

UTILITY BOARD OF THE CITY OF KEY WEST

POST OFFICE DRAWER 6100  
KEY WEST, FLORIDA 33041-6100



TELEPHONE: (305) 295-1000  
www.kwcityelectric.com

August 10, 2000

Ms. Blanco Bayo  
Florida Public Service Commission  
Division of Records and Reporting  
2540 Shumard Oak Blvd.  
Tallahassee, Florida 32399-0850

DEPOSIT                      DATE  
D348                      AUG 16 2000

RE: APPLICATION FOR ALEC LICENSE

001126-TX

Dear Ms. Bayo:

Please find enclosed the completed application for approval to provide local exchange services within the State of Florida.

In addition, I have enclosed a check in the amount of \$250.00.

If you have any question during your reviewing process, please do not hesitate to call me at (305) 295-1042.

Sincerely,

UTILITY BOARD CITY OF KEY WEST  
"CITY ELECTRIC SYSTEM"



CITY ELECTRIC SYSTEM  
P.O. BOX 6100  
KEY WEST, FL 33041

FIRST STATE BANK  
of the Florida Keys      83-43  
670

NO. 060089

DATE 08/03/00  
AMOUNT \$250.00

PAY

TWO HUNDRED AND FIFTY DOLLARS 00 CENTS\*\*\*\*\*

IN THE ORDER OF:

CITY OF KEY WEST ELECTRIC SYSTEM  
OPERATIONS AND MAINTENANCE SUB ACCOUNT

FLORIDA PUBLIC SERVICE COMMISS\*\*\*\*  
2540 SHUMARD OAK BLVD  
TALLAHASSEE FL 32399

DOCUMENT NUMBER - DATE  
09799 AUG 16 2000

*Robert R. Padua*  
AUTHORIZED SIGNATURE

FPSC-RECORDS/REPORTING

UTILITY BOARD OF THE CITY OF KEY WEST

POST OFFICE DRAWER 6100  
KEY WEST, FLORIDA 33041-6100



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Sincerely,

UTILITY BOARD CITY OF KEY WEST  
"CITY ELECTRIC SYSTEM"  
Raymond C. Rodriguez, General Manager

Dale Z. Finigan  
Director of Engineering/Control Center

DZF/ba

c:  
R. Rodriguez, General Manager  
C. Jansen, Asst. General Manager  
File:SOF-103

00 AUG 14 AM 9:58  
MAIL ROOM

PSC/application for ALEC

UTILITY BOARD MEMBERS:

Robert R. Padron, Chairman • Dr. Otha P. Cox, Vice-Chairman  
Leonard H. Knowles, Member • Gayle Swofford, Member • Lou Hernandez, Member

**\*\* FLORIDA PUBLIC SERVICE COMMISSION \*\***

**DIVISION OF TELECOMMUNICATIONS**  
**BUREAU OF CERTIFICATION AND SERVICE EVALUATION**

**APPLICATION FORM**

For

**AUTHORITY TO PROVIDE**  
**ALTERNATIVE LOCAL EXCHANGE SERVICE**  
**WITHIN THE STATE OF FLORIDA**

---

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**Instructions**

This form is used as an application for an original certificate and for approval of the assignment or transfer of an existing certificate. In the case of an assignment or transfer, the information provided shall be for the assignee or transferee (See Appendix A).

Print or type all responses to each item requested in the application and appendices. If an item is not applicable, please explain why.

Use a separate sheet for each answer which will not fit the allotted space.

Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of \$250.00 to:

**Florida Public Service Commission**  
**Division of Records and Reporting**  
**2540 Shumard Oak Blvd.**  
**Tallahassee, Florida 32399-0850**  
**(850) 413-6770**

If you have questions about completing the form, contact:

**Florida Public Service Commission**  
**Division of Telecommunications**  
**Bureau of Certification and Service Evaluation**  
**2540 Shumard Oak Blvd.**  
**Tallahassee, Florida 32399-0850**  
**(850) 413-660**

FORM PSC/CMU 8 (11/95)  
Required by Commission Rule Nos. 25-24.805,  
25-24.810, and 25-24.815 2

DOCUMENT NUMBER-DATE

**09799** AUG 14 8

FPSC-RECORDS/REPORTING

## APPLICATION

1. This is an application for  (check one):

**Original certificate (new company).**

**Approval of transfer of existing certificate:** Example, a non-certificated company purchases an existing company and desires to retain the original certificate of authority.

**Approval of assignment of existing certificate:** Example, a certificated company purchases an existing company and desires to retain the certificate of authority of that company.

**Approval of transfer of control:** Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of company: **Utility Board of the City of Key West - City Electric System**

3. Name under which the applicant will do business (fictitious name, etc.):  
**Utility Board of the City of Key West - City Electric System**

4. Official mailing address (including street name & number, post office box, city, state, zip code):

**PO Box 6100, Key West, Florida 33040-6100  
1001 James Street, Key West, Florida 33040**

5. Florida address (including street name & number, post office box, city, state, zip code):

**PO Box 6100, Key West, Florida 33040-6100  
1001 James Street, Key West, Florida 33040**



6. Structure of organization:

- |  |  |
|--|--|
| <input type="checkbox"/> Individual                                    | <input type="checkbox"/> Corporation         |
| <input type="checkbox"/> Foreign Corporation                           | <input type="checkbox"/> Foreign Partnership |
| <input type="checkbox"/> General Partnership                           | <input type="checkbox"/> Limited Partnership |
| <input checked="" type="checkbox"/> Other Municipal Electrical Company |  |

7. If individual, provide:

**Name:**

**Title:**

**Address:**

**City/State/Zip:**

**Telephone No.: Fax No.:**

**Internet E-Mail Address:**

**Internet Website Address:**

8. **If incorporated in Florida**, provide proof of authority to operate in Florida:

(a) **The Florida Secretary of State corporate registration number:**

9. **If foreign corporation**, provide proof of authority to operate in Florida:

(a) **The Florida Secretary of State corporate registration number:**

10. **If using fictitious name-d/b/a**, provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:

(a) **The Florida Secretary of State fictitious name registration number:**

**11. If a limited liability partnership, provide proof of registration to operate in Florida:**

**(a) The Florida Secretary of State registration number:**

**12. If a partnership, provide name, title and address of all partners and a copy of the partnership agreement.**

**Name:**

**Title:**

**Address:**

**City/State/Zip:**

**Telephone No.:**

**Fax No.:**

**Internet E-Mail Address:**

**Internet Website Address:**

**13. If a foreign limited partnership, provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.**

**(a) The Florida registration number:**

**14. Provide F.E.I. Number(if applicable):**

**15. Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:**

**(a) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. Provide explanation.**

(b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

16. Who will serve as liaison to the Commission with regard to the following?

(a) The application:

