\$ 10,530,780	\$ 27,255,387	\$ 3,465,593
Cash and cash equivalents (restricted)	660,516	5,157,010	5,817,526	2,366,919
Investments	24,262,175	12,415,556	36,677,731	-
Investments (restricted)	-	-	-	150,000
Accounts receivable (net of allowances)	1,964,404	3,021,531	4,985,935	1,589,854
Intergovernmental	2,273,735	5,329,268	7,603,003	-
Interest	267,529	258,783	526,312	-
Internal balances	3,394,926	(3,394,926)	-	-
Inventories	11,595	670,936	682,531	85,864
Prepaid items	1,850,418	25,854	1,876,272	208,265
Mortgages	1,131,649	-	1,131,649	-
Total current assets	52,541,554	34,014,792	86,556,346	7,866,495
Noncurrent assets				
Net pension assets	1,706,090	-	1,706,090	-
Capital assets				
Land	53,186,804	18,681,033	71,867,837	8,002,207
Buildings	13,593,103	37,624,606	51,217,709	46,349,342
Improvements	19,648,999	121,354,536	141,003,535	-
Infrastructure	10,594,957	-	10,594,957	1,167,752
Machinery, equipment and furniture	15,508,634	15,772,016	31,280,650	848,317
Accumulated depreciation	(28,261,379)	(63,302,003)	(91,563,382)	(17,237,902)
Construction in progress	128,365	4,540,766	4,669,131	7,519
Other	143,584	632,436	776,020	2,681,982
Total noncurrent assets	86,249,157	135,303,390	221,552,547	41,819,217
Total assets	138,790,711	169,318,182	308,108,893	49,685,712

Continued

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

**City of Key West, Florida
Statement of Net Assets
September 30, 2007**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Liabilities				
Current liability				
Accounts Payable and accrued expenses	977,837	1,929,615	2,907,452	545,730
Accrued Wages & Benefits	1,470,552	94,199	1,564,751	-
Unearned revenue	2,834,401	530,784	3,365,185	-
Intergovernmental	153,506	6,148,881	6,302,387	445,205
Deposits	217,885	-	217,885	-
Insurance claims payable	1,606,831	-	1,606,831	-
Compensated absences	1,624,619	151,860	1,776,479	-
Bonds and notes payable				887,546
Other	1,259,054		1,259,054	139,717
Liabilities payable from restricted assets:				
Accrued interest	-	1,324,655	1,324,655	-
Bonds and notes payable	147,059	1,629,380	1,776,439	-
Unearned revenue	-	-	-	-
Other	-	40,000	40,000	295,180
Total current liabilities	10,291,744	11,849,374	22,141,118	2,313,378
Noncurrent liabilities				
Notes payable	1,617,647	3,972,861	5,590,508	31,970,076
Revenue bonds payable	-	34,995,252	34,995,252	-
Insurance claims payable	2,654,169	-	2,654,169	-
Accrued interest	-	1,631,031	1,631,031	-
Closure costs	-	303,333	303,333	-
Compensated absences	1,627,695	194,275	1,821,970	126,015
Other	-	299,217	299,217	2,233,635
Total noncurrent liabilities	5,899,511	41,395,969	47,295,480	34,329,726
Total liabilities	16,191,255	53,245,343	69,436,598	36,643,104
Net Assets				
Invested in capital assets, net of related debt	84,399,483	94,531,548	178,931,031	6,279,613
Restricted for:				
Capital projects	15,066,645	1,500,000	16,566,645	-
Debt service	-	989,670	989,670	-
Transportation	6,872,277	-	6,872,277	-
Recreation	459,120	-	459,120	-
Economic Environment	1,938,576	-	1,938,576	2,081,574
Public Safety	72,370	-	72,370	-
Unrestricted	13,790,985	19,051,621	32,842,606	4,681,421
Total net assets	\$122,599,456	\$116,072,839	\$238,672,295	\$13,042,608

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, 2007

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	\$ 13,612,832	\$ 1,551,134	\$ 369,724	\$ 0
Public safety	22,277,991	4,503,929	77,948	40,428
Physical environment	321,209	46,215	-	-
Transportation	3,354,275	7,568,097	316,094	-
Economic environment	1,963,478	-	897,606	403,692
Human Services	490,921	-	-	-
Culture and recreation	5,402,896	136,248	1,899,254	202,553
Principal	59,262	-	-	-
Interest	50,675	-	-	-
Total governmental activities	<u>47,533,539</u>	<u>13,805,623</u>	<u>3,560,626</u>	<u>646,673</u>
Business Type Activities				
Sewer System	10,120,653	11,270,710	3,579	724,044
Solid Waste	6,726,879	8,837,004	329,676	27,619
Key West Bight	6,374,135	7,459,997	17,139	84,738
Stormwater	1,757,166	1,747,582	179,174	1,055,154
Garrison Bight	1,063,119	1,504,006	11,250	-
Transit	3,818,595	1,023,845	1,047,515	189,449
Total business-type activities	<u>29,860,547</u>	<u>31,843,144</u>	<u>1,588,333</u>	<u>2,081,004</u>
Total primary government	<u>\$ 77,394,086</u>	<u>\$ 45,648,767</u>	<u>\$ 5,148,959</u>	<u>\$ 2,727,677</u>
COMPONENT UNITS:				
Key West Housing Authority	<u>10,504,485</u>	<u>5,876,787</u>	<u>4,377,314</u>	<u>146,361</u>
Total Component Units	<u>\$ 10,504,485</u>	<u>\$ 5,876,787</u>	<u>\$ 4,377,314</u>	<u>\$ 146,361</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)				
Other				
Total general revenues, special items, and transfers				
Change in net assets				
Net assets - beginning				
Prior period adjustment				
Infr.				
Net assets - beginning as restated				
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
\$ (11,691,974)	\$ -	\$ (11,691,974)	\$ -
(17,655,686)	-	(17,655,686)	-
(274,994)	-	(274,994)	-
4,529,916	-	4,529,916	-
(662,180)	-	(662,180)	-
(490,921)	-	(490,921)	-
(3,164,841)	-	(3,164,841)	-
(59,262)	-	(59,262)	-
(50,675)	-	(50,675)	-
<u>(29,520,617)</u>	<u>-</u>	<u>(29,520,617)</u>	<u>-</u>
-	1,877,680	1,877,680	-
-	2,467,420	2,467,420	-
-	1,187,739	1,187,739	-
-	1,224,744	1,224,744	-
-	452,137	452,137	-
-	(1,557,786)	(1,557,786)	-
-	<u>5,651,934</u>	<u>5,651,934</u>	-
<u>(29,520,617)</u>	<u>5,651,934</u>	<u>(23,868,683)</u>	-
			<u>(104,023)</u>
			<u>(104,023)</u>
15,774,200	-	15,774,200	-
2,029,350	-	2,029,350	-
1,064,780	-	1,064,780	-
5,984,394	-	5,984,394	-
3,278,854	-	3,278,854	-
1,201,261	-	1,201,261	-
372,628	-	372,628	-
2,193,750	1,396,831	3,590,581	86,187
2,001,760	(2,001,760)	-	-
193,800	561,390	749,247	825,846
<u>34,094,777</u>	<u>(43,539)</u>	<u>34,051,238</u>	<u>912,033</u>
4,574,160	5,608,395	10,182,555	808,010
115,591,099	109,526,201	225,117,300	12,234,598
-	938,243	938,243	-
2,449,707	-	2,449,707	-
<u>122,614,966</u>	<u>116,072,839</u>	<u>238,687,805</u>	<u>13,042,608</u>
<u>\$ 122,599,456</u>	<u>\$ 116,072,839</u>	<u>\$ 238,672,295</u>	<u>\$ 13,042,608</u>

City of Key West, Florida
Balance Sheet
Governmental Funds
September 30, 2007

Assets	General Fund	Infrastructure Surtax Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 109,631	\$ 4,505,523	\$ 11,236,347	\$ 15,851,501
Cash and cash equivalents (restricted)	-	-	660,516	660,516
Investments	12,915,021	3,589,217	5,719,690	22,223,928
Investments (restricted)	-	-	-	-
Receivables:				
Accounts	595,902	-	24,702	620,604
Intergovernmental	922,126	709,752	141,642	1,773,520
Mortgages	-	-	1,275,233	1,275,233
Interfund	414,809	175,696	850,000	1,440,505
Interest	107,214	37,918	85,742	230,874
Inventories	11,595	-	-	11,595
Advance	2,430,738	-	-	2,430,738
Prepays	14,583	-	1,328	15,911
Total assets	<u>\$ 17,521,619</u>	<u>\$ 9,018,106</u>	<u>\$ 19,995,200</u>	<u>\$ 46,534,925</u>
 Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$ 451,725	\$ 207,539	\$ 224,357	\$ 883,621
Payroll payable	828,708	10,462	15,397	854,567
Retainage payable	-	-	-	-
Interfund payable	730,539	3,609	-	734,148
Intergovernmental	-	-	153,506	153,506
Deposits	217,885	-	-	217,885
Deferred revenue	826,816	-	2,007,585	2,834,401
Total liabilities	<u>3,055,673</u>	<u>221,610</u>	<u>2,400,845</u>	<u>5,678,128</u>
 Fund balances				
Reserved for:				
Inventory and prepaids	26,178	-	-	26,178
Receivables	-	-	143,584	143,584
Encumbrances	190,347	461,272	837,347	1,488,966
Advances	2,430,738	-	-	2,430,738
Unreserved, reported in:				
General fund	11,818,683	-	-	11,818,683
Special revenue	-	8,335,224	10,363,850	18,699,074
Capital projects	-	-	6,249,574	6,249,574
Total fund balances	<u>14,465,946</u>	<u>8,796,496</u>	<u>17,594,355</u>	<u>40,856,797</u>
 Total liabilities and fund balances	 <u>\$ 17,521,619</u>	 <u>\$ 9,018,106</u>	 <u>\$ 19,995,200</u>	 <u>\$ 46,534,925</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, 2007

Fund Balances - total governmental funds	\$ 40,856,797
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	84,399,483
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.	1,064,005
Fiduciary funds are used by management to account for pension assets. The Net Pension Asset is then recorded on the entity wide statements.	1,706,000
Receivables in governmental funds are susceptible to full accrual on the entity-wide statements. Intergovernmental	925,167
Retainage payable in governmental funds are susceptible to full accrual on the entity-wide statements.	(29,236)
Accounts payable in governmental funds are susceptible to full accrual on the entity-wide statements.	(60,000)
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	\$ (1,764,706)
Accrued expenses	(1,250,000)
Compensated absences	(3,248,054) (Not created in connection with terminated employees)
Long-term liabilities - net	(6,262,760)
 Net assets of governmental activities	 <u>\$ 122,599,456</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, 2007

	General	Infrastructure Surtax Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$16,999,393	\$5,984,394	\$2,005,419	\$ 24,989,206
Licenses and permits	3,223,910	-	-	3,223,910
Intergovernmental income	6,801,001	916,853	1,373,917	9,091,771
Charges for services	6,794,871	-	1,032,343	7,827,214
Fines and forfeitures	916,443	-	132,530	1,048,973
Investment earnings	924,133	376,060	893,557	2,193,750
Rental income	1,441,043	-	-	1,441,043
Contributions and other	473,837	66,600	322,914	863,351
Total revenues	<u>37,574,631</u>	<u>7,343,907</u>	<u>5,760,680</u>	<u>50,679,218</u>
Expenditures:				
Current:				
General government	12,858,911	370,522	-	13,229,433
Public safety	19,024,792	12,960	75,269	19,113,021
Physical environment	155,387	80,326	-	235,713
Transportation	1,214,718	-	1,650,079	2,864,797
Economic environment	80,500	-	1,882,978	1,963,478
Culture and recreation	3,680,251	1,007,028	-	4,687,279
Human Services	496,599	-	-	496,599
Capital outlay	1,142,615	1,422,444	293,429	2,858,488
Debt service:				
Principal	-	-	206,321	206,321
Interest	1,800	-	48,875	50,675
Total expenditures	<u>38,655,573</u>	<u>2,893,280</u>	<u>4,156,951</u>	<u>45,705,804</u>
Excess (deficiency) of revenues over (under) expenditures	(1,080,942)	4,450,627	1,603,729	4,973,414
Other financing sources (uses):				
Transfers in	3,747,343	-	2,284,434	6,031,777
Transfers out	(1,084,434)	(1,200,000)	(1,745,583)	(4,030,017)
Total other financing sources (uses)	<u>2,662,909</u>	<u>(1,200,000)</u>	<u>538,851</u>	<u>2,001,760</u>
Net change in fund balances	<u>1,581,967</u>	<u>3,250,627</u>	<u>2,142,580</u>	<u>6,975,174</u>
Fund balances:				
October 1, previously stated	13,544,981	5,326,961	15,451,775	34,323,717
Prior period adjustment	(661,002)	218,908	-	(442,094)
October 1, restated	<u>12,883,979</u>	<u>5,545,869</u>	<u>15,451,775</u>	<u>33,881,623</u>
Fund balance, September 30	<u>\$ 14,465,946</u>	<u>\$ 8,796,496</u>	<u>\$ 17,594,355</u>	<u>\$ 40,856,797</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
For the year ended September 30, 2007

Net change in fund balances - total governmental funds \$ 6,975,174

Amounts reported for governmental activities in the statement of activities are different because:

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.

Expenditures for capital assets	2,858,488	
Less: Net book value of disposed	(499,748)	
Less: current year depreciation	<u>(3,629,971)</u>	(1,271,231)

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. (573,281)

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.

