

City of Key West Florida

COMPREHENSIVE ANNUAL FINANCIAL REPORT



Fiscal Year Ended September 30, 2011

THE CITY OF KEY WEST, FLORIDA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT

September 30, 2011

Prepared by:
Department of Finance

CITY OF KEY WEST, FLORIDA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

TABLE OF CONTENTS

	<u>PAGES</u>
INTRODUCTORY SECTION:	
Letter of Transmittal	i-vi
Certificate of Achievement for Excellence in Financial Reporting - 2010	vii
List of Principal Officials	viii
Organizational Chart	ix
Vision and Mission Statements	x
 FINANCIAL SECTION:	
Independent Auditors' Report	1-2
Management's Discussion and Analysis (Not Covered by Independent Auditors' Report)	3-14
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	15-16
Statement of Activities	17-18
Fund Financial Statements:	
Balance Sheet: Governmental Funds	19-20
Reconciliation of the Balance Sheet to the Statement of Net Assets - Governmental Funds	21
Statement of Revenues, Expenditures and Changes in Fund Balances: Governmental Funds	22-23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities - Governmental Funds	24
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	25
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Infrastructure Surtax Fund	26
Statement of Net Assets: Proprietary Funds	27-30

CITY OF KEY WEST, FLORIDA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

TABLE OF CONTENTS
 (continued)

	<u>PAGES</u>
Statement of Revenues, Expenses and Changes in Fund Net Assets: Proprietary Funds	31-32
Statement of Cash Flows: Proprietary Funds	33-36
Statement of Fiduciary Net Assets: Fiduciary Funds	37
Statement of Changes in Fiduciary Net Assets: Fiduciary Funds	38
Notes to Financial Statements	39-81
REQUIRED SUPPLEMENTARY INFORMATION:	
Analysis of Funding Progress - General Employees' Pension Trust Fund	82
Analysis of Funding Progress - Police Officers' and Firefighters' Pension Trust Fund	83
Analysis of Funding Progress - Other Post Employment Health Care Benefits	84
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES:	
Nonmajor Governmental Funds Overview	85
Combining Balance Sheet: Nonmajor Governmental Funds	86-87
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds	88-89
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Law Enforcement Trust Special Revenue Fund	90
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Gas Tax Special Revenue Fund	91
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Fort Taylor Special Revenue Fund	92
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Affordable Housing Special Revenue Fund	93
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Local Redevelopment Agency Special Revenue Fund	94

CITY OF KEY WEST, FLORIDA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2011

TABLE OF CONTENTS
(continued)

	<u>PAGES</u>
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Bahama Village and Caroline Street Special Revenue Fund	95
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Navy Pier Payments Special Revenue Fund	96
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Capital Projects Fund	97
Nonmajor Enterprise Funds Overview	98
Combining Statement of Net Assets: Nonmajor Enterprise Funds	99-100
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets - Nonmajor Enterprise Funds	101
Combining Statement of Cash Flows: Nonmajor Enterprise Funds	102-103
Fiduciary Funds Overview	104
Combining Statement of Fiduciary Net Assets: Fiduciary Funds	105
Combining Statement of Changes in Fiduciary Net Assets: Fiduciary Funds	106
 STATISTICAL SECTION:	
Overview and Sources	107
Table 1 - Net Assets by Component	108
Table 2 - Changes in Net Assets	109-112
Table 3 - Governmental Activities Tax Revenues by Source	113
Table 4 - Fund Balances of Governmental Funds	114
Table 5 - Changes in Fund Balances of Governmental Funds	115
Table 6 - General Governmental Expenditures	116
Table 7 - General Governmental Revenues	117
Table 8 - Property Tax Levies and Collections	118
Table 9 - Assessed and Estimated Value of Taxable Property	119

CITY OF KEY WEST, FLORIDA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2011

TABLE OF CONTENTS
(continued)

	<u>PAGES</u>
Table 10 - Property Tax Rates: Direct and Overlapping Governments	120
Table 11 - Principal Taxpayers	121
Table 12 - Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt Per Capita	122
Table 13 - Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Governmental Expenditures	123
Table 14 - Computation of Direct and Estimated Overlapping Governmental Activities Debt	124
Table 15 - Revenue Bond Coverage: Sanitary Sewer System Fund	125
Table 16 - Demographic Statistics	126
Table 17 - Principal Employers	127
Table 18 - Property Value and Construction	128
Table 19 - Operating Indicators by Function/Program	129
Table 20 - Capital Asset Statistics by Function/Program	130
Table 21 - Full-Time Equivalent City Employees by Function/Program	131

INTRODUCTORY SECTION



THE CITY OF KEY WEST

Post Office Box 1409
Key West, FL 33041-1409
KeyWestCity.com

March 28, 2012

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, 2011, 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 Keefe, McCullough & Co., LLP., CPA's and they have issued an unqualified opinion on the financial statements for the Fiscal Year ended September 30, 2011.

Generally accepted accounting principles (GAAP) require that management provides 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 auditors.

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 Officers' and Firefighters' 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 as a component of the General Fund.

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

Keys Energy Services 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 slowly begun to improve.

The hotel bed tax collected in Key West increased by 32 percent over that of the previous fiscal year, ending up at \$ 12,965,000, which is significantly higher than the previous year. Monroe County sales tax data reflects retail taxable sales in the amount of \$ 2,508,500,000 compared to \$ 2,316,800,000 from the previous year.

Tourists arriving at Key West International Airport for the fiscal year numbered 325,000, compared to 259,800, which is up 25 percent and the highest total in the last 10 years. The daily cruise ship passengers have a significant effect on the downtown business sector. Cruise ship passengers numbered 852,700 for 2011, as compared to 804,800 in 2010. The downward trend appears to have leveled off and recovered from the 2008 low, a trend that had continued since the peak of 1,008,000 in 2005.

Most community leaders agree that tourism is the current and future foundation of the local economy. City user fees, sales tax revenue, gas tax proceeds, parking revenues and cruise ship disembarkation fees continue to provide a significant portion of total City government revenues. If Key West remains a desirable tourist destination, the revenue base will remain strong.

Recent declines in tourist volumes and overall economic conditions have stretched the City's financial resources. In 2008 the City began to see a leveling off and decline in

tourism activity. Most tourism related revenues showed little growth or actually receded for the first time in many years. This trend, however, reversed in fiscal year 2010 and revenue rebounded significantly. The growth in 2011 was not as robust. However, as shown above, tourism statistics point to continued growth and an improving economy.

In the past, the City has always fared favorably from the effects of the national economy due to its strong tourism base. However, the past couple of years have been very lean for the businesses and City government alike.

The City began its Fiscal Year 2011 budget process in the middle of the 2010 Fiscal Year, a time when most of its major revenue sources were showing sign of improvement and were exceeding expectations. This apparent turnaround in the local economy set the stage for the 2011 budget.

Even with the apparent economic turnaround, property values continued to decline from \$ 5,763,174,000 – certified value adjustment board in 2010 – to \$ 5,002,445,000 budgeted value in 2011, a decline in property values of 13.2 percent. This would mean the millage rate would have to increase to simply generate the same ad valorem tax revenue as the prior year.

Shared state revenues are another major revenue source for the City. According to state projections and current trends, the three of the major state revenue sources would be higher than the previous year's budget. The Half-Cent Sales Tax 9 percent, Gas Tax 12 percent and Discretionary Sales Tax 9 percent are all up from the 2010 budget.

Included in the proposed budget were the following items:

- For the first time ever the City had a fully operational parking division which included a city-managed school crossing guard program that had previously been administered by the Sheriff's Office.
- Mallory Square parking lot which generates approximately \$ 500,000 in annual parking revenues was fully automated, converting from a manually staffed parking booth attendant to a parking station, thus reducing the number of staffed positions to maintain the Mallory Square parking lot.
- The community policing program, previously paid for by the Bahama Village Caroline Street Special Revenue Fund, was transferred into the General Fund. This program incurred annual costs of approximately \$ 250,000. To help transition the program, the Special Revenue Fund transferred \$ 100,000 into the General Fund.
- Two new requested positions, Police Department dispatch and a code enforcement officer. In addition, contractual increases for Police and Fire Departments were included, along with an amount to allow for a reasonable adjustment for Teamsters and other non-union members, excluding City Management.
- Also included was a Smather's Beach renourishment project for a total of \$ 903,200 with a net cost to the City of \$ 370,100 after Florida Department of Environmental Protection and Monroe County Tourist Development grants.
- An increase of 6 percent was projected in the City's health insurance premiums. This increase represented an increase of approximately \$ 200,000 to the General Fund.

After these and other adjustments were made, the City was able to present to the City Commission a budget balanced at the roll back millage rate, which, in effect, is a no tax increase rate for the tax payers.

During City Commission meetings it became apparent that the City Commission wanted to reduce the millage rate further. Staff recommended minor adjustments to revenues and expenditures and the use of approximately \$ 200,000 of reserves to allow for a 3 percent reduction below the rolled back rate. The City Commission felt that during the year additional revenue and savings would be realized and so it approved the use of an additional \$ 300,000 of reserves. The use represented approximately five days of operating reserves. This use of reserves still allowed the City to remain above the 72 days of reserves, which is the minimum amount authorized by the City Commission.

While the City of Key West is vulnerable to hurricanes every summer, it hasn't experienced a major event since Hurricane Wilma in 2005, in which damages exceeded \$ 10,000,000. The City received significant help recovering from the damage by this disaster from Department of Homeland Security (FEMA) and Florida Department of Emergency Management. However, it does not offset the economic losses that resulted. For this reason, the City Commission adopted a minimum fund balance policy which requires the City to maintain between 72 and 90 days, which the City Commission takes very seriously.

As you will see in the financial sections, the operating results for 2011 were positive. Although the General Fund change in the fund balance was only approximately \$ 457,000, it was a positive indication of a successful fiscal year; a year that was originally budgeted with a use or reduction of \$ 500,000 in reserves.

First quarter performance for Fiscal Year 2012 is tracking well within established budgetary numbers. Tourism-dependent revenues appear to be trending upward. The City was also the beneficiary of significant American Recovery and Reinvestment Act grant proceeds and has numerous infrastructure projects ongoing. The City hopes the worst is over as tourism appears to be slowly recovering.

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. 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 Community Development Office 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, Debt Service, Aids to Private Organizations, 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 year's budget is insufficient to absorb these commitments.

Relevant Financial Policies

The City of Key West budgetary and financial policies provide the basic framework for the overall fiscal management of the City. The main policies consist of the revenue, cash management and investments, debt, and fund balance policies. These policies are used in the development of current activities and planning for future programs.

Revenue Policy

The City will attempt to maintain a diversified and stable revenue system to avoid reliance on any one revenue source and will attempt to minimize the dependence on property taxes. Charges for services are used to recover partial or full cost of providing services that benefit individual users. Additionally, it is the City's policy that new ongoing operating costs are funded with permanent, ongoing revenue sources. One time operating costs are tied to one-time revenue sources to ensure fund balance integrity.

Cash Management and Investments Policy

The City follows its adopted investment policy when handling public funds. The intent of this policy is to 1) ensure the preservation of principal, 2) maintain sufficient cash flow to enable the City to meet its obligations, and 3) maximize the return on assets with an acceptably low exposure to risk. The investment policy meets the requirements of Florida Statutes, section 218.415.

Cash temporarily idle during the year was primarily invested in Federal agency issues, non-negotiable certificate of deposits, commercial paper, and the City's bank deposit account. The maturities of the investments range from one to five years, with an average maturity of 1.75 years.

Debt Policy

The City seeks to maintain the highest bond rating to minimize borrowing costs. Debt is issued when necessary to finance capital projects, but is never used for current operations. The City reviews and evaluates its existing obligations and future borrowing needs regularly.

Fund Balances

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* for its governmental activities. GASB Statement No. 54 establishes various classifications of fund balance based on a hierarchy which details constraints placed on the uses of resources by creditors, grantors, contributors, laws or regulations of other governments and those internally imposed. Fund balances classified as restricted are those with externally enforceable limitations in use. Fund balances classified committed can only be used for specific purposes determined by formal action of the City Commission through an ordinance or a resolution. Commitments can only be changed or lifted only by the City Commission through formal action. Assigned fund balances are amounts that the City intends to use for a specific purpose but are neither restricted nor committed. The intent to utilize these funds may be delegated to the City Manager, at the City Commission's discretion. Unassigned fund balance can be viewed as the net resources available at the end of the year.

Major Initiatives

One of the most significant initiatives funded in Fiscal Year 2012 involves the City recreational fields. Four of the City's ball fields are slated to receive new sodding and irrigation system at a proposed price of \$ 500,000. In the past, hurricane flooding covered the fields in salt water and, through constant use, were never allowed to fully recover.

The final American Recovery and Reinvestment Act funding will be used in 2012. This funding has allowed for substantial improvements to the City's sidewalks, stormwater and sewer infrastructure.

Certificate of Achievement Award

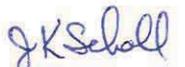
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Key West for its comprehensive annual financial report for the Fiscal Year ended September 30, 2010. This was the twenty-fifth consecutive 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 responsible, 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, 2010

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.



Linda C. Sandson

President

Jeffrey R. Emswiler

Executive Director

CITY OF KEY WEST, FLORIDA

List of Principal Officials

Elected Officials

Mayor	Craig Cates
Commissioner	Jimmy Weekley
Commissioner	Mark Rossi
Commissioner	Billy Wardlow
Commissioner	Tony Yaniz
Commissioner	Teri Johnston
Commissioner	Clayton Lopez

Appointed Officials

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

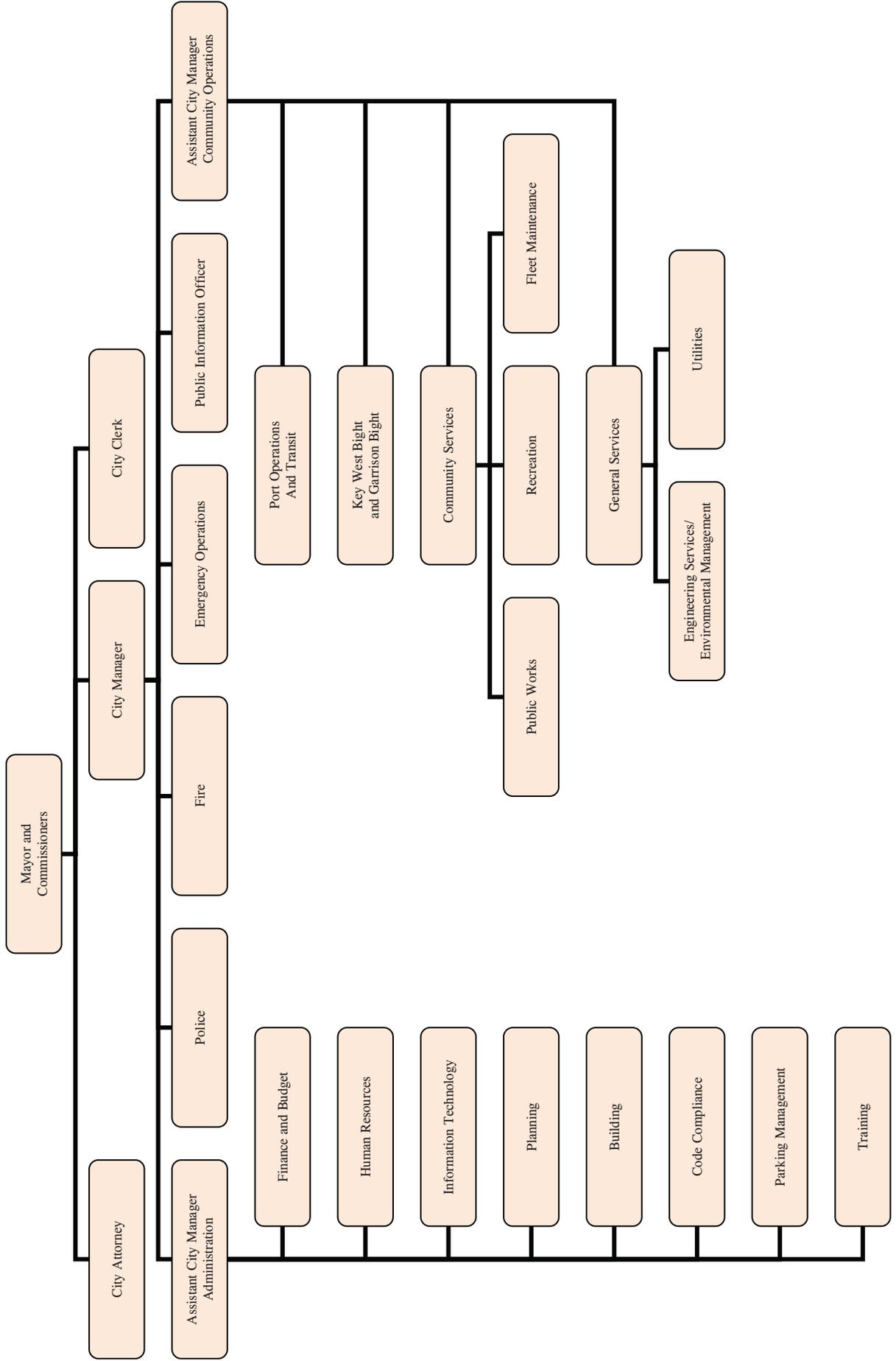
Department Directors

Assistant City Manager - Administration	Mark Finigan
Assistant City Manager – Operations	E. David Fernandez
Building	John Woodson
Police Chief	Donald J. Lee, Jr.
Community Services	Greg Veliz
General Services	Doug Bradshaw
Finance	Roger Wittenberg
Fire Chief	David Fraga
Human Resources	Sandy Gilbert
Management Information Systems	Patti McLaughlin
Planning	Don Craig
Port Operations and Transportation	Jim Fitton

CITY OF KEY WEST, FLORIDA

FISCAL YEAR 2010-2011

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.

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor, City Commissioners and City Manager
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 (the "City"), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Pension Trust Fund for Police Officers and Firefighters, which represent 59%, 57%, and 63%, respectively, of the assets, net assets, and total additions of the Fiduciary Funds. Also, we did not audit the financial statements of The Housing Authority of the City of Key West, Florida, which is the sole discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pension Trust Fund for Police Officers and Firefighters and The Housing Authority of the City of Key West, Florida, is based on the reports 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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to previously 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund and the Infrastructure Surtax Fund 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 March 28, 2012, 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the analysis of funding progress on pages 3 through 14 and 82 through 84, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Key West, Florida's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, budgetary comparison schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules and the budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of other auditors, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Keefe, McCullough & Co., LLP

KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida
March 28, 2012

CITY OF KEY WEST, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2011

On behalf of the City of Key West, Florida, management presents, to the readers of the City's financial statements, this narrative overview and analysis of financial activities for the Fiscal Year ending September 30, 2011. We are offering 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 i and the City's financial statements which begin on page 15.

Financial Highlights

- Total assets of the City exceeded its liabilities at the close of Fiscal Year 2011 by \$ 280,066,378, an increase of \$ 12,690,301 from the prior year. The majority of this increase is being generated in the City's Sanitary Sewer System (\$ 2,271,006) and Key West Bight (\$ 1,829,703) enterprise funds and its Infrastructure Surtax Fund (\$ 2,982,932) and sole Capital Projects Fund (\$ 2,135,603).
- During the year, the City had revenues of \$ 19,663,625 in governmental activities generated by program revenues and \$ 30,699,836 in general revenues for governmental activities. As a result, the total revenues were \$ 1,532,242 less than last fiscal year (Table 2). A significant portion of this decrease occurred in the Community Development Office Fund where, in the prior year, major community development block grants were received for use in the rehabilitation of various affordable housing complexes in Key West.
- The General Fund reported an increase in fund balance of \$ 456,767 in 2011, a much smaller increase than the previous year which was \$ 2,566,368. In 2010, all budgeted revenue categories recorded positive budget variances due to the improving economy. In 2011, the City took advantage of these increases and was able to provide its taxpayers some relief by reducing its ad valorem tax rate by 5 percent below the rolled back rate for 2011. Due to this tax reduction and a contraction in some revenues the increase in fund balance was much smaller in 2011.
- Business type unrestricted net assets increased by \$ 2,493,108 or 16.7 percent while total net assets increased by \$ 5,087,487 or 3.8 percent. The increase in unrestricted net assets is mainly due to the Key West Bight Fund having a successful operating year in which unrestricted net assets increased by \$ 1,822,406.

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 15 through 18) provide information about the activities of the City as a whole and present a long-term view of the City's finances. Fund financial statements start on page 19. 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 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 solely acts as a trustee.

CITY OF KEY WEST, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2011

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 15. 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 activities during Fiscal Year 2010-11?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. Net assets (the difference between assets and liabilities) is one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. However, it is also important to consider other non-financial factors, such as changes in the City's property tax base and the condition of the City's infrastructure, 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, City marina facilities, are reported here.
- **Component units:** The City includes one separate legal entity in its report: The Housing Authority of the City of Key West, Florida ("KWH"). The KWH's board has full administrative responsibilities. The City provides free sewer, stormwater, and solid waste services to the KWH and is responsible to refund withdrawals from certain debt service accounts of the KWH, as more fully described in Note 12 of this report. KWH is considered a component unit of the City and is presented discretely in these financial statements.

Reporting the City's Most Significant Funds

The fund financial statements for each City fund begin on page 19 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 types of funds (governmental and proprietary) use different accounting approaches.

CITY OF KEY WEST, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2011

- **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 on the pages immediately following the governmental fund 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 activity, 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 trust arrangements, 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 37 and 38. 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 \$ 267,376,077 to \$ 280,066,378. This increase of 4.7 percent was less than that of the previous year of 8.2 percent. Most of the decline from the previous year's growth is attributed to less capital grant proceeds received in the Stormwater Fund: \$ 5,647,120 received in 2010 versus \$ 1,206,215 for the current year, as a result of the winding down of the American Recovery and Reinvestment Act (ARRA) grant funding.

Total net assets are comprised of \$ 205,429,914 invested in capital assets, net of related debt, \$ 40,570,064 restricted for capital projects, transportation, recreation and other purposes, and \$ 34,066,400 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.

CITY OF KEY WEST, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2011

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	FY 11	FY 10	FY 11	FY 10	FY 11	FY 10
Current and other assets	\$ 68,249,762	\$ 61,569,399	\$ 31,941,035	\$ 30,226,646	\$ 100,190,797	\$ 91,796,045
Capital assets	87,053,642	86,384,800	152,750,525	151,913,987	239,804,167	238,298,787
Total assets	155,303,404	147,954,199	184,691,560	182,140,633	339,994,964	330,094,832
Long-term debt outstanding	1,025,581	117,239	31,923,286	34,295,837	32,948,867	34,413,076
Other liabilities	13,897,514	14,004,065	13,082,205	13,246,214	26,979,719	27,250,279
Total liabilities	14,923,095	14,121,304	45,005,491	47,542,051	59,928,586	61,663,355
Net assets:						
Invested in capital assets, net of debt	87,053,642	86,384,800	118,376,272	115,888,880	205,429,914	202,273,680
Restricted	36,703,702	31,822,343	3,866,362	3,759,375	40,570,064	35,581,718
Unrestricted	16,622,965	14,570,352	17,443,435	14,950,327	34,066,400	29,520,679
Total net assets	\$ 140,380,309	\$ 132,777,495	\$ 139,686,069	\$ 134,598,582	\$ 280,066,378	\$ 267,376,077

Governmental Activities – Net Assets

The \$ 140,380,309 in net assets of the City's governmental activities are comprised of \$ 87,053,642 invested in capital assets, net of related debt, \$ 36,703,702 in restricted assets and \$ 16,622,965 in unrestricted net assets, which is the part of net assets that can be used to finance day-to-day operations of the General Fund and other governmental activities.

The invested in capital assets increased slightly from the previous year by \$ 668,842. This is the result of new additions of \$ 4,717,530 netted against current year depreciation of \$ 3,967,275.

Restricted net assets of \$ 36,703,702 are restricted to comply with the requirements of the special revenue funds or other legal requirements. The increase in restricted net assets was \$ 4,881,359. The majority of this increase is due to an increase in the Infrastructure Surtax Fund's net assets as a result of the accumulation of resources for long term capital projects as well as the closing of the Truman Waterfront Fund (Local Redevelopment Agency Fund) and returning the unspent capital back to the Infrastructure Surtax Fund. The increase in the Capital Projects Fund is the result of a transfer of \$ 2,803,600 that took place from the Infrastructure Surtax Fund to help accumulate reserves for the construction of new City administration offices.

Unrestricted net assets increased by \$ 2,052,613. This was a result of favorable General Fund and Insurance Fund operating results.

Business-Type Activities – Net Assets

The \$ 139,686,069 in net assets of the City's business type activities are comprised of \$ 118,376,272 invested in capital assets, net of related debt, \$ 3,866,362 in restricted assets and \$ 17,443,435 in unrestricted net assets. This is an increase of 3.7 percent in net assets.

CITY OF KEY WEST, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2011

The invested in capital assets increased from the previous year by \$ 2,487,392. This is the result of new additions of \$ 8,132,142 netted against current year depreciation of \$ 6,945,801. Restricted net assets of \$ 3,866,362 are restricted to comply with the requirements of the sewer bond issues and the requirement of Florida Department of Environmental Protection as it relates to the closure of the landfill. Unrestricted net assets increased \$ 2,493,108. This was a result of favorable Sewer and Key West Bight Fund operating results.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	FY 11	FY 10	FY 11	FY 10	FY 11	FY 10
Revenues:						
Program Revenues:						
Charges for services	\$ 12,562,686	\$ 12,316,412	\$ 33,388,454	\$ 31,947,101	\$ 45,951,140	\$ 44,263,513
Operating grants and contributions	3,828,559	5,414,468	1,486,649	2,026,294	5,315,208	7,440,762
Capital grants and contributions	3,272,380	2,911,520	2,632,737	9,209,773	5,905,117	12,121,293
General Revenues:						
Taxes: property and other	28,876,860	29,038,517	-	-	28,876,860	29,038,517
Intergovernmental	649,792	662,732	-	-	649,792	662,732
Investment earnings	530,078	750,459	313,517	259,128	843,595	1,009,587
Other revenues	643,106	801,595	718,613	1,136,636	1,361,719	1,938,231
Total revenues	50,363,461	51,895,703	38,539,970	44,578,932	88,903,431	96,474,635
Program Expenses:						
General government	14,830,564	13,392,495	-	-	14,830,564	13,392,495
Public safety	21,737,551	20,552,580	-	-	21,737,551	20,552,580
Physical environment	-	304,338	-	-	-	304,338
Transportation	3,363,600	3,586,215	-	-	3,363,600	3,586,215
Economic environment	2,955,957	5,249,387	-	-	2,955,957	5,249,387
Culture and recreation	2,320,962	2,152,130	-	-	2,320,962	2,152,130
Human services	394,499	393,403	-	-	394,499	393,403
Sanitary Sewer System	-	-	11,151,202	11,573,804	11,151,202	11,573,804
Solid waste	-	-	7,444,222	7,337,157	7,444,222	7,337,157
Stormwater	-	-	2,665,738	2,238,541	2,665,738	2,238,541
Marinas (Key West and Garrison Bight)	-	-	6,543,394	6,422,516	6,543,394	6,422,516
Transit	-	-	2,805,441	3,075,622	2,805,441	3,075,622
Total expenses	45,603,133	45,630,548	30,609,997	30,647,640	76,213,130	76,278,188
Excess before transfers	4,760,328	6,265,155	7,929,973	13,931,292	12,690,301	20,196,447
Transfers (net)	2,842,486	2,530,009	(2,842,486)	(2,530,009)	-	-
Change in net assets	\$ 7,602,814	\$ 8,795,164	\$ 5,087,487	\$ 11,401,283	\$ 12,690,301	\$ 20,196,447

The City's total revenues reported are \$ 88,903,431, which in part represents \$ 45,951,140 in charges for services and \$ 28,876,860 in property and other taxes. Total operating expenses of \$ 76,213,130 are reported. As shown above, while expenses have remained constant, revenues have decreased for the year. The decrease in revenues can be attributed to both operating and capital grants.

CITY OF KEY WEST, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2011

Governmental Activities – Changes in Net Assets

Total revenues for the City's governmental activities of \$ 50,363,461 include \$ 12,562,686 in fees, fines and charges for services, as well as, \$ 28,876,860 in property, state shared and local taxes.

For the year, the City's governmental revenues decreased \$ 1,531,242 or a 3.0 percent decrease. The decrease of \$ 1,585,909 in operating grants and contributions, as shown in Table 2, accounted for most of this decrease. The decrease in operating grants was the result of a Community Development Block Grant, accounted for in the Community Development Office Special Revenue Fund winding down.

Other items of note are charges for services increased for the year by \$ 246,274. This small increase is partially attributable to the less than favorable results of building permits, which decreased by approximately \$ 229,000 from prior years' collections. Taxes were down slightly by \$ 161,657, partially as a result of the millage rate set for 2011 which was 5 percent below the rolled back rate.