<b>Name:</b>	<b>Dale Z. Finigan</b>
<b>Title:</b>	<b>Director of Engineering/Control Center</b>
<b>Address:</b>	<b>PO Box 6100</b>
<b>City/State/Zip:</b>	<b>Key West, Florida 33040-6100</b>
<b>Telephone No.:</b>	<b>(305) 295-1042</b>
<b>Fax No.:</b>	<b>(305) 295-1044</b>
<b>Internet E-Mail Address:</b>	<b>FINIGD@KWCITYELECTRIC.COM</b>
<b>Internet Website Address:</b>	<b>KWCITYELECTRIC.COM</b>

(b) Official point of contact for the ongoing operations of the company:

<b>Name:</b>	<b>Dale Z. Finigan</b>
<b>Title:</b>	<b>Director of Engineering/Control Center</b>
<b>Address:</b>	<b>PO Box 6100</b>
<b>City/State/Zip:</b>	<b>Key West, Florida 33040-6100</b>
<b>Telephone No.:</b>	<b>(305) 295-1042</b>
<b>Fax No.:</b>	<b>(305) 295-1044</b>
<b>Internet E-Mail Address:</b>	<b>FINIGD@KWCITYELECTRIC.COM</b>
<b>Internet Website Address:</b>	<b>KWCITYELECTRIC.COM</b>

(c) Complaints/Inquiries from customers:

**Name:** Dale Z. Finigan  
**Title:** Director of Engineering/Control Center  
**Address:** PO Box 6100  
**City/State/Zip:** Key West, Florida 33040-6100  
**Telephone No.:** (305) 295-1042  
**Fax No.:** (305) 295-1044  
**Internet E-Mail Address:** FINIGD@KWCITYELECTRIC.COM  
**Internet Website Address:** KWCITYELECTRIC.COM

17. List the states in which the applicant:

- (a) has operated as an alternative local exchange company. **NONE**
- (b) has applications pending to be certificated as an alternative local exchange company. **NONE**
- (c) is certificated to operate as an alternative local exchange company.  
**NONE**

(d) has been denied authority to operate as an alternative local exchange company and the circumstances involved. **NONE**

(e) has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved. **NONE**

(f) has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved. **NONE**

18. Submit the following:

A. Financial capability.

The application **should contain** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer affirming that the financial statements are true and correct and should include:

1. the balance sheet;
2. income statement; and
3. statement of retained earnings.

**NOTE:** *This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.*

Further, the following (which includes supporting documentation) should be provided:

1. **written explanation** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served. (Attached)
2. **written explanation** that the applicant has sufficient financial capability to maintain the requested service. (Attached)
3. **written explanation** that the applicant has sufficient financial capability to meet its lease or ownership obligations. (Attached)

B. **Managerial capability:** give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.

**Name:** Dale Z. Finigan  
**Title:** Director of Engineering/Control Center  
**Address:** PO Box 6100  
**City/State/Zip:** Key West, Florida 33040-6100  
**Telephone No.:** (305) 295-1042  
**Fax No.:** (305) 295-1044

**Internet E-Mail Address:** [FINIGD@KWCITYELECTRIC.COM](mailto:FINIGD@KWCITYELECTRIC.COM)

**Internet Website Address:** [KWCITYELECTRIC.COM](http://KWCITYELECTRIC.COM)

C. **Technical capability:** give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.

**Management expertise will be provided by the "Utility Board"s (City Electric System) current and future employees and consultants.**

**\*\* APPLICANT ACKNOWLEDGMENT STATEMENT \*\***

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of \$50 is required.
2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.
3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.
4. **APPLICATION FEE:** I understand that a non-refundable application fee of \$250.00 must be submitted with the application.

**UTILITY OFFICIAL:**

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Title: GENERAL MANAGER

Telephone No.: (305)295-1001

Address: PO BOX 6100 KEY WEST, FLORIDA 33040

Fax No. (305) 295-1044

**ATTACHMENTS:**

- A - CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT
- B - INTRASTATE NETWORK
- C - AFFIDAVIT

**\*\* APPENDIX A \*\***  
**CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT**  
**STATEMENT**

I, (Name), \_\_\_\_\_  
(Title) \_\_\_\_\_ of (Name of Company)

\_\_\_\_\_ and current holder of Florida Public Service Commission Certificate Number # \_\_\_\_\_, have reviewed this application and join in the petitioner's request for a:

- ( ) sale
- ( ) transfer
- ( ) assignment

of the above-mentioned certificate.

**UTILITY OFFICIAL:**

Signature Date: \_\_\_\_\_

Title Telephone No.: \_\_\_\_\_

Address: \_\_\_\_\_

Fax No.: \_\_\_\_\_



**\*\* APPENDIX B \*\***  
**INTRASTATE NETWORK (if available)**

Chapter 25-24.825 (5), Florida Administrative Code, requires the company to make available to staff the alternative local exchange service areas only upon request.

1. **POP:** Addresses where located, and indicate if owned or leased.  
2.

1) \_\_\_\_\_ 2) \_\_\_\_\_

3) \_\_\_\_\_ 4) \_\_\_\_\_

2. **SWITCHES:** Address where located, by type of switch, and indicate if owned or leased.

1) \_\_\_\_\_ 2) \_\_\_\_\_

3) \_\_\_\_\_ 4) \_\_\_\_\_

3. **TRANSMISSION FACILITIES:** POP-to-POP facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased.

POP-to-POP

OWNERSHIP

1) \_\_\_\_\_

\_\_\_\_\_

2) \_\_\_\_\_

\_\_\_\_\_

3) \_\_\_\_\_

\_\_\_\_\_

4) \_\_\_\_\_

\_\_\_\_\_

**\*\* APPENDIX C \*\***  
**AFFIDAVIT**

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."

**UTILITY OFFICIAL:**

Signature:  Date: 8/10/00

Title: GENERAL MANAGER Telephone No.: (305) 295-1001

Address: PO BOX 6100 KEY WEST, FLORIDA 33040

Fax No.: (305) 295-1044

# Comprehensive Annual Financial Report

Utility Board  
City of Key West, Florida

For Fiscal Year Ended  
September 30, 1999

Prepared by:  
Finance Department and General Manager

Stanley T. Rzad  
Finance Manager

Raymond C. Rodriguez  
General Manager

09799-00

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# Utility Board of the City of Key West, Florida

1001 James St.  
P.O. Drawer 6100  
Key West, Florida 33041-6100

General Manager: (305) 295-1001  
Main Telephone: (305) 295-1000  
Fax: (305) 295-1005

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March 6, 2000

To the Chairman and Members  
of the Utility Board of the City  
of Key West, Florida

The Comprehensive Annual Financial Report ("CAFR") of the Utility Board of the City of Key West, Florida (the "System") for the Fiscal Year ended September 30, 1999, is submitted herewith, pursuant to and by the authority of Chapter 69-1191, Laws of Florida, as amended, and Resolution No. 532 of the Utility Board, Article V, Section 5.01 (H), adopted November 13, 1985, as amended and supplemented.