Accounts Payable	30,075	
Accrued expenses	250,000	
Retainage Payable	<u>(29,325)</u>	250,750

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 (182,360)

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. (940,053)

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. 168,102

Change in net assets of governmental activities \$ 4,574,160

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, 2007

	General Fund			Variance with Final Budget- Positive (Negative)
	General Fund Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues:				
Taxes	\$ 17,046,879	\$ 17,046,879	\$ 16,999,393	\$ (47,486)
Licenses and permits	2,498,689	2,498,689	3,223,910	725,221
Intergovernmental income	5,172,767	6,548,767	6,801,001	252,234
Charges for services	6,353,628	6,353,628	6,794,871	441,243
Fines and forfeitures	1,258,568	1,258,568	916,443	(342,125)
Investment income	547,238	547,235	924,133	376,898
Rental income	1,496,065	1,496,067	1,441,043	(55,024)
Contributions and other	46,211	276,220	473,837	197,617
Total revenues	<u>34,420,045</u>	<u>36,026,053</u>	<u>37,574,631</u>	<u>1,548,578</u>
Expenditures:				
Personal services	27,957,264	27,952,763	27,855,810	96,953
Operating	8,303,573	8,484,132	8,326,648	157,484
Capital	658,457	1,255,206	1,142,615	112,591
Aid to private organizations	41,800	1,347,300	1,330,500	16,800
Total expenditures	<u>36,961,094</u>	<u>39,039,401</u>	<u>38,655,573</u>	<u>383,828</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,541,049)</u>	<u>(3,013,348)</u>	<u>(1,080,942)</u>	<u>1,932,406</u>
Other financing sources (uses):				
Transfers in	3,747,343	3,747,343	3,747,343	-
Transfers (out)	(983,898)	(1,084,434)	(1,084,434)	-
Total other financing sources (uses)	<u>2,763,445</u>	<u>2,662,909</u>	<u>2,662,909</u>	<u>-</u>
Net change in fund balance	<u>222,396</u>	<u>(350,439)</u>	<u>1,581,967</u>	<u>1,932,406</u>
Fund balance:				
October 1 , previously stated	13,544,981	13,544,981	13,544,981	-
Prior period adjustment	-	-	(661,002)	(661,002)
October 1 , restated	<u>13,544,981</u>	<u>13,544,981</u>	<u>12,883,979</u>	<u>(661,002)</u>
Fund balance, September 30	<u>\$ 13,767,377</u>	<u>\$ 13,194,542</u>	<u>\$ 14,465,946</u>	<u>\$ 1,271,404</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, 2007

	Infrastructure Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Taxes	\$ 5,894,428	\$ 5,894,428	\$ 5,984,394	\$89,966
Intergovernmental income	2,596,250	2,596,250	916,853	(1,679,397)
Investment income	-	-	376,060	376,060
Contributions and other	-	-	66,600	66,600
Total revenues	<u>8,490,678</u>	<u>8,490,678</u>	<u>7,343,907</u>	<u>(1,146,771)</u>
Expenditures:				
Personal Service	-	-	222,196	(222,196)
Operating	3,110,750	3,110,750	1,248,640	1,862,110
Capital	4,312,681	4,312,681	1,422,444	2,890,237
Total expenditures	<u>7,423,431</u>	<u>7,423,431</u>	<u>2,893,280</u>	<u>4,530,151</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,067,247</u>	<u>1,067,247</u>	<u>4,450,627</u>	<u>3,383,380</u>
Other financing sources (uses):				
Transfers (out)	(1,200,000)	(1,200,000)	(1,200,000)	-
Total other financing sources (uses)	<u>(1,200,000)</u>	<u>(1,200,000)</u>	<u>(1,200,000)</u>	<u>-</u>
Net change in fund balance	<u>(132,753)</u>	<u>(132,753)</u>	<u>3,250,627</u>	<u>3,383,380</u>
Fund balance:				
October 1 , previously stated	5,326,961	5,326,961	5,326,961	-
Prior period adjustment	-	-	218,908	218,908
October 1 , restated	<u>5,326,961</u>	<u>5,326,961</u>	<u>5,545,869</u>	<u>218,908</u>
Fund balance, September 30	<u>\$5,194,208</u>	<u>\$5,194,208</u>	<u>\$8,796,496</u>	<u>\$3,602,288</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, 2007

	<u>Sanitary Sewer System</u>	<u>Solid Waste</u>	<u>Key West Bight</u>	<u>Stormwater</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 226,481	\$ 3,254,604	\$ 3,759,230	\$ 29,421
investments	5,131,610	7,283,946	-	-
Receivables, net of allowance for uncollectibles:				
Interest	217,563	27,054	14,166	-
Accounts	1,439,471	873,002	444,489	108,327
Intergovernmental	665,234	1,931,054	185,390	1,807,972
Interfund receivables	78,818	33,758	23,503	-
Prepaid expense	-	-	18,677	-
Inventory	486,361	64,200	83,530	23,026
Total	<u>8,245,538</u>	<u>13,467,618</u>	<u>4,528,985</u>	<u>1,968,746</u>
Restricted assets:				
Cash and cash equivalents	3,957,991	123,615	1,075,404	-
Total	<u>3,957,991</u>	<u>123,615</u>	<u>1,075,404</u>	<u>-</u>
Total current assets	<u>12,203,529</u>	<u>13,591,233</u>	<u>5,604,389</u>	<u>1,968,746</u>
Noncurrent assets				
Deferred Charges				
Unamortized bond cost, net	430,799	-	139,493	-
Property, plant and equipment:				
Land	6,480	3,745,026	14,879,527	-
Buildings and systems	24,308,578	3,859,176	4,757,258	-
Improvements other than buildings	95,901,849	911,325	8,217,402	12,963,799
Machinery, equipment and furniture	9,549,332	839,153	512,993	96,221
Construction in progress	1,106,885	646,217	149,820	2,349,390
Total	<u>130,873,124</u>	<u>10,000,897</u>	<u>28,517,000</u>	<u>15,409,410</u>
Less accumulated depreciation	43,002,144	5,011,856	4,911,708	2,486,813
Net property, plant and equipment	<u>87,870,980</u>	<u>4,989,041</u>	<u>23,605,292</u>	<u>12,922,597</u>
Other noncurrent assets:				
Accounts receivable	47,424	14,721	-	-
Advance to other funds	37,632	-	307,770	-
Total other noncurrent assets	<u>85,056</u>	<u>14,721</u>	<u>307,770</u>	<u>-</u>
Total noncurrent assets	<u>88,386,835</u>	<u>5,003,762</u>	<u>24,052,555</u>	<u>12,922,597</u>
Total assets	<u>\$100,590,364</u>	<u>\$ 18,594,995</u>	<u>\$29,656,944</u>	<u>\$ 14,891,343</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>
\$ 3,261,044	\$ 10,530,780	\$ 873,106
-	12,415,556	2,038,247
-	258,783	36,655
156,242	3,021,531	918,848
739,618	5,329,268	-
51,402	187,481	3,609
7,177	25,854	1,834,507
13,819	670,936	-
<u>4,229,302</u>	<u>32,440,189</u>	<u>5,704,972</u>
-	5,157,010	-
-	<u>5,157,010</u>	-
<u>4,229,302</u>	<u>37,597,199</u>	<u>5,704,972</u>
-	570,292	-
50,000	18,681,033	-
4,699,594	37,624,606	-
3,360,161	121,354,536	-
4,774,316	15,772,015	-
288,454	4,540,766	-
<u>13,172,525</u>	<u>197,972,956</u>	-
<u>7,889,482</u>	<u>63,302,003</u>	-
<u>5,283,043</u>	<u>134,670,953</u>	-
-	62,145	-
-	345,402	-
-	<u>407,547</u>	-
<u>5,283,043</u>	<u>135,648,792</u>	-
<u>\$ 9,512,345</u>	<u>\$173,245,991</u>	<u>\$ 5,704,972</u>

City of Key West, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2007

	<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	\$ 292,228	\$ 738,314	\$ 201,214	\$ 192,845
Accrued payroll and related expenses	23,438	35,672	58,212	10,550
Accrued expenses	-	54,970	217,157	-
Retainage payable	68,721	31,357	-	70,967
Interfund payable	100,000	-	194,144	-
Insurance claims payable	-	-	-	-
Intergovernmental payable	6,148,881	-	-	-
Deferred revenue	105,373	-	257,639	-
Total	<u>6,738,641</u>	<u>860,313</u>	<u>928,366</u>	<u>274,362</u>
Current liabilities:				
Payable from restricted assets:				
Closure costs payable, current	-	40,000	-	-
Accrued interest	556,671	-	767,984	-
Bonds and notes payable, current	1,165,779	-	463,601	-
Deferred revenue	45,289	30,421	-	-
Total	<u>1,767,739</u>	<u>70,421</u>	<u>1,231,585</u>	<u>-</u>
Total current Liabilities:	<u>8,506,380</u>	<u>930,734</u>	<u>2,159,951</u>	<u>274,362</u>
Noncurrent liabilities:				
Revenue bonds payable, net of discount	24,868,114	-	10,127,138	-
Note payable	3,972,861	-	-	-
Closure costs	-	303,333	-	-
Advance from other funds	-	-	226,301	2,204,437
Insurance claims payable	-	-	-	-
Customer deposits	720	-	138,214	-
Accrued interest	-	-	1,631,031	-
Accrued compensated absences	25,127	46,695	22,596	13,650
Total noncurrent liabilities	<u>28,866,822</u>	<u>350,028</u>	<u>12,145,280</u>	<u>2,218,087</u>
Total liabilities	<u>37,373,202</u>	<u>1,280,762</u>	<u>14,305,231</u>	<u>2,492,449</u>
Net Assets				
Invested in capital assets, net of related debt	58,020,491	4,989,041	13,316,378	12,922,597
Restricted for current debt service	882,880	93,194	13,595	-
Restricted for renewal & replacement	1,500,000	-	-	-
Unrestricted	2,813,791	12,231,998	2,021,740	(523,703)
Total net assets	<u>63,217,162</u>	<u>17,314,233</u>	<u>15,351,713</u>	<u>12,398,894</u>
Total liabilities and net assets	<u>\$ 100,590,364</u>	<u>\$ 18,594,995</u>	<u>\$ 29,656,944</u>	<u>\$ 14,891,343</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>
\$ 61,840	\$ 1,486,441	\$ 4,891
118,187	246,059	102,782
-	272,127	-
-	171,045	-
857,526	1,151,670	258,981
-	-	1,606,831
-	6,148,881	-
92,062	455,074	9,054
<u>1,129,615</u>	<u>9,931,297</u>	<u>1,982,539</u>
-	40,000	-
-	1,324,655	-
-	1,629,380	-
-	75,710	-
-	<u>3,069,745</u>	-
<u>1,129,615</u>	<u>13,001,042</u>	<u>1,982,539</u>
-	34,995,252	-
-	3,972,861	-
-	303,333	-
345,402	2,776,140	-
-	-	2,654,169
160,283	299,217	-
-	1,631,031	-
86,207	194,275	4,260
<u>591,892</u>	<u>44,172,109</u>	<u>2,658,429</u>
<u>1,721,507</u>	<u>57,173,151</u>	<u>4,640,968</u>
5,283,043	94,531,550	-
-	989,669	-
-	1,500,000	-
2,507,795	19,051,621	1,064,004
<u>7,790,838</u>	<u>116,072,840</u>	<u>1,064,004</u>
<u>\$ 9,512,345</u>	<u>\$ 173,245,991</u>	<u>\$ 5,704,972</u>

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

For the year ended September 30, 2007

	<u>Sewer System</u>	<u>Solid Waste</u>	<u>Key West Bight</u>	<u>Stormwater</u>
Operating revenues:				
Charges for services	\$ 11,270,710	\$ 8,837,004	\$ 7,459,997	\$ 1,747,582
Total operating revenues	<u>11,270,710</u>	<u>8,837,004</u>	<u>7,459,997</u>	<u>1,747,582</u>
Operating expenses:				
Personal services	417,388	747,480	1,172,460	136,933
Other operating expenses	4,893,469	5,810,253	3,822,355	833,513
Depreciation and amortization	3,497,823	161,326	608,065	667,797
Total operating expenses	<u>8,808,680</u>	<u>6,719,059</u>	<u>5,602,880</u>	<u>1,638,243</u>
Operating income (loss)	<u>2,462,030</u>	<u>2,117,945</u>	<u>1,857,117</u>	<u>109,339</u>
Nonoperating revenues (expenses):				
Grant income (operating)	3,579	329,676	17,139	179,174
Investment earnings	413,827	577,068	226,942	28,447
Other income	50,811	18,308	173,439	223,530
Other expense	-	-	-	-
Interest expense	(1,291,306)	-	(771,147)	(118,923)
Loss on disposal	(20,667)	(7,820)	(108)	-
Net nonoperating revenues (expenses)	<u>(843,756)</u>	<u>917,232</u>	<u>(353,735)</u>	<u>312,228</u>
Income (loss) before contributions and transfers	<u>1,618,274</u>	<u>3,035,177</u>	<u>1,503,382</u>	<u>421,567</u>
Capital contributions	724,044	27,619	84,738	1,055,154
Transfers in	-	-	589,091	-
Transfers (out)	(1,338,625)	(1,589,190)	(335,010)	(150,000)
Total transfers and contributions	<u>(614,581)</u>	<u>(1,561,571)</u>	<u>338,819</u>	<u>905,154</u>
Change in net assets	<u>1,003,693</u>	<u>1,473,606</u>	<u>1,842,201</u>	<u>1,326,721</u>
Net Assets:				
October 1, previously stated	62,213,469	15,840,627	13,509,512	10,133,928
Prior Period adjustment	-	-	-	938,245
October 1, restated	<u>62,213,469</u>	<u>15,840,627</u>	<u>13,509,512</u>	<u>11,072,173</u>
Total net assets, September 30	<u>\$ 63,217,162</u>	<u>\$ 17,314,233</u>	<u>\$ 15,351,713</u>	<u>\$ 12,398,894</u>

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

Other Enterprise Funds	Total	Governmental Activities Internal Service Funds
\$ 2,527,851	\$ 31,843,144	\$ 7,724,284
<u>2,527,851</u>	<u>31,843,144</u>	<u>7,724,284</u>
2,517,262	4,991,523	141,463
1,338,106	16,697,696	8,706,289
981,210	5,916,221	-
<u>4,836,578</u>	<u>27,605,440</u>	<u>8,847,752</u>
<u>(2,308,727)</u>	<u>4,237,704</u>	<u>(1,123,468)</u>
1,058,765	1,588,333	-
150,547	1,396,831	183,414
95,300	561,388	-
-	-	-
(43,516)	(2,224,892)	-
(1,620)	(30,215)	-
<u>1,259,476</u>	<u>1,291,445</u>	<u>183,414</u>
<u>(1,049,251)</u>	<u>5,529,149</u>	<u>(940,054)</u>
189,449	2,081,004	-
1,156,492	1,745,583	-
(334,518)	(3,747,343)	-
<u>1,011,423</u>	<u>79,244</u>	<u>-</u>
<u>(37,828)</u>	<u>5,608,393</u>	<u>(940,054)</u>
7,828,666	109,526,202	2,004,058
-	938,245	-
<u>7,828,666</u>	<u>110,464,447</u>	<u>2,004,058</u>
<u>\$ 7,790,838</u>	<u>\$ 116,072,840</u>	<u>\$ 1,064,004</u>

City of Key West, Florida
Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2007

	<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	\$ 11,383,166	\$ 9,108,864	\$ 7,383,224	\$ 1,612,004
Cash paid to suppliers	(5,290,635)	(6,324,461)	(3,760,498)	(1,109,875)
Cash paid to employees	(417,577)	(751,558)	(1,186,639)	(133,709)
Other receipts	50,811	18,308	173,439	223,530
Net cash provided by (used in) operating activities	<u>5,725,765</u>	<u>2,051,153</u>	<u>2,609,526</u>	<u>591,950</u>
Cash flows from noncapital financing activities:				
Operating grants received	949	557,573	25,846	818,324
Advance/loan to other funds	7,526	-	-	-
Advance/loan from other funds	100,000	-	(174,915)	-
Interest paid on loan from other funds	-	-	(25,085)	(10,955)
Transfers in	-	-	589,091	-
Transfers (out)	(1,338,625)	(1,589,190)	(335,010)	(150,000)
Net cash flows from noncapital financing activities	<u>(1,230,150)</u>	<u>(1,031,617)</u>	<u>79,927</u>	<u>657,369</u>
Cash flows from capital and related financing activities:				
Proceeds of capital grants	-	-	24,778	-
Acquisition and construction of capital assets	(2,835,106)	(4,477)	(366,949)	(2,154,465)
Principal paid on revenue bonds	(915,000)	-	(495,655)	-
Interest paid	(1,230,975)	-	(1,063,480)	-
Payments on notes	(223,415)	-	-	-
Impact fees	43,683	29,240	-	-
Net cash flows from capital and related financing activities	<u>(5,160,813)</u>	<u>24,763</u>	<u>(1,901,306)</u>	<u>(2,154,465)</u>
Cash flows from investing activities:				
Investment earnings	281,295	472,362	202,752	28,448
Purchase of investment securities	(131,610)	(16,059,497)	-	-
Proceeds from sale and maturities of investment securities	-	15,210,512	-	-
Net cash flows from investing activities	<u>149,685</u>	<u>(376,623)</u>	<u>202,752</u>	<u>28,448</u>
Net increase (decrease) in cash and cash equivalents	(515,513)	667,676	990,899	(876,698)
Cash & equivalents, October 1	<u>4,699,985</u>	<u>2,710,543</u>	<u>3,843,735</u>	<u>906,119</u>
Cash & equivalents, September 30	<u>\$ 4,184,472</u>	<u>\$ 3,378,219</u>	<u>\$ 4,834,634</u>	<u>\$ 29,421</u>