The cost of all governmental activities this year was \$ 45,603,133. However, as shown in the Statement of Activities on page 17, the amount that our taxpayers ultimately financed for these activities, through City ad valorem taxes, was \$ 14,816,373. This is because \$ 12,562,686 of the cost was paid for by those who directly benefited from the programs as well as other governments and organizations that subsidized certain programs with grants and contributions, providing \$ 7,100,939. The City paid for the remaining "public benefit" portion of governmental activities with 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 five largest programs: general government, public safety, culture and recreation, transportation, and economic environment 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

	Total Cost of Services		Net (Cost) Profit of Services	
	FY 11	FY 10	FY 11	FY 10
General government	\$ 14,830,564	\$ 13,392,495	\$ (12,183,843)	\$ (10,808,895)
Public safety	21,737,551	20,552,580	(19,025,349)	(17,521,006)
Culture and recreation	2,320,962	2,152,130	(929,254)	(1,525,051)
Transportation	3,363,600	3,586,215	6,845,777	6,199,464
Economic environment	2,955,957	5,249,387	(324,385)	(772,728)
All others	394,499	697,741	(322,454)	(559,932)
Totals	<u>\$ 45,603,133</u>	<u>\$ 45,630,548</u>	<u>\$ (25,939,508)</u>	<u>\$ (24,988,148)</u>

CITY OF KEY WEST, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2011

Business-Type Activities – Changes in Net Assets

Revenues of the City's business-type activities (see Table 2) decreased by 13.5 percent (\$ 44,578,932 in 2010 compared to \$ 38,539,970 in 2011). The majority of this decrease is the result of a decrease of \$ 6,577,036 in capital grants. The majority of this decrease in capital grants can be attributed to the Stormwater Fund where grant revenue dropped by \$ 4,440,905 due to the completion of the ARRA funded gravity well projects. The slight increase in charges for service occurred as a result of charges for service being up in all funds. The Sewer Fund posted the largest increase in charges for service of \$ 890,360 as a result of increased billings to the Navy for ongoing construction projects. All other utility fund revenues remained flat or increased slightly.

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, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of September 30, 2011, the City's governmental funds reported combined fund balances of \$ 48,419,946, which is an increase of \$ 5,338,126 in comparison with the prior fiscal year. This substantial increase is due to the increase in General Fund, Infrastructure Surtax Fund and Capital Projects Fund balances as described previously.

The General Fund is the chief operating fund of the City. As of September 30, 2011, the unassigned fund balance account in the General Fund was \$ 9,260,440, an increase of \$ 459,215 from the previous year. The current year's increase in unassigned fund balance is significantly lower than the prior year's increase of \$ 2,623,964. Whole revenues decreased slightly, \$ 739,428 or 2.1 percent from previous years; expenses increased \$ 2,030,990, or 5.5 percent. The major drivers of expenditures were salary, health insurance increases and an increase in the City's required contribution to the Police Officers' and Firefighters' Pension Fund. However, such an increase was anticipated when the 2011 budget was developed. This unassigned fund balance amount represents 24.1 percent of the 2012 General Fund budgeted expenditures, excluding capital outlay. This put the unassigned fund balance at the high end of the City's fund balance policy of between 20 percent and 25 percent of budgeted expenditures.

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>Unrestricted Net Assets (Deficit)</u>	
	<u>FY 11</u>	<u>FY 10</u>
Sanitary Sewer System	\$ 2,017,217	\$ 3,122,567
Solid Waste	7,223,766	6,773,355
Stormwater	(2,378,390)	(2,961,058)
Key West Bight	8,783,118	6,960,712
Garrison Bight	1,563,480	1,126,736
Transit System	234,244	(71,985)
	<u>\$ 17,443,435</u>	<u>\$ 14,950,327</u>

CITY OF KEY WEST, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2011

For the year ending September 30, 2011, the Sanitary Sewer System Fund unrestricted net assets decreased by \$ 1,105,350. The increase in total net assets of \$ 2,271,006 of the Sanitary Sewer System Fund was mainly a result of capital grants received from the Army Corps of Engineers for various sewer improvement projects, which directly benefitted invested in capital assets by approximately \$ 3,098,000.

While Solid Waste Fund unrestricted net assets increased by \$ 450,411, total net assets remained relatively the same, only increasing by \$ 159,862.

The Stormwater Fund unrestricted net assets (deficit) decreased by \$ 582,668; while invested in capital assets, net of related debt, increased by \$ 6,280 mainly due to capital construction grants received from other agencies as well as construction funded from loans/advances from other funds.

The Key West Bight Fund had an increase in total net assets of \$ 1,829,703. Operating results at the Bight have improved along with improving economic conditions.

Fiscal Year 2010-11 General Fund Budgetary Highlights

During the Fiscal Year 2011, the City made various budget amendments which were approved by the City Commission to maintain budget compliance within its major categories. As required by City code, all contracts and purchases in excess of \$ 20,000 were approved by the City Commission.

Unlike the previous year, when General Fund revenues exceeded budget in all of its eight major categories, this year revenues fell short from budget in three categories: Taxes, Licenses and permits, and Fines and Forfeitures were all short of budgeted expectations. In addition, six of the major categories posted revenues that were less than the year before.

General Fund revenues in total exceeded the budgeted amount by \$ 360,613. Taxes were \$ 29,616 less than budget and \$ 850,670 less than last year. The decrease in taxes in large part was caused by the City adopting a tax rate 5 percent below the rolled back rate. This 5 percent decrease accounted for approximately \$ 500,000. Licenses and permits were \$ 109,314 under budget and \$ 157,306 less than the previous year. The majority of the decrease can be found in building permit applications, which were down approximately \$ 229,000 from the prior year. Fines and Forfeitures were under budget by \$ 239,131 and \$ 260,327 less than the prior year. The majority of this decline is attributable to a decrease in parking fines, approximately \$ 182,000. The City has installed 40 parking pay stations over the last few years and removed the old coin operated meters. The new pay stations take both coins and debit/credit cards where the old meters only took coins. Now, because it is much easier for the consumer to pay for parking, fine revenue has been declining while the parking revenue has significantly increased. Parking revenues increased approximately \$ 705,000 over the last three years to gross approximately \$ 1,855,000 in 2011 - the highest total ever recorded.

Total General Fund expenditures were lower than the budget by \$ 767,281. Personal Services were \$ 597,235 over budget due to the factors discussed herein. To properly record the receipt of funds of Florida Statutes Chapter 175 and 185 into the Police Officers' and Firefighters' Pension Fund, an entry was recorded to recognize the revenue of \$ 530,175, and the related expense, in personal service costs. As this funding is a direct pass through to the Pension Fund, the revenue and related expenditure was not budgeted. Upon receipt of the actuarial report for the Police and Firefighters' Pension Plan, it was determined that an additional amount of funding - \$ 633,314 - was required, approximately \$ 254,000 more than it required last year at year's end. The majority of this "favorable" variance was recognized in the various operating cost line items throughout the General Fund.

CITY OF KEY WEST, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2011

Capital Assets

At the end of Fiscal Year 2011, the City had \$ 239,804,167 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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	FY 11	FY 10	FY	FY 10	FY 11	FY 10
Land	\$ 53,186,804	\$ 53,186,804	\$ 18,681,034	\$ 18,681,034	\$ 71,867,838	\$ 71,867,838
Buildings and improvements	13,950,991	14,075,499	48,573,753	48,573,753	62,524,744	62,649,252
Machinery, equipment and furniture	18,698,483	18,572,903	17,574,727	17,190,561	36,273,210	35,763,464
Infrastructure	38,036,785	36,503,385	148,834,988	138,641,667	186,871,773	175,145,052
Construction in progress	4,772,013	2,607,176	7,565,809	10,436,508	12,337,822	13,043,684
Depreciation	(41,591,434)	(38,560,967)	(88,479,786)	(81,609,536)	(130,071,220)	(120,170,503)
Totals	<u>\$ 87,053,642</u>	<u>\$ 86,384,800</u>	<u>\$ 152,750,525</u>	<u>\$ 151,913,987</u>	<u>\$ 239,804,167</u>	<u>\$ 238,298,787</u>

This year's major additions included:

In the Governmental funds, major additions included approximately \$ 2,008,000 in sidewalk renovations and installation as a result of ARRA funding. The City also invested over \$ 800,000 in converting recreational field lighting into energy efficient lighting through the use of ARRA funding.

In the Business-Type Activities:

- The Sanitary Sewer System Fund invested approximately \$ 2,175,000 into the North Roosevelt force main project that will be managed by the Florida Department of Transportation during the complete renovation of North Roosevelt Boulevard. An additional \$ 2,500,000 was invested into the reconstruction of the headworks at the sewer treatment facility.
- The Stormwater Fund incurred approximately \$ 900,000 in various projects, aimed at reducing flooding and standing water.
- The Key West Bight Fund funded approximately \$ 289,000 towards the completion of the Key West Bight master plan.

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

CITY OF KEY WEST, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2011

Debt Administration

At year-end, the City had \$ 32,948,867 in bonds and notes outstanding, including unamortized losses on early retirement and premiums/discounts, as shown in Table 5:

Table 5
Outstanding Long Term Debt at Year-End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	FY 11	FY 10	FY 11	FY 10	FY 11	FY 10
Promissory note	\$ 1,025,581	\$ 1,172,639	\$ 2,971,112	\$ 3,233,862	\$ 3,996,693	\$ 4,406,501
Revenue bonds and notes	-	-	28,952,174	31,061,975	28,952,174	31,061,975
Totals	<u>\$ 1,025,581</u>	<u>\$ 1,172,639</u>	<u>\$ 31,923,286</u>	<u>\$ 34,295,837</u>	<u>\$ 32,948,867</u>	<u>\$ 35,468,476</u>

On February 13, 2012, the City closed on \$ 4,065,000 in Sewer System Revenue Bonds, Series 2012. The proceeds from these bonds were used, coupled with existing reserves, to pay back approximately \$ 6,300,000 to the Federal Emergency Management Agency ("FEMA") for cost that were subsequently disallowed relating to Hurricane Irene.

The bonds are secured by a pledge of the net revenue of the Sanitary Sewer System Fund operating activities. The bonds mature October 1, 2021 and are payable semi-annually on April 1, and October 1. The bonds bear interest at a rate of 2.07 percent.

Other obligations include accrued vacation pay, sick leave and outstanding/estimated insurance claims. More detailed information about the City's long-term liabilities is presented in Note 12 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Budget Preparation

The following factors affected the development of the Fiscal Year 2011-12 budget. The downturn in the economy and in the housing market had a significant effect on the revenues of the City's General Fund.

Property values have continued to decline over the past four (4) years by as much as 28 percent. The current year 2012 decline was 4 percent, which has been the smallest in four years and which one hopes would signal a stabilization of property tax assessments.

It appears that the economy has slowly begun to turn around, and revenues are beginning to show a recovery. With slowly recovering revenues, the City was able to reduce its ad valorem tax rate to 1 percent below the rolled back rate. Shared state revenues appear to be stabilizing; however, no significant growth could be forecasted.

Building permit fees, while better than their 2009 low of \$ 958,000, continue to struggle. A rebound in 2010 to \$ 1,389,000 was met with a decline to \$ 1,159,000 in 2011. Because of this decline, the building permit fee budget remains constant for 2012 with no growth projected.

CITY OF KEY WEST, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2011

Charges for services also showed increasing growth in the 2012 budget year with the majority of the \$ 327,000 budgeted 2012 increase coming from parking. Over the past two years the City has continued to add parking pay station (30) to replace its aging meter head change machines. Each pay station replaces 10 to 20 meter heads, depending upon the city block. Pay stations accept both change and credit cards and this combination appears to be working extremely well, as consumers that may or may not have sufficient change to pay the old meters are now using their credit cards to pay for parking and avoid the possibility of receiving a parking ticket. As a result, parking fines have decreased from approximately \$ 750,000 to \$ 560,000.

With an improving revenue outlook entering the 2012 fiscal year, balancing the expenditures became a little easier. Included in the expenditures, the City placed \$ 400,000 in a salary reserve account to assist in the renegotiation of expiring union contracts, and additional \$ 159,500 for new positions and reclassifications.

Cost saving measures included a newly awarded ambulance services contract for the City. In the newly negotiated contract, the City was able to avoid the necessity of an annual subsidy that was costing upwards of \$ 700,000 per year, instead enjoying a contract that requires no subsidy. With the cost of the City's self-insured claims decreasing, and a sufficient build of reserves in the self-insurance fund, the City was able to decrease its contribution to its insurance fund by 10 percent. This represented a saving to the General Fund of \$ 254,000.

A significant new cost in the budget is the rent that is required for the City administrative office space. With the pending construction of new City administration building, expiring rent and deteriorating office environment, the City was forced to rent administrative office space for its staff. The cost of the rent is approximately \$ 500,000 annually.

After these and other adjustments were made, the City was able to balance the budget at 1 percent below "roll back" in ad valorem tax. The General Fund budget for the Fiscal Year 2012 budget was 1.4 percent below the original adopted for 2011.

Economic Outlook

The economy of Key West has slowly begun to pick up a little more in Fiscal Year 2011. Building permits and parking revenues are both good indicators of economic trends. Building permits rebounded dramatically in 2010 - 45 percent from 2009, recording revenues of approximately \$ 1,389,000, only to give up some of those gains - approximately \$ 230,000 - in 2011. Parking meters revenues also increased substantially to approximately \$ 1,855,000 from approximately \$ 1,696,000.

As previously discussed in the transmittal letter, tourism statistics point to a recovering tourism economy. The hotel bed tax collected in Key West increased by 32 percent over that of the previous fiscal year, ending up at \$ 12,965,000, which is significantly higher than the previous year. Tourists arriving at Key West International Airport for the fiscal year numbered 325,000, compared to 259,800 - an increase of 25 percent and the highest total in the last 10 years. The daily cruise ship passengers have a significant effect on the downtown business sector. Cruise ship passengers numbered 852,700 for 2011, as compared to 804,800 in 2010. The downward trend appears to have leveled off and recovered from the 2008 low, a trend that had continued since the peak of 1,008,000 in 2005.

CITY OF KEY WEST, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2011

The return of tourism will not only help the local economy, but benefits the City directly. Many visitors drive down the scenic Overseas Highway from the mainland. Parking meters, parking fines, and parking lots account for almost 10 percent of the general fund revenue sources. With the increase, sales tax collections, gas tax collection and other state shared revenues will slowly begin to recover. In addition, the City leases many properties which rely on tourism. Many of these leases include rents based on sales volume that directly benefits the City as the sales of food, beverages and merchandise increase. Monroe County sales tax data reflects retail taxable sales in the amount of \$ 2,508,500,000 compared to \$ 2,316,800,000 from the previous year.

With what appears to be a return of Key West's economy, the City's revenue base should stabilize once again. With this stabilization the City feels it is well positioned to endure and eventually recover from this economic downturn that has affected the country and Key West.

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, P.O. Box 1409, Key West, FL 33041.

BASIC FINANCIAL STATEMENTS

CITY OF KEY WEST, FLORIDA
STATEMENT OF NET ASSETS
September 30, 2011

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
ASSETS:				
Current assets:				
Cash, cash equivalents, and investments	\$ 55,744,210	\$ 23,318,469	\$ 79,062,679	\$ 4,420,928
Cash equivalents and investments (restricted)	-	4,424,936	4,424,936	3,440,547
Accounts receivable (net of allowances)	778,470	3,042,258	3,820,728	49,080
Interest receivable	-	-	-	1,238
Intergovernmental receivables	4,118,852	2,597,764	6,716,616	869,330
Inventories	10,639	599,025	609,664	54,241
Prepaid items and other assets	98,326	27,946	126,272	392,316
Mortgage notes receivable	16,812	-	16,812	23,774
Internal balances	2,391,278	(2,391,278)	-	-
Total current assets	<u>63,158,587</u>	<u>31,619,120</u>	<u>94,777,707</u>	<u>9,251,454</u>
Noncurrent assets:				
Net pension assets	3,700,063	-	3,700,063	-
Capital assets:				
Land	53,186,804	18,681,034	71,867,838	10,067,569
Buildings and improvements	13,950,991	48,573,753	62,524,744	58,580,885
Infrastructure	38,036,785	148,834,988	186,871,773	1,167,753
Machinery, equipment and furniture	18,698,483	17,574,727	36,273,210	1,077,933
Accumulated depreciation	(41,591,434)	(88,479,786)	(130,071,220)	(22,142,492)
Construction in progress	4,772,013	7,565,809	12,337,822	3,016,599
Other, including loans and mortgage notes receivable	1,391,112	321,915	1,713,027	3,107,814
Total noncurrent assets	<u>92,144,817</u>	<u>153,072,440</u>	<u>245,217,257</u>	<u>54,876,061</u>
Total assets	<u>\$ 155,303,404</u>	<u>\$ 184,691,560</u>	<u>\$ 339,994,964</u>	<u>\$ 64,127,515</u>

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

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
LIABILITIES:				
Current liabilities:				
Accounts payable and accrued expenses	\$ 1,463,511	\$ 1,833,693	\$ 3,297,204	\$ 604,232
Accrued wages and benefits	995,950	150,629	1,146,579	-
Unearned revenue	1,230,300	587,893	1,818,193	-
Intergovernmental	206,455	6,268,629	6,475,084	136,213
Deposits	88,255	-	88,255	-
Insurance claims payable	1,589,038	-	1,589,038	-
Retainage payable	306,643	179,159	485,802	-
Due to fiduciary fund	633,314	-	633,314	-
Compensated absences	1,807,798	151,859	1,959,657	30,664
Accrued interest	-	606,686	606,686	293,819
Bonds and notes payable	147,058	2,450,967	2,598,025	936,602
Unearned income	-	-	-	-
Other	-	40,000	40,000	348,997
Total current liabilities	8,468,322	12,269,515	20,737,837	2,350,527
Noncurrent liabilities:				
Notes payable	1,025,581	2,971,112	3,996,693	7,138,379
Revenue bonds payable	-	28,952,174	28,952,174	25,375,475
Insurance claims payable	1,778,346	-	1,778,346	-
Landfill closure costs payable	-	143,333	143,333	-
Compensated absences	1,278,896	162,658	1,441,554	275,980
OPEB liability	1,255,132	131,228	1,386,360	-
Other	1,116,818	375,471	1,492,289	2,339,171
Total noncurrent liabilities	6,454,773	32,735,976	39,190,749	35,129,005
Total liabilities	14,923,095	45,005,491	59,928,586	37,479,532
NET ASSETS:				
Invested in capital assets, net of related debt	87,053,642	118,376,272	205,429,914	17,663,343
Restricted for:				
Infrastructure and capital projects	32,948,883	1,500,000	34,448,883	-
Debt service	-	2,262,795	2,262,795	-
Landfill closure	-	103,567	103,567	-
Transportation	502,493	-	502,493	-
Natural resources	1,225,760	-	1,225,760	-
Housing initiatives and urban redevelopment	1,785,338	-	1,785,338	2,758,691
Law enforcement	241,228	-	241,228	-
Unrestricted	16,622,965	17,443,435	34,066,400	6,225,949
Total net assets	\$ 140,380,309	\$ 139,686,069	\$ 280,066,378	\$ 26,647,983

CITY OF KEY WEST, FLORIDA
STATEMENT OF ACTIVITIES
For the Year ended September 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Fee, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government	\$ 14,796,853	\$ 2,646,721	\$ -	\$ -
Public safety	21,737,551	2,131,103	248,421	332,678
Transportation	3,363,600	7,557,230	421,683	2,230,464
Economic environment	2,955,957	25,905	2,605,667	-
Culture and recreation	2,320,962	201,727	480,743	709,238
Human services	394,499	-	72,045	-
Interest	33,711	-	-	-
Total governmental activities	45,603,133	12,562,686	3,828,559	3,272,380
Business-Type Activities:				
Sanitary Sewer System	11,151,202	12,717,143	83,745	1,248,997
Solid Waste	7,444,222	9,121,940	7,611	-
Key West Bight	5,192,381	6,825,178	-	-
Stormwater	2,665,738	2,341,967	-	1,206,215
Garrison Bight	1,351,013	1,400,197	-	83,182
Transit System	2,805,441	982,029	1,395,293	94,343
Total business-type activities	30,609,997	33,388,454	1,486,649	2,632,737
Total primary government	\$ 76,213,130	\$ 45,951,140	\$ 5,315,208	\$ 5,905,117
COMPONENT UNIT:				
The Key West Housing Authority of of the City of Key West, Florida	\$ 12,737,681	\$ 6,740,718	\$ 6,316,054	\$ 1,075,666
General revenues:				
Taxes:				
Property taxes, levied for general purposes				
Communications taxes				
Local business tax				
Municipal revenue sharing gas and cigarette tax				
One cent sales tax				
Half cent sales tax				
Local option gas tax				
Intergovernmental income (unrestricted)				
Payment in lieu of tax				
Investment earnings				
Other				
Transfers in (out)				
Total general revenues and transfers				
Change in net assets				
NET ASSETS, October 1				
NET ASSETS, September 30				

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business- type Activities	Total	Component Units
\$ (12,150,132)	\$ -	\$ (12,150,132)	\$ -
(19,025,349)	-	(19,025,349)	-
6,845,777	-	6,845,777	-
(324,385)	-	(324,385)	-
(929,254)	-	(929,254)	-
(322,454)	-	(322,454)	-
(33,711)	-	(33,711)	-
<u>(25,939,508)</u>	<u>-</u>	<u>(25,939,508)</u>	<u>-</u>
-	2,898,683	2,898,683	-
-	1,685,329	1,685,329	-
-	1,632,797	1,632,797	-
-	882,444	882,444	-
-	132,366	132,366	-
-	(333,776)	(333,776)	-
<u>-</u>	<u>6,897,843</u>	<u>6,897,843</u>	<u>-</u>
<u>(25,939,508)</u>	<u>6,897,843</u>	<u>(19,041,665)</u>	<u>-</u>
			<u>1,394,757</u>
14,816,373	-	14,816,373	-
1,613,435	-	1,613,435	-
1,394,427	-	1,394,427	-
1,035,631	-	1,035,631	-
5,629,084	-	5,629,084	-
3,033,333	-	3,033,333	-
1,354,577	-	1,354,577	-
649,792	-	649,792	-
524,397	-	524,397	-
530,078	313,517	843,595	18,286
118,709	718,613	837,322	754,604
2,842,486	(2,842,486)	-	-
<u>33,542,322</u>	<u>(1,810,356)</u>	<u>31,731,966</u>	<u>772,890</u>
7,602,814	5,087,487	12,690,301	2,167,647
<u>132,777,495</u>	<u>134,598,582</u>	<u>267,376,077</u>	<u>24,480,336</u>
<u>\$ 140,380,309</u>	<u>\$ 139,686,069</u>	<u>\$ 280,066,378</u>	<u>\$ 26,647,983</u>

CITY OF KEY WEST, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2011

	<u>General Fund</u>	<u>Infrastructure Surtax Fund</u>	<u>Community Development Office Fund</u>
ASSETS:			
Cash, cash equivalents, and investments	\$ 11,756,113	\$ 7,922,818	\$ 569,046
Receivables (net of allowance for uncollectibles):			
Accounts	243,007	-	-
Intergovernmental	580,069	490,212	347,511
Mortgage notes	-	-	1,407,924
Interfund receivables	111,871	135	-
Inventories	10,639	-	-
Advances to other funds	2,149,760	-	-
Prepays	30,221	-	645
Total assets	<u>\$ 14,881,680</u>	<u>\$ 8,413,165</u>	<u>\$ 2,325,126</u>
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts payable	\$ 455,646	\$ 1,338	\$ 202,843
Accrued payroll	976,021	1,147	-
Retainage payable	-	-	134,048
Due to fiduciary fund	633,314	-	-
Intergovernmental	86,647	-	119,808
Deposits	88,255	-	-
Deferred revenue	925,553	119,332	1,211,440
Total liabilities	<u>3,165,436</u>	<u>121,817</u>	<u>1,668,139</u>
FUND BALANCES:			
Nonspendable:			
Inventories	10,639	-	-
Long-term advances/notes	2,149,760	-	179,672
Prepays	30,221	-	645
Restricted for:			
Infrastructure and capital projects	-	8,291,348	-
Housing initiatives and urban redevelopment	-	-	476,670
Law enforcement	-	-	-
Transportation	-	-	-
Natural resources	-	-	-
Committed to:			
Culture and recreation	110,276	-	-
Assigned to:			
Subsequent year's budget	154,908	-	-
Unassigned:			
General Fund	9,260,440	-	-
Total fund balances	<u>11,716,244</u>	<u>8,291,348</u>	<u>656,987</u>
Total liabilities and fund balances	<u>\$ 14,881,680</u>	<u>\$ 8,413,165</u>	<u>\$ 2,325,126</u>

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

<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 16,753,975	\$ 10,782,599	\$ 47,784,551
-	-	243,007
-	585,079	2,002,871
-	-	1,407,924
-	263,078	375,084
-	-	10,639
-	-	2,149,760
-	-	30,866
<u>\$ 16,753,975</u>	<u>\$ 11,630,756</u>	<u>\$ 54,004,702</u>
\$ 49,251	\$ 309,804	\$ 1,018,882
-	8,002	985,170
71,541	101,054	306,643
-	-	633,314
-	-	206,455
-	-	88,255
-	89,712	2,346,037
<u>120,792</u>	<u>508,572</u>	<u>5,584,756</u>
-	-	10,639
-	-	2,329,432
-	-	30,866
16,633,183	8,024,352	32,948,883
-	1,128,351	1,605,021
-	241,228	241,228
-	502,493	502,493
-	1,225,760	1,225,760
-	-	110,276
-	-	154,908
-	-	9,260,440
<u>16,633,183</u>	<u>11,122,184</u>	<u>48,419,946</u>
<u>\$ 16,753,975</u>	<u>\$ 11,630,756</u>	<u>\$ 54,004,702</u>

CITY OF KEY WEST, FLORIDA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS -
GOVERNMENTAL FUNDS
September 30, 2011

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	48,419,946
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.		87,053,642
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.		4,585,163
The net pension asset is not available to pay for current period expenditures and, therefore, is deferred in the funds.		3,700,063
<p>Receivables in governmental funds are susceptible to full accrual on the government-wide statements:</p>		
Intergovernmental		2,115,981
<p>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:</p>		
Other post employment benefits (OPEB)	\$ (1,255,132)	
Note payable	(1,172,639)	
Compensated absences*	<u>(3,066,715)</u>	<u>(5,494,486)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>140,380,309</u></u>

* Not created in connection with terminated employees.