The CAFR was compiled by the staff of the Finance Department with the close cooperation of our independent auditor and represents the official report of the System's financial operations and conditions to the citizens, Utility Board, System management personnel, rating agencies, bond holders and other interested parties.

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

In order to meet the needs of a broad spectrum of financial statement readers, the CAFR is presented in four sections: Introductory Section, Financial Section, Statistical Section, and Single Audit/Grants Compliance Section:

The **Introductory Section** includes the table of contents, this transmittal letter, a description of our service area, a description of major events in 1999 and a list of principal officials and employees of the System.

The **Financial Section** is composed of the independent auditor's report, the financial statements, supplemental schedules, and other auditor's reports. The notes to the financial statements are considered an integral and essential part of adequate disclosure and fair presentation of the financial statements.

The **Statistical Section** includes selected financial and demographic trend information. The tables within this section differ from the financial section schedules in that they present some non-accounting data covering more than two fiscal years.

The **Single Audit/Grants Compliance Section** is provided in conformance with the provisions of the Single Audit Act of 1984 and the United States Office of Management and Budget ("OMB")

## *Letter of Transmittal*

Circular A-133 Compliance Supplement. Information related to this single audit, including the Schedule of Expenditures of Federal and State Awards, is included in this section.

The accounting policies and the presentation of the financial report of the System have been designed to conform to generally accepted accounting principles as applicable to governmental units, in accordance with the Governmental Accounting Standards Board ("GASB"). The GASB embodies the official pronouncements previously issued by the National Council on Governmental Accounting ("NCGA").

The System applies Financial Accounting Standards Boards ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

### **Financial Information**

#### **Internal Accounting Controls**

In developing and maintaining the accounting system, consideration is given by the administration as to the adequacy of internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition; the reliability of financial records for preparing financial statements in conformity with generally accepted accounting principles; and maintaining accountability for assets.

The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the evaluation of cost and benefits require estimates and judgments by management. An evaluation by our independent auditors disclosed no material weaknesses in the internal control structure of the System.

#### **Basis of Accounting**

The System's financial statements are prepared on the basis of accounting required by the Federal Energy Regulatory Commission ("FERC"), which is an application of generally accepted accounting principles that is peculiar to utilities. Revenues are recognized in the period earned and expenses recognized in the period incurred. Budgetary control is maintained through the use of monthly financial reports and the use of purchase orders, work orders, and miscellaneous cash disbursements and approval procedures.

Your attention is directed to Note 1 of the Notes to the Financial Statements, which fully describes the accounting practices for the presentation of the financial statements.

#### **Single Audit**

As a recipient of federal financial assistance, the System is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. As a part of the single audit described herein, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance

## Letter of Transmittal

programs, as well as to determine that the System has complied with applicable laws and regulations. The results of the System's single audit for the fiscal year ended September 30, 1998, indicated no violations of applicable laws and regulations.

### Budgetary Control

Revenue and expense budgets are prepared on an annual basis in accordance with the System's bond indentures and submitted to the Utility Board for approval prior to October 1 of the fiscal year. Legal adoption of budgets is not required. Actual revenues and expenses are compared to the budget on a line item basis (which is the legal level of control) within cost centers, and an Analysis of Variances report is prepared and submitted to the Utility Board each month as required by bond indentures.

During the year, staff can make amendments within the operating budget or the capital budget that do not change the total budget for those categories, provided that the change is within the same limitations set forth in the Enabling Act, the change is documented on a Budget Amendment Form, and the change is reported to the Utility Board at the next Utility Board meeting. The Utility Board approves all other budget changes.

Supplemental appropriations were necessary and the Utility Board, in accordance with Utility Board policies, amended the budgetary data presented herein. Budget appropriations lapse at each fiscal year-end except for the capital budget. The budget is adopted on a basis consistent with the System's Basis of Accounting except for depreciation and amortization, debt service on revenue bonds, and allocation of administrative costs to capital projects.

### Property, Plant and Equipment

Property, Plant and Equipment is stated at cost, which includes costs of contract work, labor, materials, allocated indirect charges, and capitalized interest. Major renewals and betterments are capitalized while minor replacements and repairs are expensed as incurred. The cost of retired electric plant, together with removal costs less salvage, is charged to accumulated depreciation at such time as property is removed from service.

### Results of Operations

The primary reasons for changes in the results of operations for the year ended September 30, 1999 compared to the year ended September 30, 1998, are as follows:

**Operating Revenues** for 1999 decreased from 1998 by \$3,178,363 or 5.0%. The Electric Revenues segment was lower by \$133,842 due to megawatthour (MWh) sales of 629,998 being below the 1998 level by 1,607 or 0.25%. The Purchased Power Adjustment component was lower by \$2,516,306 due to reduced purchased power costs.

**Operating Expenses** decreased in 1999 compared to 1998 by \$3,571,276 or 7.0% primarily due to lower costs of purchased power. Purchased Power expense for 1999 decreased \$3,574,077 compared to 1998. Purchased Power expenses, expressed in mills per 1,000 kWh sold, were 44.69 in 1999, versus



## Letter of Transmittal

50.22 in 1998. The System began operations as a participant in the Florida Municipal Power Agency ("FMPA") All Requirements Project ("ARP") on April 1, 1998.

**Non-Operating Revenue and Expenses** of \$10,385,536 in 1999, was \$7,591,040 greater compared to 1998. Net Interest Income increased \$41,407 during 1999, due to slightly higher balances. Grant Revenue increased by \$3,219,143 primarily related to additional reimbursements from the Department of Community Affairs for Hurricane Georges (\$3,360,990). Miscellaneous Non-Operating Revenue was greater by \$4,349,426 primarily due to the sale of sulfur dioxide (SO<sub>2</sub>) emission allowances (\$4,285,700). Payment to the City of Key West was higher by \$18,936 as a result of the Bond Resolution formula calculation.

**Net income** was \$10,418,144 for 1999, an increase of \$4,250,446, as compared to \$6,167,698 in 1998. The significant factor contributing to the increase was the sale of SO<sub>2</sub> emission allowances discussed above. The total Net Income provided funds for the budgeted transfers to the Operating Reserve Fund, to the Rate Stabilization Fund and to the Renewal & Replacement Fund for authorized capital projects.

**Total Property, Plant and Equipment** was \$177,782,216 at September 30, 1999, compared to \$180,876,099 at September 30, 1998. Significant projects placed in service occurred in Distribution Plant and Transmission Plant. The major retirement occurred in Steam Plant as it was converted to a transmission facility. The Construction in Progress account was \$4,116,931 at fiscal year end 1999, related to projects involving distribution and transmission plant, and the computer conversion related to business application hardware and software.

### Rates for Service

The following table compares average monthly charges for electric service among selected utilities in Florida for the fiscal year ended September 30, 1999.