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

Other Enterprise Funds	Total	Governmental Activities Internal Service Funds
\$ 2,503,730	\$ 31,990,988	\$ 7,787,169
(1,425,444)	(17,910,913)	(9,924,624)
(2,491,454)	(4,980,937)	(42,149)
95,300	561,388	-
<u>(1,317,868)</u>	<u>9,660,526</u>	<u>(2,179,604)</u>
1,246,567	2,649,259	-
-	7,526	-
142,474	67,559	-
(28,443)	(64,483)	-
1,156,492	1,745,583	-
(334,518)	(3,747,343)	-
<u>2,182,572</u>	<u>658,101</u>	<u>-</u>
-	24,778	-
(246,604)	(5,607,601)	-
-	(1,410,655)	-
-	(2,294,455)	-
-	(223,415)	-
-	72,923	-
<u>(246,604)</u>	<u>(9,438,425)</u>	<u>-</u>
150,547	1,135,404	137,720
-	(16,191,107)	(2,029,208)
-	15,210,512	-
<u>150,547</u>	<u>154,809</u>	<u>(1,891,488)</u>
768,647	1,035,011	(4,071,092)
<u>2,492,397</u>	<u>14,652,779</u>	<u>4,944,198</u>
<u>\$ 3,261,044</u>	<u>\$ 15,687,790</u>	<u>\$ 873,106</u>

Continued

City of Key West, Florida
Proprietary Funds
Statement of Cash Flows (Continued)
For the year ended September 30, 2007

	<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>\$ 4,184,472</u>	<u>\$ 3,378,219</u>	<u>\$ 4,834,634</u>	<u>\$ 29,421</u>
Classified as:				
Current	\$ 226,481	\$ 3,254,604	\$ 3,759,230	\$ 29,421
Restricted	3,957,991	123,615	1,075,404	-
Total	<u>\$ 4,184,472</u>	<u>\$ 3,378,219</u>	<u>\$ 4,834,634</u>	<u>\$ 29,421</u>
Reconciliation of operating income (loss) to net cash provided by (applied to) operating activities:				
Operating income (loss)	<u>\$ 2,462,030</u>	<u>\$ 2,117,945</u>	<u>\$ 1,857,117</u>	<u>\$ 109,339</u>
Adjustments to reconcile operating income (loss) to net cash provided by (applied to) operating activities:				
Other nonoperating revenues	50,811	18,308	173,439	223,530
Depreciation and amortization	3,497,823	161,326	608,065	667,797
Decrease (increase) in assets:				
Accounts receivable	111,883	271,860	(75,435)	77,128
Interfund receivables	133	(2,218)	(5,253)	-
Prepaid items	-	-	(2,926)	-
Inventories	(62,415)	13,795	(28,276)	375
Increase (decrease) in liabilities:				
Accounts payable	(334,751)	(488,002)	85,252	(276,737)
Accrued items	(6,856)	(11,334)	12,422	492
Interfund payables	-	-	-	-
Customer deposits	(280)	-	(1,472)	(212,706)
Deferred benefits and claims payat	-	-	-	-
Closure costs payable, noncurrent	-	(40,000)	-	-
Accrued compensated absences, noncurrent	6,534	9,473	(13,540)	2,732
Deferred revenue	853	-	134	-
Total adjustments	<u>3,263,735</u>	<u>(66,792)</u>	<u>752,410</u>	<u>482,611</u>
Net cash provided by (applied to) operating activities	<u>\$ 5,725,765</u>	<u>\$ 2,051,153</u>	<u>\$ 2,609,527</u>	<u>\$ 591,950</u>
Schedule of noncash investing, capital, and financing activities:				
Change in valuation of investments	<u>\$ -</u>	<u>\$ 78,833</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>\$ 3,261,044</u>	<u>\$15,687,790</u>	<u>\$ 873,106</u>
\$ 3,261,044	\$10,530,780	\$ 873,106
-	5,157,010	-
<u>\$ 3,261,044</u>	<u>\$15,687,790</u>	<u>\$ 873,106</u>
<u>\$(2,308,727)</u>	<u>\$ 4,237,704</u>	<u>\$ (1,123,468)</u>
95,300	561,388	-
981,210	5,916,221	-
(38,600)	346,836	(142,072)
(1,563)	(8,901)	-
(1,549)	(4,475)	(1,688,288)
445	(76,076)	-
(86,234)	(1,100,472)	(4,975)
(2,104)	(7,380)	
-	-	59,265
15,664	(198,794)	-
-	-	617,000
-	(40,000)	-
29,476	34,675	99,314
(1,186)	(199)	3,620
<u>990,859</u>	<u>5,422,823</u>	<u>(1,056,136)</u>
<u>\$(1,317,868)</u>	<u>\$ 9,660,527</u>	<u>\$ (2,179,604)</u>
<u>\$ -</u>	<u>\$ 78,833</u>	<u>\$ 9,039</u>

City of Key West, Florida
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2007

	Total 2007
Assets	
Cash	\$ 5,230,385
Corporate Bonds	15,809,235
US Government Securities	14,495,274
Marketable Equity Securities	58,992,054
Receivables:	
Interest and dividends	454,403
Interfund receivables	513,204
Intergovernmental	313,156
Equipment	2,705
Accumulated depreciation	(1,845)
Total assets	\$ 95,808,571
 Liabilities:	
Accounts Payable	\$ 59,018
Accrued Expenses	2,222
Benefits Payable	9,300
Total liabilities	70,540
 Net Assets	
Assets held in trust for pension benefits	95,738,031
Total net assets	95,738,031
 Total liabilities and net assets	 \$ 95,808,571

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, 2007

	Total 2007
Additions	
Contributions	
Employer	\$ 3,373,668
Member	1,444,075
Police and Fire	858,782
Total contributions	5,676,525
Net investment income	
Net appreciation in fair value of investments	9,422,481
Interest	1,789,210
Dividends	1,295,617
Other	20,291
	12,527,599
Less investment expense	378,041
	12,149,558
Total additions	17,826,083
Deductions	
Benefits paid	3,781,859
Administrative expense	221,068
Contributions refunded	228,056
Depreciation	-
Total deductions	4,230,983
Changes in net assets	13,595,100
Net assets - beginning	82,142,931
Net assets - ending	\$ 95,738,031

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

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 elected to retroactively restate infrastructure assets acquired prior to 10/01/02. This restatement of infrastructure assets was completed in the current 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 (KWHHA) was created by Florida Statute Chapter 421 and by resolution of the City in 1938. The primary purpose of KWHHA 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 services, the City has no other obligations to the Housing Authority. KWHHA is considered a component unit of the City and is presented discretely in these financial statements. Financial information presented herein regarding KWHHA reflects a December 31, 2006 year-end. Further information regarding KWHHA, 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, 2007, the City received payment in the amount of \$341,279. 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 60 days of the end of the current fiscal period and property taxes if collected within 60 days.

City of Key West, Florida

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

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

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

As a general rule the effect of city interfund activities has been eliminated from the government-wide statements. Exceptions to this general rule are 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 non-operating 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 non-operating 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 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 operation of the City Stormwater collection process. This fund

City of Key West, Florida

receives a lot of State and Federal assistance in the form of grants and has been determined by management to be a major fund.

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. 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 or the Navy Pier Payment Fund.

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, 2007 were as follows:

- The Monroe County tax certificate sale for delinquent properties was held on May 31, 2006.
- The City Manager submitted proposed budgets to the Commission for public input at workshops held as follows:
 - General Fund Review July 19 & 20, 2006.
 - Adoption of Tentative Ad Valorem July 19, 2006.
- Property Tax Millage Rate and Budget July 19, 2006.
- Other Funds Review July 2, 2006.
- Utility Funds Review August 6, 2006.
- The Property Appraiser advised the taxpayers of the tentative millage rate and the dates of the public hearings and final adoption on August 19, 2006.
- The first reading to obtain public comments on the Millage and Budget ordinances was held on September 12, 2006.
- A public notice containing the proposed property tax rate, summary of all budgets and notice of second reading was published on September 15, 2006.
- The second formal reading was held on September 18, 2006 in which the property tax (millage) rate and budget were enacted.

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 Gas Tax Fund reports expenditures in excess of budget of \$178,566 for personal services and 84,816 for capital. All activities of this fund are budgeted on a projects basis and do not include a specific line item allocation for salaries and capital. These expenditures are covered by the overages in operating expenditures.

The Community Development Special Revenue Fund received in excess of \$842,000 in unanticipated grant revenue, which is a direct result of the over budget expenditures in operating, and grants and aid. The balance came from unappropriated fund balance.

In the LRA Fund during the year the commission approved the construction of recreational play areas at the Truman waterfront. This resulted in an over budget expenditure that was covered with unappropriated fund balance.

The Bahama Village and Caroline Street Fund experienced budget overages in Personnel service and debt services. The Bahama Village police task force ramped up operations during the fiscal year causing a budget overrun and the debt service budget was understated by the principal payments made during the year. Both of these were covered by favorable budget variances in other categories.

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

City of Key West, Florida

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.

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, 2007 are recorded as prepaid items.

City of Key West, Florida

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.

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. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and a estimated useful life in excess of two years. All assets are depreciated using the straight-line method of depreciation. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Major outlays for capital assets and improvements are capitalized as construction progresses. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the asset constructed. Interest incurred by the city during the current fiscal year was \$2,329,848. 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.

City of Key West, Florida

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. 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.

T. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the city or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

U. Implementation of New Accounting Principles

The city elected to utilize the infrastructure transition option in the implementation of GASB Statement 34 , "Basic Financial Statements-Management's Discussion and Analysis – for State and Local Governments" and in fiscal year 2007 has capitalized its remaining major infrastructure assets not previously capitalized: streets, sidewalks and other miscellaneous assets. In the absence of actual cost information, the City used construction indices in estimating the historical cost of these infrastructure assets.

As a result of implementing the infrastructure transition provision of GASB 34, net assets as of October 1, 2006 are increased by \$2,449,707 which restates the beginning of the year net assets.

City of Key West, Florida

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, 2007 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	\$ 29,816,683	\$ 2,900,356	\$ -	\$ -	\$ 26,916,327	AAA, A-1+
Certificate of Deposit	6,711,046	6,711,046	-	-	-	Not Rated
State Investment Pool	25,845,438	25,845,438	-	-	-	Not Rated
	<u>\$ 62,373,167</u>	<u>\$ 35,456,840</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,916,327</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 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, in addition to 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%

City of Key West, Florida

At September 30, 2007, 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	48%
State Investment Pool	41%
Certificates of Deposit	11%

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 created 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, 2007 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, 2007, all of the City's investments are held in a bank's trust department in the City's name.

On November 29, the State Investment Pool suspended the ability for pool participant to withdraw money from their accounts. This was a result of a run on pool assets which reduced its holdings from \$ 27 billion to \$14 billion within a month after it disclosed that the pool held \$1.5 billion in down graded and defaulted debt. Prior to this suspension of withdrawals the City had moved all of its investments out of the Pool into Government backed securities. Since this time the pool has segregated the down graded debt and has begun to return to full availability on its other pooled investments.

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, 2006 deposits for KWHHA totaled \$5,832,512.

3. Receivables

Receivables at September 30, 2007 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	\$ 107,214	\$ 61,436	\$ 62,224	\$ 258,783	\$ 36,655	\$ 454,403	\$ 980,715
Accounts	595,902	24,702	-	3,194,211	918,848	-	4,733,663
Mortgages	-	2,392,051	-	-	-	-	2,392,051
Intergovernmental	922,126	851,394	-	5,329,268	-	313,156	7,415,944
Gross receivables	1,625,242	3,329,583	62,224	8,782,262	955,503	767,559	15,522,373
Less allowance for uncollectible	-	1,116,818	-	172,680	-	-	1,289,498
Net receivables	<u>\$ 1,625,242</u>	<u>\$ 2,212,765</u>	<u>\$ 62,224</u>	<u>\$ 8,609,582</u>	<u>\$ 955,503</u>	<u>\$ 767,559</u>	<u>\$ 14,232,875</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

City of Key West, Florida

governmental services for the fiscal year ended September 30, 2007, was 2.3034 per \$1,000 of assessed taxable property value. The taxable value amounted to \$6,749,401,000. 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, 2007, 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)	\$ 158,416
Douglas School (HODAG)	<u>2,233,635</u>
Gross Mortgages Receivable	\$2,392,051
Less allowance for uncollectible mortgages	<u>(1,116,818)</u>
Net mortgages receivable	<u>\$1,275,233</u>

Intergovernmental receivables are comprised of the following:

	General	Special Revenue	Enterprise	Fiduciary	Total
Federal Grants and Entitlements:					
Dept. of Transportation	\$ -	\$ -	\$ 419,889	\$ -	\$ 419,889
Fed Emergency Mgt.	161,807	136,724	2,634,311	-	2,932,842
Housing & Urban Dev	-	-	-	-	-
FHWA	-	-	156,054	-	156,054
State Grants - Florida					
Dept. of Transportation	-	-	219,898	-	219,898
Fish and Wildlife	350,676	-	25,388	-	376,064
So. Fl. Water Mngt District	-	-	693,445	-	693,445
Dept. of Envrrmt Protection	-	-	1,144,903	-	1,144,903
State Shared Revenues:					
Infrastructure Surtax	-	494,322	-	-	494,322
Sales Tax	237,829	-	-	-	237,829
Local Communications Tax	134,118	-	-	-	134,118
Local Option Gas Tax	-	102,428	-	-	102,428
Other	-	6,979	-	313,156	320,135
Local Units:					
Monroe County	37,696	87,913	35,380	-	160,989
Key West Housing Auth.	-	23,028	-	-	23,028
Totals	\$ 922,126	\$ 851,394	\$ 5,329,268	\$313,156	\$ 7,415,944

City of Key West, Florida

4. Changes in Capital Assets

Capital Asset activity for fiscal year ending September 30, 2007 is as follows:

	Beginning Balance as Restated	Increases	(Decrease)	CIP/Adjustments Increase (Decrease)	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 53,186,804	\$ -	\$ -	\$ -	\$ 53,186,804
Construction in progress	604,369	75,073		(551,077)	128,365
Total capital assets, not being depreciated	<u>53,791,173</u>	<u>75,073</u>	<u>-</u>	<u>(551,077)</u>	<u>53,315,169</u>
Capital assets, being depreciated:					
Buildings	13,310,823	-	-	282,280	13,593,103
Improvements other than buildings	19,777,415	386,241	(381,895)	(132,762)	19,648,999
Machinery and equipment	15,124,804	2,320,418	(2,338,147)	401,559	15,508,634
Infrastructure	10,538,614	76,757	(20,414)		10,594,957
Total capital assets, being depreciated	<u>58,751,656</u>	<u>2,783,416</u>	<u>(2,740,456)</u>	<u>551,077</u>	<u>59,345,693</u>
Less accumulated depreciation for:					
Buildings	4,385,079	507,876	-	-	4,892,955
Improvements other than buildings	12,084,906	1,028,669	(117,791)	-	12,995,784
Machinery and equipment	8,701,366	1,795,820	(2,119,616)	-	8,377,570
Infrastructure	1,700,862	297,610	(3,402)	-	1,995,070
Total accumulated depreciation:	<u>26,872,213</u>	<u>3,629,975</u>	<u>(2,240,809)</u>	<u>-</u>	<u>28,261,379</u>
Total capital assets, being depreciated, net	31,879,443	(846,559)	(499,647)	551,077	31,084,314
Governmental activities capital assets, net	<u>\$ 85,670,616</u>	<u>\$ (771,486)</u>	<u>\$ (499,647)</u>	<u>\$ -</u>	<u>\$ 84,399,483</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 18,681,033	\$ -	\$ -	\$ -	18,681,033
Construction in progress	3,283,410	4,399,089	(62,216)	(3,079,417)	4,540,866
Total capital assets, not being depreciated	<u>21,964,443</u>	<u>4,399,089</u>	<u>(62,216)</u>	<u>(3,079,417)</u>	<u>23,221,899</u>
Capital assets, being depreciated:					
Buildings and system	37,624,606	-	-	-	37,624,606
Improvements other than buildings	117,394,218	986,942	-	2,973,376	121,354,536
Machinery and equipment	16,181,387	417,321	(932,733)	106,041	15,772,016
Total capital assets, being depreciated	<u>171,200,211</u>	<u>1,404,263</u>	<u>(932,733)</u>	<u>3,079,417</u>	<u>174,751,158</u>
Less accumulated depreciation for:					
Buildings and system	19,918,379	1,215,760	-	-	21,134,139
Improvements other than buildings	25,227,007	3,665,489	-	-	28,892,496
Machinery and equipment	13,209,399	968,487	(903,518)	-	13,274,368
Total accumulated depreciation:	<u>58,354,785</u>	<u>5,849,736</u>	<u>(903,518)</u>	<u>-</u>	<u>63,301,003</u>
Total capital assets, being depreciated, net	100,836,934	(4,445,473)	(29,215)	3,079,417	96,362,246
Business-type activities capital assets, net	<u>\$ 127,091,800</u>	<u>\$ (46,384)</u>	<u>\$ (91,431)</u>	<u>\$ -</u>	<u>\$ 126,953,984</u>

City of Key West, Florida

During the year the City acquired title to the 520 foot long decommissioned Air Force Missile tracking ship USS Hoyt Vandenberg. The purpose of this acquisition was to facilitate the sinking of this vessel by a non profit agency for use as an artificial reef off the city of Key West. The city did not record this donated asset on its books due to the difficulty in assigning a fair value to this asset .