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

CITY OF KEY WEST, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended September 30, 2011

	General Fund	Infrastructure Surtax Fund
REVENUES:		
Taxes	\$ 16,196,884	\$ 5,629,084
Licenses and permits	2,455,786	-
Intergovernmental	6,670,741	244,775
Charges for services	6,919,115	-
Fines and forfeitures	777,369	-
Investment earnings	199,305	61,967
Rental income	1,815,684	-
Contributions and other	55,229	-
	35,090,113	5,935,826
Total revenues		
EXPENDITURES:		
Current:		
General government	15,035,634	65,830
Public safety	19,918,755	-
Transportation	1,196,146	-
Economic environment	70,778	-
Culture and recreation	1,953,546	-
Human services	394,260	-
Capital outlay	214,650	1,399,564
Debt service:		
Principal	-	-
Interest	-	-
	38,783,769	1,465,394
Total expenditures		
Excess (deficiency) of revenues over expenditures	(3,693,656)	4,470,432
OTHER FINANCING SOURCES (USES):		
Transfers in	4,812,123	1,875,000
Transfers out	(661,700)	(3,362,500)
	4,150,423	(1,487,500)
Total other financing sources (uses)		
Net change in fund balances	456,767	2,982,932
Fund balances, October 1	11,259,477	5,308,416
Fund balances, September 30	\$ 11,716,244	\$ 8,291,348

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

Community Development Office Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 2,114,186	\$ 23,940,154
-	-	-	2,455,786
2,584,276	13,446	3,216,878	12,730,116
-	-	1,034,897	7,954,012
-	-	100,951	878,320
3,548	161,015	104,243	530,078
25,905	-	-	1,841,589
45,514	-	254,473	355,216
<u>2,659,243</u>	<u>174,461</u>	<u>6,825,628</u>	<u>50,685,271</u>
-	36,506	-	15,137,970
-	-	63,926	19,982,681
-	-	1,670,771	2,866,917
2,716,329	-	168,850	2,955,957
-	-	-	1,953,546
-	-	-	394,260
-	805,952	2,297,364	4,717,530
-	-	147,059	147,059
-	-	33,711	33,711
<u>2,716,329</u>	<u>842,458</u>	<u>4,381,681</u>	<u>48,189,631</u>
<u>(57,086)</u>	<u>(667,997)</u>	<u>2,443,947</u>	<u>2,495,640</u>
-	2,803,600	661,700	10,152,423
-	-	(3,285,737)	(7,309,937)
-	2,803,600	(2,624,037)	2,842,486
(57,086)	2,135,603	(180,090)	5,338,126
714,073	14,497,580	11,302,274	43,081,820
<u>\$ 656,987</u>	<u>\$ 16,633,183</u>	<u>\$ 11,122,184</u>	<u>\$ 48,419,946</u>

CITY OF KEY WEST, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES -
GOVERNMENTAL FUNDS
September 30, 2011

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	5,338,126
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives. This is the amount by which capital outlay exceeded depreciation expense and loss on disposal for the current period:</p>		
Expenditures for capital assets	\$	4,717,530
Less: Net book value of disposed assets		(81,413)
Less: Current year depreciation		(3,967,275)
		668,842
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.		(321,810)
<p>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.</p>		
Other post employment benefits (OPEB)		(529,533)
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.		100,357
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.		1,770,730
Net pension assets reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		429,043
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	7,602,814

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

CITY OF KEY WEST, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended September 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$ 16,226,500	\$ 16,226,500	\$ 16,196,884	\$ (29,616)
Licenses and permits	2,565,100	2,565,100	2,455,786	(109,314)
Intergovernmental	6,020,000	6,445,700	6,670,741	225,041
Charges for services	6,514,900	6,514,900	6,919,115	404,215
Fines and forfeitures	1,016,500	1,016,500	777,369	(239,131)
Investment earnings	149,000	149,000	199,305	50,305
Rental income	1,759,000	1,759,000	1,815,684	56,684
Contributions and other	352,800	52,800	55,229	2,429
Total revenues	<u>34,603,800</u>	<u>34,729,500</u>	<u>35,090,113</u>	<u>360,613</u>
EXPENDITURES:				
Personal services	28,539,100	28,882,700	29,479,935	(597,235)
Operating	9,811,700	10,107,350	9,018,406	1,088,944
Capital outlay	317,700	489,200	214,650	274,550
Aid to private organizations	57,300	71,800	70,778	1,022
Total expenditures	<u>38,725,800</u>	<u>39,551,050</u>	<u>38,783,769</u>	<u>767,281</u>
Excess (deficiency) of revenues over expenditures	<u>(4,122,000)</u>	<u>(4,821,550)</u>	<u>(3,693,656)</u>	<u>1,127,894</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	4,998,800	5,016,900	4,812,123	(204,777)
Transfers out	(663,400)	(661,700)	(661,700)	-
Total other financing sources (uses)	<u>4,335,400</u>	<u>4,355,200</u>	<u>4,150,423</u>	<u>(204,777)</u>
Net change in fund balance	<u>\$ 213,400</u>	<u>\$ (466,350)</u>	<u>\$ 456,767</u>	<u>\$ 923,117</u>
FUND BALANCE, October 1			<u>11,259,477</u>	
FUND BALANCE, September 30			<u>\$ 11,716,244</u>	

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

CITY OF KEY WEST, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - INFRASTRUCTURE SURTAX FUND
For the Year Ended September 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 5,408,000	\$ 5,408,000	\$ 5,629,084	\$ 221,084
Intergovernmental	-	543,900	244,775	(299,125)
Investment earnings	36,000	36,000	61,967	25,967
	Total revenues	5,987,900	5,935,826	(52,074)
EXPENDITURES:				
Personal services	30,100	30,200	30,161	39
Operating	15,000	121,400	35,669	85,731
Capital outlay	1,742,500	3,788,338	1,399,564	2,388,774
	Total expenditures	3,939,938	1,465,394	2,474,544
Excess of revenues over expenditures	3,656,400	2,047,962	4,470,432	2,422,470
OTHER FINANCING SOURCES (USES):				
Transfers in	1,875,000	1,875,000	1,875,000	-
Transfers out	(3,644,400)	(3,662,500)	(3,362,500)	300,000
	Total other financing (uses)	(1,787,500)	(1,487,500)	300,000
Net change in fund balance	\$ 1,887,000	\$ 260,462	2,982,932	\$ 2,722,470
FUND BALANCE, October 1			5,308,416	
FUND BALANCE, September 30			\$ 8,291,348	

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

CITY OF KEY WEST, FLORIDA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2011

	<u>Sanitary Sewer System</u>	<u>Solid Waste</u>	<u>Key West Bight</u>
ASSETS:			
Current assets:			
Cash, cash equivalents and investments	\$ 3,901,738	\$ 7,183,891	\$ 9,203,449
Receivables, (net of allowance for uncollectibles):			
Accounts	1,301,766	1,087,697	339,259
Intergovernmental	768,506	-	-
Interfund receivables	1,078	3,099	5,792
Prepaid expenses	-	-	21,404
Inventories	491,543	6,565	43,677
Total	<u>6,464,631</u>	<u>8,281,252</u>	<u>9,613,581</u>
Restricted assets:			
Cash equivalents and investments	<u>4,268,403</u>	<u>156,533</u>	<u>-</u>
Total current assets	<u>10,733,034</u>	<u>8,437,785</u>	<u>9,613,581</u>
Noncurrent assets:			
Deferred charges:			
Unamortized bond cost, net	<u>288,110</u>	<u>-</u>	<u>33,805</u>
Property, plant and equipment:			
Land	6,480	3,745,027	14,879,527
Buildings and improvements	24,900,871	12,537,145	5,918,063
Infrastructure	106,358,815	910,308	9,007,149
Machinery, equipment and furniture	9,712,635	1,031,421	728,783
Construction in progress	5,595,024	-	546,814
Total	<u>146,573,825</u>	<u>18,223,901</u>	<u>31,080,336</u>
Less accumulated depreciation	<u>57,440,988</u>	<u>6,279,327</u>	<u>7,860,107</u>
Net property, plant and equipment	<u>89,132,837</u>	<u>11,944,574</u>	<u>23,220,229</u>
Other noncurrent assets:			
Advances to other funds	<u>2,185,492</u>	<u>-</u>	<u>252,766</u>
Total noncurrent assets	<u>91,606,439</u>	<u>11,944,574</u>	<u>23,506,800</u>
Total assets	<u>\$ 102,339,473</u>	<u>\$ 20,382,359</u>	<u>\$ 33,120,381</u>

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

	<u>Stormwater</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	<u>Governmental Activities Internal Service Fund</u>
\$	1,169,630	\$ 1,859,761	\$ 23,318,469	\$ 7,959,659
	199,490	114,046	3,042,258	535,463
	931,693	897,565	2,597,764	-
	404	10,109	20,482	-
	-	6,542	27,946	67,460
	22,680	34,560	599,025	-
	<u>2,323,897</u>	<u>2,922,583</u>	<u>29,605,944</u>	<u>8,562,582</u>
	-	-	4,424,936	-
	<u>2,323,897</u>	<u>2,922,583</u>	<u>34,030,880</u>	<u>8,562,582</u>
	-	-	321,915	-
	-	50,000	18,681,034	-
	-	5,217,674	48,573,753	-
	26,548,617	6,010,099	148,834,988	-
	108,501	5,993,387	17,574,727	-
	736,709	687,262	7,565,809	-
	<u>27,393,827</u>	<u>17,958,422</u>	<u>241,230,311</u>	<u>-</u>
	<u>5,956,972</u>	<u>10,942,392</u>	<u>88,479,786</u>	<u>-</u>
	<u>21,436,855</u>	<u>7,016,030</u>	<u>152,750,525</u>	<u>-</u>
	-	-	2,438,258	-
	<u>21,436,855</u>	<u>7,016,030</u>	<u>155,510,698</u>	<u>-</u>
\$	<u><u>23,760,752</u></u>	\$ <u><u>9,938,613</u></u>	\$ <u><u>189,541,578</u></u>	\$ <u><u>8,562,582</u></u>

CITY OF KEY WEST, FLORIDA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
(continued)
September 30, 2011

	Sanitary Sewer System	Solid Waste	Key West Bight
LIABILITIES AND NET ASSETS:			
Liabilities:			
Current liabilities:			
Accounts payable	\$ 366,234	\$ 674,049	\$ 184,032
Accrued payroll and related expenses	9,775	25,046	36,443
Compensated absences	10,146	29,769	37,978
Accrued expenses	-	-	174,932
Accrued interest	505,608	-	101,078
Retainage payable	179,159	-	-
Interfund payable	-	-	-
Insurance claims payable	-	-	-
Intergovernmental	6,199,578	69,051	-
Landfill closure costs payable, current	-	40,000	-
Deferred revenue	139,497	52,966	294,749
Bonds and notes payable, current	1,292,750	-	1,158,217
	8,702,747	890,881	1,987,429
NONCURRENT LIABILITIES:			
Revenue bonds payable, net of discount	21,169,471	-	7,782,703
Note payable	2,971,112	-	-
Landfill closure costs payable	-	143,333	-
Advances from other funds	-	-	-
Insurance claims payable	-	-	-
Customer deposits	600	-	202,000
OPEB Liability	9,263	1,544	52,973
Compensated absences	6,764	74,694	32,849
	24,157,210	219,571	8,070,525
Total noncurrent liabilities	24,157,210	219,571	8,070,525
Total liabilities	32,859,957	1,110,452	10,057,954
NET ASSETS:			
Invested in capital assets, net of related debt	63,699,504	11,944,574	14,279,309
Restricted for debt service	2,262,795	-	-
Restricted for landfill long-term closure costs	-	103,567	-
Restricted for renewal and replacement	1,500,000	-	-
Unrestricted (deficit)	2,017,217	7,223,766	8,783,118
	69,479,516	19,271,907	23,062,427
Total net assets	69,479,516	19,271,907	23,062,427
Total liabilities and net assets	\$ 102,339,473	\$ 20,382,359	\$ 33,120,381

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

<u>Stormwater</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	<u>Governmental Activities Internal Service Fund</u>
\$ 201,996	\$ 71,920	\$ 1,498,231	\$ 444,629
3,456	75,909	150,629	10,780
6,715	67,251	151,859	11,987
160,530	-	335,462	-
-	-	606,686	-
-	-	179,159	-
-	262,000	262,000	133,566
-	-	-	1,589,038
-	-	6,268,629	-
-	-	40,000	-
-	100,681	587,893	1,081
-	-	2,450,967	-
<u>372,697</u>	<u>577,761</u>	<u>12,531,515</u>	<u>2,191,081</u>
-	-	28,952,174	-
-	-	2,971,112	-
-	-	143,333	-
4,320,198	267,820	4,588,018	-
-	-	-	1,778,346
-	172,871	375,471	-
4,915	62,533	131,228	-
4,477	43,874	162,658	7,992
<u>4,329,590</u>	<u>547,098</u>	<u>37,323,994</u>	<u>1,786,338</u>
<u>4,702,287</u>	<u>1,124,859</u>	<u>49,855,509</u>	<u>3,977,419</u>
21,436,855	7,016,030	118,376,272	-
-	-	2,262,795	-
-	-	103,567	-
-	-	1,500,000	-
(2,378,390)	1,797,724	17,443,435	4,585,163
<u>19,058,465</u>	<u>8,813,754</u>	<u>139,686,069</u>	<u>4,585,163</u>
<u>\$ 23,760,752</u>	<u>\$ 9,938,613</u>	<u>\$ 189,541,578</u>	<u>\$ 8,562,582</u>

CITY OF KEY WEST, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended September 30, 2011

	<u>Sanitary Sewer System</u>	<u>Solid Waste</u>	<u>Key West Bight</u>
OPERATING REVENUES:			
Charges for services	\$ 12,717,143	\$ 9,121,940	\$ 6,825,178
Total operating revenues	<u>12,717,143</u>	<u>9,121,940</u>	<u>6,825,178</u>
OPERATING EXPENSES:			
Personal services	257,963	725,876	1,101,614
Other operating expenses	5,574,650	6,217,252	2,865,464
Depreciation and amortization	4,083,993	501,094	786,451
Total operating expenses	<u>9,916,606</u>	<u>7,444,222</u>	<u>4,753,529</u>
Operating income (loss)	<u>2,800,537</u>	<u>1,677,718</u>	<u>2,071,649</u>
NONOPERATING REVENUES (EXPENSES):			
Grant income (operating)	83,745	7,611	-
Investment earnings	134,791	63,733	88,370
Other income	496,782	-	114,736
Interest expense	(1,234,596)	-	(438,852)
Net nonoperating revenues (expenses)	<u>(519,278)</u>	<u>71,344</u>	<u>(235,746)</u>
Income (loss) before transfers and contributions	<u>2,281,259</u>	<u>1,749,062</u>	<u>1,835,903</u>
TRANSFERS AND CONTRIBUTIONS:			
Capital contributions	1,248,997	-	-
Transfers in	-	-	493,800
Transfers out	(1,259,250)	(1,589,200)	(500,000)
Total transfers and contributions	<u>(10,253)</u>	<u>(1,589,200)</u>	<u>(6,200)</u>
Change in net assets	<u>2,271,006</u>	<u>159,862</u>	<u>1,829,703</u>
NET ASSETS, October 1	<u>67,208,510</u>	<u>19,112,045</u>	<u>21,232,724</u>
NET ASSETS, September 30	<u>\$ 69,479,516</u>	<u>\$ 19,271,907</u>	<u>\$ 23,062,427</u>

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

<u>Stormwater</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	<u>Governmental Activities Internal Service Fund</u>
\$ 2,341,967	\$ 2,382,226	\$ 33,388,454	\$ 8,513,286
<u>2,341,967</u>	<u>2,382,226</u>	<u>33,388,454</u>	<u>8,513,286</u>
93,173	2,184,110	4,362,736	260,683
1,569,539	1,285,566	17,512,471	6,552,385
935,104	683,227	6,989,869	-
<u>2,597,816</u>	<u>4,152,903</u>	<u>28,865,076</u>	<u>6,813,068</u>
<u>(255,849)</u>	<u>(1,770,677)</u>	<u>4,523,378</u>	<u>1,700,218</u>
-	1,395,293	1,486,649	-
10,890	15,733	313,517	70,512
250	106,845	718,613	-
(67,922)	(3,551)	(1,744,921)	-
<u>(56,782)</u>	<u>1,514,320</u>	<u>773,858</u>	<u>70,512</u>
<u>(312,631)</u>	<u>(256,357)</u>	<u>5,297,236</u>	<u>1,770,730</u>
1,206,215	177,525	2,632,737	-
-	648,500	1,142,300	-
(304,636)	(331,700)	(3,984,786)	-
<u>901,579</u>	<u>494,325</u>	<u>(209,749)</u>	<u>-</u>
588,948	237,968	5,087,487	1,770,730
<u>18,469,517</u>	<u>8,575,786</u>	<u>134,598,582</u>	<u>2,814,433</u>
\$ <u><u>19,058,465</u></u>	\$ <u><u>8,813,754</u></u>	\$ <u><u>139,686,069</u></u>	\$ <u><u>4,585,163</u></u>

CITY OF KEY WEST, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2011

	<u>Sanitary Sewer System</u>	<u>Solid Waste</u>	<u>Key West Bight</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 12,254,361	\$ 9,147,326	\$ 6,925,701
Cash paid to suppliers	(5,851,537)	(6,239,746)	(2,891,059)
Cash paid to employees	(254,884)	(727,712)	(1,080,438)
Other receipts	<u>85,355</u>	<u>20,952</u>	<u>114,736</u>
Net cash provided by (used in) operating activities	<u>6,233,295</u>	<u>2,200,820</u>	<u>3,068,940</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating grants received	83,745	138,204	-
Advance/loan from (to) other funds	87,088	-	42,070
Interest paid on advances from other funds	-	-	-
Transfers in	-	-	493,800
Transfers (out)	<u>(1,259,250)</u>	<u>(1,589,200)</u>	<u>(500,000)</u>
Net cash provided by (used in) noncapital financing activities	<u>(1,088,417)</u>	<u>(1,450,996)</u>	<u>35,870</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds of capital grants *	1,356,004	-	-
Acquisition and construction of capital assets	(5,708,125)	(5,785)	(463,035)
Principal paid on revenue bonds	(1,000,000)	-	(474,906)
Interest paid	(1,189,826)	-	(1,005,161)
Payments on notes	<u>(254,365)</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	<u>(6,796,312)</u>	<u>(5,785)</u>	<u>(1,943,102)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment earnings	<u>134,791</u>	<u>63,733</u>	<u>88,370</u>
Net cash provided by (used in) investing activities	<u>134,791</u>	<u>63,733</u>	<u>88,370</u>
Net increase (decrease) in cash, cash equivalents and investments	(1,516,643)	807,772	1,250,078
CASH, CASH EQUIVALENTS AND INVESTMENTS, October 1	<u>9,686,784</u>	<u>6,532,652</u>	<u>7,953,371</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, September 30	<u>\$ 8,170,141</u>	<u>\$ 7,340,424</u>	<u>\$ 9,203,449</u>
RECONCILIATION TO STATEMENT OF NET ASSETS:			
Cash, cash equivalents and investments	\$ 3,901,738	\$ 7,183,891	\$ 9,203,449
Restricted cash equivalents and investments	<u>4,268,403</u>	<u>156,533</u>	<u>-</u>
Cash, cash equivalents and investments	<u>\$ 8,170,141</u>	<u>\$ 7,340,424</u>	<u>\$ 9,203,449</u>

* Capital contributions for the year ended September 30, 2011 are all associated with cash transactions.

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

<u>Stormwater</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	<u>Governmental Activities Internal Service Funds</u>
\$ 2,347,850 (1,629,365) (91,767) <u>250</u>	\$ 2,430,633 (1,321,738) (2,154,017) <u>106,845</u>	\$ 33,105,871 (17,933,445) (4,308,818) <u>328,138</u>	\$ 8,467,072 (7,143,568) (257,542) <u>-</u>
<u>626,968</u>	<u>(938,277)</u>	<u>11,191,746</u>	<u>1,065,962</u>
- (193,854) (67,922) - <u>(304,636)</u>	1,747,636 (677,596) (3,551) 648,500 <u>(331,700)</u>	1,969,585 (742,292) (71,473) 1,142,300 <u>(3,984,786)</u>	- - - - -
<u>(566,412)</u>	<u>1,383,289</u>	<u>(1,686,666)</u>	<u>-</u>
2,063,468 (1,190,118) - - <u>-</u>	370,171 (172,847) - - <u>-</u>	3,789,643 (7,539,910) (1,474,906) (2,194,987) <u>(254,365)</u>	- - - - -
<u>873,350</u>	<u>197,324</u>	<u>(7,674,524)</u>	<u>-</u>
<u>10,890</u>	<u>15,733</u>	<u>313,517</u>	<u>70,512</u>
<u>10,890</u>	<u>15,733</u>	<u>313,517</u>	<u>70,512</u>
944,796 <u>224,834</u>	658,069 <u>1,201,692</u>	2,144,072 <u>25,599,333</u>	1,136,474 <u>6,823,185</u>
<u>\$ 1,169,630</u>	<u>\$ 1,859,761</u>	<u>\$ 27,743,405</u>	<u>\$ 7,959,659</u>
\$ 1,169,630 - <u>-</u>	\$ 1,859,761 - <u>-</u>	\$ 23,318,469 4,424,936 <u>-</u>	\$ 7,959,659 - <u>-</u>
<u>\$ 1,169,630</u>	<u>\$ 1,859,761</u>	<u>\$ 27,743,405</u>	<u>\$ 7,959,659</u>

CITY OF KEY WEST, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(continued)
For the Year Ended September 30, 2011

	<u>Sanitary Sewer System</u>	<u>Solid Waste</u>	<u>Key West Bight</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating income (loss)	\$ <u>2,800,537</u>	\$ <u>1,677,718</u>	\$ <u>2,071,649</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Other nonoperating revenues	496,782	-	114,736
Depreciation and amortization	4,083,993	501,094	786,451
Decrease (increase) in assets:			
Accounts receivables	(453,871)	(9,224)	46,821
Interfund receivables	545	688	2,683
Prepaid expenses	-	-	547
Inventories	38,522	(43)	(9,575)
Increase (decrease) in liabilities:			
Accounts payable	(315,409)	17,549	43,560
Accrued payroll and related expenses	1,626	(4,140)	3,705
Accrued expenses	-	-	(60,127)
Intergovernmental payable	(411,427)	20,952	-
Interfund payables	-	-	-
Insurance claims payable	-	-	-
Landfill closure costs payable	-	(40,000)	-
Deferred revenue	(8,911)	34,610	11,939
Customer deposits	-	-	41,763
OPEB liability	4,300	485	13,803
Compensated absences	(3,392)	1,131	985
Total adjustments	<u>3,432,758</u>	<u>523,102</u>	<u>997,291</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ <u>6,233,295</u></u>	<u>\$ <u>2,200,820</u></u>	<u>\$ <u>3,068,940</u></u>

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

<u>Stormwater</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	<u>Governmental Activities Internal Service Fund</u>
\$ <u>(255,849)</u>	\$ <u>(1,770,677)</u>	\$ <u>4,523,378</u>	\$ <u>1,700,218</u>
250	106,845	718,613	-
935,104	683,227	6,989,869	-
5,883	30,789	(379,602)	(38,490)
137	5,945	9,998	-
-	583	1,130	7,619
(1,886)	(11,244)	15,774	-
(57,940)	(25,511)	(337,751)	424,746
638	4,382	6,211	964
-	-	(60,127)	-
-	-	(390,475)	-
-	-	-	(45,869)
-	-	-	(985,058)
-	-	(40,000)	-
-	5,085	42,723	(345)
-	12,533	54,296	-
1,329	20,328	40,245	-
<u>(698)</u>	<u>(562)</u>	<u>(2,536)</u>	<u>2,177</u>
<u>882,817</u>	<u>832,400</u>	<u>6,668,368</u>	<u>(634,256)</u>
\$ <u><u>626,968</u></u>	\$ <u><u>(938,277)</u></u>	\$ <u><u>11,191,746</u></u>	\$ <u><u>1,065,962</u></u>

CITY OF KEY WEST, FLORIDA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
September 30, 2011

ASSETS:

Cash and cash equivalents	\$ 4,133,970
Investments, at fair value:	
Equity securities	46,565,102
Corporate and foreign bonds, and bond funds	24,184,408
Alternative investments	5,153,429
U.S. government securities	4,754,272
Municipal obligations	2,404,606
Deposit in trust for real estate acquisitions	174,065
Receivables:	
Interest and dividends	375,874
Due from governmental funds	633,314
State contributions	116,416
Other	<u>32,223</u>
Total assets	<u>88,527,679</u>

LIABILITIES:

Accounts payable and accrued expenses	102,976
Deferred retirement option plan payable	<u>5,811,759</u>
Total liabilities	<u>5,914,735</u>

NET ASSETS:

Held in trust for employees' pension benefits	\$ <u><u>82,612,944</u></u>
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The accompanying notes to financial statements are an integral part of these statements.

CITY OF KEY WEST, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended September 30, 2011

ADDITIONS:

Contributions:		
Employer	\$	3,535,403
Members		1,273,624
State police and fire		530,175
		5,339,202
Total contributions		5,339,202

INVESTMENT EARNINGS:

Net appreciation (depreciation) in fair value of investments		(3,870,549)
Interest and dividends		2,499,183
		(1,371,366)
Total investment earnings		(1,371,366)
Less investment expenses		513,886
Deferred retirement option plan participants earnings (losses)		(310,161)
		(2,195,413)
Net investment earnings (losses)		(2,195,413)
Total additions		3,143,789

DEDUCTIONS:

Benefits paid		5,971,254
Administrative expenses		276,475
Contributions refunded		78,186
		6,325,915
Total deductions		6,325,915

Changes in net assets		(3,182,126)
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NET ASSETS, October 1		85,795,070
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NET ASSETS, September 30	\$	82,612,944
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The accompanying notes to financial statements are an integral part of these statements.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

1. Summary of Significant Accounting Policies

The City of Key West, Florida (the "City") is a municipal corporation incorporated in 1828. The City operates under a commission-manager form of government. The City provides services authorized by its charter, including public safety, public welfare, public improvements, planning and zoning, transportation, recreation, and general administrative services. The City complies with Accounting Principles Generally Accepted in the United States of America and those standards promulgated by the Governmental Accounting Standards Board (GASB).

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. Section B briefly reviews each potential component unit addressed in defining the City's reporting entity.

B. Individual Component Unit Disclosures

Discretely Presented Component Unit:

The Housing Authority of the City of Key West, Florida (KWHHA or the Authority) 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, elderly and disabled families in Key West. Programs are administered through the Department of Housing and Urban Development. The Authority's 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 stormwater services annually to substantially all public housing facilities within the city limits. Except for these services and certain debt guarantees (Note 12), the City has no other obligations to KWHHA. 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, 2010 year-end. Further information regarding KWHHA, their financial statements, and their operations may be obtained by contacting them directly at: The Housing Authority of the City of Key West, Florida, 1400 Kennedy Drive, Key West, Florida 33045.

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 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 ended September 30, 2011, the City received payment of approximately \$ 445,000. Keys Energy Services is not considered a component unit of the City.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

1. Summary of Significant Accounting Policies (continued)

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. Third party restrictions have lapsed; therefore, residual funds have been transferred to the General Fund (\$ 168,437) and the Infrastructure Surtax Fund (\$ 1,875,000).

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. 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. 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 revenues 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are 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 sixty days of the end of the current fiscal period. Intergovernmental revenues are considered measurable when in the hands of an intermediate government agency. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

1. Summary of Significant Accounting Policies (continued)

Deferred revenues are reported on the City's 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 the revenue recognition criteria is met, or when the City has a legal claim to the resources, the liability for the 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 business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this general rule are payments in lieu of taxes and other charges between the government's sewer, solid waste functions and various other functions of the government, if applicable. 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 provided, rental income, licenses and permits, and fines and forfeitures, 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 provision for depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the City would first use committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The City reports the following major governmental funds:

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

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

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

1. Summary of Significant Accounting Policies (continued)

The Community Development Office Fund accounts for proceeds and disbursements of housing, economic, and urban development grants. This fund is managed by The Housing Authority of the City of Key West, Florida under a contractual agreement. This fund has been determined by management to be a major fund.

The Capital Projects 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. Currently the fund has accumulated sufficient assets, through transfers from the infrastructure fund, to begin the process of designing and constructing a new City Administration Building.

The City reports the following major proprietary funds:

The Sanitary Sewer System Fund accounts for the activities of the City's sewer treatment plant, sewage 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.

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, Affordable Housing Escrow, Local Redevelopment Agency, Bahama Village and Caroline Street, and Navy Pier Payments 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. These funds include Police Officers and Firefighters Retirement Plan and the General Employees Retirement Plan.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

1. Summary of Significant Accounting Policies (continued)

E. Budgets and Budgetary Accounting

Florida Statutes require that all city governments prepare, adopt and execute an annual budget for such funds as may be required by law or by sound financial practices and generally accepted accounting principles. Accordingly, the City has established budgetary procedures.

The City adopts an operating budget on a generally accepted accounting principles basis for all governmental and proprietary funds except as noted below. 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 Community Development Office Fund.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Encumbrances are recorded at the time a purchase offer or other commitment is entered into. Encumbrances outstanding at year-end represent the estimated amount of expenditures which would result if unperformed purchase orders and other commitments at year-end are completed. Encumbrances lapse at year-end; however, the City generally intends to honor purchase orders and other commitments in process. As a result, encumbrances outstanding at year-end are re-appropriated in the next fiscal year and are therefore presented as committed or assigned fund balance for the subsequent year.

The legal level of control is at the major category level; i.e., personal services, operating, capital, debt service, aid to private organizations and transfers.

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, aid to private organizations 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 a resolution, unless an extension of time is authorized by the Florida Department of Revenue. The budget resolution grants the City Manager discretion to effect certain budget changes as follows:

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

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

1. Summary of Significant Accounting Policies (continued)

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, 2011 were as follows:

- The Monroe County tax certificate sale for delinquent properties was held on June 1, 2010.
- The City received the Certification of Taxable Value from the County on June 25, 2010.
- The City Manager submitted proposed budgets to the Commission for public input at workshops held as follows:
 - General and other Funds review July 26, 2010
 - Capital and Transit Funds review July 27, 2010
 - Utility Funds review July 27, 2010
- The Proposed Millage was filed with the Property Appraiser on July 29, 2010.
- The Notice of Proposed Property Taxes was sent to taxpayers by the County on August 20, 2010, which included the date for the first public hearing.
- The first public hearing on the tentative millage and budget was held on September 14, 2010.
- Newspaper advertisements providing a summary of all proposed budgets, a Notice of Tax Increase, and the date for the second public hearing were published on September 18, 2010.
- The second public hearing was held on September 23, 2010, at which the final property tax (millage) rate and budget were adopted.
- The TRIM (Truth in Millage) Certificate of Compliance package was submitted to the State of Florida September 29, 2010.

The General Fund reports personal services in excess of appropriations by \$ 597,235 due to the \$ 530,175 in Police Officers and Firefighters Retirement Plan contribution from the State of Florida which is required to be recorded as a revenue and expense in the General Fund prior to their transfer to the Pension Fund. Also, upon the receipt of the actuarial report for the Police Officers' and Firefighters' Retirement Plan, it was determined that additional funding amounting to \$ 633,314 was required to meet certain state regulation. Sufficient budget existed in other categories within the General Fund, as a whole, to cover these expenditures.

The Capital Projects Fund reports operating expenditures in excess of appropriation of \$ 36,506. Amounts not meeting capitalization thresholds are reclassified by management as operating expenditures. Sufficient budget existed in the capital outlay category to cover these expenditures.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

1. Summary of Significant Accounting Policies (continued)

F. Deposits and Investments

Cash and cash equivalents are defined as demand deposits, money market accounts and other short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the government, as well as its component unit, are carried at fair value, which is based on quoted market prices. Unrealized gains and losses in fair value are recognized.

G. Receivables and Payables

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.

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.

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

H. Prepaid Items

Prepays are recorded as assets when the initial payment is made. Each asset is then charged off against operations in the period benefited. These amounts are reported as nonspendable fund balance in the governmental fund financial statements.

I. 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, wherein all inventories are maintained by perpetual records, expensed when used and adjusted by an annual physical count. These amounts are reported as nonspendable fund balance in the governmental fund financial statements.

J. 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 accounts are restricted by local ordinance or other regulatory requirements, including monies set aside for future landfill long-term closure costs.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

1. Summary of Significant Accounting Policies (continued)

K. Capital Assets

Capital assets, which include land, construction in progress, buildings and improvements, machinery, equipment and furniture, 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 \$ 1,000 and an estimated useful life in excess of two years. All assets are depreciated using the straight-line method of depreciation. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Machinery, equipment, and furniture	3-10 years
Buildings and improvements	10-30 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 \$ 1,778,632. There was no capitalized interest during the year.

L. Compensated Absences

Under terms of civil service regulations, labor contracts, and administrative policy, regular, full-time and 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. Hours paid vary based upon longevity and are in accordance with union contracts. The City reports the liability for compensated absences in the applicable governmental or business-type activities column in the government-wide financial statements when earned. Expenditures for compensated absences are recorded in the governmental funds only for employees who had terminated their employment as of the end of the fiscal year. In the case of proprietary fund financial 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.

M. Long-Term Obligations

In the government-wide financial statements and proprietary fund type 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.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

1. Summary of Significant Accounting Policies (continued)

N. Bond Discount, Premium, Issuance Cost and Refunding

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.

For bond refundings resulting in the defeasance of debt reported in the proprietary fund types in the fund financial statements, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. The accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an addition to or reduction of the face amount of the new debt.

O. Fund Balance

During the year, the City adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement requires that governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. "Not in spendable form" includes items that are not expected to be turned into cash (such as inventories and prepaid amounts) and items such as long-term amount of loans and note receivable, as well as property acquired for resale. In fiscal year 2011, this represents \$ 2,370,937.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. In fiscal year 2011, this represents \$ 36,523,385.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Commission. These amounts cannot be used for any other purpose unless the Commission removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. Resources accumulated pursuant to stabilization arrangements are reported in this category. In fiscal year 2011, this represents \$ 110,276.

Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Commission or through the Commission delegating this responsibility to the City Manager. In fiscal year 2011, assigned fund balance for subsequent year's budget amounted to \$ 154,908, representing those encumbrances that lapsed in 2011 and re-appropriated in 2012.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

1. Summary of Significant Accounting Policies (continued)

Unassigned: This classification includes the residual fund balance for the General Fund. This classification represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed or assigned for those specific purposes. In fiscal year 2011, this represents \$ 9,260,440.

P. Minimum Fund Balance Policy

The City's policy is to maintain an adequate General Fund balance to meet seasonal shortfalls in cash flows and reduce the susceptibility to emergency and unanticipated expenditures and/or revenue shortfalls. The City Commission has adopted a policy that requires the City to maintain unassigned fund balance equivalent to a minimum ranging from 20% to 25% of the subsequent year's budget operating expenditures and transfers out. In 2011, the minimum fund balance required by the City Commission at the close of the fiscal year ranges from approximately \$ 7,686,000 to \$ 9,608,000; therefore, unassigned fund balance is within the prescribed limits.

Q. Net Assets

Net assets represent the difference between assets and liabilities in the government-wide financial statements for business-type activities and all proprietary funds at the governmental funds level. 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 debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

R. Estimates

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

S. Date of Management Review

Subsequent events were evaluated by management through March 28, 2012, which is the date the financial statements were available to be issued.

2. Deposits and Investments

A. Deposits

GASB Statement No. 40, *Deposit and Investment Risk Disclosures* requires governments to disclose deposits and investments exposed to custodial credit risk. For deposits, this is the risk that, in the event of the failure of a depository financial institution, a government may not be able to recover deposits nor be able to recover collateral securities that are in the possession of an outside party.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

2. Deposits and Investments (continued)

The City's deposits must be placed with banks and savings and loans which are qualified as public depositories under Chapter 280, Florida Statutes. Monies deposited in amounts greater than the insurance coverage are covered by the participation of the bank in the Florida Security for Public Deposits Act. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. Accordingly, all amounts reported as deposits are insured or collateralized with securities held by the entity or its agent in the entity's name.

At September 30, 2011, the carrying amount of the City's deposits was \$ 7,507,751, with a bank balance of \$ 9,150,782. Included in the carrying amount of deposits was \$ 4,100 cash on hand.

B. Investments

As of September 30, 2011, the carrying value of the City's cash, cash equivalents and investments, was as follows:

	Cash	Cash Equivalents	Investments	Total
Cash, cash equivalents and investments	\$ 7,507,751	\$ 178,890	\$ 71,376,038	\$ 79,062,679
Restricted cash equivalents and investments	-	2,310,659	2,114,277	4,424,936
	\$ 7,507,751	\$ 2,489,549	\$ 73,490,315	\$ 83,487,615

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

As of September 30, 2011, the City's investment maturities and credit ratings were as follows:

	Market Value	Investment Maturities (in Months)					Credit Rating
		Less than 3	3 - 6	7 - 12	12 - 24	Over 24	
U.S. Government and Government Sponsored Entity Bonds/Notes	\$ 65,675,504	\$ -	\$ -	\$ 8,884,757	\$ 17,803,603	\$ 38,987,144	AA+
Certificates of Deposit* Money Market	100,000	-	100,000	-	-	-	Not Rated
Mutual Funds	2,418,146	2,418,146	-	-	-	-	AAAm
Municipal Obligations	1,261,700	-	-	-	-	1,261,700	AA+
Commercial Paper	6,453,111	-	6,453,111	-	-	-	A-1 or A-1+
State Investment Pool:							
Florida Prime	69,831	69,831	-	-	-	-	AAAm
Fund B	1,572	-	-	-	-	1,572	Not Rated
	\$ 75,979,864	\$ 2,487,977	\$ 6,553,111	\$ 8,884,757	\$ 17,803,603	\$ 40,250,416	

* Under GASB 40 these instruments are considered deposits and therefore, required disclosures are covered under Section A of this footnote.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

2. Deposits and Investments (continued)

As of September 30, 2011, the City's investments are distributed among funds as follows:

	<u>Cash</u> <u>Equivalents</u>	<u>Investments</u>
Governmental Funds:		
General Fund	\$ 26,036	\$ 10,681,240
Infrastructure Surtax Fund	17,589	7,216,157
Community Development Office Fund	-	100,000
Capital Projects Fund	37,196	15,259,636
Nonmajor Governmental Funds	<u>23,939</u>	<u>9,820,866</u>
	<u>104,760</u>	<u>43,077,899</u>
Enterprise Funds:		
Sanitary Sewer System	2,323,667	5,336,857
Solid Waste	16,296	6,685,481
Key West Bight	20,431	8,381,927
Stormwater	2,597	1,065,307
Nonmajor Enterprise Funds	<u>4,127</u>	<u>1,693,132</u>
	<u>2,367,118</u>	<u>23,162,704</u>
Internal Service Fund	<u>17,671</u>	<u>7,249,712</u>
Total	<u>\$ 2,489,549</u>	<u>\$ 73,490,315</u>

Interest rate risk - To the extent possible, the City's investment policy limits the investment maturities of current operating funds to no longer than twenty-four months. Investments of bond reserves, construction funds and other non-operating funds shall not exceed five years. The investment policy also provides maturity limitations by investment type. The investments at September 30, 2011 meet the City's investment policy restrictions.

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 or savings accounts, repurchase agreements, commercial paper, bankers' acceptances, state and/or local government taxable and/or tax-exempt debt, mutual funds and intergovernmental investment pools. The policy requires that investments in federal instrumentality debt be backed by the full faith and credit of the U.S. government; commercial paper and bankers' acceptances be rated A-1 by Standard & Poor's (S&P); state and/or local government debt be rated at least AA by S&P and mutual funds be rated AAm or better by S&P. At September 30, 2011, the City's portfolio rating is in compliance with its investment policy.

Concentration of credit risk - The City's investment policy establishes limitations on portfolio composition, both by investment type and by issuer, at original cost, 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:

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

2. Deposits and Investments (continued)

<u>Investment Type:</u>	<u>Portfolio Maximum</u>	<u>Limits on Individual Issuer</u>
Florida Local Government Surplus Fund (SBA)	100%	-
U.S. Government Securities - Treasuries	100%	-
U.S. Government Agencies	50%	25%
Federal Instrumentalities - U.S. Government Sponsored Agencies	80%	40%
Certificates of Deposit	50%	25%
Repurchase Agreements	50%	25%
Commercial Paper	25%	15%
Bankers' Acceptances	25%	15%
State and/or Local Government Debt	20%	-
Money Market Mutual Funds	50%	25%
Intergovernmental Investment Pool	25%	-

At September 30, 2011, the City's investment portfolio, excluding pension funds and funds related to the issuance of debt, is as follows:

<u>Issue:</u>	<u>Percent of Investment Portfolio</u>
Federal Instrumentalities - U.S. Government Sponsored Agencies	51.6%
U.S. Government Securities - Treasuries	34.8%
Commercial Paper	8.5%
Money Market Mutual Funds	3.2%
State and/or Local Government Debt (Municipal Obligations)	1.7%
Certificates of Deposit	0.1%
Florida Local Government Surplus Funds (SBA)	0.1%

GASB Statement 40 requires disclosure when the percentage is 5% or more in any one issuer. The investments in the Federal National Mortgage Association (Fannie Mae) are 20.31% (\$ 15,414,567), Federal Home Loan Mortgage Corporation (Freddie Mac) are 17.70% (\$ 13,432,188) and Federal Home Loan Banks are 13.70% (\$ 10,395,193). Given the restriction to the highest rating, the additional concentration is not viewed to be an additional risk by the City.

Custodial credit risk - The City's investment 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, 2011, all of the City's investments are held in a bank's trust department in the City's name, nominee registration.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

2. Deposits and Investments (continued)

Foreign credit risk – For an investment, foreign credit risk is the risk that fluctuations in currency exchange rates may affect transactions conducted in currencies other than U.S. dollars and the carrying value of foreign investments. The City is not exposed to foreign credit risk.

C. Investments - Pension Plans

As of September 30, 2011, the City’s pension plans had the following investments:

	General Employees Retirement Plan	Police Officers and Firefighters Retirement Plan
Equity Securities	\$ 18,519,751	\$ 28,045,351
Corporate and Foreign Bonds and Bond Funds	9,954,176	14,230,232
Alternative Investments	-	5,153,429
U.S. Government Securities	4,754,272	-
Municipal Obligations	776,898	1,627,708
	\$ 34,005,097	\$ 49,056,720

As of September 30, 2011, the Plan’s investment maturities and credit ratings were as follows:

General Employees Retirement Plan:

	Market Value	Investment Maturities (in Years)				Credit Rating
		Less than 1	1 - 5	6 - 10	More than 10	
U.S. Government Treasuries	\$ 1,526,024	\$ -	\$ -	\$ 519,853	\$ 1,006,171	AA+
U.S. Government Agencies	955,892	-	242,095	-	713,797	AA+
U.S. Government Agencies - Investment Pools	2,272,356	-	26,052	366,360	1,879,944	Not Rated
Municipal obligations	776,898	-	-	-	776,898	AAA through AA
Corporate and foreign bonds*	9,954,176	-	5,110,845	3,860,063	983,268	AAA through BBB-
	\$ 15,485,346	\$ -	\$ 5,378,992	\$ 4,746,276	\$ 5,360,078	

* Includes \$ 408,899 which is rated BBB, \$ 243,674 which is rated BBB+, and \$ 164,735 which is rated BBB-. All other investments within this category are rated amongst the “A” rating.

The General Employees’ Pension Plan includes \$ 1,738,617 (money market fund - AAAM) and \$ 73,700 (equity mutual fund – not rated) in cash equivalents with a maturity of less than 3 months.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

2. Deposits and Investments (continued)

Police Officers and Firefighters Retirement Plan:

	Market Value	Investment Maturities (in Years)				Credit Rating
		Less than 1	1 - 5	6 - 10	More than 10	
Corporate and foreign bonds	\$ 14,230,232	\$ -	\$ 8,588,426	\$ 5,282,199	\$ 359,607	AAA through B
Municipal obligations	1,627,708	-	11,378	357,210	1,259,120	AAA through B
	<u>\$ 15,857,940</u>	<u>\$ -</u>	<u>\$ 8,599,804</u>	<u>\$ 5,639,409</u>	<u>\$ 1,618,727</u>	

Interest rate risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. The larger the duration of a portfolio, the greater its price sensitivity to the changes in interest rates. Information about sensitivity of the fair value of the Plans' investments to market interest rate fluctuations are provided in the tables previously presented.

Credit risk -Credit risk is the risk that an investment portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. This risk is generally measured by the assignment of a rating by a nationally recognized statistical rating organization. The Plans' policies utilize portfolio diversification in order to control this risk. Information about the portfolio ratings by investment type is provided in the tables previously presented.

Concentration credit risk - The investment policies of the Plans contain limitations on the amount that can be invested in any one issuer as well as maximum portfolio allocation percentages. GASB Statement 40 requires disclosure when the percentage is 5% or more in any one issuer. The General Employees Retirement Plan and the Police Officers and Firefighters Retirement Plan had no total investments in any one issuer that represent 5% or more of the Plan's total investments.

Custodial credit risk - Consistent with the Plans' investment policies, the investments are held by the Plans' custodial bank and registered in the Plans' name, nominee registration. All of the Plans' deposits are insured and/or collateralized by a government agency separate from the Plan's depository financial institution.

D. Component Unit:

Deposits - Demand and time deposits classified as cash and cash equivalents are subject to FDIC coverage and insured in accordance with Florida Statute 280, which established the multiple financial institution collateral pool. At December 31, 2010, the Authority's book balance of cash was \$ 6,538,220 and the bank balance was \$ 6,588,743.

As of December 31, 2010, cash and cash equivalents are reported as follows:

Cash - unrestricted	\$ 4,320,928
Cash - restricted	2,217,292
	<u>6,538,220</u>
Certificates of deposit - unrestricted	100,000
	<u>100,000</u>
Total	<u>\$ 6,638,220</u>

In addition, the component unit's pension plan deposits amounting to \$ 310,084 are fully insured by the FDIC and collateralized.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

2. Deposits and Investments (continued)

Investments - The component unit invests excess cash in state and local government securities (SLGS). SLGS are issued directly by the United States Treasury. The component unit invests in demand deposit securities that are one day certificates of indebtedness. The component unit is not exposed to any significant risks related to foreign currency risk, interest rate risk, or credit risk. Investments (restricted) as of December 31, 2010 approximate their fair value at \$ 1,223,255.

The investments relative to the component unit's Pension Trust Fund (the "Plan") and are stated at fair value. The financial institution's accounts are insured by Securities Investor Protection Corporation (SIPC). The concerned financial institution has also obtained additional protection for the remaining net asset balance.

As of December 31, 2010, the Plan had the following investments:

Vanguard Index TR 500		
Port Mutual Fund * (1)	\$	1,139,750
Vanguard Total Intl Stock Index* (1)		759,003
PIMCO Invest Grade Corp BD Instl* (1)		1,009,394
PIMCO Total Return Instl* (1)		974,841
Nuveen Tradewinds Glbl A/C-R* (1)		600,108
Goldman Sachs Fin Sq Tt*		<u>1,269</u>
	\$	<u><u>4,484,365</u></u>

* Investment maturity is less than one year.

(1) Investment subject to concentration credit risk.

Interest rate risk - The Plan does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increased interest rates.

Concentration credit risk - The Plan had five investments in three organizations that exceeded five percent of its net plan assets at year-end and noted above.

3. Receivables

Receivables at September 30, 2011 consist of the following:

<u>Receivable Type</u>	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Fiduciary</u>	<u>Total</u>
Interest and dividends	\$ -	\$ -	\$ -	\$ -	\$ 375,874	\$ 375,874
Accounts	243,007	-	5,966,205	535,463	-	6,744,675
Mortgages	-	2,524,742	-	-	-	2,524,742
Intergovernmental	580,069	1,422,802	2,597,764	-	116,416	4,717,051
Other	-	-	-	-	32,223	32,223
Gross receivables	<u>823,076</u>	<u>3,947,544</u>	<u>8,563,969</u>	<u>535,463</u>	<u>524,513</u>	<u>14,394,565</u>
Less allowance for uncollectible	<u>-</u>	<u>1,116,818</u>	<u>2,923,947</u>	<u>-</u>	<u>-</u>	<u>4,040,765</u>
Net receivables	<u>\$ 823,076</u>	<u>\$ 2,830,726</u>	<u>\$ 5,640,022</u>	<u>\$ 535,463</u>	<u>\$ 524,513</u>	<u>\$ 10,353,800</u>

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

3. Receivables (continued)

As of September 30, 2011, additional receivables were recorded under the government-wide financial statements as follows:

Intergovernmental:	
State of Florida Department of Transportation	\$ 1,005,309
Office of Energy, State of Florida	709,238
Department of Homeland Security - FEMA	161,444
Monroe County, Tourist Development Council	156,277
U.S. Department of Justice	65,234
Department of State and Secretary of State	<u>18,479</u>
	<u>\$ 2,115,981</u>

Property taxes are levied November 1st on property valued as of the previous 1st of January. The Tax Collector of Monroe County, Florida, bills and collects property taxes on behalf of the City. The tax rate, to finance general governmental services for the fiscal year ended September 30, 2011, was 2.9132 per \$ 1,000 of assessed taxable property value. The final taxable value amounted to \$ 4,947,877,614. 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, 2011, there were no material property tax receivables.

Interest and dividends receivable consists of earnings on investments earned but not received at the end of the year. General Fund accounts receivable consist mainly of rents and transportation (cruise ships) revenues. The enterprise funds reflect customer accounts receivable for goods and services rendered. Internal Service Fund accounts receivable balance consists of excess claims paid but receivable from insurance carriers. Intergovernmental receivable consists primarily of Federal, state and local grants; various state shared revenues; and state contributions to the Police Officers and Firefighters retirement plan.

The Community Development Office Special Revenue Fund exists 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 below is related to grant provisions allowing for contractual forgiveness of repayment.

Detailed information on Community Development Office Fund mortgages receivable appears below:

Frederick Douglas Square Project (HODAG)	\$ 2,233,636
Homebuyer Assistance Program	199,633
Mayor's Revolving Loan Fund (low interest)	<u>91,473</u>
Gross mortgages receivable	2,524,742
Less allowance for uncollectible mortgages	<u>1,116,818</u>
Net mortgages receivable	<u>\$ 1,407,924</u>

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

3. Receivables (continued)

COMPONENT UNIT:

Accounts receivable represent amounts due from tenants (dwelling rents) of \$ 49,080 net of allowance for uncollectibles of \$ 13,802. Intergovernmental receivables of \$ 869,330 represent amounts due from the federal government.

4. Change In Capital Assets

Capital asset activity for fiscal year ended September 30, 2011 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>CIP/Adjustments Increases (Decreases)</u>	<u>Ending Balance</u>
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 53,186,804	\$ -	\$ -	\$ -	\$ 53,186,804
Construction in progress	<u>2,607,176</u>	<u>3,291,935</u>	<u>(10,073)</u>	<u>(1,117,025)</u>	<u>4,772,013</u>
Total capital assets, not being depreciated	<u>55,793,980</u>	<u>3,291,935</u>	<u>(10,073)</u>	<u>(1,117,025)</u>	<u>57,958,817</u>
Capital assets, being depreciated:					
Buildings and improvements	14,075,499	-	(127,894)	3,386	13,950,991
Machinery, equipment and furniture	18,572,903	1,000,435	(880,254)	5,399	18,698,483
Infrastructure	<u>36,503,385</u>	<u>425,160</u>	<u>-</u>	<u>1,108,240</u>	<u>38,036,785</u>
Total capital assets, being depreciated	<u>69,151,787</u>	<u>1,425,595</u>	<u>(1,008,148)</u>	<u>1,117,025</u>	<u>70,686,259</u>
Less accumulated depreciation for:					
Buildings and improvements	6,400,601	528,088	(59,684)	-	6,869,005
Machinery, equipment and furniture	12,949,793	1,733,007	(877,124)	-	13,805,676
Infrastructure	<u>19,210,573</u>	<u>1,706,180</u>	<u>-</u>	<u>-</u>	<u>20,916,753</u>
Total accumulated depreciation	<u>38,560,967</u>	<u>3,967,275</u>	<u>(936,808)</u>	<u>-</u>	<u>41,591,434</u>
Total capital assets, being depreciated, net	<u>30,590,820</u>	<u>(2,541,680)</u>	<u>(71,340)</u>	<u>1,117,025</u>	<u>29,094,825</u>
Governmental activities capital assets, net	<u>\$ 86,384,800</u>	<u>\$ 750,255</u>	<u>\$ (81,413)</u>	<u>\$ -</u>	<u>\$ 87,053,642</u>

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

4. Change In Capital Assets (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>CIP/Adjustments Increases (Decreases)</u>	<u>Ending Balance</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 18,681,034	\$ -	\$ -	\$ -	\$ 18,681,034
Construction in progress	<u>10,436,508</u>	<u>7,758,704</u>	<u>(20,708)</u>	<u>(10,608,695)</u>	<u>7,565,809</u>
Total capital assets, not being depreciated	<u>29,117,542</u>	<u>7,758,704</u>	<u>(20,708.00)</u>	<u>(10,608,695)</u>	<u>26,246,843</u>
Capital assets, being depreciated:					
Buildings and improvements	48,573,753	-	-	-	48,573,753
Infrastructure	138,641,667	-	-	10,193,321	148,834,988
Machinery, equipment and furniture	<u>17,190,561</u>	<u>373,438</u>	<u>(75,551)</u>	<u>86,279</u>	<u>17,574,727</u>
Total capital assets, being depreciated	<u>204,405,981</u>	<u>373,438</u>	<u>(75,551)</u>	<u>10,279,600</u>	<u>214,983,468</u>
Less accumulated depreciation for:					
Buildings and improvements	25,433,264	1,690,283	-	-	27,123,547
Infrastructure	41,536,354	4,699,696	-	-	46,236,050
Machinery, equipment and furniture	<u>14,639,918</u>	<u>555,822</u>	<u>(75,551)</u>	<u>-</u>	<u>15,120,189</u>
Total accumulated depreciation	<u>81,609,536</u>	<u>6,945,801</u>	<u>(75,551)</u>	<u>-</u>	<u>88,479,786</u>
Total capital assets, being depreciated, net	<u>122,796,445</u>	<u>(6,572,363)</u>	<u>-</u>	<u>10,279,600</u>	<u>126,503,682</u>
Business-type activities capital assets, net	<u>\$ 151,913,987</u>	<u>\$ 1,186,341</u>	<u>\$ (20,708)</u>	<u>\$ (329,095)</u>	<u>\$ 152,750,525</u>

Total depreciation expense for the current fiscal year amounted to \$ 10,913,076. The estimated useful lives of the City's capital assets are as follows:

Buildings and improvements	10-30 years
Machinery, equipment and furniture	3-10 years
Infrastructure	30-50 years

For the year ended September 30, 2011, depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 2,030,323
Public safety	1,096,082
Transportation	492,231
Culture and recreation	348,400
Human services	<u>239</u>
Total depreciation expense - governmental activities	<u>\$ 3,967,275</u>

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

4. Change In Capital Assets (continued)

Business-type activities:	
Sanitary sewer system	\$ 4,050,712
Solid waste	501,094
Key West Bight	775,664
Stormwater	935,104
Garrison Bight	358,070
Transit system	<u>325,157</u>
Total depreciation expense - business-type activities	<u>\$ 6,945,801</u>

COMPONENT UNIT:

The following summarizes capital assets from The Housing Authority of the City of Key West, Florida's proprietary fund at December 31, 2010:

Building and improvements	\$ 58,580,885
Infrastructure	1,167,753
Equipment	<u>1,077,933</u>
	60,826,571
Less accumulated depreciation	<u>22,142,492</u>
	38,684,079
Land	10,067,569
Construction in progress	<u>3,016,599</u>
Net capital assets	<u>\$ 51,768,247</u>

Total depreciation expense for the current fiscal year amounted to \$ 1,502,203. The estimated useful lives of the Authority's capital assets are as follows:

Equipment	5-10 years
Buildings and improvements	15-40 years
Infrastructure	30-50 years

5. Restricted Assets

The Sanitary Sewer System has restricted assets of \$ 4,268,403 that are restricted by specific provisions of bond ordinances. The Solid Waste Fund has restricted assets of \$ 103,567 and \$ 52,966 as part of its landfill post closure care requirements and impact fee usage restrictions, respectively. Assets so designated are identified as restricted assets on the balance sheet and statement of net assets.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

6. Pension Plans

General Employees Retirement Plan and Police Officers and Firefighters Retirement Plan:

Plan descriptions - The City 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 sale 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 Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plans 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.

Plan investments are reported 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 available market values. These retirement plans do not have long-term contracts for contributions.

Funding policy and annual pension cost - The Board of Trustees make plan amendment recommendations to the City Commission for approval. Employees' contribution rates are established through collective bargaining agreements. The City's contribution rate is determined annually through an actuarial evaluation. The Police Officers and Firefighters Retirement Plan also receives contributions from the State of Florida. The City received \$ 530,175 from the State that was generated from the insurance premium tax as part of the required funding for the Police and Firefighters Retirement Plan and recorded revenues and expenditures in the General Fund, as appropriate. The City's annual pension cost for the year ended September 30, 2011 and related information for the plans are provided herein.

For the year ended September 30, 2011, the retirement plans costs are as follows:

	General Employees Retirement Plan	Police Officers and Firefighters Retirement Plan
Contribution rates:		
City	7.1%	25.1%
State	0.0%	4.8%
Plan members	6.0%	7.0%
Annual City pension cost	\$ 708,043	\$ 2,877,330
City contributions made	\$ 1,133,177	\$ 2,870,541

The General Fund is typically used to liquidate the annual net pension obligations of the City.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

6. Pension Plans (continued)

For the year ended September 30, 2011, the contribution information is as follows:

	General Employees Retirement Plan	Police Officers and Firefighters Retirement Plan
	<u> </u>	<u> </u>
Annual Required Contribution (ARC)	\$ 684,153	\$ 2,870,541
Interest on net pension obligation (asset)	(216,933)	(45,034)
Adjustments to ARC	<u>240,823</u>	<u>51,823</u>
Annual pension cost	708,043	2,877,330
City and state contributions	<u>(1,133,177)</u>	<u>(2,870,541)</u>
(Increase) decrease in net pension obligation (asset)	(425,134)	6,789
Net pension obligation (asset), beginning of year	<u>(2,711,666)</u>	<u>(570,052)</u>
Net pension obligation (asset), end of year	\$ <u><u>(3,136,800)</u></u>	\$ <u><u>(563,263)</u></u>
Actuarial valuation date	10/01/2010	10/01/2010
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar amount, closed	Layered amortization, closed
Remaining amortization period	26 years	8 - 29 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return	8.0%	7.9%
Projected salary increases	6.0%-25.0%	5.0%
Includes inflation at	4.0%	4.0%
Cost-of-living adjustment	None	None
Changes since last valuation	None	None

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

6. Pension Plans (continued)

Three-Year Trend Information:

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
<i>General Employees Retirement Plan :</i>			
9/30/2009	\$ 760,081	167%	\$ (2,207,732)
9/30/2010	\$ 659,894	176%	\$ (2,711,666)
9/30/2011	\$ 708,043	160%	\$ (3,136,800)
<i>Police Officers and Firefighters Retirement Plan :</i>			
9/30/2009	\$ 2,472,442	100%	\$ (576,923)
9/30/2010	\$ 2,554,528	100%	\$ (570,052)
9/30/2011	\$ 2,877,330	100%	\$ (563,263)

Schedule of Funding Progress:

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. An analysis of funding progress (the last plan year valuation date) is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded/ (Overfunded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
<i>General Employees Retirement Plan (dollars in thousands):</i>						
10/1/2010	\$ 38,582	\$ 34,789	\$ (3,793)	110.9%	\$ 9,939	(38.2%)
<i>Police Officers and Firefighters Retirement Plan (dollars in thousands):</i>						
10/1/2010	\$ 56,361	\$ 72,192	\$ 15,831	78.1%	\$ 9,681	163.5%

A net pension asset has been recorded in the government-wide statements in accordance with the net pension valuations amounting to \$ 3,700,063.

COMPONENT UNIT:

Retirement System for Employees of The Housing Authority of the City of Key West, Florida

Plan description - The Authority maintains a single-employer defined benefit pension plan (the "Plan") administered by a Board of Trustees consisting of the Authority's Executive Director, three employees, and its Chairman. Retirement, disability, and death benefits are provided to plan members and beneficiaries. KWHHA holds the authority to establish and amend benefit provisions. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to The Housing Authority of the City of Key West, Florida, 1400 Kennedy Drive, Key West, Florida 33045.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

6. Pension Plans (continued)

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.

Plan investments are reported at their fair value. The investments are valued at the last reported sales price. The Plan does not have any long-term contracts for contributions.

Funding policy and annual pension cost - The contribution requirement of the KWHAs Plan is approved annually by the KWHAs Board of Commissioners. Plan members shall not make any contributions to the Plan. KWHAs is required to contribute at an actuarially determined rate; the current rate is 15.6% of covered payroll. KWHAs annual pension cost for the year ended December 31, 2010 and related information for the Plan is provided herein.

For the year ended December 31, 2010, the retirement plan costs are as follows:

		Housing Authority Employees Retirement Plan
		<u>Plan</u>
Contribution rate - KWHAs		15.6%
Annual KWHAs pension cost	\$	472,739
KWHAs contribution made	\$	471,009

For the year ended December 31, 2010, the contribution information is as follows:

Annual Required Contribution (ARC)	\$	471,009
Interest on net pension obligation (asset)		(15,674)
Adjustments to ARC		<u>17,404</u>
Annual pension cost		472,739
KWHAs contributions		<u>(471,009)</u>
Increase (decrease) in net pension obligation (asset)		1,730
Net pension obligation (asset), beginning of year		<u>(195,926)</u>
Net pension obligation (asset), end of year	\$	<u><u>(194,196)</u></u>

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

6. Pension Plans (continued)

Actuarial valuation date	01/01/10
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed
Remaining amortization period	25 years
Asset valuation method	5-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%
Change since last valuation	None

Three-Year Trend Information:

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
<i>Housing Authority Employees Retirement Plan :</i>			
12/31/2008	\$ 342,045	106%	\$ (180,409)
12/31/2009	\$ 407,414	104%	\$ (195,926)
12/31/2010	\$ 472,739	100%	\$ (194,196)

Schedule of Funding Progress:

The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. An analysis of funding progress (the last three plan year's valuation dates) is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded/ (Overfunded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
<i>Housing Authority Employees Retirement Plan (dollars in thousands) :</i>						
1/1/2009	\$ 3,957	\$ 5,908	\$ 1,951	67.0%	\$ 2,461	79.3%
1/1/2010	\$ 4,406	\$ 6,197	\$ 1,791	71.1%	\$ 2,697	66.4%
1/1/2011	\$ 4,831	\$ 6,825	\$ 1,994	70.8%	\$ 3,140	63.5%

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

7. Other Post-Employment Health Care Benefits

GASB Statement No. 45: *Accounting for Financial Reporting by Employers for Postemployment Benefits Other than Pensions* ("OPEB"), establishes accounting standards for postretirement benefits. The statement does not require funding of OPEB expense, but any difference between the annual required contribution ("ARC") and the amount funded during the year is required to be recorded in the employer's Statement of Net Assets as an increase (or decrease) in the cumulative OPEB obligation. Recognition of the liability accumulated for prior years is phased in over 30 years, commencing with the 2009 liability.

Plan Description and Funding Policy

Employees who retire from the City and their dependents are eligible to continue to participate ("single employer plan") in the City's health insurance plan (medical and prescription) currently offered through the City at the "blended" employee group rate, which is determined annually by the City. The retiree must continue to meet all participation requirements and pay all applicable premiums by the specified due date. Life insurance and dental benefits are portable and the retiree must pay premiums to the carrier directly. As of September 30, 2011, there are 28 participating retirees in the group health program.