<b>Comparison of Average Monthly Electric Bills</b>		
	<i>Residential</i> 1,000 kWh	<i>Commercial</i> 30KW -6,000 kWh
Utility Board of the City of Key West	\$88.44	\$668.88
<i>Other Municipal Utilities in Florida</i>	Ft. Pierce Utilities Authority	\$83.60
	City of Jacksonville Beach	79.30
	City of Vero Beach	81.20
	City of Vero Beach	500.42
<i>Investor Owned Utilities in Florida</i>	Florida Power Corporation	\$82.97
	Florida Power & Light	\$397.52
	Tampa Electric Company	71.90
		423.43

*Source: Florida Municipal Electric Association, Inc., Tallahassee, Florida*

## Letter of Transmittal

### Customer Statistics

At fiscal year end 1999, the System's customer base was 27,530 or 333 more than 1998. Peak Demand (60 minute net) decreased slightly to 126.0 MW compared to the 1998 peak of 129.0 MW as a result of cooler temperatures.

The residential customer class increased by 256 to 22,590, while average annual consumption decreased by 109 kWh to 12,497. The revenue per kWh, expressed in mills, was 89.34 in 1999, compared to 93.84 in 1998.

The commercial customer class increased by 78 to 3,381 while average annual consumption decreased by 3,104 kWh to 101,208. The revenue per kWh, in mills, was 98.00 in 1999, compared to 101.34 in 1998.

### Purchased Power Arrangements

The Utility Board voted on July 7, 1997, to participate in the FMPA All-Requirements Project (ARP) whereby the System will purchase their bulk power supply requirements, in excess of certain excluded resources, from the ARP. The System began operations as a project participant effective April 1, 1998.

The Utility Board has previously entered into several purchased power arrangements including (i) the FMPA Tri-City Project (Stanton 1); (ii) the FMPA Stanton 2 Project, and (iii) long-term purchase agreement from Florida Power & Light Company ("FPL"). As a member of the ARP, the Utility Board's resources and costs under these three contracts have been assigned to FMPA. Other power resource and sale arrangements include the Utility Board's purchases from a small resource recovery unit located on Stock Island, sale of power to the Florida Keys Electric Cooperative Association, Inc., ("FKEC") and interchange service arrangements with other Florida utilities and with power marketers.

All of the power purchases listed above, except for the purchase from the resource recovery unit, require transmission over the FKEC transmission system. On January 1, 1992, this became a jointly owned system between the System and FKEC and is covered by a Long-Term Joint Investment Transmission Agreement. Please see Notes 12 and 13 in the Notes to the Financial Statements for further information.

### Generating Resources

The System currently owns, operates and maintains nine generating units with a total maximum net continuous capability of 50.4 MW. This includes a combustion turbine unit, two medium-speed diesel units at Stock Island, and six high-speed diesel units located at Stock Island, Big Pine Key and Cudjoe Key. Additionally, FMPA owns two 17 MW combustion turbines at Stock Island. These two units contribute to the System's on-island capacity of 84.4 MW. The System operates the combustion turbines along with six high-speed and two medium-speed diesel units using No. 2 oil. Under provisions of the ARP Supply Contract, the output of the System-owned generating facilities is being purchased in its entirety by FMPA as part of the ARP.

## *Letter of Transmittal*

The Ralph Garcia Steam Plant was decommissioned by the Utility Board in August 1996, and was converted to a synchronous condenser in February 1999. The table entitled "Generation and Capacity Statistics" in the Statistical Section provides more detailed information.

### *Debt Administration*

The principal amount of Long Term Debt, net of the current portion, was \$55,470,092 at September 30, 1999, compared to \$61,502,481 at September 30, 1998. All outstanding debt had fixed interest rates. Total revenue bond debt was comprised of three refunding bond issues: 1987, 1991 and 1995 and one new money issue, 1993. All four issues are rated AAA by Standard & Poor's Ratings Group and insured by AMBAC Indemnity Corporation.

On May 18, 1998, the Utility Board issued a Contract of Forward Bond Purchase for \$63,405,000 Electric System Refunding Revenue Bonds, Series 2000 for the purpose of refunding the Series 1987 bonds maturing after October 1, 2000. The Series 2000 bonds will be delivered on July 6, 2000 or on such date as will have been mutually agreed upon by the parties involved. Please refer to Note 5 in the Notes to the Financial Statements for further information.

### *Cash Management*

Restricted cash and investments, as detailed in Notes 2 of the Notes to the Financial Statements, are invested in accordance with the System's practices, which are governed by State Statutes. System monies must be deposited in banks designated as qualified public depositories by the State of Florida, Department of Insurance and Treasurer.

Permissible investments include obligations of the U.S. Treasury and U. S. agencies, certificates of deposit and repurchase agreements. The System's investment policy is to obtain competitive yields while providing the absolute maximum security against loss of principal. The cash management performance for the year ended September 30, 1999, produced earnings in the amount of \$1,260,837. This amount was \$41,407 more than the previous year's earnings as a result of slightly higher balances

### *Risk Management*

The System's assets are protected through the Risk Management Program developed and managed by the Risk Management Section. The table entitled "Schedule of Property, Casualty and Other Insurance" in the Statistical Section provides more detailed information on specific coverages.

Under this program, coverage is provided for worker's compensation, comprehensive general liability, excess liability, automobile comprehensive and physical damage, crime and fiduciary, public officials errors and omissions, property, boiler and machinery, windstorm, and flood and pollution liability.

The Risk Management Section, through their coordinated and continuous efforts in monitoring potential risk exposures and implementing safety control programs, such as Safety Training Observation Program ("STOP"), coupled with effective claims administration, is striving to meet the goal of continuous no-lost time accidents and minimizing injury claims.

## Letter of Transmittal

### Independent Audit

Resolution No. 532 of the Utility Board, Article V, Section 5.01 (H), adopted November 13, 1985, as amended and supplemented, requires an annual audit by independent certified public accountants. The Utility Board selected the accounting firm of Kemp & Green, P.A. The auditor's report on the financial statements is included in the Financial Section of this report.

### Certificate of Achievement

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to the Utility Board of the City of Key West for its comprehensive annual financial report for the fiscal year ended September 30, 1998. This was the seventh consecutive year that the Utility Board has achieved this prestigious national award which recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles 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 conform to the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### Acknowledgments

We extend our personal thanks to the dedicated employees who spent many hours preparing, revising and finalizing this document.

In closing, we would like to thank the members of the Utility Board of the City of Key West for their interest and support in planning and conducting the operations of the System in a responsible and progressive manner.

Respectfully submitted,



Raymond C. Rodriguez  
General Manager



Stanley T. Rząd  
Finance Manager

Certificate of Achievement

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

Utility Board of the  
City of Key West, Florida

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 1998

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.