Total depreciation expense for the current fiscal year amounted to \$9,479,711. 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

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

Governmental activities:	
General government	\$ 1,677,245
Public safety	1,138,384
Physical environment	64,306
Human Services	3,750
Transportation	394,224
Recreation	352,066
Total depreciation expense - governmental activities	<u>\$ 3,629,975</u>
Business-type activities:	
Sewer	\$ 3,458,293
Solid waste	161,326
Key West Bight	581,110
Garrison Bight	198,160
Transit	783,050
Stormwater	667,797
Total depreciation expense - business-type activities	<u>\$ 5,849,736</u>

COMPONENT UNIT:

The following summarizes fixed assets from Key West Housing Authority's enterprise funds at December 31, 2006:

Land	\$ 8,002,207
Structures	46,349,342
Infrastructure	1,167,752
Equipment	848,317
Construction-in-progress	<u>7,519</u>
Total fixed assets	\$56,375,137
Less accumulated depreciation	<u>17,237,902</u>
Net fixed assets	<u>\$39,137,235</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 \$3,957,991 and \$1,075,404 respectively. The Solid Waste Fund has restricted

City of Key West, Florida

assets of \$123,615 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 \$660,516. 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 make plan amendment recommendations to the city commission for approval. Employee's contribution rates are established through collective bargaining agreements. The city's contribution rate is determined annually through an actuarial evaluation. The Police and Fire plan also receives contribution from the State. This contribution can only be used for plan improvements and in no way alters the city's required contribution rate. The City's annual pension cost for the year ended September 30, 2007 and related information for each plan is as follows:

	General Employees Retirement Plan	Police & Fire Retirement Plan
Contribution rates:		
City	8.9%	20.7%
State	0.0%	4.0%
Plan members	6.0%	7.0%
 Annual pension cost	 \$1,145,214	 \$2,386,641

City of Key West, Florida

Contributions made	\$1,318,334	\$2,381,623
Annual Required Contribution	\$1,136,922	\$2,381,623
Net Pension Obligation(Asset)	(\$1,114,275)	(\$591,725)
Increase (Decrease) in Net Pension Obligation(Asset)	(\$173,120)	\$5,018
Interest on Net Pension Obligation(Asset)	(\$75,292)	(\$49,231)
Adjustment to ARC	\$83,584	(\$54,249)
Actuarial valuation date	10/01/2006	10/01/2006
Actuarial cost method	Entry Age Normal	Entry Age Normal
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	8.0%	8.25%
Projected salary increases	6.0% - 25.0%	5.50%
Includes inflation at	4.0%	4.00%
Cost-of-living adjustment	None	None

Three-Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percent of APC Contributed	Net Pension Obligation (Asset)
<u>General Employees Retirement Plan:</u>			
9/30/05	\$ 717,901	160%	(\$941,000)
9/30/06	\$ 1,145,214	115%	(\$1,114,100)
9/30/07	\$ 963,468	TBD	TBD
<u>Police & Fire Retirement Plan:</u>			
9/30/05	\$ 1,727,007	101%	(\$596,743)
9/30/06	\$ 2,386,641	100%	(\$591,725)
9/30/07	\$ 2,534,767	100%	TBD

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>						
10/1/04	\$ 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%
10/1/06	\$ 28,372	\$ 28,258	\$ (\$114)	100.4	\$ 10,882	(1.0%)
<u>Police & Fire Retirement Plan (dollars in thousands):</u>						
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%
10/1/06	\$ 48,066	\$ 57,645	\$ 9,579	83.4	\$ 10,277	93.2%

A net pension asset has been recorded in the governmental wide statements in accordance with the net pension valuation dated 10/1/06.

City of Key West, Florida

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, 2006 and related information for the plan is as follows:

	Housing Authority Employees Retirement Plan
Contribution rates:	
KWAH	15.1%
Annual pension cost	\$309,766
Contributions made	\$284,077
Net Pension Obligation (Asset)	(\$95,229)
Increase (Decrease) in Net Pension Obligation	\$1,010
Actuarial valuation date	01/01/07
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed
Remaining amortization period	27 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%

City of Key West, Florida

Three-Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percent of APC Contributed	Net Pension Obligation(Asset)
<u>Housing Authority Employees Retirement Plan:</u>			
12/31/04	\$ 320,377	100%	(\$97,174)
12/31/05	\$ 281,601	100%	(\$96,239)
12/31/06	\$ 285,087	100%	(\$95,229)

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>Housing Authority Employees Retirement Plan (dollars in thousands):</u>						
1/1/05	\$ 3,273	\$ 3,971	\$ 698	82.4%	\$ 2,049	34.1%
1/1/06	\$ 3,386	\$ 4,223	\$ 837	80.2%	\$ 1,990	42.1%
1/1/07	\$ 3,596	\$ 4,565	\$ 969	78.8%	\$ 2,039	47.5%

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 2007, a total of \$1,344,000 was incurred in benefits and claims. In fiscal year 2007, the fund provided coverage up to \$325,000 for each worker's compensation claim, \$100,000 for each general liability claim, and \$50,000 for property claims other than wind and flood. The City purchases commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years.

In fiscal year 2007 the city changed its method of insuring its property for wind and flood coverage. In prior years the city insured its property in aggregate with insurance companies providing a layer of coverage up to the total aggregate with a combined \$1,500,000 in first layer deductible.

Obtaining quality Property Insurance in the State of Florida, and in particular Key West, has become extremely difficult. Due to the potential of catastrophic losses caused by wind and flood, many insurers have discontinued offering any form of Property Insurance within the State. Those that have continued have significantly reduced the amount of protection they are willing to provide and imposed significant deductibles for losses caused by wind and flood events.

In an effort to provide affordable Flood Insurance, the Federal Government established the National Flood Insurance Program (NFIP). Under the Program, participating insurers can receive a maximum \$500,000 reimbursement from the Federal Government for Flood losses they pay.

City of Key West, Florida

The State established the Citizens Property Insurance Corporation that offers affordable Wind insurance to citizens and businesses located in Florida. The maximum limits per building that Citizens offers are \$1 million.

The City utilizes both the NFIP and Citizens to supplement its Property Insurance program which allows the City to purchase protection for most foreseen events at a cost equal or below other organizations located in Florida.

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 \$4,261,000 is reported in the fund at September 30, 2007. 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 general liability claims on an undiscounted basis during the past three years ended September 30, 2007 are as follows (in thousands):

Fiscal Year	Beginning Liability	Claims Incurred	Estimates for Prior Claims	Claim Payments	Ending Liability
2005	\$ 1,886	\$ 750	\$ 1,150	(\$ 1,154)	\$ 2,632
2006	\$ 2,632	\$ 1,706	\$ 1,257	(\$ 1,475)	\$ 4,120
2007	\$ 4,120	\$ 1,631	\$ 241	(\$ 1,155)	\$ 4,837

The increase in Fiscal Year 2007 was not as significant as 2006 when higher than usual reported losses for both Worker's Compensation and General Liability claims drove up the liability substantially.

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 \$2,089,000. Based upon these claims and the City's self insured retention amount of \$1,500,000 a receivable for insurance proceeds of \$589,000 has been recorded 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, 2007 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 or 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, 2007

City of Key West, Florida

was \$3,614,529 for all funds. The General Fund is used to liquidate the liability for compensated absences in the governmental activities.

10. Construction and Other Significant Commitments

The following table presents the significant commitments outstanding at September 30, 2007:

	Remaining Construction Commitment
Infrastructure Surtax Fund:	
Inline hockey rink roof repair (hurricane)	\$ 355,982
Gas Tax Fund:	
Sidewalk repair	\$ 380,276
Sanitary Sewer System Fund:	
Pump stations generator	\$ 2,945,216
Roof repair (hurricane)	\$ 539,150
Storm Water Fund:	
Well construction	\$ 1,058,397
Solid Waste Fund:	
Transfer station engineering	\$ 290,610
Transfer station construction	\$ 7,943,000
Garrison Bight:	
Dock replacement	\$ 698,255
Key West Bight:	
Fish house roof replacement	\$ 232,062
Transit Fund:	
Bus facility engineering	\$ 761,367
Bus purchase	\$ 695,922

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 \$303,333 as long-term costs at September 30, 2007.

The City is a lessee in a non-cancelable operating lease for office space. Current year rent payments were \$126,355. Minimum future rentals are as follows:

Fiscal Year	
2008	\$115,650
2009	120,273
2010	125,085
2011	<u>31,575</u>
Total Future Rents	<u>\$392,583</u>

City of Key West, Florida

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)

	<u>10/1/2006</u>	<u>Additions</u>	<u>Amortization/ Retirements</u>	<u>9/30/2007</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Promissory note	\$ 1,912		\$ 147	\$ 1,765	\$ 147
Claims Payable	3,644	-		3,644	-
Accrued compensated absences	3,069	1,816	1,620	3,265	1,643
Total Governmental Activities	<u>\$ 8,625</u>	<u>\$ 1,816</u>	<u>\$ 1,767</u>	<u>\$ 8,674</u>	<u>\$ 1,790</u>
<u>Business-type Activities</u>					
Sewer Revenue Bonds, Series 2003	26,648	-	845	25,803	935
Marina Rev. Bonds, Series 1993 & 1997	11,050	-	459	10,591	464
Promissory note	4,427	-	223	4,204	231
Accrued compensated absences	330	172	152	350	199
Total Business-Type Activities	<u>\$ 42,455</u>	<u>\$ 172</u>	<u>\$ 1,679</u>	<u>\$ 40,948</u>	<u>\$ 1,829</u>
Total Long-Term Debt	<u>\$ 51,080</u>	<u>\$ 1,988</u>	<u>\$ 3,446</u>	<u>\$ 49,622</u>	<u>\$ 3,619</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, 2007	\$26,620,000
Less current portion	(935,000)
Less loss on early retirement	(1,032,021)
Plus unamortized bond premium	215,135
Total long-term sewer system revenue bonds	<u>\$24,868,114</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 pays annual installments of \$366,367 through 2022, with interest payable at 3.26%. Summary information on the State Revolving Loan appears below:

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State Revolving Loan	Total
Total loan balance as of Sept. 30, 2007	\$4,203,640
Less current portion	(230,779)
Total long-term state revolving loan balance	\$3,972,861

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

Fiscal Year	Principal	Interest	Total
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
	\$ 4,165,488	\$ 1,085,769	\$ 5,251,257

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, 2007	\$1,475,248	\$9,200,000	\$10,675,248
Less current portion	(408,601)	(55,000)	(463,601)
Less loss on early retirement	-	(44,691)	(44,691)
Less unamortized bond discount	(3,859)	(35,959)	(39,818)
Total long-term marina revenue bonds	\$1,062,788	\$9,064,350	\$10,127,138

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

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<u>Fiscal Year</u>	<u>Sewer Principal</u>	<u>Sewer Interest</u>	<u>Marina Principal</u>	<u>Marina Interest</u>	<u>Total</u>
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>\$ 25,685,000</u>	<u>\$ 12,562,721</u>	<u>\$ 10,288,915</u>	<u>\$ 5,567,525</u>	<u>\$ 54,104,161</u>

Continuing Disclosure – In accordance with authorizing Ordinances 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, 2007, the City is in compliance with all reporting and disclosure requirements. Required disclosures as of September 30, 2007, 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:

	2006	2007	2008
Base Charge	\$ 20.76	\$ 21.63	\$ 22.21
Commodity Charge	\$ 4.11	\$ 4.28	\$ 4.40

- 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 Development. The purchase closed on 1/06/04. At December 31, 2006, \$15,100,000 remains outstanding.

City of Key West, Florida

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, 2006:

	<u>1/1/06</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/06</u>
Accrued compensation	\$ 259,038		\$ 101,518	\$ 157,520
Mortgages payable	15,776,539		11,688,417	4,088,122
Revenue Note	15,561,000	11,667,198	668,698	26,559,500
Promissory Note-Land	2,210,000			2,210,000
				-
Total Long-Term Debt	<u>\$33,806,577</u>	<u>\$ 11,667,198</u>	<u>\$ 12,458,633</u>	<u>\$33,015,142</u>

Mortgages payable as of December 31, 2006, is composed of the following:

<u>Mortgage Description</u>	<u>12/31/06</u>
Mortgage due to governmental agency, collateralized by land, payable in full April 2025, interest free.	\$ 382,554
Second mortgage due to governmental agency, collateralized by land, improvements, and fixtures, principal and interest at 3.0% due December 31, 2006.	165,848
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.	220,000
Mortgage due to governmental agency, collateralized by land, payable in full May 2031, interest free.	1,500,000
	<u>\$ 4,088,122</u>

12. Deferred Revenue

The City has recognized deferred revenue as follows. All balances remain unearned at September 30, 2007 from the sources described below.

General Fund - Occupational license renewals are sent out in August for the license year beginning October 1st. Revenues of \$789,747 collected in advance of the licensing year are reported as deferred revenue at year-end and \$37,069 of unspent expenditures for the improvement of City hall's internal TV system.

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,

City of Key West, Florida

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	\$ 140,012
Community Development	1,207,057
Internal Improvements	660,516
Totals	\$ 2,007,585

Sanitary Sewer System - Customer prepayments of \$105,373 for utility bills are reported as deferred, as well as sewer impact fees of \$45,289.

Solid Waste System - Impact fees of \$39,421.

Key West Bight - Tenant advance billings and payments of \$257,639 are reported as deferred revenue.

Garrison Bight - Tenant advance billings and payments of \$92,062 are reported as deferred revenue.