The City provides no funding for any portion of the premiums after retirement. However, the City recognizes that there is an "implicit subsidy" arising as a result of the blended rate premium since retiree health care costs, on average, are higher than active employee healthcare costs. The plan is not accounted for as a trust fund and an irrevocable trust has not been established to fund this plan. The plan does not issue a separate financial report. It is the City's current policy to fund the plan on a "pay-as-you-go" basis.

Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of the City's annual OPEB cost for the year, the amount contributed, and the change in the net OPEB obligation.

Required Contribution rates:	
Employer	Pay-as-you-go
Plan members	N/A
Annual required contribution	\$ 697,505
Interest on net OPEB obligation	32,663
Adjustment to annual required contribution	(45,407)
Annual OPEB cost	<u>684,761</u>
Estimated employer contributions	<u>(114,983)</u>
Increase in net OPEB obligation	569,778
Net OPEB obligation, beginning of year	816,582
Net OPEB obligation, end of year	<u><u>\$ 1,386,360</u></u>

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

7. Other Post-Employment Health Care Benefits (continued)

The City's annual OPEB cost, the percentage of annual OPEB costs contributed to the Plan, the net OPEB obligation and trend information are as follows:

<u>Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2009	\$ 498,267	19%	\$ 400,872
9/30/2010	\$ 541,333	23%	\$ 816,582
9/30/2011	\$ 684,761	17%	\$ 1,386,360

Other post-employment benefit obligations attributable to governmental activities are generally liquidated by the General Fund or by the appropriate proprietary fund for business-type activities.

Funding Status and Funding Progress:

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. An analysis of funding progress (the last plan year valuation date) is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded/ (Overfunded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
9/30/2011	\$ -	\$ 5,076,907	\$ 5,076,907	0.0%	\$ 22,517,525	22.5%

The actuarial valuation for the calculation of OPEB involves estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as required supplementary information, is designed to provide multiyear trend information to show whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits. However, the City has not contributed assets to the plan at this time.

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan and include the type of benefits in force at the valuation date and the pattern of sharing benefits between the City and the Plan members at that point. Actuarial calculations reflect a long term perspective and employ methods and assumptions that are designed to reduce the short term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions used for the valuation are as follows:

Measurement Date:	September 30, 2011
Actuarial Cost Method:	Projected Unit Credit (level dollar)
Amortized Method:	Level dollar, open
Remaining Amortized Period:	30 Years

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

7. Other Post-Employment Health Care Benefits (continued)

Asset Valuation Method:	Not applicable
Actuarial Assumptions:	
Return on plan assets	Not applicable
Salary scale	Not applicable
Discount Rate	4.00%
Inflation Rate	8.50% in 2011 graded down to 4.50% in 2019.

8. Deferred Compensation Plan

The City offers its employees a deferred compensation plan 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.

9. Risk Management

General Liability, Property, Worker Compensation and Other 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 2011, a total of approximately \$ 1,564,000, was incurred/paid in benefits and claims. In fiscal year 2011, the fund provided coverage up to \$ 325,000 for each worker's compensation claim, \$ 100,000 per occurrence for public officials, general liability, and employee benefits liability, \$ 25,000 per claim for crime coverage, \$ 100,000 for each auto/general liability claim, and \$ 50,000 for each property claim other than wind and flood. In general, 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, except for an \$ 8 million settlement in 2009 on violations of the Commerce Clause of the U.S. Constitution.

Self-insurance retention, per occurrence, for wind is 5% of building and/or contents with a \$ 75,000 minimum. Self-insurance retention, per occurrence, for flood is 5% or excess amount as covered by the National Flood Insurance Program with a \$ 5,000,000 annual limit.

For additional information, the reader should review the certificates of insurances which are available at the City upon request.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

9. Risk Management (continued)

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 workers' compensation, general liability and property claims of \$ 3,367,384 is reported in the fund at September 30, 2011. This amount has been discounted to present value at an assumed investment rate of 3.0%, and an approximate 50% confidence level. Changes in the fund's workers compensation, general liability and property claims on an undiscounted basis during the past three years are as follows (in thousands):

Fiscal Year	Beginning Liability	Claims Incurred	Estimated Prior Claims	Claims (Paid) Adjustments	Ending Liability
2009	\$ 6,059	\$ 1,931	\$ 1,927	\$ (3,672)	\$ 6,245
2010	\$ 6,245	\$ 1,894	\$ (400)	\$ (2,684)	\$ 5,055
2011	\$ 5,055	\$ 825	\$ (2,443)	\$ 504	\$ 3,941

Health Insurance - The Insurance Programs 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 Programs Fund receives its health insurance contributions from bi-weekly payroll deductions and employer contributions, which are sufficient to meet its monthly premium requirements.

10. Accrued Compensated Absences

At September 30, 2011, compensated absences are based on actual earned hours times pay rates in effect at year-end. These amounts are recorded in the governmental fund financial statements for those employees who have terminated their employment as of the end of the fiscal year. In the proprietary fund financial statements, compensated absences are fully recorded and classified as current and long-term based on their expected repayment schedule. The Statement of Net Assets, at the government-wide financial statements level, reports the liability when earned for both governmental activities and business-type activities. These amounts are then classified as current or long-term depending upon expected repayment terms. Total accrual at September 30, 2011 was \$ 3,401,211 for all funds.

The General Fund is used to liquidate the liability for compensated absences for those governmental activities.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

11. Construction And Other Significant Commitments

A. Construction Commitments

The following table presents the approximate significant construction commitments outstanding at September 30, 2011:

	<u>Remaining Construction Commitment</u>
Gas Tax Fund:	
South Roosevelt Boulevard engineering	\$ 113,000
Duck Avenue sidewalks	\$ 410,900
Virginia Street sidewalks	\$ 156,300
Leon Street sidewalks	\$ 217,100
College Road sidewalks	\$ 159,400
 Sanitary Sewer System Fund:	
Eaton Street Mill and Pave	\$ 123,800
Headworks engineering	\$ 184,200
Headworks construction	\$ 667,400
 Stormwater Fund:	
White Street pump station	\$ 126,900
 Key West Bight Fund:	
Key West Bight retail shop	\$ 306,500
 Bahama Village and Caroline Street Fund:	
Caroline Street Infrastructure engineering	\$ 234,800

B. Landfill Closure

The City had previously received notification from the Florida Department of Environmental Protection (FDEP) that its landfill had been considered officially closed as of April 26, 1996. For the current year, for FDEP financial assurance costs estimate purposes, the City chose to update the maximum cost estimate by using an inflationary factor of 1.010%. By using this factor, the City reported to the FDEP an inflation adjusted long-term care cost estimate of \$ 452,553 for the remaining 5 years. In accordance with the landfill long-term care escrow agreement between the City of Key West and the Florida Department of Environmental Protection, the City has set aside in a restricted cash account with First State Bank of the Florida Keys the amount of \$ 103,567 as of September 30, 2011, which represents more than the required annual amount of \$ 90,511. There were no deposits or withdraws from this account during the fiscal year other than earned interest.

Based on historical information the City amortizes approximately \$ 40,000 per year in landfill closure cost payables (\$ 183,333 balance as of September 30, 2011) of which \$ 143,333 remain as a future long-term payable at September 30, 2011.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

11. Construction And Other Significant Commitments (continued)

C. Operating Leases

In March 2010, the City entered into a three year operating lease for the use of office space. The agreement allows for the ability to be cancelled after two years, with six months prior written notice by the City. The agreement calls for rent payments of \$ 12 per square foot per year plus common area maintenance. Based on total office space available under the agreement, the current monthly installments are approximately \$ 38,000. The total rental expense in connection with this agreement in 2011 was approximately \$ 272,000. In addition, the City leases office equipment under various agreements at approximately \$ 5,800 per month, plus excess usage charges, through February 2012 and at lesser amounts thereafter until December 2014.

Minimum estimated future rental payments relative to these agreements at September 30, 2011 are approximately as follows:

<u>Year Ending</u> <u>September 30,</u>	
2012	\$ 516,200
2013	\$ 432,100
2014	\$ 17,700
2015	\$ 600
Thereafter	\$ NONE

12. Long-Term Debt and Liabilities

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

	<u>Balance</u> <u>October 1,</u> <u>2010</u>	<u>Additions</u>	<u>Amortization/</u> <u>Retirements</u>	<u>Balance</u> <u>September 30,</u> <u>2011</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Governmental Activities:					
Note payable	\$ 1,319,698	\$ -	\$ 147,059	\$ 1,172,639	\$ 147,058
Insurance claims payable	4,352,442	-	985,058	3,367,384	1,589,038
Compensated absences	<u>3,184,874</u>	<u>1,787,802</u>	<u>1,885,982</u>	<u>3,086,694</u>	<u>1,807,798</u>
Total governmental activities	<u>\$ 8,857,014</u>	<u>\$ 1,787,802</u>	<u>\$ 3,018,099</u>	<u>\$ 7,626,717</u>	<u>\$ 3,543,894</u>
Business-Type Activities:					
Sewer Refunding Revenue Bonds, Series 2003	\$ 23,760,000	\$ -	\$ 1,000,000	\$ 22,760,000	\$ 1,030,000
Marina Refunding Revenue Bonds, Series 1993	330,506	-	330,506	-	-
Marina Refunding Revenue Note, Series 2009	9,142,446	-	144,400	8,998,046	1,158,217
Note payable, State Revolving Loan	3,488,227	-	254,365	3,233,862	262,750
Deferred amounts:					
Issuance premiums	163,472	-	15,851	147,621	-
Losses on early retirement	<u>(859,544)</u>	<u>-</u>	<u>(94,268)</u>	<u>(765,276)</u>	<u>-</u>
Total notes and bonds	36,025,107	-	1,650,854	34,374,253	2,450,967
Accrued compensated absences	<u>317,053</u>	<u>158,672</u>	<u>161,208</u>	<u>314,517</u>	<u>151,859</u>
Total business-type activities	<u>\$ 36,342,160</u>	<u>\$ 158,672</u>	<u>\$ 1,812,062</u>	<u>\$ 34,688,770</u>	<u>\$ 2,602,826</u>
Total long-term debt and liabilities	<u>\$ 45,199,174</u>	<u>\$ 1,946,474</u>	<u>\$ 4,830,161</u>	<u>\$ 42,315,487</u>	<u>\$ 6,146,720</u>

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

12. Long-Term Debt and Liabilities (continued)

Additional long-term liabilities for governmental activities include unearned revenue of \$ 1,116,818 and OPEB liability \$ 1,255,132 of (Note 7) as of September 30, 2011.

Additional long-term liabilities for business-type activities include OPEB liability (Note 7), customer deposits and landfill closure cost payable amounting to \$ 131,228, \$ 375,471 and \$ 143,333, respectively, as of September 30, 2011.

General Obligation:

Promissory Note:

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 and secured by tax increment revenue which derives from such area. Issued at not to exceed \$ 2,500,000, and fully drawn down, on October 1, 2003, the City converted the then revolving facility to a term loan at a fixed interest rate of 2.56%. This note is payable in varying annual installments of principal and interest not exceeding \$ 177,129 through its maturity on October 1, 2019.

The general obligation promissory note debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 147,058	\$ 30,071	\$ 177,129
2013	147,058	26,312	173,370
2014	147,058	22,553	169,611
2015	147,058	18,794	165,852
2016	147,058	15,035	162,093
2017-2019	437,349	22,553	459,902
	<u>\$ 1,172,639</u>	<u>\$ 135,318</u>	<u>\$ 1,307,957</u>

Revenue Obligation:

Sewer System Refunding Revenue Bonds, Series 2003:

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 System Fund. The limitations and restrictions of the bond ordinance are summarized later in this note. The Sewer System Refunding Revenue Bonds, Series 2003, were issued for \$ 29,315,000 in July 2003. Annual debt service installments not exceeding approximately \$ 2,020,000 are due through October 1, 2026, with interest payable semi-annually at rates ranging from 3.10% to 5.25%. The purpose for this issue was to refund the Series 1993 Sewer System Revenue Bonds which partially funded the City's "Advanced Wastewater Treatment Facility." These bonds are secured by a pledge of the net revenues of the system.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

12. Long-Term Debt and Liabilities (continued)

Summary information on this indebtedness appears below:

Sewer System Refunding Revenue Bonds, Series 2003	
Total bond obligation as of September 30, 2011	\$ 22,760,000
Less: current portion	1,030,000
Less: unamortized loss on early retirement	708,150
Plus: unamortized bond premium	147,621
Total long-term Sewer System Refunding Revenue Bonds	\$ 21,169,471

Marina Refunding Revenue Note, Series 2009:

In December 2009, the City entered into an agreement with a bank for the issuance of the Capital Improvement/Marina Refunding Revenue Note, Series 2009 in the amount of \$ 9,142,446. The proceeds from this indebtedness were used to currently refund the then outstanding Tax-Exempt Capital Improvement/Marina Revenue Bonds, Series 1997. The then bonds were originally issued to finance the acquisition of an approximately 8.8 acre site commonly known as the Key West Bight for the public purpose of constructing marina and related facilities, public parks and conservation areas thereon.

The Capital Improvement/Marina Refunding Revenue Note, Series 2009 is payable solely and secured by a pledge of the net revenue of the facilities and the half-cent sales tax collections. Interest is due semiannually, at a rate of 3.37%, with principal due annually at installments ranging from \$ 1,158,200 to \$ 1,419,800 through maturity in December 2017.

Summary information on the Marina Refunding Revenue Note, Series 2009 appears below:

Marina Refunding Revenue Note, Series 2009	
Total obligation as of September 30, 2011	\$ 8,998,046
Less: current portion	1,158,217
Less: unamortized loss on early retirement	57,126
Total long-term Marina Refunding Revenue Note	\$ 7,782,703

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

12. Long-Term Debt and Liabilities (continued)

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

Fiscal Year	Sewer System Refunding Revenue Bonds Series 2003		Capital Improvement / Marina Revenue Bonds, Series 1993 and Note, Series 1999		Total
	Principal	Interest	Principal	Interest	
2012	\$ 1,030,000	\$ 984,697	\$ 1,158,217	\$ 283,748	\$ 3,456,662
2013	1,060,000	952,768	1,202,499	243,940	3,459,207
2014	1,095,000	918,317	1,240,273	202,779	3,456,369
2015	1,130,000	881,088	1,281,571	160,285	3,452,944
2016	1,175,000	841,537	1,323,085	116,396	3,456,018
2017 - 2021	6,835,000	3,231,413	2,792,401	94,897	12,953,711
2022 - 2026	8,505,000	1,556,044	-	-	10,061,044
2027	1,930,000	84,438	-	-	2,014,438
	22,760,000	\$ 9,450,302	8,998,046	\$ 1,102,045	\$ 42,310,393
Net amortized loss on early retirement	(708,150)		(57,126)		
Net unamortized premiums	147,621		-		
	\$ 22,199,471		\$ 8,940,920		

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 System Refunding Revenue Bonds, Series 2003. At September 30, 2011, the City is in compliance with all reporting and disclosure requirements. Required disclosures as of September 30, 2011, 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:

	2010	2011	2012
Base charge	\$ 23.23	\$ 23.23	\$ 23.23
Commodity charge	\$ 4.60	\$ 4.60	\$ 4.60

- D. The payable to FEMA is discussed in the commitment and contingencies section of the footnotes (Note 16) and under the subsequent events footnote (Note 17).
- E. Required historical debt service coverage information is presented in the statistical section of this report (Table 15).

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

12. Long-Term Debt and Liabilities (continued)

Note Payable – State of Florida, Department of Environmental Protection – State Revolving Loan:

In connection with the City’s Advanced Wastewater Treatment Facility, the City qualified for the Florida State Revolving Loan Fund program in tandem with the Sewer System Revenue Bonds. Total principal draws amounted to (at present value) \$ 5,172,648 through fiscal year 2002, which agreed to the maximum amount available under this agreement. The City pays annual installments of \$ 366,367 through February 2022, with interest payable at a 3.28% fixed rate. This facility is in junior position to the Sewer System Refunding Revenue Bonds, Series 2003. Summary information on the state revolving loan appears below:

State Revolving Loan	Total
Total loan balance as of September 30, 2011	\$ 3,233,862
Less current portion	262,750
 Total long-term state revolving loan balance	 \$ 2,971,112

State revolving loan debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2012	\$ 262,750	\$ 103,617	\$ 366,367
2013	271,413	94,954	366,367
2014	280,361	86,006	366,367
2015	289,603	76,764	366,367
2016	299,149	67,218	366,367
2017-2021	1,650,348	181,487	1,831,835
2022	180,238	2,946	183,184
	\$ 3,233,862	\$ 612,992	\$ 3,846,854

Conduit debt obligation - The City through the Local Redevelopment Agency entered into an agreement to purchase certain housing facilities from the U.S. Navy known as “Poinciana Complex.” This agreement was subsequently assigned to The Housing Authority of the City of Key West, Florida (the “Authority”). The Authority entered into a first mortgage and security agreement amounting to \$ 16,000,000 under the Section 108 loan program from the Department of Housing and Urban Development to acquire the housing complex. In addition, the Authority entered into agreement with a local government agency in the principal amount of \$ 2,210,000 in order to facilitate the acquisition of the complex. The purchase closed in January 2004.

Under the \$ 16,000,000 mortgage note, the City entered into a guarantee and inter-local agreement with the Authority. The City is not liable on the note, as repayment of the note is the responsibility of the Authority and is secured by a mortgage on the housing facility. The note 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 Authority cannot meet the maximum required amount within the restoration period. The City maintains recourse against the Authority. Based on these circumstances, the City considers this to be conduit debt and accordingly, it is not recorded on the City’s books.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

12. Long-Term Debt and Liabilities (continued)

COMPONENT UNIT:

The following is a summary of changes in long-term debt and liabilities for the Authority for the year ended December 31, 2010:

	Balance January 1, 2010	Additions	Retirements	Balance December 31, 2010	Due Within One Year
Notes payable	\$ 4,032,004	\$ 3,395,000	\$ 212,409	\$ 7,214,595	\$ 76,216
Revenue notes	26,560,824	484,148	809,111	26,235,861	860,386
Total long-term debt and liabilities	<u>\$ 30,592,828</u>	<u>\$ 3,879,148</u>	<u>\$ 1,021,520</u>	<u>\$ 33,450,456</u>	<u>\$ 936,602</u>
Compensated absences	<u>\$ 267,115</u>	<u>\$ 39,529</u>	<u>\$ -</u>	<u>\$ 306,644</u>	<u>\$ 30,664</u>
Other noncurrent liabilities	<u>\$ 2,233,636</u>	<u>\$ 105,535</u>	<u>\$ -</u>	<u>\$ 2,339,171</u>	<u>\$ -</u>

Notes as of December 31, 2010, are comprised of the following:

Notes Payable Description

Multifamily Housing Revenue Bond, Series 2010 in the principal amount of \$ 1,759,000. The bond is amortized over a 20-year period and bears interest at 4.50%. The bond is due in July 2017. In addition, The Authority borrowed \$ 1,636,000 (2 notes) from Monroe County Comprehensive Plan Land Authority in order to acquire the property "Washington Street." These loans do not bear interest and mature in 30 years.	\$ 3,372,321
Second mortgage due to a governmental agency, collateralized by land, project improvements, and all other fixtures and personal property located on the land, "Home Investment Partnerships Program," payable in full in April 2018, non-interest bearing.	1,819,720
Mortgage due to a governmental agency, collateralized by land, "Key Plaza Site B," payable in full in May 2031, non-interest bearing.	1,500,000
First mortgage due to a governmental agency, collateralized by land, "Key Plaza Site A - Home Investment Partnerships Program," payable in full in April 2018, non-interest bearing.	382,554
First mortgage due to a local government, collateralized by land, "Roosevelt Gardens," principal to be forgiven in \$ 20,000 increments until May 2031, non-interest bearing.	<u>140,000</u>
	<u>\$ 7,214,595</u>

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

12. Long-Term Debt and Liabilities (continued)

Revenue Notes as of December 31, 2010 are comprised of the following:

Revenue Notes Description	
<p>First mortgage and security agreement related to its Housing Revenue Note Series 2003 in the principal amount of \$ 16,000,000 to acquire the housing complex known as "Poinciana Complex." This note is due in ranging annual installments through August 2023 bearing interest at 5.28%. As noted previously, the City of Key West entered into a guarantee agreement whereby funds will be advanced if the debt service reserve cannot be restored to its maximum within its prescribed period.</p>	\$ 13,007,000
<p>Multifamily Housing Revenue Notes amortized over a 30-year period and bearing interest at 4.25%. These notes are due in January 2011 and are collateralized by the land, project improvements and property located on the land "Roosevelt Gardens." Series 2002 in the original amount of \$ 9,850,000 and Series 2003 in the original amount of \$ 2,000,000.</p>	10,534,713
<p>Second mortgage payable to a local government agency to facilitate the acquisition of the "Poinciana Complex" as discussed above and under the long-term debt and liability section of the primary government. This note is non-interest bearing and is due in January 2034. Collateralized by the land, project improvements and property located on the land.</p>	2,210,000
<p>Housing Revenue Bond, Series 2009 issued to a local banking institution in the principal amount of \$ 2,000,000 to demolish existing structures and construct new rental units on the site "Key Plaza Site B." Collateralized by first mortgage on land, project improvements and property located on the land; bearing interest at rates ranging from 4.00% to 4.75%. The bond is amortized over a 25-year period with a 7-year balloon. At December 31, 2010, the Authority has drawn down \$ 484,148.</p>	<u>484,148</u>
	<u>\$ 26,235,861</u>

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

12. Long-Term Debt and Liabilities (continued)

The anticipated debt service under all agreements discussed for the component unit are as follows:

Fiscal Year	Revenue Notes		Notes Payable	
	Principal	Interest	Principal	Interest
2011	\$ 76,216	\$ 78,002	\$ 860,386	\$ 1,195,401
2012	78,834	75,385	902,987	1,155,442
2013	81,573	72,645	946,089	1,112,439
2014	84,440	69,779	992,716	1,066,589
2015	87,440	66,778	1,040,887	1,017,711
2016-2020	2,629,602	283,764	6,362,113	4,341,954
2021-2025	486,294	184,797	7,656,961	2,154,260
2026-2030	554,196	60,971	2,645,636	852,054
2031-2035	1,500,000	-	4,828,086	238,364
2036-2040	1,636,000	-	-	-
	<u>\$ 7,214,595</u>	<u>\$ 892,121</u>	<u>\$ 26,235,861</u>	<u>\$ 13,134,214</u>

The other noncurrent liabilities as of December 31, 2010 consist mainly of the following:

In August 1989, the Authority entered into an agreement with the City whereby the City would provide the Authority \$ 2,233,636 which the City had received as part of a Housing Development Grant received from the U.S. Department of Housing and Urban Development. The Authority in turn loaned these moneys to Creative Choice Management, Inc. in order to develop an affordable/lower income housing project known as the Frederick Douglas Square project.

The Authority recorded a noncurrent receivable for the total amount loaned (\$ 2,233,636) to Creative Choice Management, Inc. The loan is not interest bearing and is to be repaid from rents collected over a period of 25 years.

The funding received from the City is non-interest bearing and is due 25 years from the date on which the first unit was available for occupancy.

13. Deferred Revenue

The City has recognized deferred revenue as described below. All balances remain unearned at September 30, 2011 from the sources described below.

General Fund - Occupational license renewals are sent out in August for the license year beginning October 1st. Revenues of \$ 925,553 collected in advance of the licensing year are reported as deferred revenue at year-end.

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

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

13. Deferred Revenue (continued)

Special Revenue Funds	Total
Community Development Office (grants and awards)	\$ 1,211,440
Infrastructure Surtax Fund (grants and awards)	119,332
Gas Tax (impact fees)	89,712
Totals	\$ 1,420,484

Sanitary Sewer System Fund - Customer prepayments of \$ 139,497 for utility bills are reported as deferred revenue.

Solid Waste Fund - Impact fees of \$ 52,966 are reported as deferred revenue.

Key West Bight Fund - Tenant advance billings and payments of \$ 294,749 are reported as deferred revenue.

Garrison Bight Fund - Tenant advance billings and payments of \$ 100,681 are reported as deferred revenue.

Internal Service Fund - Insurance premiums collected in advance of \$ 1,081 are reported as deferred revenue.

14. Interfund Assets and Liabilities

A summary of interfund receivable and payable balances at September 30, 2011 are as follows:

Interfund Items (current)	Receivables	Payables
Governmental Funds:		
General	\$ 111,871	\$ -
Infrastructure Surtax	135	-
Nonmajor funds	263,078	-
Enterprise Funds:		
Sanitary Sewer System	1,078	-
Solid Waste	3,099	-
Key West Bight	5,792	-
Stormwater	404	-
Nonmajor funds	10,109	262,000
Internal Service Fund:		
Insurance Programs	-	133,566
Totals	\$ 395,566	\$ 395,566

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

14. Interfund Assets and Liabilities (continued)

The receivable balance in the General Fund is a result of overfunding the Insurance Programs Fund. Other short-term advances were made to the Transit System Fund by the Gas Tax Fund to cover for temporary cash deficits at year-end. All of the above amounts are expected to be repaid shortly after year-end from available current assets, including governmental receivables from Federal and State sources.

A summary of advances (receivables and payables) at September 30, 2011 are as follows:

<u>Advances (long-term)</u>	<u>Receivables</u>	<u>Payables</u>
Governmental Funds:		
General	\$ 2,149,760	\$ -
Enterprise Funds:		
Sanitary Sewer System	2,185,492	-
Stormwater	-	4,320,198
Key West Bight	252,766	-
Nonmajor funds	<u>-</u>	<u>267,820</u>
Totals	\$ <u>4,588,018</u>	\$ <u>4,588,018</u>

The advance in the General Fund is owed by the Stormwater Fund for start-up costs and prior year's working capital needs. The receivable balance in the Sanitary Sewer System Fund is primarily due to long-term advances made to the Stormwater Fund in connection with construction projects. The Nonmajor Enterprise Fund, the Transit System Fund, owes the Key West Bight Fund for rents as a result of a portion of its Park-n-Ride lot built on Key West Bight property. The above amounts are repaid as excess cash flows become available in the debtor fund.

15. Interfund Transfers

A summary of interfund transfers for the year ended September 30, 2011 is as follows:

<u>Transfers</u>	<u>In</u>	<u>Out</u>
Governmental Funds:		
General	\$ 4,812,123	\$ 661,700
Infrastructure Surtax	1,875,000	3,362,500
Capital Projects	2,803,600	-
Nonmajor funds	661,700	3,285,737
Enterprise Funds:		
Sanitary Sewer System	-	1,259,250
Solid Waste	-	1,589,200
Stormwater	-	304,636
Key West Bight	493,800	500,000
Nonmajor funds	<u>648,500</u>	<u>331,700</u>
Totals	\$ <u>11,294,723</u>	\$ <u>11,294,723</u>

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

15. Interfund Transfers (continued)

The General Fund received \$ 3,984,786 from the Enterprise Funds for payments in lieu of taxes. The General Fund received \$ 168,437, operating revenues, from the closeout of the Local Redevelopment Agency Fund. The General Fund received \$ 100,000 from Bahama Village and Caroline Street Fund for community policing. The General Fund made its annual transfer (\$ 661,700 in 2011) to the Bahama Village and Caroline Street Fund (nonmajor fund) for tax increment funding.

The Infrastructure Surtax Fund received \$ 1,875,000, capital reserves, from the closeout of the Local Redevelopment Agency Fund. The Infrastructure Surtax Fund transferred a portion of the one-cent sales tax to the Capital Projects Fund. The transfer of \$ 2,803,600 is used to fund current and future projects that are accounted for within the fund. In addition, the Infrastructure Surtax Fund transferred \$ 558,900 to the General Fund representing 10% of the budgeted discretionary sales surtax revenues to be used for any lawful purpose.

The Nonmajor Governmental Funds transfers out are from the Gas Tax Fund to subsidize the Transit System Fund (\$ 648,500) and the Bahama Village and Caroline Street Fund annual transfer to the Key West Bight Fund (\$ 493,800) to aid in the payment of debt service.

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

16. Contingencies

The City is a defendant in several personal injury, workers' compensation, and other litigation incidental to its routine operations. Annually, the City undergoes an actuarial study to determine the funding necessary to allow for current and future 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 of 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.

The City is involved in a claim of selective enforcement of its City code resulting in alleged business losses. While the City believes its liabilities are remote, plaintiff damage claim exceeds \$ 1,000,000.

In 2003, the City underwent an audit of FEMA Disaster No. 1306-DR-FL grant otherwise known as Hurricane Irene. The City has received official notification from the Florida Department of Community Affairs de-obligating approximately \$ 6,300,000 in claimed costs as a result of their audit. Due to the denial of a subsequent appeal, the City has recorded a liability in the financial statements. FEMA's basis for disallowing these costs is that the damage to the sewer system was preexisting and not as a result of the storm. Subsequent to year-end, the City paid this liability to FEMA from existing reserves and proceeds from debt (Note 17).

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

16. Contingencies (continued)

The City is also being challenged by a local community college for imposition of a stormwater utility user fee on property owned by the State of Florida and located on North Stock Island. A trial court granted a final summary judgment in favor of the local community college. The court ordered the City to refund user fees previously paid by the local community college. The City's efforts to overturn the ruling on appeal have thus far been unsuccessful. The City has asked the Florida Supreme Court to review the case. With respect to the claim preventing the City from collecting stormwater utility user fees, it is management's opinion that an adverse outcome is probable. With respect to the claim to a refund of fees previously paid by the local community college, it is management's opinion that an adverse outcome is possible but not probable. In the event of an adverse outcome, the potential range of loss is estimated to be between \$ 200,000 and \$ 250,000. In addition, an action was brought against the City on behalf of certain North Stock Island property owners who allege that the City's imposition of stormwater utility user fee constitute an illegal tax. The City is vigorously defending the action. In the event of an adverse outcome, the property owners seek refund of certain stormwater utility user fees previously paid. The City's management believes that an unfavorable outcome is as likely as a favorable outcome. In the event of an adverse outcome, the potential loss is estimated to be between \$ 750,000 and \$ 1,250,000.