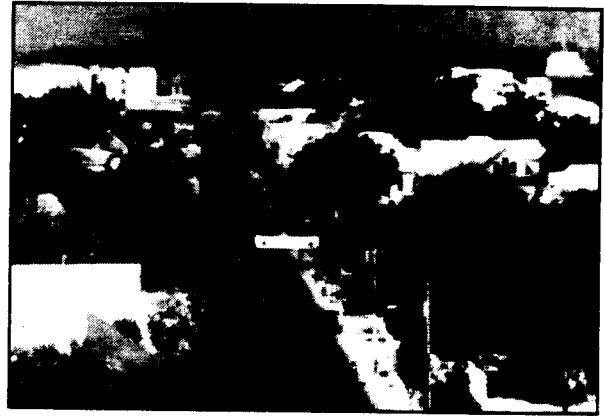
*Cary Brueck*  
President

*Jeffrey L. Essler*  
Executive Director

## Our Service Area

### Our Service Area

The City of Key West was first incorporated in 1828 and is the County Seat of Monroe County, Florida. It is located near the southern extreme of the Florida Keys, a string of coral islands extending in a southwesterly arc from Biscayne Bay to the Dry Tortugas, and lies further south than any other point in the continental United States.



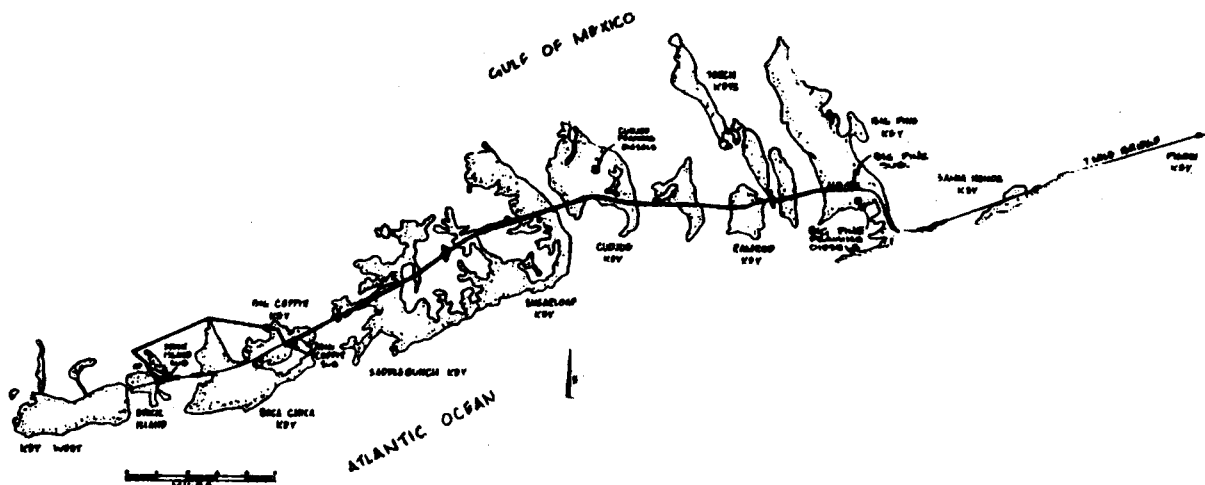
The City lies 98 miles north of Cuba and is approximately 160 miles southwest of Miami.

It is the largest seat of population in the Florida Keys and serves as a center for most of the cultural and economic activities in Monroe County.

The local economy experienced booming growth in the late 1980's, based on tourism, with the other significant industry being military operations. However, with the implementation of State mandated growth management regulation in the Keys and the possibility of reduced military presence, the local economy shows signs of slowing.

The Utility Board of the City of Key West operates, maintains and manages an electric generation, transmission and distribution system which is owned by the City. The System's service area covers approximately 74 square miles in the lower Florida Keys including the City and several other island keys within a distance approximately 44 miles east of the City.

### City Electric System Service Area



*Major Events and Initiatives*

# Major Events and Initiatives

## *A Rate Reduction*

With deregulation moving forward across the nation, customers will soon have the ability to choose their electricity provider. City Electric System has been preparing to be "The Utility of Choice" in the Keys for several years. The utility has focused on cost, reliability, and customer service. In deciding who to buy electricity from, many customers will look at the bottom-line cost. City Electric System has continued to implement cost-cutting measures and to explore income-producing opportunities. The utility's efforts came to fruition on October 1, 1999, when City Electric System implemented a significant rate reduction.

In Fiscal Year 1999, City Electric System hired R.W. Beck to conduct the Electric Rate Study. Presented to the Utility Board in July 1999, the Electric Rate Study showed that as a result of City Electric System successfully restructuring debt, reducing capital expenditures, and participating in the Florida Municipal Power Agency's power pool, the utility could support a rate reduction for certain customer classes. The study, which examined a five-year period beginning in Fiscal Year 2000, indicated that overall, rates could be reduced by 6.7 percent. The reduction was allocated among the different customer classes. Overall, residential rates remained the same, while Commercial rates decreased. By reducing the Commercial rates City Electric System begins to move toward an allocated cost of service. Following two public hearings and Public Service Commission approval, the Utility Board adopted the rate reduction on September 22, 1999.

### ***The Rate Reduction***

Residential	0.0%
Small Commercial	13.6%
Large Commercial	11.6%
Large Commercial Primary	12.4%
Military	10.4%
Churches	14.8%

## *Reliability Improvements*

At the start of Fiscal 1999, City Electric System was deeply involved in rebuilding both the transmission and distribution system after Hurricane Georges wreaked havoc on the area on September 25, 1998.

## *Major Events and Initiatives*

Though crews responded immediately to repair facilities in order to restore power to customers within the first two weeks following Hurricane Georges, additional repairs were required in order to ensure the System's future reliability. By far, the largest concern was the 138-kilovolt transmission, commonly referred to as the tieline, between Big Coppitt Key and Marathon. Staff recommended replacing all the insulators along that stretch of line citing concern with damaged/stressed insulators; age of the current insulators; extensive rust on existing hardware; and high maintenance costs on insulators with shear pin design. In addition to concerns over the existing insulators, staff cited better technology with polymer insulators as a reason to proceed with the upgrades. City Electric System proceeded with the \$2.9 million project for repairing and upgrading the 138-kilovolt transmission line that provides the area with its power supply. The project, which includes replacing insulators on 387 land poles and 145 water poles, started in August 1999, and will finish in Fiscal 2000.

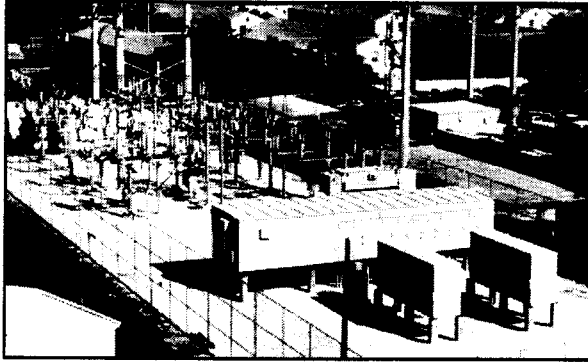
With Hurricane Georges' extensive damage to the distribution facilities and the ensuing repairs, replacements and upgrades, the integrity of City Electric System's Geographical Information System (GIS) was jeopardized. Therefore, City Electric System launched an extensive field audit of the distribution system and thoroughly updated GIS with the information gathered during the field audit.