13. Interfund Assets and Liabilities

Individual funds with interfund receivable/payable balances at September 30, 2007 are as follows:

Interfund items (current)	Receivable	Payable
Governmental Funds:		
General Fund	\$ 414,809	\$ 730,539
Infrastructure Fund	175,696	3,609
Nonmajor Governmental	850,000	-
Enterprise Funds:		
Sanitary Sewer System	78,818	100,000
Solid Waste	33,758	-
Key West Bight	23,503	194,144
Stormwater		
Nonmajor Enterprise Funds	51,401	857,526
Internal Service Fund:		
Insurance Programs	3,609	258,980
Pension Funds:	513,204	-
Totals	\$ 2,144,798	\$ 2,144,798

The receivable in the General Fund is a result of over funding of the Insurance Fund and a loan made to the Key West Bight Fund. The receivable in the Nonmajor Governmental Funds is a loan from Gas Tax to Transit to cover cash deficits at year end. 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 approximately \$640,000 that will help to fund this deficiency.

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 and salvage collections on hurricane damaged vehicles.

The Police and Firemen's Pension Fund was under funded and requires a catch up payment of \$513,204 from the General Fund.

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<u>Advances (long-term)</u>	<u>Receivable</u>	<u>Payable</u>
Governmental Funds:		
General	\$ 2,430,738	\$ -
Enterprise Funds:		
Sewer	37,632	-
Stormwater	-	2,204,437
Key West Bight	307,770	226,301
Nonmajor Enterprise	-	345,402
Total	<u>\$ 2,776,140</u>	<u>\$ 2,776,140</u>

The advance in the General Fund is owed by the Key West Bight Fund and the Stormwater Fund, with Stormwater being \$2,204,437 and both are the result of the funding by the General Fund of start up costs.

The Nonmajor Enterprise Fund, Transit 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 Bahama Village Caroline Street Fund for tax increment funding. The General Fund receives transfers from the Enterprise Funds for payments in lieu of taxes.

The Infrastructure Fund collects the one-cent sales tax used for capital projects that are not accounted for 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 \$1,200,000.

The nonmajor governmental fund transfers in are the result of the transfers mentioned above into the Capital Projects, Gas Tax Fund, Local Redevelopment and Bahama Village and Caroline Street Fund. The transfer out is from the Gas Tax Fund 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	\$ 3,747,343	\$ 1,084,434
Infrastructure	-	1,200,000
Nonmajor Governmental	2,284,434	1,745,583
Enterprise Funds:		
Sewer	-	1,338,625
Solid Waste	-	1,589,190
Stormwater	-	150,000
Key West Bight	589,091	335,010
Nonmajor Enterprise	1,156,492	334,518
Total	<u>\$ 7,777,360</u>	<u>\$ 7,777,360</u>

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

15. Commitments and Contingencies

The City is a defendant in several personal injury and other litigation incidental to its routine operations. Annually the City undergoes an actuarial study to determine the funding necessary to allow for these losses. 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, 2007.

The City is the defendant in two similar anti-trust cases. One of the cases had an initial \$13,500,000 damage verdict which has been reversed. However, the court affirmed the finding of liability and returned the case to the trial court for a reassessment of true damages. The other case is in its early stages but an adverse ruling could result in a damage award. The City has recorded their best estimate of these liabilities at 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, 2006, has been decreased by \$661,002, to correct the effects of two prior period adjustments. The first adjustment was the improper recording of an insurance receivable for \$442,094 not collected within 60 days of September 30, 2006. However the receivable required reversal in the current year as the insurance receivable it represents was received until after the 60 day cut for modified accrual financial presentation.

The other prior period adjustment in the General Fund also affects the Infrastructure Fund a receivable for grant revenue was recorded in the General Fund in the prior year. The Grant was part of a capital project recorded in the Infrastructure Fund. Therefore a prior period adjustment of \$ 218,908 was needed to record the receipt of revenues in the appropriate fund.

City of Key West, Florida

Also in the Stormwater Fund a prior period adjustment was recognized. This adjustment increased improvement other than buildings by \$1,881,251 and increased its related accumulated depreciation by \$943,000. This adjustment was a result of identifying assets through the City's GASB 34 project that should have been recorded at the time the fund was established in 2002.

City of Key West, Florida

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Percentage Funded (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
10/01/97	\$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%
10/01/06	\$28,372	\$28,598	\$226	99.2%	\$10,882	2.1%

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

City of Key West, Florida

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
10/01/97	\$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%
10/01/06	\$48,066	\$57,645	\$9,579	83.4%	\$10,277	93.2%

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, 2007

Special Revenue Funds

	Law Enforcement Trust Fund	Gas Tax Fund	Fort Taylor Fund	Community Development Office Fund
Assets				
Cash and cash equivalents	\$ 99,088	\$ 567,134	\$ 452,141	\$ 776,503
Cash and cash equivalents (restricted)	-	660,516	-	-
Investment (unrestricted)	-	504,015	-	150,000
Investments (restricted)	-	-	-	-
Receivables (net of allowance for uncollectibles):				
Accounts	-	629	-	24,073
Mortgages	-	-	-	1,275,233
Intergovernmental	-	102,428	6,979	23,028
Interfund receivables	-	850,000	-	-
Interest	-	5,616	-	-
Prepays	-	-	-	1,328
Total assets	\$ 99,088	\$ 2,690,338	\$ 459,120	\$ 2,250,165
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 26,718	\$ 86,156	\$ -	\$ 31,798
Payroll payable	-	5,998	-	-
Retainage payable	-	-	-	-
Intergovernmental	-	-	-	153,506
Deferred revenue	-	660,516	-	1,207,057
Total liabilities	26,718	752,670	-	1,392,361
Fund balances				
Reserved for encumbrances	-3,016	-507,403	-	-
Reserved for receivables	-	-	-	143,584
Unreserved	69,354	1,430,265	459,120	714,220
Total	72,370	1,937,668	459,120	857,804
Total liabilities and fund balances	\$ 99,088	\$ 2,690,338	\$ 459,120	\$ 2,250,165

Affordable Housing Escrow Fund	Local Redevelopment Agency Fund	Bahama Village & Caroline Street	Navy Pier Payments	Capital Projects	Total
\$ 310,282	\$ 2,197,754	\$ 774,488	\$ 3,337,271	\$ 2,721,686	\$11,236,347
-	-	-	-	-	660,516
-	-	-	1,579,436	3,486,239	5,719,690
-	-	-	-	-	-
-	-	-	-	-	24,702
-	-	-	-	-	1,275,233
-	9,207	-	-	-	141,642
-	-	-	-	-	850,000
-	-	-	17,902	62,224	85,742
-	-	-	-	-	1,328
<u>\$ 310,282</u>	<u>\$ 2,206,961</u>	<u>\$ 774,488</u>	<u>\$ 4,934,609</u>	<u>\$ 6,270,149</u>	<u>\$19,995,200</u>
\$ -	\$ 79,685	\$ -	\$ -	-	\$ 224,357
-	5,401	3,998	-	-	15,397
-	-	-	-	-	-
-	-	-	-	-	153,506
-	140,012	-	-	-	2,007,585
-	<u>225,098</u>	<u>3,998</u>	-	-	<u>2,400,845</u>
-	216,353	-	90,000	20,575	837,347
-	-	-	-	-	143,584
310,282	1,765,510	770,490	4,844,609	6,249,574	16,613,424
<u>310,282</u>	<u>1,981,863</u>	<u>770,490</u>	<u>4,934,609</u>	<u>6,270,149</u>	<u>17,594,355</u>
<u>\$ 310,282</u>	<u>\$ 2,206,961</u>	<u>\$ 774,488</u>	<u>\$ 4,934,609</u>	<u>\$ 6,270,149</u>	<u>\$19,995,200</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, 2007

	Special Revenue Funds			
	Law Enforcement Trust Fund	Gas Tax Fund	Fort Taylor Fund	Community Development Office Fund
Revenues:				
Tax	\$ -	\$ 1,201,261	\$ -	\$ -
Intergovernmental income	-	224,974	125,651	892,059
Charges for Services	-	-	-	-
Fines and forfeitures	132,530	-	-	-
Investment earning (loss)	3,720	122,643	19,975	24,132
Contributions and other	-	-	-	20,000
Total revenues	<u>136,250</u>	<u>1,548,878</u>	<u>145,626</u>	<u>936,191</u>
Expenditures:				
Current:				
Public safety	75,269	-	-	-
Transportation	-	1,650,079	-	-
Economic environment	-	-	-	958,841
Capital outlay	14,622	97,040	-	-
Debt service	-	-	-	-
Total expenditures	<u>89,891</u>	<u>1,747,119</u>	<u>-</u>	<u>958,841</u>
Excess (deficiency) of revenues over expenditures	<u>46,359</u>	<u>(198,241)</u>	<u>145,626</u>	<u>(22,650)</u>
Other financing sources (uses):				
Transfers in	-	1,200,000	-	-
Transfers (out)	-	(1,156,492)	-	-
Total other financing sources (uses)	<u>-</u>	<u>43,508</u>	<u>-</u>	<u>-</u>
Net change in fund balances	46,359	(154,733)	145,626	(22,650)
Fund balances, October 1	<u>26,011</u>	<u>2,092,401</u>	<u>313,494</u>	<u>880,454</u>
Fund balances, September 30	<u>\$ 72,370</u>	<u>\$ 1,937,668</u>	<u>\$ 459,120</u>	<u>\$ 857,804</u>

Affordable Housing Escrow Fund	Local Redevelopment Agency Fund	Bahama Village & Caroline Street	Navy Pier Payments	Capital Projects	Total
\$ -	\$ -	\$ 804,158	\$ -	\$ -	\$ 2,005,419
-	27,541	-	-	103,692	1,373,917
-	-	-	1,032,343	-	1,032,343
-	-	-	-	-	132,530
6,436	117,564	36,905	234,794	327,388	893,557
300,000	2,914	-	-	-	322,914
<u>306,436</u>	<u>148,019</u>	<u>841,063</u>	<u>1,267,137</u>	<u>431,080</u>	<u>5,760,680</u>
-	-	-	-	-	75,269
-	-	-	-	-	1,650,079
1,430	488,245	434,462	-	-	1,882,978
-	47,400	-	134,367	-	293,429
-	-	255,196	-	-	255,196
<u>1,430</u>	<u>535,645</u>	<u>689,658</u>	<u>134,367</u>	<u>-</u>	<u>4,156,951</u>
<u>305,006</u>	<u>(387,626)</u>	<u>151,405</u>	<u>1,132,770</u>	<u>431,080</u>	<u>1,603,729</u>
-	361,134	723,300	-	-	2,284,434
-	-	(589,091)	-	-	(1,745,583)
-	<u>361,134</u>	<u>134,209</u>	<u>-</u>	<u>-</u>	<u>538,851</u>
305,006	(26,492)	285,614	1,132,770	431,080	2,142,580
<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>\$ 310,282</u>	<u>\$ 1,981,863</u>	<u>\$ 770,490</u>	<u>\$ 4,934,609</u>	<u>\$ 6,270,149</u>	<u>\$ 17,594,355</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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Fines and forfeitures	\$ -	\$ -	\$ 132,530	\$ 132,530
Investment income	-	-	3,720	3,720
Total revenues	<u>-</u>	<u>-</u>	<u>136,250</u>	<u>136,250</u>
Expenditures:				
Personal services	-	-	-	-
Operating	-	-	75,269	(75,269)
Capital	-	-	14,622	(14,622)
Total expenditures	<u>-</u>	<u>-</u>	<u>89,891</u>	<u>(89,891)</u>
Excess (deficiency) of revenues over expenditures	-	-	46,359	46,359
Other financing sources (uses):				
Transfers (out)	-	-	-	-
Net change in fund balance	<u>-</u>	<u>-</u>	<u>46,359</u>	<u>46,359</u>
Fund balance, October 1	<u>26,011</u>	<u>26,011</u>	<u>26,011</u>	<u>-</u>
Fund balance, September 30	<u>\$ 26,011</u>	<u>\$ 26,011</u>	<u>\$ 72,370</u>	<u>\$ 46,359</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, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 1,280,000	\$ 1,280,000	\$ 1,201,261	\$ (78,739)
Intergovernmental income	-	-	224,974	224,974
Investment income	50,000	50,000	122,643	72,643
Contributions and other	-	-	-	-
Total revenues	<u>1,330,000</u>	<u>1,330,000</u>	<u>1,548,878</u>	<u>218,878</u>
Expenditures:				
Personal Services	-	90,000	268,556	(178,556)
Operating	2,822,656	2,739,932	1,381,523	1,358,409
Capital	-	12,224	97,040	(84,816)
Total expenditures	<u>2,822,656</u>	<u>2,842,156</u>	<u>1,747,119</u>	<u>1,095,037</u>
Excess (deficiency) of revenues over expenditures	<u>(1,492,656)</u>	<u>(1,512,156)</u>	<u>(198,241)</u>	<u>1,313,915</u>
Other financing sources (uses):				
Transfers in	1,200,000	1,200,000	1,200,000	-
Transfers (out)	<u>(1,156,492)</u>	<u>(1,156,492)</u>	<u>(1,156,492)</u>	<u>-</u>
Total other financing sources (uses)	<u>43,508</u>	<u>43,508</u>	<u>43,508</u>	<u>-</u>
Net change in fund balance	<u>(1,449,148)</u>	<u>(1,468,648)</u>	<u>(154,733)</u>	<u>1,313,915</u>
Fund balance, October 1	<u>2,092,401</u>	<u>2,092,401</u>	<u>2,092,401</u>	<u>-</u>
Fund balance, September 30	<u>\$ 643,253</u>	<u>\$ 623,753</u>	<u>\$ 1,937,668</u>	<u>\$ 1,313,915</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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental income	\$ 118,513	\$ 118,513	\$ 125,651	\$ 7,138
Investment income	11,942	11,942	19,975	8,033
Total revenues	<u>130,455</u>	<u>130,455</u>	<u>145,626</u>	<u>15,171</u>
Expenditures:				
Personal services	-	-	-	-
Operating	-	-	-	-
Capital	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>130,455</u>	<u>130,455</u>	<u>145,626</u>	<u>15,171</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>130,455</u>	<u>130,455</u>	<u>145,626</u>	<u>15,171</u>
Fund balance, October 1	<u>193,816</u>	<u>193,816</u>	<u>313,494</u>	<u>119,678</u>
Fund balance, September 30	<u>\$ 324,271</u>	<u>\$ 324,271</u>	<u>\$ 459,120</u>	<u>\$ 134,849</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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental income	\$ 93,466	\$ 93,466	\$ 892,059	\$ 798,593
Investment income	-	-	24,132	24,132
Contributions and other	-	-	20,000	20,000
Total revenues	<u>93,466</u>	<u>93,466</u>	<u>936,191</u>	<u>842,725</u>
Expenditures:				
Operating	93,466	93,466	392,008	(298,542)
Aid to private organizations	-	-	566,833	(566,833)
Total expenditures	<u>93,466</u>	<u>93,466</u>	<u>958,841</u>	<u>(865,375)</u>
Excess (deficiency) of revenues over expenditures	-	-	(22,650)	(22,650)
Other financing sources (uses):				
Transfers in (out)	-	-	-	-
Net change in fund balance	-	-	(22,650)	(22,650)
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>\$ 779,170</u>	<u>\$ (22,650)</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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Investment income	\$ -	\$ 1,431	\$ 6,436	\$ 5,005
Contributions and other	-	-	300,000	300,000
Total revenues	<u>-</u>	<u>1,431</u>	<u>306,436</u>	<u>305,005</u>
Expenditures:				
Personal services	-	-	-	-
Operating	-	1,431	1,431	-
Capital	-	-	-	-
Total expenditures	<u>-</u>	<u>1,431</u>	<u>1,431</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	-	-	305,005	305,005
Other financing sources (uses):				
Transfers (out)	-	-	-	-
Net change in fund balance	<u>-</u>	<u>-</u>	<u>305,005</u>	<u>305,005</u>
Fund balance, October 1	<u>5,031</u>	<u>5,031</u>	<u>5,277</u>	<u>246</u>
Fund balance, September 30	<u>\$ 5,031</u>	<u>\$ 5,031</u>	<u>\$ 310,282</u>	<u>\$ 305,251</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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ -	\$ -	\$ 27,541	\$ 27,541
Investment income	55,841	55,841	117,564	61,723
Contributions and other	-	-	2,914	2,914
Total revenues	<u>55,841</u>	<u>55,841</u>	<u>148,019</u>	<u>92,178</u>
Expenditures:				
Personal services	266,836	266,836	289,116	(22,280)
Operating	74,298	74,298	199,129	(124,831)
Capital	20,000	20,000	47,400	(27,400)
Total expenditures	<u>361,134</u>	<u>361,134</u>	<u>535,645</u>	<u>(174,511)</u>
Excess (deficiency) of revenues over expenditures	(305,293)	(305,293)	(387,626)	(82,333)
Other financing sources (uses):				
Transfers in	361,134	361,134	361,134	-
Transfers (out)	-	-	-	-
Total other financing sources (uses)	<u>361,134</u>	<u>361,134</u>	<u>361,134</u>	<u>-</u>
Net change in fund balance	<u>55,841</u>	<u>55,841</u>	<u>(26,492)</u>	<u>(82,333)</u>
Fund balance, October 1	<u>2,008,355</u>	<u>2,008,355</u>	<u>2,008,355</u>	<u>-</u>
Fund balance, September 30	<u>\$ 2,064,196</u>	<u>\$ 2,064,196</u>	<u>\$ 1,981,863</u>	<u>\$ (82,333)</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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental income	\$ 872,936	\$ 804,158	\$ 804,158	\$ -
Investment income	6,007	9,508	36,905	27,397
Other income	-	-	-	-
Total revenues	<u>878,943</u>	<u>813,666</u>	<u>841,063</u>	<u>27,397</u>
Expenditures:				
Personal services	400,000	391,427	422,938	(31,511)
Operating	63,423	75,496	11,524	63,972
Capital	-	400,000	-	400,000
Debt service	173,309	173,309	255,196	(81,887)
Aid to private organizations	-	160,000	-	160,000
Total expenditures	<u>636,732</u>	<u>1,200,232</u>	<u>689,658</u>	<u>510,574</u>
Excess (deficiency) of revenues over expenditures from operations	<u>242,211</u>	<u>(386,566)</u>	<u>151,405</u>	<u>537,971</u>
Other financing sources (uses):				
Proceeds from financing	-	-	-	-
Transfers in	622,765	723,300	723,300	-
Transfers (out)	(607,548)	(589,091)	(589,091)	-
Total other financing sources (uses)	<u>15,217</u>	<u>134,209</u>	<u>134,209</u>	<u>-</u>
Net change in fund balance	<u>257,428</u>	<u>(252,357)</u>	<u>285,614</u>	<u>537,971</u>
Fund balance, October 1	<u>484,876</u>	<u>484,876</u>	<u>484,876</u>	<u>-</u>
Fund balance, September 30	<u>\$ 742,304</u>	<u>\$ 232,519</u>	<u>\$ 770,490</u>	<u>\$ 537,971</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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Charges for Services	\$1,013,204	\$1,013,204	\$ 1,032,343	\$ 19,139
Investment income	102,064	102,064	234,794	132,730
Other income	-	-	-	-
Total revenues	<u>1,115,268</u>	<u>1,115,268</u>	<u>1,267,137</u>	<u>151,869</u>
Expenditures:				
Personal services	-	-	-	-
Operating	-	-	-	-
Capital	-	-	134,367	(134,367)
Total expenditures	<u>-</u>	<u>-</u>	<u>134,367</u>	<u>(134,367)</u>
Excess (deficiency) of revenues over expenditures from operations	<u>1,115,268</u>	<u>1,115,268</u>	<u>1,132,770</u>	<u>17,502</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>1,115,268</u>	<u>1,115,268</u>	<u>1,132,770</u>	<u>17,502</u>
Fund equity (deficit), October 1	<u>3,801,839</u>	<u>3,801,839</u>	<u>3,801,839</u>	<u>-</u>
Fund equity, September 30	<u>\$4,917,107</u>	<u>\$4,917,107</u>	<u>\$ 4,934,609</u>	<u>\$ 17,502</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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental income	\$ -	\$ -	\$ 103,692	\$ 103,692
Investment income	-	256,442	327,388	70,946
Other income	-	-	-	-
Total revenues	<u>-</u>	<u>256,442</u>	<u>431,080</u>	<u>174,638</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>-</u>	<u>256,442</u>	<u>431,080</u>	<u>174,638</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>-</u>	<u>256,442</u>	<u>431,080</u>	<u>174,638</u>
Fund equity (deficit), October 1	<u>5,839,069</u>	<u>5,839,069</u>	<u>5,839,069</u>	<u>-</u>
Fund equity, September 30	<u>\$5,839,069</u>	<u>\$ 6,095,511</u>	<u>\$ 6,270,149</u>	<u>\$ 174,638</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, 2007