The City is also involved in an alleged wrongful termination in contravention of the Law Enforcement Officer's Bill of Rights. The City's management believes that an adverse outcome is possible but not probable. Based on limited information, the potential loss is estimated not to exceed \$ 100,000. In addition, the City is also involved in an alleged wrongful termination in violation of the Family Medical Leave Act. The City's management believes that an adverse outcome is reasonably possible. In the event of an adverse outcome, the potential loss is estimated to be between \$ 50,000 and \$ 150,000.

The City receives 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, 2011.

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.

17. Subsequent Events

General Government:

On February 13, 2012, the City entered into agreement with a financial institution for the issuance of the Sewer System Revenue Bonds, Series 2012 in the amount of \$ 4,065,000. The proceeds from this indebtedness were used to pay amounts owed to the Federal Emergency Management Agency, as discussed in Note 16.

CITY OF KEY WEST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

17. Subsequent Events (continued)

Interest is due semiannually, at a rate of 2.07%, with principal due annually at installments ranging from \$ 415,000 to \$ 490,000 through maturity on October 1, 2021.

Debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ -	\$ 11,219	\$ 11,219
2013	-	84,146	84,146
2014	415,000	79,850	494,850
2015	425,000	71,156	496,156
2016	435,000	62,255	497,255
2017-2021	2,300,000	171,810	2,471,810
2022	490,000	5,072	495,072
	<u>\$ 4,065,000</u>	<u>\$ 485,508</u>	<u>\$ 4,550,508</u>

Police Officers and Firefighters' Retirement Plan:

As of September 30, 2011, the Plan had deposit in trust for real estate acquisitions in the amount of \$ 174,065. In November 2011, the Plan acquired commercial real estate in Key West as an addition to its investment portfolio at a price of approximately \$ 3.8 million.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KEY WEST, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)
ANALYSIS OF FUNDING PROGRESS -
GENERAL EMPLOYEES' PENSION TRUST FUND
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
10/1/2005	\$ 25,673	\$ 26,954	\$ 1,281	95.2%	\$ 10,387	12.3%
10/1/2006	\$ 28,266	\$ 28,258	\$ (8)	100.0%	\$ 10,882	(0.1%)
10/1/2007	\$ 32,278	\$ 30,435	\$ (1,843)	106.1%	\$ 11,705	(15.7%)
10/1/2008	\$ 35,149	\$ 32,085	\$ (3,064)	109.5%	\$ 10,982	(27.9%)
10/1/2009	\$ 37,065	\$ 33,088	\$ (3,977)	112.0%	\$ 10,277	(38.7%)
10/1/2010	\$ 38,582	\$ 34,789	\$ (3,793)	110.9%	\$ 9,939	(38.2%)

CITY OF KEY WEST, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)
ANALYSIS OF FUNDING PROGRESS -
POLICE OFFICERS' AND FIREFIGHTERS' PENSION TRUST FUND
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
10/1/2005	\$ 40,679	\$ 51,732	\$ 11,053	78.6%	\$ 9,611	115.0%
10/1/2006	\$ 48,066	\$ 57,645	\$ 9,579	83.4%	\$ 10,277	93.2%
10/1/2007	\$ 53,303	\$ 61,829	\$ 8,526	86.2%	\$ 9,780	87.2%
10/1/2008	\$ 56,358	\$ 65,189	\$ 8,831	86.5%	\$ 9,293	95.0%
10/1/2009	\$ 55,884	\$ 68,384	\$ 12,500	81.7%	\$ 8,738	143.1%
10/1/2010	\$ 56,361	\$ 72,192	\$ 15,831	78.1%	\$ 9,681	163.5%

CITY OF KEY WEST, FLORIDA
REQUIRES SUPPLEMENTARY INFORMATION
(Unaudited)
ANALYSIS OF FUNDING PROGRESS -
PAY-AS-YOU-GO APPROACH
OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS
(In Thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded/ (Overfunded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
* 9/30/2009	\$ -	\$ 4,183	\$ 4,183	0.0%	\$ 19,091	21.9%
9/30/2011	\$ -	\$ 5,077	\$ 5,077	0.0%	\$ 22,518	22.5%

* Year of GASB Statement No. 45 implementation.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

NONMAJOR GOVERNMENTAL FUNDS OVERVIEW

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 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.

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. Third party restrictions have lapsed; therefore, residual funds have been transferred to the General Fund and the Infrastructure Surtax Fund.

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

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

CITY OF KEY WEST, FLORIDA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2011

	Special Revenue Funds			
	Law Enforcement Trust Fund	Gas Tax Fund	Fort Taylor Fund	Affordable Housing Escrow Fund
ASSETS:				
Cash, cash equivalents and investments	\$ 241,228	\$ 159,934	\$ 1,214,800	\$ 96,227
Receivables (net of allowance for uncollectibles):				
Intergovernmental	-	574,119	10,960	-
Interfund receivables	-	263,078	-	-
	-	263,078	-	-
Total assets	\$ 241,228	997,131	\$ 1,225,760	\$ 96,227
 LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ -	\$ 295,870	\$ -	\$ -
Accrued payroll	-	8,002	-	-
Retainage payable	-	101,054	-	-
Deferred revenue	-	89,712	-	-
	-	89,712	-	-
Total liabilities	-	494,638	-	-
 FUND BALANCES:				
Restricted for:				
Law enforcement	241,228	-	-	-
Transportation	-	502,493	-	-
Natural resources	-	-	1,225,760	-
Housing initiatives and urban redevelopment	-	-	-	96,227
Infrastructure and capital projects	-	-	-	-
	-	-	-	-
Total fund balances	241,228	502,493	1,225,760	96,227
Total liabilities and fund balances	\$ 241,228	\$ 997,131	\$ 1,225,760	\$ 96,227

<u>Local Redevelopment Agency Fund</u>	<u>Bahama Village and Caroline Street Fund</u>	<u>Navy Pier Payments Fund</u>	<u>Total</u>
\$ -	\$ 1,046,058	\$ 8,024,352	\$ 10,782,599
-	-	-	585,079
-	-	-	263,078
<u>\$ -</u>	<u>\$ 1,046,058</u>	<u>\$ 8,024,352</u>	<u>\$ 11,630,756</u>
\$ -	\$ 13,934	\$ -	\$ 309,804
-	-	-	8,002
-	-	-	101,054
-	-	-	89,712
<u>-</u>	<u>13,934</u>	<u>-</u>	<u>508,572</u>
-	-	-	241,228
-	-	-	502,493
-	-	-	1,225,760
-	1,032,124	-	1,128,351
-	-	8,024,352	8,024,352
<u>-</u>	<u>1,032,124</u>	<u>8,024,352</u>	<u>11,122,184</u>
<u>\$ -</u>	<u>\$ 1,046,058</u>	<u>\$ 8,024,352</u>	<u>\$ 11,630,756</u>

CITY OF KEY WEST, FLORIDA
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2011

	Special Revenue Funds			
	Law Enforcement Trust Fund	Gas Tax Fund	Fort Taylor Fund	Affordable Housing Escrow Fund
REVENUES:				
Taxes	\$ -	\$ 1,354,577	\$ -	\$ -
Intergovernmental	-	3,027,930	188,948	-
Charges for services	-	-	-	-
Fines and forfeitures	100,951	-	-	-
Investment earnings	2,097	1,531	10,648	892
Contributions and other	-	246,223	-	-
Total revenues	<u>103,048</u>	<u>4,630,261</u>	<u>199,596</u>	<u>892</u>
EXPENDITURES:				
Current:				
Public safety	63,926	-	-	-
Transportation	-	1,348,957	-	-
Economic environment	-	-	-	-
Capital outlay	8,955	2,201,795	-	-
Debt service	-	-	-	-
Total expenditures	<u>72,881</u>	<u>3,550,752</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	<u>30,167</u>	<u>1,079,509</u>	<u>199,596</u>	<u>892</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	(648,500)	-	-
Total other financing sources (uses)	<u>-</u>	<u>(648,500)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	30,167	431,009	199,596	892
FUND BALANCE, October 1	<u>211,061</u>	<u>71,484</u>	<u>1,026,164</u>	<u>95,335</u>
FUND BALANCE, September 30	<u>\$ 241,228</u>	<u>\$ 502,493</u>	<u>\$ 1,225,760</u>	<u>\$ 96,227</u>

Local Redevelopment Agency Fund	Bahama Village and Caroline Street Fund	Navy Pier Payments Fund	Total
\$ -	\$ 759,609	\$ -	\$ 2,114,186
-	-	-	3,216,878
-	-	1,034,897	1,034,897
-	-	-	100,951
-	13,307	75,768	104,243
-	-	8,250	254,473
<u>-</u>	<u>772,916</u>	<u>1,118,915</u>	<u>6,825,628</u>
-	-	-	63,926
-	-	321,814	1,670,771
-	168,850	-	168,850
-	86,614	-	2,297,364
-	180,770	-	180,770
<u>-</u>	<u>436,234</u>	<u>321,814</u>	<u>4,381,681</u>
<u>-</u>	<u>336,682</u>	<u>797,101</u>	<u>2,443,947</u>
-	661,700	-	661,700
<u>(2,043,437)</u>	<u>(593,800)</u>	<u>-</u>	<u>(3,285,737)</u>
<u>(2,043,437)</u>	<u>67,900</u>	<u>-</u>	<u>(2,624,037)</u>
(2,043,437)	404,582	797,101	(180,090)
<u>2,043,437</u>	<u>627,542</u>	<u>7,227,251</u>	<u>11,302,274</u>
<u>\$ -</u>	<u>\$ 1,032,124</u>	<u>\$ 8,024,352</u>	<u>\$ 11,122,184</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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance</u> <u>With Final</u> <u>Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Fines and forfeitures	\$ -	\$ 6,400	\$ 100,951	\$ 94,551
Investment earnings	-	-	2,097	2,097
Total revenues	<u>-</u>	<u>6,400</u>	<u>103,048</u>	<u>96,648</u>
EXPENDITURES:				
Operating	6,000	52,800	52,426	374
Capital outlay	-	35,100	8,955	26,145
Aid to private organizations	10,000	11,500	11,500	-
Total expenditures	<u>16,000</u>	<u>99,400</u>	<u>72,881</u>	<u>26,519</u>
Excess (deficiency) of revenues over expenditures	<u>(16,000)</u>	<u>(93,000)</u>	<u>30,167</u>	<u>123,167</u>
Net change in fund balance	<u>\$ (16,000)</u>	<u>\$ (93,000)</u>	30,167	<u>\$ 123,167</u>
FUND BALANCE, October 1			<u>211,061</u>	
FUND BALANCE, September 30			<u>\$ 241,228</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, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$ 1,635,700	\$ 1,635,700	\$ 1,354,577	\$ (281,123)
Intergovernmental	2,702,100	5,736,600	3,027,930	(2,708,670)
Investment earnings	10,100	10,100	1,531	(8,569)
Contributions and other	304,400	304,400	246,223	(58,177)
Total revenues	<u>4,652,300</u>	<u>7,686,800</u>	<u>4,630,261</u>	<u>(3,056,539)</u>
EXPENDITURES:				
Personal Services	243,200	233,200	198,737	34,463
Operating	1,306,800	1,468,000	1,150,220	317,780
Capital outlay	2,932,600	6,006,700	2,201,795	3,804,905
Total expenditures	<u>4,482,600</u>	<u>7,707,900</u>	<u>3,550,752</u>	<u>4,157,148</u>
Excess (deficiency) of revenue over expenditures	<u>169,700</u>	<u>(21,100)</u>	<u>1,079,509</u>	<u>1,100,609</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(648,500)</u>	<u>(648,500)</u>	<u>(648,500)</u>	<u>-</u>
Total other financing sources (uses)	<u>(648,500)</u>	<u>(648,500)</u>	<u>(648,500)</u>	<u>-</u>
Net change in fund balance	<u>\$ (478,800)</u>	<u>\$ (669,600)</u>	431,009	<u>\$ 1,100,609</u>
FUND BALANCE, October 1			<u>71,484</u>	
FUND BALANCE, September 30			<u>\$ 502,493</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, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental	\$ 160,000	\$ 160,000	\$ 188,948	\$ 28,948
Investment earnings	<u>26,000</u>	<u>26,000</u>	<u>10,648</u>	<u>(15,352)</u>
Total revenues	<u>186,000</u>	<u>186,000</u>	<u>199,596</u>	<u>13,596</u>
EXPENDITURES:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	<u>186,000</u>	<u>186,000</u>	<u>199,596</u>	<u>13,596</u>
Net change in fund balance	<u>\$ 186,000</u>	<u>\$ 186,000</u>	199,596	<u>\$ 13,596</u>
 FUND BALANCE, October 1			<u>1,026,164</u>	
 FUND BALANCE, September 30			<u>\$ 1,225,760</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, 2011

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUES:				
Investment earnings	\$ 1,900	\$ 1,900	\$ 892	\$ (1,008)
Total revenues	1,900	1,900	892	(1,008)
EXPENDITURES:	-	-	-	-
Excess (deficiency) of revenues over expenditures	1,900	1,900	892	(1,008)
Net change in fund balance	\$ 1,900	\$ 1,900	892	\$ (1,008)
FUND BALANCE, October 1			95,335	
FUND BALANCE, September 30			\$ 96,227	

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, 2011

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUES:	\$ <u> -</u>	\$ <u> -</u>	\$ <u> -</u>	\$ <u> -</u>
EXPENDITURES:	<u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>
Excess (deficiency) of revenues over expenditures	<u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(2,036,000)</u>	<u>(2,036,000)</u>	<u>(2,043,437)</u>	<u>(7,437)</u>
Total other financing sources	<u>(2,036,000)</u>	<u>(2,036,000)</u>	<u>(2,043,437)</u>	<u>(7,437)</u>
Net change in fund balance	\$ <u><u>(2,036,000)</u></u>	\$ <u><u>(2,036,000)</u></u>	(2,043,437)	\$ <u><u>(7,437)</u></u>
FUND BALANCE, October 1			<u>2,043,437</u>	
FUND BALANCE, September 30			\$ <u><u> -</u></u>	

CITY OF KEY WEST, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
BAHAMA VILLAGE AND CAROLINE STREET SPECIAL REVENUE FUND
For the Year Ended September 30, 2011

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 702,100	\$ 759,600	\$ 759,609	\$ 9
Investment earnings	-	-	13,307	13,307
Total revenues	<u>702,100</u>	<u>759,600</u>	<u>772,916</u>	<u>13,316</u>
EXPENDITURES:				
Operating	200	6,500	3,203	3,297
Capital outlay	-	495,000	86,614	408,386
Debt service	180,900	180,900	180,770	130
Aid to private organizations	-	732,100	165,647	566,453
Total expenditures	<u>181,100</u>	<u>1,414,500</u>	<u>436,234</u>	<u>978,266</u>
Excess (deficiency) of revenues over expenditures	<u>521,000</u>	<u>(654,900)</u>	<u>336,682</u>	<u>991,582</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	663,400	661,700	661,700	-
Transfers out	(600,000)	(593,800)	(593,800)	-
Total other financing sources (uses)	<u>63,400</u>	<u>67,900</u>	<u>67,900</u>	<u>-</u>
Net change in fund balance	<u>\$ 584,400</u>	<u>\$ (587,000)</u>	404,582	<u>\$ 991,582</u>
FUND BALANCE, October 1			<u>627,542</u>	
FUND BALANCE, September 30			<u>\$ 1,032,124</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, 2011

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUES:				
Charges for services	\$ 1,009,900	\$ 1,009,900	\$ 1,034,897	\$ 24,997
Investment earnings	125,000	125,000	75,768	(49,232)
Contributions and other	-	-	8,250	8,250
	1,134,900	1,134,900	1,118,915	(15,985)
EXPENDITURES:				
Operating	4,662,000	4,662,000	321,814	4,340,186
	4,662,000	4,662,000	321,814	4,340,186
Excess (deficiency) of revenues over expenditures	(3,527,100)	(3,527,100)	797,101	4,324,201
OTHER FINANCING SOURCES (USES):				
Transfers in	300,000	300,000	-	(300,000)
Transfers out	(30,000)	(30,000)	-	30,000
	270,000	270,000	-	(270,000)
Net change in fund balance	\$ (3,257,100)	\$ (3,257,100)	797,101	\$ 4,054,201
FUND BALANCE, October 1			7,227,251	
FUND BALANCE, September 30			\$ 8,024,352	

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance</u> <u>With Final</u> <u>Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental	\$ 757,900	\$ 744,800	\$ 13,446	\$ (731,354)
Investment earnings	<u>300,000</u>	<u>300,000</u>	<u>161,015</u>	<u>(138,985)</u>
Total revenues	<u>1,057,900</u>	<u>1,044,800</u>	<u>174,461</u>	<u>(870,339)</u>
EXPENDITURES:				
Operating	-	-	36,506	(36,506)
Capital outlay	<u>4,200,500</u>	<u>18,401,700</u>	<u>805,952</u>	<u>17,595,748</u>
Total expenditures	<u>4,200,500</u>	<u>18,401,700</u>	<u>842,458</u>	<u>17,559,242</u>
Excess (deficiency) of revenues over expenditures	<u>(3,142,600)</u>	<u>(17,356,900)</u>	<u>(667,997)</u>	<u>16,688,903</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	<u>2,803,600</u>	<u>2,803,600</u>	<u>2,803,600</u>	<u>-</u>
Total other financing sources (uses)	<u>2,803,600</u>	<u>2,803,600</u>	<u>2,803,600</u>	<u>-</u>
Net change in fund balance	<u>\$ (339,000)</u>	<u>\$ (14,553,300)</u>	2,135,603	<u>\$ 16,688,903</u>
FUND BALANCE, October 1			<u>14,497,580</u>	
FUND BALANCE, September 30			<u>\$ 16,633,183</u>	

NONMAJOR ENTERPRISE FUNDS OVERVIEW

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 these funds, 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 six enterprise funds including the following two, which are considered nonmajor:

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, 2011

	<u>Garrison Bight</u>	<u>Transit System</u>	<u>Total Nonmajor Enterprise Funds</u>
ASSETS:			
Current assets:			
Cash, cash equivalents and investments	\$ 1,857,880	\$ 1,881	\$ 1,859,761
Receivables, net of allowance for uncollectibles:			
Accounts	91,560	22,486	114,046
Intergovernmental	31,852	865,713	897,565
Interfund receivables	3,233	6,876	10,109
Prepaid expenses	5,211	1,331	6,542
Inventories	-	34,560	34,560
	<u>1,989,736</u>	<u>932,847</u>	<u>2,922,583</u>
Total current assets			
Noncurrent assets:			
Property, plant and equipment:			
Land	-	50,000	50,000
Buildings and improvements	707,076	4,510,598	5,217,674
Infrastructure	5,779,307	230,792	6,010,099
Machinery, equipment and furniture	503,911	5,489,476	5,993,387
Construction in progress	22,524	664,738	687,262
	<u>7,012,818</u>	<u>10,945,604</u>	<u>17,958,422</u>
Total property, plant and equipment			
Less accumulated depreciation	<u>3,351,992</u>	<u>7,590,400</u>	<u>10,942,392</u>
Net property, plant and equipment	<u>3,660,826</u>	<u>3,355,204</u>	<u>7,016,030</u>
Total noncurrent assets	<u>3,660,826</u>	<u>3,355,204</u>	<u>7,016,030</u>
Total assets	<u>\$ 5,650,562</u>	<u>\$ 4,288,051</u>	<u>\$ 9,938,613</u>

	<u>Garrison Bight</u>	<u>Transit System</u>	<u>Total Nonmajor Enterprise Funds</u>
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Accounts payable	\$ 56,516	\$ 15,404	\$ 71,920
Accrued payroll and related expenses	18,426	57,483	75,909
Compensated absences	30,465	36,786	67,251
Interfund payable	-	262,000	262,000
Deferred revenue	100,681	-	100,681
	<u>206,088</u>	<u>371,673</u>	<u>577,761</u>
Total current liabilities			
Noncurrent liabilities:			
Advances from other funds	15,054	252,766	267,820
Customer deposits	169,371	3,500	172,871
OPEB liability	16,393	46,140	62,533
Compensated absences	19,350	24,524	43,874
	<u>220,168</u>	<u>326,930</u>	<u>547,098</u>
Total noncurrent liabilities			
	<u>426,256</u>	<u>698,603</u>	<u>1,124,859</u>
Total liabilities			
NET ASSETS:			
Invested in capital assets, net of related debt	3,660,826	3,355,204	7,016,030
Unrestricted	1,563,480	234,244	1,797,724
	<u>5,224,306</u>	<u>3,589,448</u>	<u>8,813,754</u>
Total net assets			
	<u>5,650,562</u>	<u>4,288,051</u>	<u>9,938,613</u>
Total liabilities and net assets	\$	\$	\$

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, 2011

	<u>Garrison Bight</u>	<u>Transit System</u>	<u>Total Nonmajor Enterprise Funds</u>
OPERATING REVENUES:			
Charges for services	\$ 1,400,197	\$ 982,029	\$ 2,382,226
Total operating revenues	<u>1,400,197</u>	<u>982,029</u>	<u>2,382,226</u>
OPERATING EXPENSES:			
Personal services	554,658	1,629,452	2,184,110
Other operating expenses	438,285	847,281	1,285,566
Depreciation	358,070	325,157	683,227
Total operating expenses	<u>1,351,013</u>	<u>2,801,890</u>	<u>4,152,903</u>
Operating income (loss)	<u>49,184</u>	<u>(1,819,861)</u>	<u>(1,770,677)</u>
NONOPERATING REVENUES (EXPENSES):			
Grant income (operating)	-	1,395,293	1,395,293
Investment earnings	15,733	-	15,733
Other income	75,152	31,693	106,845
Interest expense	-	(3,551)	(3,551)
Net nonoperating revenues (expenses)	<u>90,885</u>	<u>1,423,435</u>	<u>1,514,320</u>
Income (loss) before transfers and contributions	<u>140,069</u>	<u>(396,426)</u>	<u>(256,357)</u>
TRANSFERS AND CONTRIBUTIONS:			
Capital contributions	83,182	94,343	177,525
Transfers in	-	648,500	648,500
Transfers out	(90,800)	(240,900)	(331,700)
Total transfers and contributions	<u>(7,618)</u>	<u>501,943</u>	<u>494,325</u>
Change in net assets	132,451	105,517	237,968
NET ASSETS, October 1	<u>5,091,855</u>	<u>3,483,931</u>	<u>8,575,786</u>
NET ASSETS, September 30	<u>\$ 5,224,306</u>	<u>\$ 3,589,448</u>	<u>\$ 8,813,754</u>

CITY OF KEY WEST, FLORIDA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
For the Year Ended September 30, 2011

	<u>Garrison Bight</u>	<u>Transit System</u>	<u>Total Nonmajor Enterprise Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 1,422,659	\$ 1,007,974	\$ 2,430,633
Cash paid to suppliers	(429,540)	(892,198)	(1,321,738)
Cash paid to employees	(539,452)	(1,614,565)	(2,154,017)
Other receipts	75,152	31,693	106,845
	<u>528,819</u>	<u>(1,467,096)</u>	<u>(938,277)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating grants received	-	1,747,636	1,747,636
Advance/loan from (to) other funds	(7,526)	(670,070)	(677,596)
Interest paid on advances from other funds	-	(3,551)	(3,551)
Transfers in	-	648,500	648,500
Transfers (out)	(90,800)	(240,900)	(331,700)
	<u>(98,326)</u>	<u>1,481,615</u>	<u>1,383,289</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds of capital grants *	256,187	113,984	370,171
Acquisition and construction of capital assets	(33,276)	(139,571)	(172,847)
	<u>222,911</u>	<u>(25,587)</u>	<u>197,324</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment earnings	15,733	-	15,733
	<u>15,733</u>	<u>-</u>	<u>15,733</u>
Net cash flows provided by (used in) investing activities	<u>15,733</u>	<u>-</u>	<u>15,733</u>
Net increase (decrease) in cash, cash equivalents and investments	669,137	(11,068)	658,069
CASH, CASH EQUIVALENTS AND INVESTMENTS, October 1	<u>1,188,743</u>	<u>12,949</u>	<u>1,201,692</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, September 30	<u>\$ 1,857,880</u>	<u>\$ 1,881</u>	<u>\$ 1,859,761</u>

CITY OF KEY WEST, FLORIDA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
(continued)
For the Year Ended September 30, 2011

	<u>Garrison Bight</u>	<u>Transit System</u>	<u>Total Nonmajor Enterprise Funds</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income (loss)	\$ 49,184	\$ (1,819,861)	\$ (1,770,677)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Other nonoperating revenues	75,152	31,693	106,845
Depreciation	358,070	325,157	683,227
Decrease (increase) in assets:			
Accounts receivables	4,844	25,945	30,789
Interfund receivables	1,816	4,129	5,945
Prepaid expenses	288	295	583
Inventories	-	(11,244)	(11,244)
Increase (decrease) in liabilities:			
Accounts payable	8,457	(33,968)	(25,511)
Accrued payroll and related expenses	281	4,101	4,382
Deferred revenue	5,085	-	5,085
Customer deposits	12,533	-	12,533
OPEB liability	3,019	17,309	20,328
Compensated absences	10,090	(10,652)	(562)
Total adjustments	<u>479,635</u>	<u>352,765</u>	<u>832,400</u>
Net cash provided by (used in) operating activities	<u>\$ 528,819</u>	<u>\$ (1,467,096)</u>	<u>\$ (938,277)</u>

* Capital contributions for the year ended September 30, 2011 are all associated with cash transactions.

FIDUCIARY FUNDS OVERVIEW

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 two 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, 2011

	<u>Pension Trust Funds</u>		<u>Total</u>
	<u>General Employees</u>	<u>Police and Fire</u>	
ASSETS:			
Cash and cash equivalents	\$ 1,812,317	\$ 2,321,653	\$ 4,133,970
Investments, at fair value:			
Equity securities	18,519,751	28,045,351	46,565,102
Corporate and foreign bonds, and bond funds	9,954,176	14,230,232	24,184,408
Alternative investments	-	5,153,429	5,153,429
U.S. government securities	4,754,272	-	4,754,272
Municipal obligations	776,898	1,627,708	2,404,606
Deposit in trust for real estate acquisitions	-	174,065	174,065
Receivables:			
Interest and dividends	205,660	170,214	375,874
Due from governmental funds	-	633,314	633,314
State contributions	-	116,416	116,416
Other	-	32,223	32,223
	<u>36,023,074</u>	<u>52,504,605</u>	<u>88,527,679</u>
Total assets			
LIABILITIES:			
Accounts payable and accrued expenses	54,114	48,862	102,976
Deferred retirement option plan payable	449,777	5,361,982	5,811,759
	<u>503,891</u>	<u>5,410,844</u>	<u>5,914,735</u>
Total liabilities			
NET ASSETS:			
Held in trust for employees' pension benefits	\$ <u>35,519,183</u>	\$ <u>47,093,761</u>	\$ <u>82,612,944</u>

CITY OF KEY WEST, FLORIDA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended September 30, 2011

	Pension Trust Funds		Total
	General Employees	Police and Fire	
ADDITIONS:			
Contributions:			
Employer	\$ 1,133,177	\$ 2,402,226	\$ 3,535,403
Members	601,769	671,855	1,273,624
State police and fire	-	530,175	530,175
	1,734,946	3,604,256	5,339,202
Investment earnings			
Net appreciation (depreciation) in fair value of investments	(1,405,661)	(2,464,888)	(3,870,549)
Interest and dividends	1,048,147	1,451,036	2,499,183
	(357,514)	(1,013,852)	(1,371,366)
Total investment earnings	(357,514)	(1,013,852)	(1,371,366)
Less investment expenses	208,786	305,100	513,886
Deferred retirement option plan participants earnings (losses)	(18,897)	(291,264)	(310,161)
	(585,197)	(1,610,216)	(2,195,413)
Net investment earnings (losses)	(585,197)	(1,610,216)	(2,195,413)
Total additions	1,149,749	1,994,040	3,143,789
DEDUCTIONS:			
Benefits paid	2,123,713	3,847,541	5,971,254
Administrative expenses	93,058	183,417	276,475
Contributions refunded	-	78,186	78,186
	2,216,771	4,109,144	6,325,915
Total deductions	2,216,771	4,109,144	6,325,915
Changes in net assets	(1,067,022)	(2,115,104)	(3,182,126)
NET ASSETS, October 1	36,586,205	49,208,865	85,795,070
NET ASSETS, September 30	\$ 35,519,183	\$ 47,093,761	\$ 82,612,944

STATISTICAL SECTION

CITY OF KEY WEST, FLORIDA
STATISTICAL SECTION
For the Year Ended September 30, 2011

OVERVIEW

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 financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information 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.