City Electric System's focus on improving System reliability extended beyond repairs and upgrades in the wake of Hurricane Georges. In Fiscal 1999, City Electric System proceeded with upgrades to its transmission and distribution system and to its Control Center. Engineering completed the design work and pursued permitting associated with constructing a new transmission line (Line 9) between Big Coppitt Key and Stock Island. Requests for Proposals on both materials and labor will be issued in Fiscal 2000.



## *Major Events and Initiatives*

In Fiscal 1999, City Electric System replaced the Key West Steam Plant Substation with the new White Street Substation. The Key West Steam Plant Substation was one of the System's oldest substations, and its reliability was deteriorating.



Additionally, the pending redevelopment of the Key West Steam Plant Property required the relocation of the substation's associated switchgear. As a result, City Electric System designed and constructed a brand new substation. The White Street Substation, a \$3.3 million project, was completed and operational in September 1999. The substation provides increased reliability to the areas it serves including Duval Street and a large section of Old Town.

The Electrical Section launched a multi-year project to upgrade distribution relays and breakers in various substations throughout City Electric System's service area. The new equipment will improve reliability and offer detailed data for analyzing and future planning.

### *Year 2000 Preparation*

Throughout Fiscal 1999, nearly the entire staff was involved in City Electric System's "Year 2000" preparation. Generation and field equipment was inventoried, assessed and tested for Year 2000 readiness. Some items were replaced, repaired or upgraded to ensure Y2K readiness. In March 1999, City Electric System advanced the dates on all date-sensitive equipment (with the exception of billing) to December 31, 1999, and watched the equipment "rollover" to January 1, 2000, without any complications. The computer conversion, which began in Fiscal 1998, in order to be completed well in advance of Year 2000, was completed in early Fiscal 1999, with the conversion of the accounting and payroll software. Additionally, City Electric System reported to the various regulatory agencies requesting information and launched a major customer information campaign.

## Major Events and Initiatives

### Meeting Our Customers' Needs

Throughout Fiscal 1999, City Electric System continued to focus on providing excellent customer service and meeting customer expectations. At the end of Fiscal 1999, City Electric System hired R.W. Beck to conduct a Customer Satisfaction Survey in order to identify ways to improve the services we provide to our customers and to prepare for deregulation.

The Advisory Committee established at the close of Fiscal 1998 in order to improve the utility's two-way communications, met throughout Fiscal 1999. The Advisory Committee provided City Electric System with speaking engagements with various homeowner associations and provided input to City Electric System on various issues.

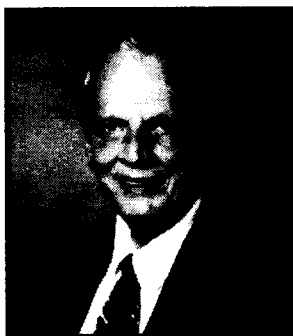
City Electric System's first Mystery Shopper program also took place in the Spring of 1999. Ten Mystery Shoppers visited City Electric System and interacted with staff. The Mystery Shoppers found City Electric System's customer service to be excellent, and they offered some recommendations that were implemented.

City Electric System and its employees continue to be active in the community with membership in the Rotaries; the Chamber of Commerce; Leadership Monroe County; Governmental Affairs Committee; the Woman's Club; CrimeStoppers; Beta Sigma Phi; the American Red Cross; the Heart Council; and the American Cancer Society. City Electric System employees continued to rank as one of the top fund raising groups in the American Cancer Society's Key West "Relay for Life" annual event. City Electric System has remained active with Monroe County Schools hosting various career days and providing the electrical safety stage production, FeebleJuice, for all elementary school students.



*Officials and Employees*

Utility Board of the City of Key West, Florida



**Chairman Robert R. Padron** has served on the Utility Board since 1995. He was employed by City Electric System from 1961 to 1994, and retired as the General Manager. Mr. Padron holds a Bachelor of Science Degree from Tulane University and a Master's of Science from NOVA University. He serves on various committees of the Florida Municipal Electric Association (FMEA) and the American Public Power Association (APPA).

**Vice-Chairman Dr. Otha Cox** has served on the Utility Board since 1979. He is retired from the Monroe County School Board where he served in various capacities, finishing as Assistant Superintendent of Schools. Dr. Cox earned his Ph.D. from Michigan State University. He serves on various committees of the APPA and is a member of the FMEA. He was the 1995 recipient of the APPA's Spence Vanderlinden Public Official Award.

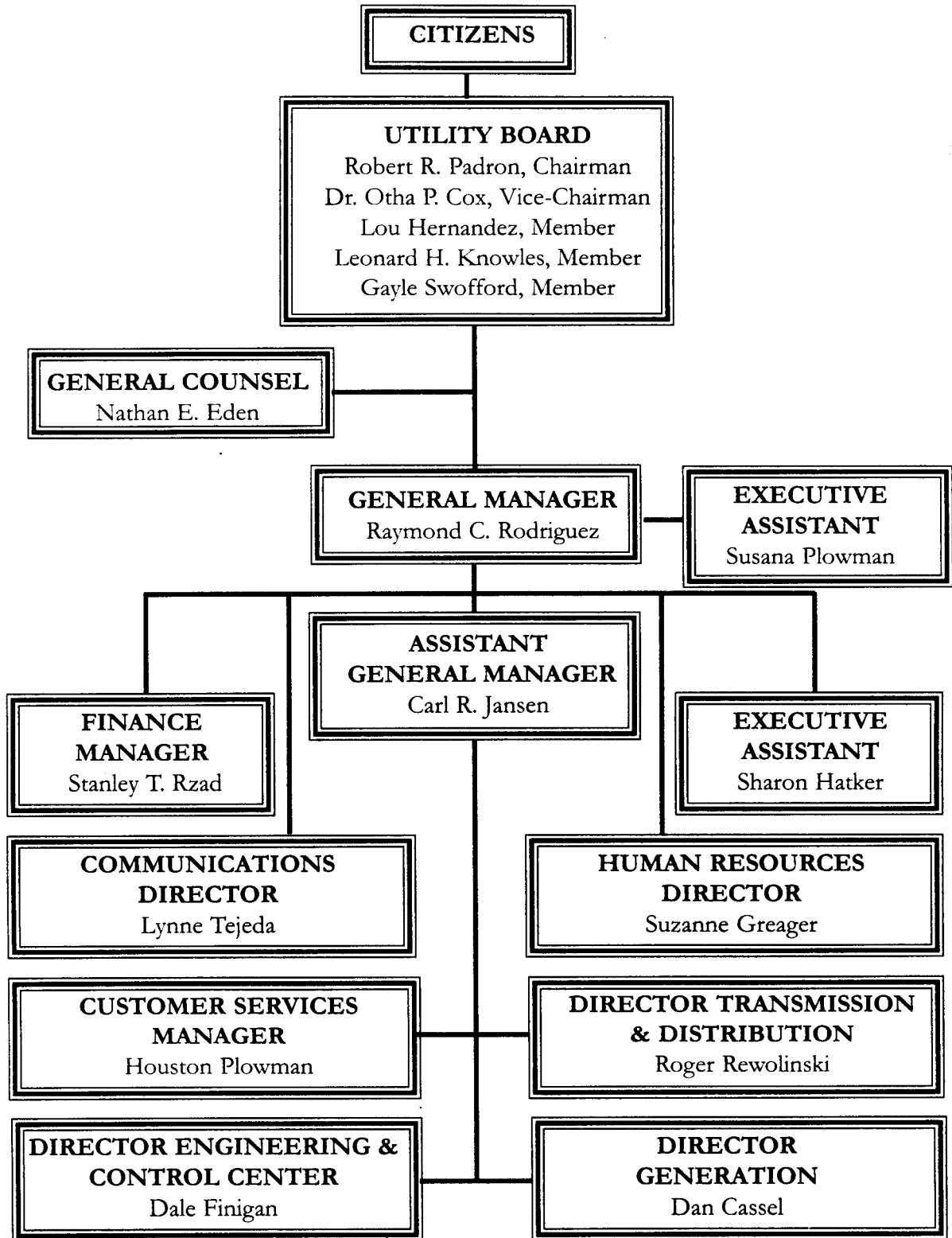
**Lou Hernandez** has served on the Utility Board since 1997. He is the Executive Director of HELPLINE, Inc., a crisis intervention and information referral telephone hot line in Monroe County. He graduated from Texas A&M University.