	<u>Garrison Bight</u>	<u>Transit System</u>	<u>Total Nonmajor Enterprise Funds</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 3,151,816	\$ 109,228	\$ 3,261,044
Investments	-	-	-
Receivables, net of allowance for uncollectibles:			
Accounts	87,764	68,478	156,242
Intergovernmental	99,676	639,942	739,618
Interfund receivables	4,314	47,088	51,402
Prepaid expense	5,383	1,794	7,177
Inventory	-	13,819	13,819
Total	<u>3,348,953</u>	<u>880,349</u>	<u>4,229,302</u>
Restricted assets:			
Total restricted assets	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	<u>3,348,953</u>	<u>880,349</u>	<u>4,229,302</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	326,812	4,447,504	4,774,316
Construction in progress	44,305	244,149	288,454
Total	<u>3,700,234</u>	<u>9,472,291</u>	<u>13,172,525</u>
Less accumulated depreciation	<u>2,446,965</u>	<u>5,442,517</u>	<u>7,889,482</u>
Net property, plant and equipment	<u>1,253,269</u>	<u>4,029,774</u>	<u>5,283,043</u>
Other noncurrent assets:			
Total other assets	<u>-</u>	<u>-</u>	<u>-</u>
Noncurrent assets	<u>1,253,269</u>	<u>4,029,774</u>	<u>5,283,043</u>
Total assets	<u>\$ 4,602,222</u>	<u>\$ 4,910,123</u>	<u>\$ 9,512,345</u>

City of Key West, Florida
Combining Statement of Net Assets
Nonmajor Enterprise Funds
September 30, 2007

	<u>Garrison Bight</u>	<u>Transit System</u>	<u>Total Nonmajor Enterprise Funds</u>
Liabilities and Equity			
Liabilities:			
Current liabilities:			
Accounts payable	\$ 22,997	\$ 38,843	\$ 61,840
Accrued payroll and related expenses	18,800	99,387	118,187
Interfund payable	7,526	850,000	857,526
Deferred revenue	92,062	-	92,062
Total	<u>141,385</u>	<u>988,230</u>	<u>1,129,615</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	37,632	307,770	345,402
Deferred revenues	-	-	-
Customer deposits	155,683	4,600	160,283
Accrued compensated absences	28,009	58,198	86,207
Total noncurrent liabilities	<u>221,324</u>	<u>370,568</u>	<u>591,892</u>
Total liabilities	<u>362,709</u>	<u>1,358,798</u>	<u>1,721,507</u>
Net Assets			
Invested in capital assets, net of related debt	1,253,269	4,029,774	5,283,043
Unreserved	2,986,244	(478,449)	2,507,795
Total	<u>4,239,513</u>	<u>3,551,325</u>	<u>7,790,838</u>
Total liabilities and net assets	<u>\$ 4,602,222</u>	<u>\$ 4,910,123</u>	<u>\$ 9,512,345</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, 2007

	Garrison Bight	Transit System	Total Nonmajor Enterprise Funds
Operating revenues:			
Charges for services	\$ 1,504,006	\$ 1,023,845	\$ 2,527,851
Total operating revenues	<u>1,504,006</u>	<u>1,023,845</u>	<u>2,527,851</u>
Operating expenses:			
Personal services	537,913	1,979,349	2,517,262
Other operating expenses	325,942	1,012,164	1,338,106
Depreciation and amortization	198,160	783,050	981,210
Total operating expenses	<u>1,062,015</u>	<u>3,774,563</u>	<u>4,836,578</u>
Operating income (loss)	<u>441,991</u>	<u>(2,750,718)</u>	<u>(2,308,727)</u>
Nonoperating revenues (expenses):			
Grant income (operating)	11,250	1,047,515	1,058,765
Investment earnings	150,547	-	150,547
Other income	63,659	31,641	95,300
Interest expense	-	(43,516)	(43,516)
Loss on disposal	(1,104)	(516)	(1,620)
Net nonoperating revenues (expenses)	<u>224,352</u>	<u>1,035,124</u>	<u>1,259,476</u>
Income (loss) before contributions and transfers	<u>666,343</u>	<u>(1,715,594)</u>	<u>(1,049,251)</u>
Capital contributions	-	189,449	189,449
Transfers in	-	1,156,492	1,156,492
Transfers (out)	(101,863)	(232,655)	(334,518)
Total transfers and contributions	<u>(101,863)</u>	<u>1,113,286</u>	<u>1,011,423</u>
Change in net assets	564,480	(602,308)	(37,828)
Total net assets, October 1	<u>3,675,033</u>	<u>4,153,633</u>	<u>7,828,666</u>
Total net assets, September 30	<u>\$ 4,239,513</u>	<u>\$ 3,551,325</u>	<u>\$ 7,790,838</u>

City of Key West, Florida
Nonmajor Enterprise Funds
Combining Statement of Cash Flows
For the year ended September 30, 2007

	<u>Garrison Bight</u>	<u>Transit System</u>	<u>Total Nonmajor Enterprise Funds</u>
Cash flows from operating activities:			
Cash received from customers	\$ 1,522,122	\$ 981,608	\$ 2,503,730
Cash paid to suppliers	(361,355)	(1,064,089)	(1,425,444)
Cash paid to employees	(532,598)	(1,958,856)	(2,491,454)
Other receipts	63,659	31,641	95,300
Net cash provided by (used in) operating activities	<u>691,828</u>	<u>(2,009,696)</u>	<u>(1,317,868)</u>
Cash flows from noncapital financing activities:			
Operating grants received	1,642	1,244,925	1,246,567
Advance/loan from other funds	(7,526)	150,000	142,474
Interest paid on loan from other funds	-	(28,443)	(28,443)
Transfers in		1,156,492	1,156,492
Transfers (out)	(101,863)	(232,655)	(334,518)
Net cash flows from noncapital financing activities	<u>(107,747)</u>	<u>2,290,319</u>	<u>2,182,572</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(31,779)	(214,825)	(246,604)
Net cash flows from capital and related financing activities	<u>(31,779)</u>	<u>(214,825)</u>	<u>(246,604)</u>
Cash flows from investing activities:			
Investment income	150,547	-	150,547
Net cash flows from investing activities	<u>150,547</u>	<u>-</u>	<u>150,547</u>
Net increase (decrease) in cash and cash equivalents	702,849	65,798	768,647
Cash & equivalents, October 1	<u>2,448,967</u>	<u>43,430</u>	<u>2,492,397</u>
Cash & equivalents, September 30	<u>\$ 3,151,816</u>	<u>\$ 109,228</u>	<u>\$ 3,261,044</u>

City of Key West, Florida
Nonmajor Enterprise Funds
Combining Statement of Cash Flows (Continued)
For the year ended September 30, 2007

	<u>Garrison Bight</u>	<u>Transit System</u>	<u>Total Nonmajor Enterprise Funds</u>
Cash and cash equivalents at End of Year	<u>\$ 3,151,816</u>	<u>\$ 109,228</u>	<u>\$ 3,261,044</u>
Classified as:			
Current	<u>3,151,816</u>	<u>109,228</u>	<u>3,261,044</u>
Total	<u>3,151,816</u>	<u>109,228</u>	<u>3,261,044</u>
Reconciliation of operating income (loss) to net cash provided by (applied to) operating activities:			
Operating income (loss)	<u>441,991</u>	<u>(2,750,718)</u>	<u>(2,308,727)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (applied to) operating activities:			
Other nonoperating revenues	63,659	31,641	95,300
Depreciation and amortization	198,160	783,050	981,210
Decrease (increase) in assets:			
Accounts receivable	3,637	(42,237)	(38,600)
Interfund receivable	(391)	(1,172)	(1,563)
Prepaid items	(1,148)	(401)	(1,549)
Inventories	-	445	445
Increase (decrease) in liabilities:			
Accounts payable	(34,265)	(51,969)	(86,234)
Accrued items	(8,114)	6,010	(2,104)
Customer deposits	15,664	-	15,664
Accrued compensated absences, noncurrent	13,821	15,655	29,476
Deferred revenue	(1,186)	-	(1,186)
Total adjustments	<u>249,837</u>	<u>741,022</u>	<u>990,859</u>
Net cash provided by (applied to) operating activities	<u>691,828</u>	<u>(2,009,696)</u>	<u>(1,317,868)</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, 2007

	Pension Trust Funds		
	Police and Fire	General Employees	Total
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash	\$ 3,127,848	\$ 2,102,537	\$ 5,230,385
Corporate Bonds	11,771,336	4,037,899	15,809,235
US Government Securities	6,144,465	8,350,809	14,495,274
Marketable Equity Securities	38,361,672	20,630,382	58,992,054
Receivables:			
Interest and dividends	263,474	190,929	454,403
Interfund receivables	513,204	-	513,204
Intergovernmental	313,156	-	313,156
Equipment	2,705	-	2,705
Accumulated depreciation	(1,845)	-	(1,845)
Total assets	<u>\$ 60,496,015</u>	<u>\$ 35,312,556</u>	<u>\$ 95,808,571</u>
 Liabilities:			
Accounts Payable	\$ 45,293	\$ 13,725	\$ 59,018
Accrued Expenses	2,025	197	2,222
Benefits payable	-	9,300	9,300
Total liabilities	<u>47,318</u>	<u>23,222</u>	<u>70,540</u>
 Net Assets			
Assets held in trust for pension benefits	<u>60,448,697</u>	<u>35,289,334</u>	<u>95,738,031</u>
Total net assets	<u>60,448,697</u>	<u>35,289,334</u>	<u>95,738,031</u>
 Total liabilities and net assets	<u>\$ 60,496,015</u>	<u>\$ 35,312,556</u>	<u>\$ 95,808,571</u>

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

For the year ended September 30, 2007

	Pension Trust Funds		Total
	Police and Fire	General Employees	
Additions			
Contributions			
Employer	\$ 2,122,933	\$ 1,250,735	\$ 3,373,668
Member	733,646	710,429	1,444,075
State Police and Fire	858,782	-	858,782
Total contributions	<u>3,715,361</u>	<u>1,961,164</u>	<u>5,676,525</u>
Net investment income			
Net appreciation in fair value of investments	5,728,266	3,694,215	9,422,481
Interest	1,096,139	693,071	1,789,210
Dividends	915,878	379,739	1,295,617
Other	15,641	4,650	20,291
	<u>7,755,924</u>	<u>4,771,675</u>	<u>12,527,599</u>
Less investment expense	249,734	128,307	378,041
	<u>7,506,190</u>	<u>4,643,368</u>	<u>12,149,558</u>
Total additions	<u>11,221,551</u>	<u>6,604,532</u>	<u>17,826,083</u>
Deductions			
Benefits paid	2,696,757	1,085,102	3,781,859
Administrative expense	144,319	76,749	221,068
Contributions refunded	75,899	152,157	228,056
Depreciation	-	-	-
Total deductions	<u>2,916,975</u>	<u>1,314,008</u>	<u>4,230,983</u>
Changes in net assets	<u>8,304,576</u>	<u>5,290,524</u>	<u>13,595,100</u>
Net assets - beginning	<u>52,144,121</u>	<u>29,998,810</u>	<u>82,142,931</u>
Net assets - ending	<u>\$ 60,448,697</u>	<u>\$ 35,289,334</u>	<u>\$ 95,738,031</u>

City of Key West, Florida

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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>	<u>2007</u>
Governmental activities					
Invested in capital assets, net of related debt	\$ 35,962	\$ 35,936	\$ 84,281	\$ 83,047	\$ 84,399
Restricted	5,183	14,850	17,885	17,596	24,409
Unrestricted	19,986	61,128	11,651	14,948	13,361
Total governmental activities net assets	\$ 61,131	\$ 111,914	\$ 113,817	\$ 115,591	\$ 122,169
Business-type activities					
Invested in capital assets, net of related debt	\$ 87,514	\$ 82,941	\$ 83,682	\$ 92,102	\$ 94,531
Restricted	2,494	2,664	2,358	2,427	2,490
Unrestricted	18,689	16,458	18,926	14,997	19,052
Total business-type activities net assets	\$ 108,697	\$ 102,063	\$ 104,966	\$ 109,526	\$ 116,073
Primary government					
Invested in capital assets, net of related debt	\$ 123,476	\$ 118,877	\$ 167,963	\$ 175,149	\$ 178,930
Restricted	7,677	17,514	20,243	20,023	26,899
Unrestricted	38,675	77,586	30,577	29,945	32,413
Total primary government net assets	\$ 169,828	\$ 213,977	\$ 218,783	\$ 225,117	\$ 238,242

* Net asset information is not available for fiscal years preceding the implementation of GASB 34.