<u>CONTENTS</u>	<u>PAGES</u>
FINANCIAL TRENDS:	108-117
<p>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</p>	
REVENUE CAPACITY:	118-121
<p>These schedules contain information to help the reader assess the City's most significant local revenue source - property tax.</p>	
DEBT CAPACITY:	122-125
<p>These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.</p>	
DEMOGRAPHIC AND ECONOMIC INFORMATION:	126-128
<p>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.</p>	
OPERATING INFORMATION:	129-131
<p>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides.</p>	

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 NINE FISCAL YEARS*
ACCURAL BASIS
(in Thousands)

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities:									
Invested in capital assets, net of related debt	\$ 35,962	\$ 35,936	\$ 84,281	\$ 83,047	\$ 84,399	\$ 83,450	\$ 83,653	\$ 86,385	\$ 87,054
Restricted	5,183	14,850	17,885	17,596	24,796	30,050	30,675	31,822	36,703
Unrestricted	19,986	61,128	11,651	14,948	13,791	6,155	9,654	14,570	16,623
Total governmental activities net assets	\$ 61,131	\$ 111,914	\$ 113,817	\$ 115,591	\$ 122,986	\$ 119,655	\$ 123,982	\$ 132,777	\$ 140,380
Business-type activities:									
Invested in capital assets, net of related debt	\$ 87,514	\$ 82,941	\$ 83,682	\$ 92,102	\$ 94,073	\$ 103,294	\$ 107,394	\$ 115,889	\$ 118,376
Restricted	2,494	2,664	2,358	2,427	3,757	3,800	3,800	3,759	3,867
Unrestricted	18,689	16,458	18,926	14,997	18,295	14,446	12,003	14,951	17,443
Total business-type activities net assets	\$ 108,697	\$ 102,063	\$ 104,966	\$ 109,526	\$ 116,125	\$ 121,540	\$ 123,197	\$ 134,599	\$ 139,686
Primary government:									
Invested in capital assets, net of related debt	\$ 123,476	\$ 118,877	\$ 167,963	\$ 175,149	\$ 178,472	\$ 186,744	\$ 191,047	\$ 202,274	\$ 205,430
Restricted	7,677	17,514	20,243	20,023	28,553	33,850	34,475	35,581	40,570
Unrestricted	38,675	77,586	30,577	29,945	32,086	20,601	21,657	29,521	34,066
Total primary government net assets	\$ 169,828	\$ 213,977	\$ 218,783	\$ 225,117	\$ 239,111	\$ 241,195	\$ 247,179	\$ 267,376	\$ 280,066

* 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 NINE YEARS*
ACCURAL BASIS
(in Thousands)

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses:									
Governmental activities:									
General government	\$ 9,131	\$ 12,689	\$ 14,068	\$ 13,195	\$ 12,363	\$ 13,012	\$ 13,570	\$ 13,355	\$ 14,797
Public safety	16,871	15,985	20,332	23,059	22,278	22,272	21,896	20,553	21,737
Physical environment	128	160	284	220	321	588	314	304	-
Transportation	3,400	2,780	2,901	3,249	3,354	4,002	3,711	3,586	3,364
Economic environment	1,944	1,293	1,185	2,152	1,963	5,297	14,622	5,249	2,956
Human services	-	131	438	432	491	517	409	393	394
Culture and recreation	3,285	3,400	3,270	4,206	5,403	3,677	2,314	2,152	2,321
Interest	42	79	40	53	51	45	41	38	34
Total governmental activities expenses	<u>34,801</u>	<u>36,517</u>	<u>42,518</u>	<u>46,566</u>	<u>46,224</u>	<u>49,410</u>	<u>56,877</u>	<u>45,630</u>	<u>45,603</u>
Business type activities:									
Sewer System	11,384	17,991	10,885	10,030	10,121	10,704	10,833	11,574	11,151
Solid Waste	7,750	10,177	10,103	11,895	6,727	7,480	7,105	7,337	7,444
Key West Bight	3,780	4,520	5,451	6,008	6,374	6,980	5,485	4,988	5,192
Stormwater	850	1,192	1,003	3,031	1,757	2,871	3,053	2,239	2,666
Garrison Bight	1,040	1,097	1,196	1,225	1,063	1,207	1,426	1,434	1,351
Transit	2,658	3,152	3,087	3,917	3,818	4,026	3,581	3,076	2,806
Poinciana	1,520	1,594	-	-	-	-	-	-	-
Total business-type activities expenses	<u>28,982</u>	<u>39,723</u>	<u>31,725</u>	<u>36,106</u>	<u>29,860</u>	<u>33,268</u>	<u>31,483</u>	<u>30,648</u>	<u>30,610</u>
Total primary government expenses	<u>\$ 63,783</u>	<u>\$ 76,240</u>	<u>\$ 74,243</u>	<u>\$ 82,672</u>	<u>\$ 76,084</u>	<u>\$ 82,678</u>	<u>\$ 88,360</u>	<u>\$ 76,278</u>	<u>\$ 76,213</u>

CITY OF KEY WEST, FLORIDA
TABLE 2
CHANGES IN NET ASSETS
(continued)
FOR THE LAST NINE YEARS*
ACCURAL BASIS
(in Thousands)

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Program Revenues:									
Governmental activities:									
Fees, fines and charges for services:									
General government	\$ 3,283	\$ 1,394	\$ 1,520	\$ 1,594	\$ 1,551	\$ 1,686	\$ 2,257	\$ 2,417	\$ 2,647
Public safety	1,390	3,182	4,127	4,077	4,504	2,351	2,280	2,667	2,131
Physical environment	30	38	88	120	46	71	54	77	-
Transportation	6,831	6,368	8,000	7,352	7,568	7,002	6,840	6,947	7,557
Economic environment	-	-	-	-	-	-	-	44	26
Human services	-	-	-	-	-	11	-	-	-
Culture and recreation	139	12	133	114	136	15	182	164	202
Operating grants and contributions	1,421	911	866	3,969	3,561	2,583	4,295	5,414	3,829
Capital grants and contributions	2,118	48,314	1,405	1,185	647	4,275	12,334	2,912	3,272
Total governmental activities program revenues	15,212	60,219	16,139	18,411	18,013	17,994	28,242	20,642	19,664
Business type activities:									
Charges for services:									
Sanitary Sewer System	10,521	10,503	10,499	12,063	11,271	11,789	11,648	11,827	12,717
Solid Waste	8,025	8,274	8,293	8,591	8,837	9,343	9,283	8,997	9,122
Key West Bright	4,571	5,236	5,932	6,531	7,460	8,100	6,500	6,460	6,825
Stormwater	1,450	1,642	1,516	1,742	1,748	2,336	2,393	2,322	2,342
Garrison Bright	1,102	1,204	1,318	1,397	1,504	1,509	1,459	1,372	1,400
Transit	589	754	737	932	1,023	1,067	1,067	970	982
Poinciana	1,438	362	-	-	-	-	-	-	-
Operating grants and contributions	449	442	2,117	6,926	1,588	1,033	420	2,026	1,487
Capital grants and contributions	5,944	1,940	1,692	2,067	2,081	4,276	1,429	9,209	2,633
Total business type activities program revenues	34,089	30,357	32,104	40,248	35,512	39,453	34,199	43,183	37,508
Total primary government program revenues	\$ 49,301	\$ 90,576	\$ 48,243	\$ 58,659	\$ 53,525	\$ 57,447	\$ 62,441	\$ 63,825	\$ 57,172

CITY OF KEY WEST, FLORIDA
TABLE 2
CHANGES IN NET ASSETS
(continued)
FOR THE LAST NINE YEARS*
ACCURAL BASIS
(in Thousands)

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net (expense)/revenue									
Governmental activities	\$ (19,589)	\$ 23,702	\$ (26,379)	\$ (28,155)	\$ (28,211)	\$ (31,416)	\$ (28,635)	\$ (24,988)	\$ (25,939)
Business type activities	5,107	(9,366)	379	4,142	5,652	6,185	2,716	12,535	6,898
Total primary government net expense	\$ (14,482)	\$ 14,336	\$ (26,000)	\$ (24,013)	\$ (22,559)	\$ (25,231)	\$ (25,919)	\$ (12,453)	\$ (19,041)
General revenues and other changes in net assets:									
Governmental activities:									
Taxes:									
Property taxes	\$ 11,172	\$ 11,777	\$ 12,476	\$ 12,469	\$ 15,774	\$ 15,137	\$ 15,573	\$ 15,644	\$ 14,816
Sales taxes	8,032	9,177	9,048	9,352	9,263	9,001	8,052	7,994	8,663
Franchise and local business taxes	1,024	927	1,655	2,030	2,029	1,272	1,268	1,316	1,394
Communication taxes	-	-	-	-	-	1,882	1,633	1,725	1,613
Cigarette and motor fuel taxes	2,017	2,580	2,548	2,500	2,266	2,225	2,099	2,360	2,391
Investment earnings	509	357	700	1,436	2,194	1,944	1,745	750	530
Miscellaneous	3,230	3,596	3,259	994	567	1,393	717	1,464	1,293
Extraordinary item	-	-	-	-	(1,250)	(6,750)	-	-	-
Transfers	(2,474)	(2,210)	(1,405)	1,146	2,002	1,982	1,876	2,530	2,842
Total governmental activities	23,510	26,204	28,281	29,927	32,845	28,086	32,963	33,783	33,542
Business type activities:									
Investment earnings	403	323	711	1,347	1,397	1,010	642	259	313
Transfers	2,474	2,210	1,405	(1,146)	(2,002)	(1,982)	(1,876)	(2,530)	(2,842)
Miscellaneous	84	199	408	217	561	204	174	1,137	719
Total business-type activities	2,961	2,732	2,524	418	(44)	(768)	(1,060)	(1,134)	(1,810)
Total primary government	\$ 26,471	\$ 28,936	\$ 30,805	\$ 30,345	\$ 32,801	\$ 27,318	\$ 31,903	\$ 32,649	\$ 31,732

CITY OF KEY WEST, FLORIDA
TABLE 2
CHANGES IN NET ASSETS
(continued)
FOR THE LAST NINE YEARS*
ACCURAL BASIS
(in Thousands)

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Change in net assets:									
Governmental activities	\$ 3,921	\$ 49,906	\$ 1,902	\$ 1,772	\$ 4,634	\$ (3,330)	\$ 4,328	\$ 8,795	\$ 7,603
Business type activities	8,068	(6,634)	2,903	4,560	5,608	5,417	1,656	11,401	5,088
Total primary government	<u>\$ 11,989</u>	<u>\$ 43,272</u>	<u>\$ 4,805</u>	<u>\$ 6,332</u>	<u>\$ 10,242</u>	<u>\$ 2,087</u>	<u>\$ 5,984</u>	<u>\$ 20,196</u>	<u>\$ 12,691</u>

* 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 NINE FISCAL YEARS*
ACCRUAL BASIS
(in Thousands)

Fiscal Year	Property Taxes	Sales Taxes	Franchise and Local Business Taxes	Cigarette and Motor Fuel Taxes	Communication Taxes	Total
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
2008	\$ 15,137	\$ 9,001	\$ 1,272	\$ 2,225	\$ 1,882	\$ 29,517
2009	\$ 15,573	\$ 8,052	\$ 1,268	\$ 2,099	\$ 1,633	\$ 28,625
2010	\$ 15,644	\$ 7,994	\$ 1,316	\$ 2,360	\$ 1,725	\$ 29,039
2011	\$ 14,816	\$ 8,663	\$ 1,394	\$ 2,391	\$ 1,613	\$ 28,877

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

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									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Fund:										
Reserved	\$ 1,349	\$ 2,761	\$ 2,699	\$ 2,696	\$ 2,637	\$ 2,647	\$ 2,379	\$ 2,516	\$ 2,458	\$ -
Unreserved	12,071	10,926	11,744	9,618	10,908	11,819	12,362	6,177	8,801	-
Nonspendable	-	-	-	-	-	-	-	-	-	2,191
Committed	-	-	-	-	-	-	-	-	-	110
Assigned	-	-	-	-	-	-	-	-	-	155
Unassigned	-	-	-	-	-	-	-	-	-	9,260
Total general fund	\$ 13,420	\$ 13,687	\$ 14,443	\$ 12,314	\$ 13,545	\$ 14,466	\$ 14,741	\$ 8,693	\$ 11,259	\$ 11,716
All other governmental funds:										
Reserved	\$ 2,715	\$ 2,422	\$ 1,367	\$ 960	\$ 1,314	\$ 1,442	\$ 1,136	\$ 4,604	\$ 2,762	\$ -
Unreserved, reported in:										
Special revenue funds	7,559	5,005	7,857	12,353	13,656	19,527	20,329	14,916	14,669	-
Capital projects funds	1,183	4,191	5,625	4,572	5,808	5,809	8,585	11,156	14,391	-
Nonspendable	-	-	-	-	-	-	-	-	-	180
Restricted	-	-	-	-	-	-	-	-	-	36,524
Total all other governmental funds	\$ 11,457	\$ 11,618	\$ 14,849	\$ 17,885	\$ 20,778	\$ 26,778	\$ 30,050	\$ 30,676	\$ 31,822	\$ 36,704

Note: Information for fiscal years 2002-2010 have not been restated for the implementation of Governmental Accounting Standards Board (GASB) Statement No. 54 classification.

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									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
REVENUES:										
Taxes	\$ 12,287	\$ 12,196	\$ 20,296	\$ 21,305	\$ 21,768	\$ 24,989	\$ 24,194	\$ 24,271	\$ 24,393	\$ 23,940
Licenses and permits	1,960	2,163	2,139	2,667	2,735	3,224	2,451	2,174	2,613	2,456
Intergovernmental	16,658	13,607	6,481	6,754	10,056	9,092	11,130	20,190	13,448	12,730
Payment in lieu of taxes	2,470	2,603	2,603	2,603	-	-	-	-	-	-
Charges for services	6,004	7,104	6,565	8,226	7,584	7,827	7,245	7,067	7,411	7,954
Fines and forfeitures	1,060	1,044	1,035	1,245	1,134	1,049	1,153	1,252	1,169	878
Investment earnings	826	509	302	701	1,436	2,194	1,944	1,745	751	530
Rental income	1,315	1,336	1,306	1,359	1,437	1,441	1,384	1,784	1,642	1,842
Contributions and other	331	263	48,488	379	650	863	575	269	304	355
Total revenues	42,911	40,825	89,215	45,239	46,800	50,679	50,076	58,752	51,731	50,685
EXPENDITURES:										
General government (1)	8,685	9,791	10,928	14,162	12,774	13,229	13,376	21,921	14,006	15,138
Public safety	14,025	14,857	15,995	17,895	20,014	19,113	19,089	19,198	18,872	19,983
Physical environment	46	72	100	212	137	236	486	238	243	-
Transportation	2,236	2,897	2,307	2,326	2,897	2,865	3,594	3,253	3,154	2,867
Economic environment	1,348	1,925	1,293	1,108	2,229	1,963	5,278	14,622	5,249	2,956
Culture and recreation	1,852	2,128	2,644	2,765	3,653	4,687	2,949	1,886	1,817	1,954
Human services	-	-	131	438	423	497	513	407	393	394
Capital outlay	9,440	5,997	51,265	3,835	2,996	2,858	3,030	4,037	6,637	4,717
Debt service:										
Principal	-	-	294	147	147	206	147	147	147	147
Interest	-	42	79	40	53	51	49	41	38	34
Total expenditures	37,632	37,709	85,036	42,928	45,323	45,705	48,511	65,750	50,556	48,190
Excess (deficiency) of revenues over expenditures	5,279	3,116	4,179	2,311	1,477	4,974	1,565	(6,998)	1,175	2,495
OTHER FINANCING SOURCES (USES):										
Proceeds from financing	-	650	-	-	-	-	-	-	-	-
Transfers in	1,555	5,277	4,162	5,732	6,272	6,032	8,498	11,674	9,176	10,153
Transfers out	(4,247)	(9,221)	(5,902)	(7,137)	(5,126)	(4,030)	(6,517)	(10,098)	(6,638)	(7,310)
Total other financing sources (uses)	(2,692)	(3,294)	(1,740)	(1,405)	1,146	2,002	1,981	1,576	2,538	2,843
Net change in fund balances	\$ 2,587	\$ (178)	\$ 2,439	\$ 906	\$ 2,623	\$ 6,976	\$ 3,546	\$ (5,422)	\$ 3,713	\$ 5,338
Ratio of total debt service expenditures to total noncapital expenditures	0.00%	0.13%	1.10%	0.48%	0.47%	0.60%	0.43%	0.30%	0.42%	0.42%

(1) Includes judgments in the amount of (\$ 8,000,000) for 2009.

CITY OF KEY WEST, FLORIDA
TABLE 6
GENERAL GOVERNMENTAL EXPENDITURES (1)
For the Last Ten Fiscal Years

Fiscal Year	General Government	Public Safety	Physical Environment (2)	Transportation	Economic Environment	Culture and Recreation	Other	Total
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
2008	\$ 13,280,079	\$ 18,967,798	\$ 486,062	\$ 1,505,712	\$ 75,875	\$ 2,119,775	\$ 733,186	\$ 37,168,487
2009	\$ 20,967,021	\$ 18,946,855	\$ 238,268	\$ 1,214,366	\$ 2,546,639	\$ 1,781,975	\$ 684,512	\$ 46,379,636
2010	\$ 13,743,035	\$ 18,815,278	\$ 242,641	\$ 1,216,867	\$ 154,682	\$ 1,816,544	\$ 763,732	\$ 36,752,779
2011	\$ 15,035,634	\$ 19,918,755	\$ -	\$ 1,196,146	\$ 70,778	\$ 1,953,546	\$ 608,910	\$ 38,783,769

(1) Expenditures include General Fund only.

(2) Effective FYE 2011, physical environment is combined with general government.

CITY OF KEY WEST, FLORIDA
TABLE 7
GENERAL GOVERNMENTAL REVENUES (1)
For the Last Ten Fiscal Years

Fiscal Year	Taxes	Licenses and Permits	Inter- governmental	Charges for Services	Fines and Forfeitures	Investment Earnings and Other	Total
2002	\$ 12,287,197	\$ 1,960,006	\$ 4,389,928	\$ 6,003,909	\$ 961,811	\$ 2,030,944	\$ 27,633,795
2003	\$ 12,196,152	\$ 2,163,112	\$ 4,706,826	\$ 7,103,614	\$ 1,000,347	\$ 1,880,122	\$ 29,050,173
2004	\$ 12,293,708	\$ 2,138,922	\$ 4,933,486	\$ 7,477,406	\$ 985,764	\$ 2,192,871	\$ 30,022,157
2005	\$ 13,551,986	\$ 2,667,164	\$ 5,534,231	\$ 6,908,916	\$ 1,221,735	\$ 1,864,706	\$ 31,748,738
2006	\$ 13,778,074	\$ 2,734,730	\$ 8,160,794	\$ 6,504,436	\$ 1,092,883	\$ 2,600,679	\$ 34,871,596
2007	\$ 16,999,393	\$ 3,223,910	\$ 6,801,001	\$ 6,794,871	\$ 916,443	\$ 2,839,013	\$ 37,574,631
2008	\$ 16,397,107	\$ 2,451,347	\$ 5,756,244	\$ 6,141,451	\$ 1,030,830	\$ 2,694,967	\$ 34,471,946
2009	\$ 17,106,605	\$ 2,174,363	\$ 8,573,429	\$ 6,195,123	\$ 1,013,421	\$ 2,498,370	\$ 37,561,311
2010	\$ 17,047,554	\$ 2,613,092	\$ 6,706,639	\$ 6,357,337	\$ 1,037,696	\$ 2,067,223	\$ 35,829,541
2011	\$ 16,196,884	\$ 2,455,786	\$ 6,670,741	\$ 6,919,115	\$ 777,369	\$ 2,070,218	\$ 35,090,113

(1) Revenues include General Fund only.

CITY OF KEY WEST, FLORIDA
TABLE 8
PROPERTY TAX LEVIES AND COLLECTIONS
For the Last Ten Fiscal Years

Fiscal Year	Tax Levy	Current Tax	Percent of Levy	Collections Delinquent Tax	Total Tax	Percent of Levy
2002	\$ 11,467,257	\$ 11,024,265	96.1	\$ 45,436	\$ 11,069,701	96.5
2003	\$ 11,482,644	\$ 11,145,859	97.1	\$ 22,652	\$ 11,168,511	97.3
2004	\$ 11,812,058	\$ 11,354,751	96.1	\$ 12,724	\$ 11,367,475	96.2
2005	\$ 12,248,266	\$ 11,901,020	97.2	\$ -	\$ 11,901,020	97.2
2006	\$ 12,146,013	\$ 11,752,575	96.8	\$ -	\$ 11,752,575	96.8
2007	\$ 15,448,634	\$ 14,970,043	96.9	\$ -	\$ 14,970,043	96.9
2008	\$ 14,927,005	\$ 14,299,402	95.8	\$ 46,791	\$ 14,346,193	96.1
2009	\$ 15,273,933	\$ 14,680,697	96.1	\$ 21,279	\$ 14,701,976	96.3
2010	\$ 15,222,849	\$ 14,789,792	97.2	\$ 42,251	\$ 14,832,043	97.4
2011	\$ 14,414,157	\$ 13,995,804	97.1	\$ 60,960	\$ 14,056,764	97.5

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

CITY OF KEY WEST, FLORIDA
TABLE 9
ASSESSED AND ESTIMATED VALUE OF TAXABLE PROPERTY
For the Last Ten Fiscal Years
(In Thousands)

<u>Fiscal Year</u>	<u>Real Property Assessed Value</u>	<u>Personal Property Assessed Value</u>	<u>Exemptions Allowed for Real/Personal Property</u>	<u>Total Net Assessed Value</u>	<u>Total Direct Tax Rate</u>	<u>Total Net Estimated True Value</u>	<u>Ratio Net Assessed to True Value</u>
2002	\$ 5,873,413	\$ 326,466	\$ 2,836,850	\$ 3,363,029	3.4098	\$ 3,363,029	1.0
2003	\$ 6,290,554	\$ 321,668	\$ 2,631,664	\$ 3,980,558	3.1612	\$ 3,980,558	1.0
2004	\$ 6,752,625	\$ 318,063	\$ 2,730,286	\$ 4,340,402	2.9815	\$ 4,340,402	1.0
2005	\$ 9,273,128	\$ 322,287	\$ 4,236,380	\$ 5,359,035	2.6003	\$ 5,359,035	1.0
2006	\$ 10,718,386	\$ 360,504	\$ 4,227,713	\$ 6,851,177	2.0863	\$ 6,851,177	1.0
2007	\$ 12,301,233	\$ 369,917	\$ 4,208,873	\$ 8,462,277	2.3034	\$ 8,462,277	1.0
2008	\$ 11,507,171	\$ 375,730	\$ 5,182,044	\$ 6,700,857	2.0354	\$ 6,700,857	1.0
2009	\$ 10,347,911	\$ 371,594	\$ 4,894,185	\$ 5,825,320	2.2794	\$ 5,825,320	1.0
2010	\$ 8,706,431	\$ 368,616	\$ 4,101,589	\$ 4,973,458	2.6414	\$ 4,973,458	1.0
2011	\$ 8,826,945	\$ 360,634	\$ 4,218,770	\$ 4,968,809	2.9132	\$ 4,968,809	1.0

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

Fiscal Year	City of Key West	Monroe County	School Board	Overlapping Rates (1)			Other	Total
				South Florida Water Management District	Florida Keys Mosquito Control District			
2002	3.4098	4.1407	4.9890	0.2840	0.6641	0.4130	13.9006	
2003	3.1612	3.9455	4.7130	0.2840	0.6641	0.4130	13.1808	
2004	2.9815	3.5238	4.4220	0.2840	0.6641	0.4130	12.2884	
2005	2.6003	3.1736	3.9320	0.2840	0.6090	0.4130	11.0119	
2006	2.0863	2.8001	3.3820	0.2840	0.6090	0.4130	9.5744	
2007	2.3034	2.5609	3.0610	0.2840	0.5505	0.4130	9.1728	
2008	2.0354	2.2656	2.9460	0.2549	0.4175	0.3691	8.2885	
2009	2.2794	2.6883	2.9220	0.2549	0.3798	0.3691	8.8935	
2010	2.6414	3.0837	3.3870	0.2549	0.4262	0.3691	10.1623	
2011	2.9132	3.3445	3.8235	0.2549	0.4596	0.3691	11.1648	

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

The property tax rates above (all inclusive) do not have a debt service millage component.

Note (1): Overlapping rates are those of local and county governments that apply to property owners within the City of Key West, Florida.

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

Source: Monroe County Tax Collector.

CITY OF KEY WEST, FLORIDA
TABLE 11
PRINCIPAL TAXPAYERS
CURRENT YEAR AND TEN YEARS AGO

<u>Name of Taxpayer</u>	<u>Type of Business</u>	<u>2011 Assessed Value</u>	<u>Rank</u>	<u>Percent of Total Assessed Valuation</u>	<u>2001 Assessed Value</u>	<u>Rank</u>	<u>Percent of Total Assessed Valuation</u>
Windward Point	Resort Hotel	\$ 73,933,928	1	1.49	\$ -	-	-
Galleon Condominium Assoc. Inc.	Condominium	69,863,552	2	1.41	-	-	-
City of Key West	Municipality - Marina	49,642,167	3	1.00	-	-	-
Hyatt Vacation Management	Timeshare	47,828,254	4	0.96	-	-	-
Casa Marina	Resort Hotel	38,339,123	5	0.77	56,848,020	1	1.68
SH5 LTD	Condominium	30,496,729	6	0.61	-	-	-
Southernmost Beach LP	Resort Hotel	30,103,567	7	0.61	24,510,905	6	0.73
Tannex Development Corp.	Condominium	29,792,027	8	0.60	-	-	-
JLW Key West 1 LLC	Hotel	29,319,060	9	0.59	-	-	-
Parrot Key Associates	Resort Hotel	25,912,258	10	0.52	-	-	-
Hilton Resorts and Marina	Resort Hotel	-	-	-	39,662,621	2	1.17
Pier House	Resort Hotel	-	-	-	29,125,158	3	0.87
Sheraton Suites	Resort Hotel	-	-	-	27,919,313	4	0.83
Holiday Inn	Resort Hotel	-	-	-	22,071,304	7	0.66
Bellsouth (Southern Bell)	Utility	-	-	-	27,355,835	5	0.81
Reach	Resort Hotel	-	-	-	21,782,661	8	0.65
Ocean Key House	Resort Hotel	-	-	-	20,107,987	9	0.60
Hyatt Equities	Resort Hotel	-	-	-	20,033,365	10	0.60
Totals		\$ 425,230,665		8.56	\$ 289,417,169		8.60

Source: 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	Population (1) (a)	Net Assessed Value (2) (000's) (b)	Gross General Obligation Bonded Debt (3) (c)	Debt Service Monies Available (d)	Net General Obligation Bonded Debt (c)-(d)	Ratio of Net General Obligation Bonded Debt to Assessed Value (c-d)/(b)	Net General Obligation Bonded Debt Per Capita (c-d)/(a)
2002	25,853	\$ 3,363,029	-	-	-	-	-
2003	25,811	\$ 3,980,558	-	-	-	-	-
2004	26,215	\$ 4,340,402	-	-	-	-	-
2005	25,811	\$ 5,359,035	-	-	-	-	-
2006	23,935	\$ 6,851,177	-	-	-	-	-
2007	23,262	\$ 8,462,277	-	-	-	-	-
2008	23,024	\$ 6,700,857	-	-	-	-	-
2009	23,922	\$ 5,825,320	-	-	-	-	-
2010	24,649	\$ 4,973,458	-	-	-	-	-
2011	24,626	\$ 4,968,809	-	-	-	-	-

- (1) Source: Key West Chamber of Commerce and Bureau of Labor Statistics, University of Florida.
- (2) Figures are from Table 9 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**

Fiscal Year	Principal	Interest	Total Debt Service	Total General Expenditures	Ratio of Debt Service to Total General Expenditures
2002	-	-	-	\$ 26,604,062	-
2003	-	-	-	\$ 28,781,072	-
2004	-	-	-	\$ 32,823,595	-
2005	-	-	-	\$ 35,785,500	-
2006	-	-	-	\$ 36,090,974	-
2007	-	-	-	\$ 37,512,958	-
2008	-	-	-	\$ 37,168,487	-
2009	-	-	-	\$ 46,379,636	-
2010	-	-	-	\$ 36,752,779	-
2011	-	-	-	\$ 38,783,769	-

- (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
GOVERNMENTAL ACTIVITIES DEBT
September 30, 2011

	<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>15,307,000</u>	26.69%	<u>4,085,438</u>
Total ad valorem tax supported debt	<u>\$ 15,307,000</u>		<u>\$ 4,085,438</u>
Ratios:			
Overall debt to 2011 taxable valuation			0.08%
Overall debt per capita			<u>\$ 166</u>

- (1) City of Key West direct debt does not include revenue bonds.
- (2) Monroe County School Board debt is as of June 30, 2011, 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)

<u>Fiscal Year</u>	<u>Gross Revenues (1)</u>	<u>Cost of Operation and Maintenance (2)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements (3)</u>			<u>Coverage</u>
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
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
2008	\$ 11,886	\$ 5,720	\$ 6,166	\$ 950	\$ 1,060	\$ 2,010	3.07
2009	\$ 11,755	\$ 5,722	\$ 6,033	\$ 975	\$ 1,039	\$ 2,014	3.00
2010	\$ 11,839	\$ 6,037	\$ 5,802	\$ 1,000	\$ 1,013	\$ 2,013	2.88
2011	\$ 12,793	\$ 5,833	\$ 6,960	\$ 1,030	\$ 985	\$ 2,015	3.45

- (1) Gross revenues exclude impact fees, connection fees and federal and state grants.
(2) Total operating expenses exclude payments in lieu of taxes, depreciation and amortization, principal, interest expense, and gain (loss) on the disposal of capital assets.
(3) Debt service shown above includes principal and interest of refunded bonds only (Series 2003).

CITY OF KEY WEST, FLORIDA

**TABLE 16
DEMOGRAPHIC STATISTICS
For the Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Population (1)</u>	<u>Per Capita Income (1)</u>	<u>Total Personal Income (in thousands) (1)</u>	<u>Median Age (1)</u>	<u>Education Level (2)</u>	<u>Public School Enrollment (2)</u>	<u>Unemployment Rate (3)</u>
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	25,811	\$ N/A	\$ N/A	N/A	N/A	N/A	N/A
2006	23,935	\$ 26,316	\$ 622,310	39	N/A	4,056	2.6%
2007	23,262	\$ 26,316	\$ 604,812	39	N/A	4,038	2.8%
2008	23,024	\$ 32,662	\$ 736,768	43	N/A	3,868	4.3%
2009	23,922	\$ 33,549	\$ 789,426	43	N/A	3,791	6.8%
2010	24,649	\$ 34,174	\$ 838,066	44	N/A	3,792	7.2%
2011	24,626	\$ 36,086	\$ N/A	42	N/A	3,823	6.2%

(1) Sources: Key West Chamber of Commerce and Bureau of Labor Statistics, University of Florida.