**Leonard H. Knowles** has served on the Utility Board since 1991. He retired in 1998 from Monroe County where he was Chief Deputy in the Property Appraiser's office. He was employed by City Electric System from 1959 to 1987, retiring as Superintendent of Meter and Commercial Department. He serves on various committees of the FMEA.

**Gayle Swofford** has served on the Utility Board since 1997. He had previously served as Chairman of the Utility Board from 1975 until 1979. Mr. Swofford built the first FM radio station in the Florida Keys in 1965. He owned and operated WKIZ AM and WEOW FM until May 1990.

*Officials and Employees*

Organizational Chart Fiscal Year ending 1998-99



## Officials and Employees

### City Electric System Employees as of September 30, 1999

Sylvia Adams	Julie Diaz	James Kobezak	Randy Roberts
John Albury	Laura Diaz-Morales	Brenda LaLama*	David Rodriguez
Matthew Alfonso	Rolando Diaz	Julio Lot	Letisia Rodriguez
Barbara Archer	Patty Dixon	Tom Mariucci	Manuel Rodriguez
Heather Arencibia	Michael Domenech	James McClendon	Raymond Rodriguez
Pedro Arencibia	Eugene Edwards	Phillip Medina	Steve Rodriguez
Derek Atwell	Clarence Ferguson	Neil Mellies	Bobby Ruble
Raymond Baker	Donnie Fernandez	Ony Mendez	Billy Russell
Robert Barrios	Dale Finigan	James Menite	Stan Rzad
Terry Beeman	Chuck Finlayson	Rochele Miller	Manuel Sanchez
Faye Bethel	Nancy Flores	Armando Mira III	Chris Sauls
Harry Bethel, Jr.	Alvin Frazier	Horace Mobley	Michael Siegrist
Tony Bethel	Kim Free**	Patrick Mobley	Vin Smith
Karla Bravo	Russell Free	Lee Moon*	Randy Smithwick
Kris Bremer	Daniel Garcia	Stephen Nacrelli	Bob Srednicki
Lynda Bringle	Eddie Garcia	James Newton	Sandy Stephenson
Robert Burchett	Juan Carlos Garcia	Angel Noda	Dennis Stone
Leo Cabrera	Mark Garcia	Terry O'Dell	Joe Stone
Elaine Carey	Ralph A. Garcia	Chomi Oropeza	Frank Story
Mike Carey	Roger George	Allen Palka	Rick Story
Vince Casas	Dave Gerstenkorn	Carliss Parks	Holli Summerville
Walter Cashwell	Bob Giggelman	Don Paxson	Alex Tejada*
Dan Cassel	Thomas Grassi	Matthew Pearce	Lynne Tejada
Manuel Castillo	Suzanne Greager	Desi Perez	Lupe Torres
Pat Cates	Susan Ham	Susan Pinder	Hugo Valdes
Juan Cavanzon	Sharon Hatker	Jack Pins	Bryan Veliz
Gloria Cisneros	Kevin Hawthorne	Albert Pita	Chuck Vinson
Jason Cohen	Vicki Hawthorne	Jerry Pita	Peggy Walls
Michael Commander	Frank Hernandez	Susy Pita	Charles Walterson
David Cottar	Timothy Hertzog	Houston Plowman	Stefan Washington
Catherine Courtney	Perry Hill	Susana Plowman	Chuck Weitzel
Kevin Crockett	Carl Jansen	Eva Pope	Jack Wetzler
Eric Cubria	Jose Jimenez	David Price	Bobby Wickes
Fred Culpepper	Brandon Jones	Martha Ramas	Eddie Williams
Gay Curry	Suki Karash	Beverly Ray	Lazaro Zerpa
John Curry	Johnny Kerr	Jim Raymond	
Larry Davila	Steven Key	Roger Rewolinski	
Wayne Davila	Harold Knowles	Anne Rivera	
Jose Del Rio	Patricia Knowles	Milton Roberts	

\* *Employees of the Quarter in 1999*

\*\* *Employee of the Year 1999*





KEMP & GREEN, P.A.

*Certified Public Accountants*

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P. O. BOX 1529

KEY WEST, FLORIDA 33041-1529

(305) 294-2581

FAX # (305) 294-4778

WM. O. KEMP, C.P.A.  
MARVA E. GREEN, C.P.A.

MEMBER OF AMERICAN INSTITUTE  
AND FLORIDA INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Utility Board of the City  
of Key West, Florida  
"City Electric System"  
Key West, Florida

We have audited the accompanying financial statements of the Utility Board of the City of Key West, Florida ("the System") as of and for the years ended September 30, 1999 and 1998 as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility Board of the City of Key West, Florida, as of September 30, 1999 and 1998, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to



the basic financial statements taken as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2000 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the System taken as a whole. The accompanying schedule of expenditures of federal and state awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Kemp + Green, PA*