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>	<u>2007</u>
Expenses					
Governmental activities:					
General government	\$ 9,131	\$ 12,689	\$ 14,068	\$ 13,195	\$ 13,796
Public safety	16,871	15,985	20,332	23,059	22,278
Physical environment	128	160	284	220	321
Transportation	3,400	2,780	2,901	3,249	3,294
Economic environment	1,944	1,293	1,185	2,152	1,963
Human Services	-	131	438	432	491
Culture and recreation	3,285	3,400	3,270	4,206	5,403
Capital outlay	-	-	-	-	-
Principal	-	-	-	-	59
Interest	42	79	40	53	51
Total governmental activities expenses	34,801	36,517	42,518	46,566	47,657
Business type activities:					
Sewer system	11,384	17,991	10,885	10,030	10,121
Solid waste	7,750	10,177	10,103	11,895	6,727
Key West bight	3,780	4,520	5,451	6,008	6,374
Stormwater	850	1,192	1,003	3,031	1,757
Garrison bight	1,040	1,097	1,196	1,225	1,063
Transit	2,658	3,152	3,087	3,917	3,818
Poinciana	1,520	1,594	-	-	-
Total business-type activities expenses	28,982	39,723	31,725	36,106	29,860
Total primary government expenses	\$ 63,783	\$ 76,241	\$ 74,243	\$ 82,672	\$ 77,517
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 3,283	\$ 1,394	\$ 1,520	\$ 1,594	\$ 1,551
Public safety	1,390	3,182	4,127	4,077	4,504
Physical environment	30	38	88	120	46
Transportation	6,831	6,368	8,000	7,352	7,568
Economic environment	-	-	-	-	-
Human Services	-	-	-	-	-
Culture and recreation	139	12	133	114	136
Operating grants and contributions	1,421	911	866	3,969	3,254
Capital grants and contributions	2,118	48,314	1,405	1,185	647
Total governmental activities program revenues	15,212	60,219	16,139	18,412	17,706

(continued)

Business type activities:**Charges for services:**

Sewer system	10,521	10,503	10,499	12,063	11,271
Solid waste	8,025	8,274	8,293	8,591	8,837
Key West bight	4,571	5,236	5,932	6,531	7,460
Stormwater	1,450	1,642	1,516	1,742	1,748
Garrison bight	1,102	1,204	1,318	1,397	1,504
Transit	589	754	737	932	1,023
Poinciana	1,438	362	-	-	-
Operating grants and contributions	449	442	2,117	6,926	1,730
Capital grants and contributions	5,944	1,940	1,692	2,067	1,939
Total business type activities program revenues	34,089	30,357	32,104	40,248	35,512
Total primary government program revenues	\$ 49,301	\$ 90,576	\$ 48,243	\$ 58,660	\$ 53,218

Net (expense)/revenue

Governmental activities	\$ (19,589)	\$ 23,702	\$ (26,379)	\$ (28,154)	\$ (29,951)
Business type activities	5,107	(9,366)	379	4,142	5,652
Total primary government net expense	\$ (14,482)	\$ 14,336	\$ (26,000)	\$ (24,012)	\$ (24,299)

General Revenues and Other Changes in Net Assets**Governmental activities:**

Taxes					
Property taxes	\$ 11,172	\$ 11,777	\$ 12,476	\$ 12,469	\$ 15,774
Sales taxes	8,032	9,177	9,048	9,352	9,263
Franchise taxes	1,024	927	1,655	2,030	2,029
Motor fuel taxes	2,017	2,580	2,548	2,500	2,266
Investment earnings	509	357	700	1,436	2,194
Miscellaneous	3,230	3,596	3,259	994	567
Transfers	(2,474)	(2,210)	(1,405)	1,146	2,002
Total governmental activities	23,510	26,204	28,281	29,927	34,095

Business type activities:

Investment earnings	403	323	711	1,347	1,397
Transfers	2,474	2,210	1,405	(1,146)	(2,002)
Miscellaneous	84	199	408	217	561
Total business type activities	2,961	2,732	2,524	418	(44)
Total primary government	\$ 26,471	\$ 28,936	\$ 30,806	\$ 30,345	\$ 34,051

Change in Net Assets

Governmental activities	\$ 3,921	\$ 49,906	\$ 1,903	\$ 1,773	\$ 4,144
Business type activities	8,068	(6,633)	2,903	4,560	5,608
Total primary government	\$ 11,989	\$ 43,273	\$ 4,806	\$ 6,333	\$ 9,752

* Net asset information is not available for fiscal years preceding the implementation of GASB 34.

City of Key West, Florida

Table 3
Governmental Activities Tax Revenues By Source

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

<u>Fiscal</u> <u>Year</u>	<u>Property</u> <u>Tax</u>	<u>Sales</u> <u>Tax</u>	<u>Franchise</u> <u>Tax</u>	<u>Motor</u> <u>Fuel Tax</u>	<u>Total</u>
2003	\$ 11,172	8,032	1,024	2,017	\$ 22,245
2004	\$ 11,777	9,177	927	2,580	\$ 24,461
2005	\$ 12,476	9,048	1,655	2,548	\$ 25,727
2006	\$ 12,469	9,352	2,030	2,500	\$ 26,351
2007	\$ 15,774	9,263	2,029	2,266	\$ 29,332

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

City of Key West, Florida

Table 4
Fund Balances of Governmental Funds

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

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Fund										
Reserved	\$ 685	\$ 452	\$ 251	\$ 1,140	\$ 1,349	\$ 2,761	\$ 2,699	\$ 2,696	\$ 2,637	\$ 2,647
Unreserved	4,923	5,847	8,623	10,664	12,071	10,926	11,744	9,618	10,908	11,819
Total general fund	<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>	<u>\$14,466</u>
All other governmental funds										
Reserved	\$ 3,440	\$ 2,432	\$ 1,622	\$ 4,410	\$ 2,715	\$ 2,422	\$ 1,367	\$ 960	\$ 1,314	\$ 1,442
Unreserved, reported in:										
Special revenue funds	3,402	3,732	4,378	3,686	7,559	5,005	7,857	12,353	13,656	19,140
Capital projects funds	1,152	2,648	4,275	2,388	1,183	4,191	5,625	4,572	5,808	5,809
Total all other governmental funds	<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>	<u>\$26,391</u>

City of Key West, Florida

**Table 5
Changes in Fund Balances of Governmental Funds**

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

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Revenues										
Taxes	\$ 8,487	\$ 9,998	\$10,566	\$11,198	\$12,287	\$12,196	\$20,296	\$21,305	\$21,768	\$24,989
Licenses and permits	1,590	1,785	2,110	2,162	1,960	2,163	2,139	2,667	2,735	3,224
Intergovernmental income	10,563	14,971	13,647	14,614	16,658	13,607	6,481	6,754	10,056	9,092
Payment in lieu of taxes	2,456	2,461	2,453	2,880	2,470	2,603	2,603	2,603	-	-
Charges for services	4,739	5,030	5,727	4,584	6,004	7,104	6,565	8,226	7,584	7,827
Fines and forfeitures	641	674	916	832	1,060	1,044	1,035	1,245	1,134	1,049
Investment earnings	869	782	1,204	1,295	826	509	302	701	1,436	2,194
Rental income	1,015	991	1,107	1,065	1,315	1,336	1,306	1,359	1,437	1,441
Contributions and other	579	562	728	175	331	263	48,488	379	650	863
Total Revenues	30,939	37,254	38,458	38,805	42,911	40,825	89,215	45,239	46,800	50,679
Expenditures										
General government	9,013	7,679	9,549	9,460	8,685	9,791	10,928	14,162	12,774	13,229
Public safety	10,720	11,781	11,748	12,343	14,025	14,857	15,995	17,895	20,014	19,113
Physical environment	43	238	46	49	46	72	100	212	137	236
Transportation	2,539	2,655	3,045	4,613	2,236	2,897	2,307	2,326	2,897	2,865
Economic environment	705	891	1,294	1,241	1,348	1,925	1,293	1,108	2,229	1,963
Culture and recreation	1,175	1,375	1,536	1,637	1,852	2,128	2,644	2,765	3,653	4,687
Human Services	-	-	-	-	-	-	131	438	423	497
Capital outlay	2,594	7,191	4,472	2,303	9,440	5,997	51,265	3,835	2,996	2,858
Debt service:										
Principal	143	519	241	625	-	-	294	147	147	206
Interest	16	159	69	60	-	42	79	40	53	51
Total expenditures	26,948	32,488	32,000	32,331	37,632	37,709	85,036	42,928	45,323	45,705
Excess (deficiency) of revenues over (under) expenditures	3,991	4,766	6,458	6,474	5,279	3,116	4,179	2,311	1,478	4,973
Other financing sources (uses):										
Proceeds from financing	1,500	853	-	-	-	650	-	-	-	-
Transfers in	3,390	2,552	3,330	3,576	1,555	5,277	4,162	5,732	6,272	6,032
Transfers out	(3,864)	(3,434)	(4,270)	(4,611)	(4,247)	(9,221)	(5,902)	(7,137)	(5,126)	(4,030)
Total other financing sources (uses)	1,026	(29)	(940)	(1,035)	(2,692)	(3,294)	(1,740)	(1,405)	1,146	2,002
Net change in fund balances	\$ 5,017	\$ 4,737	\$ 5,517	\$ 5,439	\$ 2,587	\$ (178)	\$ 2,439	\$ 906	\$ 2,624	\$ 6,975
Ratio of total debt service expenditures to total noncapital expenditures	0.01	0.03	0.01	0.02	-	-	0.01	-	-	0.01

City of Key West, Florida

Table 6
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
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
2007	\$12,858,911	\$19,024,792	\$155,387	\$1,214,718	\$80,500	\$3,680,251	\$498,399	\$37,512,958

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

City of Key West, Florida

Table 7
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
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
2007	\$ 16,999,393	\$ 3,223,910	\$ 6,801,001	\$ 3,747,343	\$ 6,794,871	\$ 916,443	\$ 2,839,013	\$ 41,321,974

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

City of Key West, Florida

**Table 8
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
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
2007	\$ 15,448,634	\$ 14,970,043	96.9	N/A	\$ 14,970,043	96.9	\$ 36,693	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 9
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 Direct Tax Rate (1)	Total Net Estimated True Value	Ratio Net Assessed to True Value
1998	\$3,821,369	\$263,274	\$1,921,844	\$2,162,799	N/A	\$2,162,799	1.0
1999	\$4,198,557	\$271,155	\$2,083,045	\$2,386,667	N/A	\$2,386,668	1.0
2000	\$5,344,327	\$282,994	\$2,939,300	\$2,688,021	N/A	\$2,688,021	1.0
2001	\$5,800,494	\$281,045	\$3,087,068	\$2,994,471	N/A	\$2,994,471	1.0
2002	\$5,873,413	\$326,466	\$2,836,850	\$3,363,029	N/A	\$3,363,029	1.0
2003	\$6,290,554	\$321,668	\$2,631,664	\$3,651,348	N/A	\$3,651,348	1.0
2004	\$6,752,625	\$318,063	\$2,730,286	\$3,961,783	N/A	\$3,961,783	1.0
2005	\$9,273,128	\$322,287	\$4,236,380	\$5,359,035	N/A	\$5,359,035	1.0
2006	\$10,718,386	\$360,504	\$4,227,713	\$6,851,177	N/A	\$6,851,177	1.0
2007	\$12,301,233	\$369,917	\$4,208,873	\$8,462,277	N/A	\$8,462,277	1.0

(1) This information was requested from the Property Appraiser, but not provided, with the notation that is varies by county.

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 10
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>
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
2007	2.0354	8.7543	3.0610	7.5669	21.4176

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 11
Principal Taxpayers
September 30, 2007

Name of Taxpayer	Type of Business	2007 Assessed Value	Rank	Percent of Total Assessed Valuation	1998 Assessed Value	Rank	Percent of Total Assessed Valuation
Hyatt Vacation Management	Timeshare	\$72,028,980	1	2.13	\$17,995,812	9	0.38
Galleon Condominium Assoc Inc	Condominium	69,741,964	2	2.06	-	-	-
Casa Marina	Resort Hotel	69,316,439	3	2.05	44,662,547	1	1.16
Windward Point	Resort Hotel	48,686,354	4	1.44	-	-	-
JLW Key West 1 LLC	Hotel	44,504,448	5	1.31	-	-	-
Bellisouth (Southern Bell)	Utility	32,099,608	6	0.94	-	-	-
Tannex Development Corp.	Condominium	29,252,631	7	0.86	20,074,030	5	0.52
Key West Reach Owner LLC	Resort Hotel	29,200,000	8	0.86	-	-	-
Crico Ocean Walk LP	Apartments	28,784,505	9	0.85	-	-	-
Parrot Key	Timeshare	28,000,000	10	0.82	-	-	-
Hilton	Resort Hotel	-	-	-	28,816,845	2	0.75
Holiday Inn	Resort Hotel	-	-	-	21,539,524	3	0.56
Sheraton Suites	Resort Hotel	-	-	-	20,271,798	4	0.53
Reach	Resort Hotel	-	-	-	19,840,108	6	0.51
Southernmost Beach LP	Resort Hotel	-	-	-	18,577,743	7	0.48
Pier House	Resort Hotel	-	-	-	18,480,949	8	0.48
Ocean Key House	Resort Hotel	-	-	-	14,655,057	10	0.38
Totals		\$309,843,985		9.13	\$206,918,601		5.75

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

City of Key West, Florida

Table 12
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
1998	27,522	\$2,162,799	-	-	-	-	-
1999	27,698	\$2,386,667	-	-	-	-	-
2000	34,230	\$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	-	-	-	-	-
2007	23,262	\$8,462,277	-	-	-	-	-

- (1) Source: City of Key West Planning Department.
- (2) Figures are from Table 8 of this Statistical Section.
- (3) Gross bonded debt amount here excludes revenue bonds.