(2) Source: Monroe County School Board.

(3) Source: Florida Department of Labor and Employment Security, Bureau of Labor.

Market information was calculated by calendar year.

N/A: Not available.

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

CITY OF KEY WEST, FLORIDA
TABLE 17
PRINCIPAL EMPLOYERS*

<u>Employer</u>	<u>2011 Employees</u>	<u>2007 Employees</u>
Public Sector:		
US Armed Forces	2,931	1,269
Monroe County Schools	1,047	1,362
Monroe County Sheriff's Office	592	539
Monroe County Government	531	810
City of Key West	464	521
Florida Keys Aqueduct Authority	255	273
Florida Keys Community College	125	225
Keys Energy Services	136	163
Private Sector:		
Ocean Reef Club (600 year round)	904	1,000
Health Management Associations	688	700
Historic Tours of America	300	350
Casa Marina Resort / Reach Resort	275	300
Cheeca Lodge	249	300
Spottswood Properties	184	N/A
First State Bank of the Keys	180	208

* 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.

Note: Data prior to 2007 is not available.

CITY OF KEY WEST, FLORIDA
TABLE 18
PROPERTY VALUE AND CONSTRUCTION
For the Last Ten Fiscal Years
(Dollars in Thousands)

Fiscal Year	Property Value (1)			Construction (2)	
	Real/ Personal Property Assessed Value	Exemptions Allowed for Real/ Personal Property	Total Net Assessed Value	Number of Permits	Value
2002	\$ 6,199,879	\$ 2,836,850	\$ 3,363,029	5,251	\$ 253,354
2003	\$ 6,612,222	\$ 2,631,664	\$ 3,980,558	6,484	\$ 86,694
2004	\$ 7,070,688	\$ 2,730,286	\$ 4,340,402	6,012	\$ 67,899
2005	\$ 9,595,415	\$ 4,236,380	\$ 5,359,035	5,306	\$ 96,236
2006	\$ 11,078,890	\$ 4,227,713	\$ 6,851,177	7,003	\$ 149,062
2007	\$ 12,671,150	\$ 4,208,873	\$ 8,462,277	7,529	\$ 168,984
2008	\$ 11,882,901	\$ 5,182,044	\$ 6,700,857	4,971	\$ 23,721
2009	\$ 10,719,505	\$ 4,894,185	\$ 5,825,320	4,215	\$ 16,389
2010	\$ 9,075,047	\$ 4,101,589	\$ 4,973,458	4,297	\$ 43,322
2011	\$ 9,187,579	\$ 4,218,770	\$ 4,968,809	4,504	\$ 35,013

(1) Figures here are derived from Table 9 of this Statistical Section.

(2) Source: City of Key West Building and Zoning Department.

CITY OF KEY WEST, FLORIDA
TABLE 19
OPERATING INDICATORS BY FUNCTION/PROGRAM
For the Last Nine Fiscal Years

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government:									
Building permits issued	6,484	6,012	5,306	7,003	7,529	4,971	4,215	4,297	4,504
Building inspections performed	9,186	11,546	10,169	10,622	12,547	11,275	7,392	8,128	9,606
Occupational licenses	8,321	9,224	8,824	9,031	8,673	8,990	9,072	8,296	9,778
Fire:									
Emergency responses	*	1,962	2,417	1,925	1,935	2,160	1,206	2,613	2,269
Inspections	*	523	514	986	1,844	1,440	779	2,481	2,430
Police:									
Physical arrests	2,119	2,053	1,979	1,801	1,101	2,031	2,166	2,075	2,115
Parking violations	42,151	38,081	49,260	47,036	48,820	48,312	46,893	37,047	30,830
Traffic violations	4,708	6,501	9,109	6,030	6,409	5,040	4,331	4,313	4,450
Cemetery:									
Burials	*	104	120	123	113	95	86	124	129
Sewer:									
Average daily flow (millions of gallons per day)	5	4	5	5	5	4	4	4	4
Solid Waste:									
Refuse annually tons	57,144	59,907	60,799	62,729	55,624	58,296	50,594	45,402	55,624
Recycle annual in tons	2,344	2,045	2,122	1,894	2,095	2,484	2,517	3,607	2,095
Marinas:									
Key West Bight:									
Diesel gallons pumped	232,552	364,884	380,446	270,702	429,871	354,378	349,664	315,515	311,677
Gas gallons pumped	*	79,008	123,372	116,432	122,633	79,114	78,872	63,058	106,071
Transient customers	1,053	1,392	1,297	1,108	1,202	1,436	986	1,011	1,284
Ferry terminal:									
Boat landings	**	*	*	435	431	508	393	479	464
Passenger disembarkments	**	*	88,820	81,709	96,796	85,134	148,300	144,617	154,821
Diesel gallons pumped	**	283,471	280,267	153,849	447,104	412,360	137,631	81,807	141,355
Garrison Bight:									
Transient customers	388	*	338	431	586	496	396	362	384
Mooring field monthly permits	39	61	66	38	49	49	165	76	332
Ramp usage	4,469	4,059	4,217	5,202	4,951	4,437	4,879	4,142	5,307
Cars parked overnight	4,786	4,710	5,475	6,238	5,787	5,050	N/A	N/A	N/A
Transportation:									
Cruiseship passengers	*	897,551	1,008,076	859,089	831,063	733,910	862,043	804,845	852,673
Sidewalks repaired/replaced sf	*	*	37,887	53,196	19,535	36,296	61,719	107,243	56,725

* Incomplete data

** Ferry Terminal Opened in 2004

CITY OF KEY WEST, FLORIDA
TABLE 20
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
For the Last Nine Fiscal Years

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011
Fire:									
Fire Stations	3	3	3	3	3	3	3	3	3
Engines	6	6	6	6	6	7	7	7	7
Aerial	1	1	1	1	1	1	1	1	1
Light duty rescue	0	1	1	1	1	1	1	1	1
Police:									
Stations	1	1	1	1	1	1	1	1	1
Patrol Units	96	100	100	100	98	89	105	95	115
Parking enforcement units	7	7	7	7	7	7	7	7	7
Parks and Recreation:									
Acreage	69.25	69.25	69.25	69.25	69.25	69.25	69.25	69.25	69.25
Playgrounds	2	2	2	3	3	3	3	3	3
Baseball/softball diamonds	7	7	7	7	7	7	7	7	7
Soccer/football fields	4	4	4	4	4	4	4	4	4
Basketball courts	5	5	5	5	5	5	5	5	5
Pools	1	1	1	1	1	1	1	1	1
Sewer:									
Length of system	58	58	58	58	58	58	58	58	58
Plant daily capacity (millions of gallons per day)	10	10	10	10	10	10	10	10	10
Storm Water:									
Length of system	11	11	11	11	11	11	11	11	11
Key West Bight:									
Slips:									
Transient slips	79	84	85	90	92	92	92	92	92
Commerical slips	45	43	43	43	42	42	42	42	42
Other slips	25	22	21	16	15	15	15	15	15
Fuel capacity (gallons):									
Gasoline	4,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Diesel	12,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Leaseable retail space:									
(square feet)	78,266	75,723	88,728	88,164	86,938	86,407	86,407	86,407	86,407
Ferry Terminal:									
Commerical slips	4	4	4	4	4	4	4	4	4
Diesel capacity (gallons)	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Garrison Bight:									
Transient slips	47	47	29	35	35	29	29	29	29
Liveaboard/pleasure	136	136	154	145	146	148	148	148	148
Other slips	37	37	37	40	39	43	43	43	43
Mooring field	81	149	149	149	149	149	149	149	149
Transportation:									
Number of buses	15	15	15	15	15	17	17	17	16
Cruiseports	3	3	3	3	3	3	3	3	3
Ferry terminals	0	1	1	1	1	1	1	1	1

CITY OF KEY WEST, FLORIDA

TABLE 21

**FULL-TIME EQUIVALENT CITY EMPLOYEES BY FUNCTION/PROGRAM
For the Last Ten Fiscal Years**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
City Commission	5	5	5	5	5	5	5	5	5	5
City Management	2	2	2	2	2	2	3	3	4	4
Management services and other	77	86	83	84	81	79	82	80	78	76
Recreation	32	35	35	35	35	39	33	31	31	33
Fire	73	73	73	73	73	73	71	71	71	72
Public Works	41	32	33	36	34	36	30	34	29	34
Police protection	123	133	133	137	137	133	122	122	123	123
Building	21	22	23	23	23	26	28	17	17	18
Capital	11	11	11	14	16	14	5	1	1	1
Roads and Sidewalks	-	-	-	-	-	-	3	4	4	4
Sewer	18	18	10	9	9	9	7	4	4	4
Stormwater	-	-	-	2	3	3	2	2	2	2
Solid waste	34	34	34	11	12	12	12	10	10	10
Recreation marinas	22	22	23	25	26	39	44	42	40	35
Redevelopment	-	-	-	6	5	5	6	7	6	-
Transportation	29	29	31	32	40	41	44	44	31	31
Total	488	502	496	494	501	516	497	477	456	452

CITY OF KEY WEST, FLORIDA

COMPLIANCE SECTION

For the Year Ended September 30, 2011

CITY OF KEY WEST, FLORIDA

COMPLIANCE SECTION

For the Year Ended September 30, 2011

TABLE OF CONTENTS

	<u>PAGES</u>
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 <i>Government Auditing Standards</i>	1-2
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and State Project and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550, <i>Rules of the Auditor General</i>	3-4
Independent Auditors' Report to City Management	5-10
Schedule of Expenditures of Federal Awards and State Financial Assistance	11-13
Schedule of Findings and Questioned Costs	14-15



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*

To the Honorable Mayor, City Commissioners and City Manager
City of Key West, Florida

We have audited the 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 (the "City"), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 28, 2012. Our report includes a reference to 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. Other auditors audited the financial statements of The Housing Authority of the City of Key West, Florida, which is the sole discretely presented component unit, as described in our report on the City of Key West, Florida's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. Also, other auditors audited the financial statements of Pension Trust Fund for Police Officers and Firefighters, as described in our report on the City of Key West, Florida's financial statements. The financial statements of Pension Trust Fund for Police Officers and Firefighters were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we have reported to the management of the City of Key West, Florida in our Independent Auditors' Report to City Management included on pages 5 through 10. The City of Key West, Florida's written responses to the matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of City management, members of the City Commission, the State of Florida Office of the Auditor General, Federal and state awarding agencies and other grantor agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Keefe, McCullough & Co., LLP

KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida
March 28, 2012



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
FEDERAL PROGRAM AND STATE PROJECT AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND
AND CHAPTER 10.550, *RULES OF THE AUDITOR GENERAL*

To the Honorable Mayor, City Commissioners and City Manager
City of Key West, Florida

Compliance

We have audited the City of Key West, Florida's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133, Compliance Supplement* and the requirements described in the Department of Financial Services' *State Projects Compliance Supplement* that could have a direct and material effect on each of the City's major Federal programs and state projects for the year ended September 30, 2011. The City'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's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 of America; OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*; and Chapter 10.550, Rules of the Auditor General. Those standards, OMB Circular A-133, and Chapter 10.550, Rules of the Auditor General, 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'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's compliance with those requirements.

In our opinion, the City of Key West, Florida complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs and state projects for the year ended September 30, 2011.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs and state projects. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program or state project to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program and state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program and state project will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards and State Financial Assistance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of and for the year ended September 30, 2011, and have issued our report thereon dated March 28, 2012, which contained unqualified opinions on those financial statements. Our report includes a reference to other auditors. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and Chapter 10.550, Rules of the Auditor General, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of City management, members of the City Commission, the State of Florida Office of the Auditor General, Federal and state awarding agencies and other grantor agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Keefe, McCullough & Co., LLP

KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida
March 28, 2012



INDEPENDENT AUDITORS' REPORT TO CITY MANAGEMENT

To the Honorable Mayor, City Commissioners and City Manager
City of Key West, Florida

We have audited the basic financial statements of the City of Key West, Florida (the "City"), as of and for the year ended September 30, 2011, and have issued our report thereon dated March 28, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters; Independent Auditors' Report on Compliance with Requirements Applicable to each Major Federal Program and State Project and on Internal Control over Compliance; and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 28, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' reports or schedule.

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, except as noted on pages 6 and 9 under the heading Prior Year Findings and Recommendations.

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we have the following findings and recommendations:

PRIOR YEAR FINDINGS AND RECOMMENDATIONS:

	<u>STILL APPLICABLE</u>	<u>PARTIALLY IMPLEMENTED</u>	<u>IMPLEMENTED OR NO LONGER RELEVANT</u>
2007-02: Establish: 1) a City-Wide Schedule of Fees, and 2) a Cash Receipts Procedures Manual.		X	
2007-06: Review and Adjust the Penalty Calculation for Stormwater.	X		
2007-07: Unmatched Meters.	X		
2008-07: Review Collection Procedures – Sewer, Stormwater and Solid Waste Services.		X	
2009-01: Adopt a Formal Cost Allocation Plan.			X
2010-01: Grant Projects – 1) Improve the Processing of Reimbursement Requests and Project Close-Outs and 2) Designate a City-Wide / Full Time Grants Specialist		X	
2010-02: State of Florida Division of Emergency Management – Submit Lump-sum Payment or Establish a Repayment Plan.			X

2007-02 Establish: 1) a City-Wide Schedule of Fees, and 2) a Cash Receipts Procedures Manual:

1. It was previously recommended that the City consider the implementation of a *City-Wide Schedule of Fees*. The City has substantially completed its City-Wide Schedule of Fees but awaits final review by management and presentation to the City Commission. This recommendation is considered as partially implemented.

2. The City has diverse revenue sources ranging from parking meters/lots, rentals, fines, bus fares, advertising, building permits, sales and utilities services, etc. These revenues are collected at various locations and processed by the Revenue Department. Management should review current practices used to account for each revenue source and establish written processing guidelines. This additional documentation can be used in assessing the effectiveness of current practices, evaluating performance, ensuring accuracy and completeness of revenue, and training new hires to perform the process. It was noted that during the current year, the City continued but has not finalized the process of compiling information to produce a formal cash receipts procedures manual. This recommendation is considered as partially implemented.

PRIOR YEAR FINDINGS AND RECOMMENDATIONS: (continued)

Management's Response:

1. The City clearly recognizes the value to both internal and external customers in the codification of a centralized fee and charges schedule. Currently, the City is reviewing the schedule to determine the most effective way to maintain and adopt the fee schedule. The myriad of fees derive their basis from different approval sources. Management is currently reviewing to determine the most appropriate method to adopt the fee schedule, bring uniformity to the approving authority and provide a process for periodic updating.

2. The City continues to develop and refine written guidelines that will help support the revenue collection and recognition processes. The City expects to complete these written guidelines in the current fiscal year. The objective is to formalize such processes into City policy and provide for the annual review of the respective revenue receipts procedures.

2007-06 Review and Adjust the Penalty Calculation for Stormwater:

The penalty calculation for stormwater is not in compliance with the City's code. The City's code reads as follows: "user fees shall be subject to a five percent per month (not to exceed 25% late fee)". Our review revealed that the billing system is assessing a "one-time" five percent penalty charge. We recommend that the City brings the penalty calculation in compliance with the code. This could be achieved by either modifying the City's code or the billing system.

Management's Response:

Ordinance language will be modified to the billing practice. The current calculation method for stormwater penalties is consistent with the manner in which both sewer and solid waste penalties are calculated. Both sewer and solid waste ordinance language is consistent with the manner in which a penalty is calculated and applied. The modification of ordinance language for stormwater will bring consistency between all three utilities as it applies to both prescribing language and the resulting calculation of penalties.

2007-07 Unmatched Meters:

During our audit, City staff disclosed that unmatched meters to the sewer billing system continues to be an issue faced by the City. The City should continue its on-going commitment to evaluate and correct these exception reports, prepared by the Revenue Department, and increase its possible additional billing opportunities. We recommend that management quantifies the effect of unmatched meters, and any other related exceptions, and thoroughly reviews the billing process/system to ensure that revenues are being billed to all recipients of the system.

Management's Response:

The City is in the process of contracting out the entire sewer billing and collection process to the water authority, Florida Keys Aqueduct Authority ("FKAA"). Currently the City receives the consumption data for its billings from FKAA. Certain accounts do not match up with the City's billing data base. By the City turning over the billing to FKAA, using their data as a billing basis, all water users will receive a corresponding sewer bill for usage where applicable. This will eliminate the billing impact of any unidentified water meters.

In the event the City does not make the transition to FKAA a concerted effort will need to be made immediately to properly match water accounts from FKAA to the City's billing data base.

PRIOR YEAR FINDINGS AND RECOMMENDATIONS: (continued)

2008-07 Review Collection Procedures – Sewer, Stormwater and Solid Waste Services:

Previously and during our current audit, we have noted that delinquent accounts receivable balances related to sewer, stormwater and solid waste services continue to increase. Upon inquiry, staff cited that the Revenue Department may be understaffed, which may cause delays in collection efforts. We previously recommended that the City assess the cost-benefit of hiring additional staff or outsourcing the services of a collection agency.

Management has indicated that sewer billing and collection services are in the process of being subcontracted to the Florida Keys Aqueduct Authority, subject to City Commission approval. In addition, management intends to include stormwater and solid waste charges together with the annual property tax bill which is collected through the Monroe County Tax Collector. This comment is considered partially implemented contingent upon the implementation of management's plans.

Management's Response:

The short term outlook is to transition sewer billing responsibilities to the FKAA. When completed, it is anticipated that future sewer billings will experience a much higher collection rate primarily based on the ability to terminate water services much easier than sewer services. The migration of solid waste and stormwater billing responsibilities to the Property Appraiser via placement of such services on the ad-valorem property tax bill is likewise anticipated to vastly improve the collection rates for both of those utilities. This transition is anticipated to be completed by October 1, 2013.

It should be noted the movement of sewer and stormwater/solid waste billing responsibility to FKAA and the Property Appraiser, respectively, will not eliminate the need for collection efforts by the City to continue on current outstanding balances. Such balances in place at the transition will remain the responsibility of the City. Future collection responsibility for uncollected amounts, once transitioned, will become the responsibility of the FKAA or the Property Appraiser/Tax Collector.

For those balances the City will be responsible for, the current collection program must be improved to include the hiring of a Collections Manager, better interdepartmental coordination on outstanding accounts and the involvement by the Code Department, all working in an integrated fashion to reduce the current outstanding balances.

2010-01 Grant Projects – 1) Improve the Processing of Reimbursement Requests and Project Close-Outs and 2) Designate a City-Wide / Full Time Grant Specialist:

1. We previously recommended that the City continue to monitor their planning and construction agreements entered into with various governmental agencies, mainly the Florida Department of Transportation, and clear outstanding exceptions from monitoring reports to ensure prompt and complete payment by the grantor agency. During the current year, the City provided additional administrative support in this area and significant improvement was noted to correct exceptions and on the collection of outstanding receivable balances. This recommendation is considered implemented.

2. Given that the City receives financial assistance from numerous Federal, state and local sources, we believe that management will benefit from a having a dedicated City-Wide/full time grant specialist to assist and be responsible for tasks such as: 1) preparation and/or coordination of monthly billing and general ledger reconciliation; 2) tracking the source of funds (Federal, state or local) and identify regulatory guidelines; and 3) develop a tracking mechanism to ensure that all compliance requirements are being timely met.

PRIOR YEAR FINDINGS AND RECOMMENDATIONS: (continued)

Management's Response:

1. As noted by the Auditor, the City corrected this issue and continues to monitor all grants for reporting compliance.

2. The City recognizes the need to centralize all grant management responsibilities. The City is actively seeking ways to centralize these responsibilities, either through redistribution or consolidation of job responsibilities.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS:

No matters to be reported.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and; (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The City of Key West, Florida was established under the provisions of Chapter 23374, Laws of Florida (1945), as amended. The City of Key West, Florida, includes as its component units: 1) The Housing Authority of the City of Key West, Florida, created by Florida Statute Chapter 421 and by resolution in 1938; and 2) the Key West Local Redevelopment Agency created under Florida Statute 163 and Section 2-446 of the Code of Ordinances of the City of Key West, Florida.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2011, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2011. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

City of Key West, Florida

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of City management, members of the City Commission, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Keefe, McCullough & Co., LLP

KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida
March 28, 2012

CITY OF KEY WEST, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
For the Year Ended September 30, 2011

Federal or State Grantor/Pass-Through Grantor/Program Title	CFDA Number	CSFA Number	Federal or State Grant Contract Number	Expenditures
FEDERAL AWARDS:				
<u>U.S. DEPARTMENT OF DEFENSE:</u>				
Pass-through the Department of The Army				
Florida Keys Water Quality Improvement Program (Section 109)	12.128	N/A	W32CS500602530	\$ 1,287,227
<u>U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT:</u>				
Direct Program:				
Housing Opportunities for Persons with AIDS	14.241	N/A	FL-H07-0008	234,650
Housing Opportunities for Persons with AIDS	14.241	N/A	FL-H10-0010	238,775
			14.241 Total	473,425
Pass-through Florida Department of Economic Opportunity				
Community Development Block Grant - Entitlement Grants	14.228	N/A	08DB-D3-11-54-02-A 11	2,077,833
Pass-through Florida Department of Children and Families				
Emergency Shelter Grants Program	14.231	N/A	KFZ 33	16,522
Emergency Shelter Grants Program	14.231	N/A	KFZ 46	55,523
			14.231 Total	72,045
<u>U.S. DEPARTMENT OF THE INTERIOR FISH AND WILDLIFE SERVICE:</u>				
Pass-through Florida Department of Environment Protection				
Clean Vessel Act	15.616	N/A	CVA09-555	16,250
<u>U.S. DEPARTMENT OF JUSTICE:</u>				
Direct Programs:				
Federal Forfeitures	16.XXX	N/A	-	58,407
Organized Crime Drug Enforcement Task Forces	16.XXX	N/A	FC-FLS-1771	62,434
			16.XXX Total	120,841
Bullet Proof Vest Partnership Program	16.607	N/A	2009BUBX08044212	5,932
Public Safety Partnership and Community Policing Grants	16.710	N/A	2006CKWX0295	3,163
ARRA - Public Safety Partnership and Community Policing Grants	16.710	N/A	2009RKWX0234	231,215
			16.710 Total	234,378
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.738	N/A	2010-DJ-BX-0314	19,265
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>				
Direct Programs:				
Federal Transit-Capital Investment Grants	20.500	N/A	FL-03-0316-00	94,343
Job Access-Reverse Commute	20.516	N/A	FL-37-X032-00	186,300

CITY OF KEY WEST, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
(continued)
For the Year Ended September 30, 2011

Federal or State Grantor/Pass-Through Grantor/Program Title	CFDA Number	CSFA Number	Federal or State Grant Contract Number	Expenditures
FEDERAL AWARDS: (continued)				
U.S. DEPARTMENT OF TRANSPORTATION: (continued)				
Pass-through Florida Department of Transportation				
Highway Planning and Construction	20.205	N/A	ANT08	29,996
Highway Planning and Construction	20.205	N/A	APD75	563,157
Highway Planning and Construction	20.205	N/A	APQ64	43,773
Highway Planning and Construction	20.205	N/A	AP540	183,907
Highway Planning and Construction	20.205	N/A	APD59	148,368
Highway Planning and Construction	20.205	N/A	APQ62	9,785
Highway Planning and Construction	20.205	N/A	AQ244	45,352
Highway Planning and Construction	20.205	N/A	GN0715	187,565
Highway Planning and Construction	20.205	N/A	AP738	150,094
Highway Planning and Construction	20.205	N/A	AP740	200,453
Highway Planning and Construction	20.205	N/A	APG61	317,625
ARRA - Highway Planning and Construction	20.205	N/A	APJ14	227,002
ARRA - Highway Planning and Construction	20.205	N/A	APJ16	53,431
ARRA - Highway Planning and Construction	20.205	N/A	APJ17	43,256
ARRA - Highway Planning and Construction	20.205	N/A	APJ15	39,940
ARRA - Highway Planning and Construction	20.205	N/A	APJ21	297,964
ARRA - Highway Planning and Construction	20.205	N/A	APJ22	22,905
ARRA - Highway Planning and Construction	20.205	N/A	APJ26	19,944
ARRA - Highway Planning and Construction	20.205	N/A	API68	249,224
			20.205 Total	2,833,741
ARRA - Formula Grants for Other Than Urbanized Areas	20.509	N/A	APU61	508,326
Formula Grants for Other Than Urbanized Areas	20.509	N/A	APT05	305,202
Formula Grants for Other Than Urbanized Areas	20.509	N/A	AQ121	381,690
Formula Grants for Other Than Urbanized Areas	20.509	N/A	APE75	100,403
Formula Grants for Other Than Urbanized Areas	20.509	N/A	AP290	46,076
			20.509 Total	1,341,697
U.S. DEPARTMENT OF ENERGY:				
Pass-through Office of Energy State of Florida				
ARRA - Florida Energy and Climate Commission	81.041	N/A	17522	709,238
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:				
Pass-through the Monroe County Coalition, Inc.				
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	N/A	-	1,600
Pass-through Human Services Associates, Inc.				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	-	15,000
EXECUTIVE OFFICE OF THE PRESIDENT:				
Pass-through South Florida High Intensity Drug Trafficking Area				
High Intensity Drug Trafficking Area Program	95.001	N/A	FC-FLS-1651	13,668

CITY OF KEY WEST, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
 (continued)
 For the Year Ended September 30, 2011

Federal or State Grantor/Pass-Through Grantor/Program Title	CFDA Number	CSFA Number	Federal or State Grant Contract Number	Expenditures
FEDERAL AWARDS: (continued)				
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>				
Pass-through State of Florida Division of Emergency Management				
Disaster Grants - Public Assistance	97.036	N/A	06-WL-&K-11-54-00-539	1,974
Disaster Grants - Public Assistance	97.036	N/A	08-PA-B9-11-54-13-714	25,090
Disaster Grants - Public Assistance	97.036	N/A	06-KF-B&-11-54-00-592	223,337
Disaster Grants - Public Assistance	97.036	N/A	09-PA-00-11-54-13-517	281
Disaster Grants - Public Assistance	97.036	N/A	06-RT-&W-11-54-02-517	7,580
			97.036 Total	<u>258,262</u>
Hazard Mitigation Grant	97.039	N/A	10HM-33-11-54-02-001	<u>128,542</u>
Total Federal Awards Expenditures				<u>\$ 9,889,587</u>

STATE FINANCIAL ASSISTANCE:

EXECUTIVE OFFICE OF THE GOVERNOR:

Enterprise Florida, Inc.	N/A	31.003	DIG-00-05	\$ 7,806
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DEPARTMENT OF STATE AND SECRETARY OF STATE:

Historic Preservation Grants	N/A	45.031	-	18,479
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FLORIDA DEPARTMENT OF ENVIRONMENT PROTECTION:

Beach Erosion Control Program	N/A	37.003	06M01	429,211
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DEPARTMENT OF TRANSPORTATION:

Seaport Grants	N/A	55.005	AOJ04	62,576
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Public Transit Block Grant Program	N/A	55.010	AOZ07	89,011
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Public Transit Block Grant Program	N/A	55.010	APD98	175,168
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			55.010 Total	<u>264,179</u>
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Public Transit Service Development Program	N/A	55.012	ANT11	<u>181,316</u>
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Total State Financial Assistance Expenditures				<u>\$ 963,567</u>
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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 \$ 460,450 from the Housing Opportunities for Persons with AIDS federal program. Other federal programs did not utilize subrecipients. There were no subrecipients from the state financial assistance programs.

CITY OF KEY WEST, FLORIDA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended September 30, 2011

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the City of Key West, Florida.
2. No material weaknesses relating to the audit of the basic financial statements are reported in the 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*.
3. No instances of noncompliance material to the basic financial statements of City of Key West, Florida were disclosed during the audit.
4. No material weaknesses relating to the audit of the major Federal programs and state projects are reported in the Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and State Project and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General.
5. The auditors' report on compliance for the major Federal programs and state projects for the City of Key West, Florida expresses an unqualified opinion.
6. No audit findings relative to the major Federal programs and state projects for the City of Key West, Florida are reported in Part C of this schedule.
7. The programs/projects tested as major programs/projects include the following:

Federal Programs	Federal CFDA Number
U.S. Department of Housing & Urban Development - Housing Opportunities For Persons with AIDS	14.241
U.S. Department of Justice - Public Safety Partnership and Community Policing Grants	16.710
U.S. Department of Transportation - Highway Planning and Construction	20.205
U.S. Department of Transportation - Formula Grants for Other than Urbanized Areas	20.509
U.S. Department of Energy - Florida Energy and Climate Commission	81.041
 State Projects	 State CSFA Number
Florida Department of Environmental Protection - Beach Erosion Control Program	37.003
Florida Department of Transportation - Public Transit Service Development Program	55.012

CITY OF KEY WEST, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(continued)
For the Year Ended September 30, 2011

A. SUMMARY OF AUDITORS' RESULTS (continued)

8. The threshold for distinguishing Type A and Type B for Federal programs was \$ 300,000. The threshold for distinguishing Type A and Type B for state projects was \$ 300,000.
9. The City of Key West, Florida was determined to be a low-risk auditee pursuant to OMB Circular A-133.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

No matters to be reported.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS AUDITS

No matters to be reported.

D. OTHER ISSUES

1. We noted certain matters that we have reported to the management of the City of Key West, Florida in our Independent Auditors' Report to City Management included on pages 5 through 10.
2. No summary schedule of prior audit findings is required because there were no prior audit findings related to Federal programs or state projects.
3. No corrective action plan is required because there were no findings required to be reported under the Federal and the Florida Single Audit Act.