City of Key West, Florida

Table 13
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>
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	-
2007	-	-	-	\$37,512,958	-

- (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 14
Computation of Direct and Estimated Overlapping Debt
September 30, 2007**

	<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>\$ 23,108,000</u>	30.76% (3)	<u>\$ 7,107,715</u>
Total ad valorem tax supported debt	<u>\$ 23,108,000</u>		<u>\$ 7,107,715</u>
<u>Ratios:</u>			
Overall debt to 2007 taxable valuation			0.21%
Overall debt per capita			\$ 274.93

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

(2) Monroe County School Board debt is as of June 30, 2007, 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 15
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	
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
2007	\$11,659	\$5,516	\$6,143	\$935	\$1,079	\$2,014	3.05

- (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 16
Revenue Bond Coverage
Key West Bight
For the last ten fiscal years
(In Thousands)

<u>Fiscal Year</u>	<u>Net Revenue of Facilities (1)</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
2007	\$3,119,535	\$3,278,954	\$392,780	\$6,791,269	\$1,562,963	4.35

(1) Gross revenues excluding grants, contributions, and donation less operating expenses excluding extraordinary items, depreciation and interest.

City of Key West, Florida

Table 17
Demographic Statistics
For the last ten fiscal years

Fiscal Year	Population (1)	Per Capita Income (1)	Total Personal Income	Median Age (1)	Education Level (2)	Public School Enrollment (3)	Unemployment Rate (4)
1998	27,522	\$28,959	N/A	40	N/A	4,087	2.2%
1999	27,698	\$29,657	N/A	40	N/A	4,073	2.0%
2000	34,230	\$24,943	N/A	39	12.9	4,027	2.0%
2001	N/A	\$37,144	\$940,937	N/A	N/A	4,063	N/A
2002	25,853	\$37,029	\$936,282	43	N/A	4,063	N/A
2003	25,811	\$27,966	\$958,401	39	N/A	4,056	2.3%
2004	26,215	\$40,203	\$1,003,682	N/A	N/A	N/A	N/A
2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2006	23,935	\$26,316	N/A	39	N/A	4,056	2.3%
2007	28,177	\$26,316	N/A	39	N/A	4,038	2.4%

(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: Informational items are not consistently available for every year, and are reported significantly after the reporting period.

City of Key West, Florida

Table 18
Principal Employers*
September 30, 2007

Employer	<u>Employees</u>
Public Sector	
Monroe County Schools	1,362
US Armed Forces	1,269
Monroe County Government	810
Monroe County Sheriff's Office	539
City of Key West	521
Florida Keys Aquaduct Authority	273
Florida Keys Community College	225
Keys Energy Services	163
Private Sector	
Ocean Reef Club	1,000
Health Management Associations	700
Publix	392
Historic Tours of America	350
Casa Marina Resort	300
Cheeca Lodge	300
Hawk's Cay	275
First State Bank	208
Inn at the Isle	185

* Employer information including percent of total employment was not available, this data is for Monroe County as no information for the City of Key West was available.

City of Key West, Florida

Table 19
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	
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
2007	\$12,671,150	\$4,208,873	\$8,462,277	7,529	\$168,984	\$833,054

- (1) Figures here are derived from Table 7 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 20
Miscellaneous Information
September 30, 2007**

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, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 30, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Key West, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Key West, Florida's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be significant deficiency in internal control over financial reporting, 2007-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider item 2007-1 as reported in the accompanying schedule of findings and questioned costs to be a material weakness.

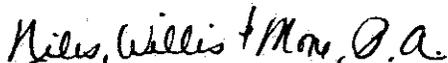
Compliance and Other Matters

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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2007-2.

We noted certain matters that we have reported to the management of City of Key West, Florida in a separate letter dated May 30, 2008.

City of Key West, Florida's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

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.

May 30, 2008

City of Key West, Florida
Schedule of Expenditures of Federal Awards
and State Financial Assistance
For the Year Ended September 30, 2007

Federal or State Grantor/Pass-Through Grantor/Program Title	CFDA Number	CSFA Number	Federal or State Grant Contract Number	Expenditures
FEDERAL AWARDS				
<u>NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION</u>				
Direct Program:				
Habitat Conservation	11.463	N/A	20050007020	25,388
<u>U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT</u>				
Direct Program:				
Housing Opportunities for Persons with AIDS	14.241	N/A	FLH010021	587,866
Pass-through Florida Department of Community Affairs				
Community Development Block Grant - State Program	14.228	N/A	04DB-1Q-11-54-02-H02	24,432
Community Development Block Grant - State Program	14.228	N/A	07DB-3V-11-54-02-Z03	264,761
Community Development Block Grant - State Program	14.228	N/A	08DB-T3-11-54-02-H05	5,547
<u>U.S. DEPARTMENT OF JUSTICE</u>				
Direct Programs:				
Local Law Enforcement Block Grant	16.592	N/A	2004-LB-BX-1049	8,594
Public Safety Partnership & Community Policing	16.710	N/A	2004CKWX0340	29,323
Public Safety Partnership & Community Policing	16.710	N/A	2005CKWX0323	36,800
Edward Byrne Memorial Justice Assistance	16.738	N/A	2006DJBX1032	1,730
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Direct Program:				
Federal Transit-Capital Investment	20.500	N/A	FL-03-0316-00	155,299
Pass through Florida Department of Transportation:				
Highway Planning and Construction	20.205	N/A	ANT08	169,033
Highway Planning and Construction	20.205	N/A	AOC27	
Formula Grants for Other Than Urbanized Areas	20.509	N/A	AOL10	396,617
Job Access-Reverse Commute	20.516	N/A	41517318402	282,081
Pass through Florida Fish and Wildlife Conservation Committee:				
Ship Disposal Program	20.800	N/A	FWC-06202	1,250,000
<u>U.S. DEPARTMENT OF ENVIRONMENTAL PROTECTION</u>				
Direct Program:				
Nonpoint Source Implementation	66.460	N/A	C9-99451506-0	336,321
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY:</u>				
Pass through Florida Department of Community Affairs:				
Public Assistance Grants	83.544	N/A	99-RM-23-115402043	
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Pass through Florida Department of Community Affairs:				
Public Assistance Grants	97.036	N/A	06-DN-@G-11-54-01-525	2,240
Public Assistance Grants	97.036	N/A	06-KT-B&-11-54-02-592	163,451
Public Assistance Grants	97.036	N/A	06-RT-&W-11-54-02-517	-
Public Assistance Grants	97.036	N/A	06-WL-&K-11-54-02-539	16,709
Total Federal Awards Expenditures				\$ 3,756,192

City of Key West, Florida
Schedule of Expenditures of Federal Awards
and State Financial Assistance
For the Year Ended September 30, 2007

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	8,878
Enterprise Florida, Inc.	N/A	31.003	DIG-07-04	14,007
<u>FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION</u>				
Statewide Surface Water Restoration and Wastewater Projects	N/A	37.039	LP6800	656,541
Pass through South Florida Water Management District:				
Statewide Surface Water Restoration and Wastewater Projects	N/A	37.039	OT060168	693,445
<u>FLORIDA DEPARTMENT OF TRANSPORTATION</u>				
Public Transit Block Grant Program	N/A	55.010	AOQ83	131,602
Public Transit Service Development Program	N/A	55.012	ANT11	141,040
Intermodal Development Program	N/A	55.014	41219419401	72,370
Total State Financial Assistance Expenditures				<u>\$ 1,717,883</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 \$566,833 from the Housing Opportunities for Persons with AIDS federal program and \$1,250,000 from the Ship Disposal Program federal program. Other federal programs did not utilize subrecipients. There were no subrecipients from the state financial assistance programs.
- (3) Adjustments were made during the current year to the covered costs for various hurricane grants. The following changes in grant expenditures are not reflected in the current year's Schedule of Expenditures of Federal Awards and State Financial Assistance as they relate to costs incurred in previous years:

FEDERAL AWARDS:

Highway Planning and Construction	20.205	N/A	AOC27	(25,202)
Public Assistance Grants	83.544	N/A	99-RM-23-115402043	163,426
Public Assistance Grants	97.036	N/A	06-DN-@G-11-54-01-529	223,153
Public Assistance Grants	97.036	N/A	06-KT-B&-11-54-02-592	464,366
Public Assistance Grants	97.036	N/A	06-RT-&W-11-54-02-517	21,146
Public Assistance Grants	97.036	N/A	06-WL-&K-11-54-02-539	450,606
Total adjustments to prior years' federal awards				<u>1,297,495</u>

See independent auditor's report.

JACK D. NILES, JR., C.P.A.
GUY A. WILLIS, C.P.A.
SHARON A. MOORE, C.P.A.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND STATE PROJECT 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* and the requirements described in the Executive Office of the Governor's State Projects Compliance Supplement that are applicable to each of its major federal programs and state projects for the year ended September 30, 2007. The City of Key West, Florida's major federal programs and state projects 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 and state projects 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 \$4,427,505 in federal awards during their year ended December 31, 2006, which is not included in the City's schedule during the year ended September 30, 2007. 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*; and Chapter 10.550, Rules of the Auditor General. Those standards, OMB Circular A-133, and Chapter 10.550 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 or state project 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.

As described in item 2007-3 in the accompanying schedule of findings and questioned costs, the City of Key West, Florida did not comply with requirements regarding subrecipient monitoring that are applicable to its U.S. Department of Transportation's Ship Disposal Program. Compliance with such requirement is necessary, in our opinion, for the City of Key West, Florida to comply with the requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the City of Key West, Florida did not comply, in all material respects, with the requirements referred to above that are applicable to the Ship Disposal Program. Also, 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 other major federal programs and state projects for the year ended September 30, 2007.

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 and state 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 or state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City of Key West, Florida's internal control over compliance.

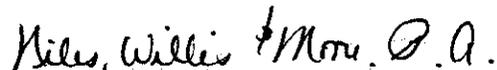
Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement or a federal program or state project on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program or state project that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-3 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider item 2007-3 as reported in the accompanying schedule of findings and questioned costs to be a material weakness.

City of Key West, Florida's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

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.

May 30, 2008

City of Key West, Florida
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2007

Section I -- Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

 Material weakness(es) identified? Yes

 Significant deficiencies identified that are not considered to be material weaknesses? None reported

Noncompliance material to financial statements noted? Yes

Federal Awards and State Projects

Internal control over major federal programs and state projects:

 Material weakness(es) identified? Yes

 Significant deficiencies identified that are not considered to be material weaknesses? None reported

Type of auditors' report issued on compliance for major federal programs and state projects? Adverse-Ship Disposal Program
Unqualified-All other major programs

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

Identification of major federal programs:	<u>CFDA Number</u>	<u>Name of Federal Program</u>
	14.241	U.S. Department of Housing and Urban Development Housing Opportunities for Persons with AIDS
	20.509	U.S. Department of Transportation passed through Florida Department of Transportation Formula Grants for other than Urbanized Areas
	20.800	U.S. Department of Transportation passed through Florida Fish & Wildlife Conservation Commission Ship Disposal Program
	66.460	U.S. Environmental Protection Agency Nonpoint Source Implementation Grants

Identification of major state project:	<u>CSFA Number</u>	<u>Name of State Project</u>
	37.039	Florida Department of Environmental Protection Surface Water Restoration and Wastewater projects

Dollar threshold used to distinguish between Type A and Type B programs:

 Federal awards \$300,000

 State projects \$300,000

Auditee qualified as low-risk auditee? Yes

City of Key West, Florida
Schedule of Findings and Questioned Costs
Financial Statement Findings
For the Year Ended September 30, 2007

Section II – Financial Statement Findings

2007-1

Condition and Criteria--Prior period adjustments and audit adjustments were required to properly report the City's financial records as of September 30, 2007.

Cause--Financial transactions do not flow into and get recorded in the records as they occur in all circumstances. This creates a backlog which adds to the pressures associated with closing the books at year end. Additionally, the preparation and approval process for journal entries needs to be enhanced.

Effect--Controls are not in place to ensure the completeness and accuracy of the financial records.

Recommendation--Steps need to be taken to ensure the accounting records are monitored and maintained on an ongoing basis with the appropriate controls to ensure their integrity and completeness.

City Response-- The City is in the process of reviewing its time line for completion of its financial audit close out to ensure all adjustments have been made and to allow a through review of the books prior to the start of the audit.

2007-2 (See 2007-3 for more details.)

Condition and Criteria--The City believed they had no compliance requirements with respect to a major federal awards program. Accordingly, the City did not perform the sub recipient monitoring responsibilities required by federal awards programs.

Cause--The City does not have procedures in place to ensure that sub recipient monitoring is accomplished when required for grants administered by other than the Community Development Office.

Effect--The City did not comply with a material provision of a grant agreement.

Recommendation--Procedures need to be implemented to ensure that all grants received by the City as a pass-through entity are identified and the required sub recipient monitoring responsibilities are achieved.

City Response--The City has not had a subrecipient for other than housing grants for a number of years. The State was actively involved in the grant process. As a result of this unusual situation, the City was unaware of its full responsibilities. In the future, the City will be careful to fulfill obligations for monitoring all subrecipients.

City of Key West, Florida
Schedule of Findings and Questioned Costs
Federal Awards and State Projects Findings and Questioned Costs
For the Year Ended September 30, 2007

Section III -- Federal Awards and State Projects Findings and Questioned Costs

2007-3

U. S. DEPARTMENT OF TRANSPORTATION

Passed through Florida Fish and Wildlife Conservation Commission

Ship disposal program--CFDA number 20.800--Grant number FWC-06202--
Grant period Year ended September 30, 2007

Condition and Criteria--The City believed they had no compliance requirements with respect to this grant based on the involvement of the state pass-through agency and the subrecipient even though the grant agreement specified that the City will comply with the auditee responsibilities of OMB Circular A-133. Accordingly, the City did not perform the subrecipient monitoring responsibilities to ensure the subrecipient's compliance with laws, regulations, grants and contracts.

Cause--The City does not have procedures in place to ensure that subrecipient monitoring is accomplished when required for grants administered by other than the Community Development Office.

Effect--Since the City did not comply with the pass-through entity provisions of the grant, the entire grant is subject to disallowance by the grantor.

Questioned Costs--\$1,250,000

Perspective Information--The City entered into a memorandum of understanding with a not-for-profit organization to create an artificial reef . It was the City's expressed intent to not assume any responsibility for the project under this memorandum. When the grant was obtained, this assignment of responsibility was thought to apply to the grant as well.

Recommendation--Procedures need to be implemented to ensure that all grants received by the City as a pass-through entity are identified and the required subrecipient monitoring responsibilities are achieved.

Grantee Response--The City has not had a subrecipient for other than housing grants for a number of years. The State was actively involved in the grant process. As a result of this unusual situation, the City was unaware of its full responsibilities. In the future, the City will be careful to fulfill obligations for monitoring all subrecipients.

City of Key West, Florida
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2007

FINDINGS-FINANCIAL STATEMENT AUDIT

This section identifies reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of the basic financial statements for the prior year as required to be reported by *Government Auditing Standards*.

There were no findings that were required to be reported under *Government Auditing Standards*.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS & STATE PROJECTS

This section identifies reportable conditions, material weaknesses and instances of noncompliance, including questioned costs, related to the audit of major federal programs and state projects for the prior year as required to be reported by Circular A-133 and Chapter 10.550, Rules of the Auditor General.

There were no findings that were required to be reported in accordance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and Chapter 10.550, Rules of the Auditor General.