Kemp & Green, P.A.  
Certified Public Accountants

January 25, 2000

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

BALANCE SHEETS

SEPTEMBER 30, 1999 AND 1998

ASSETS

	<u>1999</u>	<u>1998</u>
Property, Plant and Equipment:		
Utility Plant	\$ 158,498,005	\$ 161,591,888
Non-Utility Plant	<u>19,284,211</u>	<u>19,284,211</u>
Total Property, Plant and Equipment	177,782,216	180,876,099
Less Accumulated Depreciation	<u>68,529,855</u>	<u>77,666,024</u>
	109,252,361	103,210,075
Construction in Progress	<u>4,116,931</u>	<u>8,645,799</u>
Net Property, Plant and Equipment	<u>113,369,292</u>	<u>111,855,874</u>
Restricted Assets:		
Cash and Cash Equivalents	32,574,357	27,467,384
Investments	1,569,360	1,567,918
Interest Receivable	<u>287,446</u>	<u>358,881</u>
Total Restricted Assets	<u>34,431,163</u>	<u>29,394,183</u>
Current Assets:		
Cash and Cash Equivalents	3,650,143	499,288
Customer Accounts Receivable, net of Allowance for Bad Debts of \$349,727 and \$230,401 for 1999 and 1998 respectively	3,605,708	5,165,401
Other Accounts Receivable	599,411	266,241
Due From Other Governments	1,368,162	1,097,817
Plant Material and Operating Supplies Inventory	2,470,040	1,846,655
Prepaid Expenses	<u>529,614</u>	<u>565,305</u>
Total Current Assets	<u>12,223,078</u>	<u>9,440,707</u>
Bond Discount and Issue Costs, Net	<u>2,300,242</u>	<u>2,489,749</u>
Total Assets	<u>\$ 162,323,775</u>	<u>\$ 153,180,513</u>

(Continued)

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

BALANCE SHEETS (Continued)

SEPTEMBER 30, 1999 AND 1998

EQUITY AND LIABILITIES

	<u>1999</u>	<u>1998</u>
Equity:		
Retained Earnings:		
Reserved for Debt Service	\$ 1,734,281	\$ 1,745,834
Unreserved	<u>39,546,185</u>	<u>29,006,916</u>
Total Retained Earnings	<u>41,280,466</u>	<u>30,752,750</u>
Contributed Capital	<u>2,577,861</u>	<u>2,066,049</u>
Total Equity	<u>43,858,327</u>	<u>32,818,799</u>
Long-term Debt, Net of Current Portion:		
Revenue Bonds	55,470,092	61,502,481
Accrued Interest	<u>43,806,585</u>	<u>40,238,624</u>
Total Long-term Debt	<u>99,276,677</u>	<u>101,741,105</u>
Amounts Payable from Restricted Assets:		
Current Portion of Long-Term Debt	8,040,014	7,747,728
Accounts Payable	1,073,974	148,466
Accrued Interest	816,126	948,718
Due to Customers	<u>4,401,941</u>	<u>4,312,816</u>
Total Amounts Payable from Restricted Assets	<u>14,332,055</u>	<u>13,157,728</u>
Current Liabilities:		
Accounts Payable	3,608,804	3,821,680
Accrued Expenses	<u>1,028,575</u>	<u>1,310,498</u>
Total Current Liabilities	<u>4,637,379</u>	<u>5,132,178</u>
Deferred Revenue	<u>219,337</u>	<u>330,703</u>
Total Liabilities	<u>118,465,448</u>	<u>120,361,714</u>
Total Equity and Liabilities	<u>\$ 162,323,775</u>	<u>\$ 153,180,513</u>

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

FOR THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
Operating Revenues	\$ <u>60,369,101</u>	\$ <u>63,547,464</u>
Operating Expenses:		
Production Expenses - Steam	-	166,385
Production Expenses - Diesel	790,642	1,036,565
Purchased Power	28,317,508	31,891,585
Transmission Expenses	731,685	760,025
Distribution Expenses	3,295,190	3,252,971
Customer Accounts and Collection Expenses	1,062,064	1,015,357
Administrative and General Expenses	5,881,170	5,928,275
Depreciation	5,783,556	5,402,133
Taxes Other than Income Taxes	<u>1,588,173</u>	<u>1,567,968</u>
Total Operating Expenses	<u>47,449,988</u>	<u>51,021,264</u>
Income From Operations	<u>12,919,113</u>	<u>12,526,200</u>
Non-operating Revenue and Expenses:		
Interest Income	1,260,837	1,219,430
Grant Revenue	4,439,834	1,220,691
Miscellaneous Non-operating Revenue	4,934,509	585,083
Payment to City of Key West	<u>(249,644)</u>	<u>(230,708)</u>
	<u>10,385,536</u>	<u>2,794,496</u>
Income Before Debt Expenses	<u>23,304,649</u>	<u>15,320,696</u>
Debt Expenses:		
Interest	7,622,901	7,729,483
Amortization of Bond Discount and Issue Costs	<u>189,507</u>	<u>190,550</u>
Total Debt Expenses	<u>7,812,408</u>	<u>7,920,033</u>
Income Before Extraordinary Item	15,492,241	7,400,663
Extraordinary Item - Hurricane Georges	<u>(5,074,097)</u>	<u>(1,232,965)</u>
Net Income	10,418,144	6,167,698
Amounts Arising from Contributions in Aid of Construction Applicable to Depreciation on Contributed Assets	109,572	102,149
Retained Earnings, Beginning of Year	<u>30,752,750</u>	<u>24,482,903</u>
Retained Earnings, End of Year	<u>\$ 41,280,466</u>	<u>\$ 30,752,750</u>

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998

Increase (Decrease) in Cash and Cash Equivalents

	<u>1999</u>	<u>1998</u>
Cash Flows Provided (Used by) Operating Activities:		
Cash Received From Customers	\$ 60,230,958	\$ 61,577,178
Cash Payments to Suppliers for Goods and Services	(38,931,529)	(38,111,718)
Cash Payments to Employees for Services	(7,088,890)	(6,696,064)
Cash Received for Deposits	855,153	964,248
Cash Deposits Refunded	(766,028)	(869,145)
Cash Received for Taxes	1,533,057	1,515,708
Cash Paid for Taxes	(1,579,183)	(1,575,858)
Cash Received from Other Operating Sources	<u>4,831,331</u>	<u>669,742</u>
Net Cash Provided by Operating Activities	<u>19,084,869</u>	<u>17,474,091</u>
Cash Flows Provided (Used by) Noncapital Financing Activities:		
Cash Received from Operating Grants	4,633,217	122,874
Cash Paid to City of Key West, Florida	<u>(249,644)</u>	<u>(230,708)</u>
Net Cash Provided (Used by) Non-Capital Financing Activities:	<u>4,383,573</u>	<u>(107,834)</u>
Cash Flows Provided (Used by) Capital and Related Financing Activities:		
Principal Paid on Revenue Bond Maturities	(7,950,000)	(7,735,000)
Interest Paid on Revenue Bond Maturities	(1,977,635)	(2,213,694)
Contributions in Aid of Construction	157,656	160,911
Acquisition and Construction of Capital Assets	(6,214,173)	(6,555,790)
Proceeds from Sale of Equipment	44,283	11,900
Costs to Dispose of Capital Assets	(601,575)	-
Cost of Bond Issuance	<u>-</u>	<u>(221,038)</u>
Net Cash (Used by) Capital and Related Financing Activities	<u>(16,541,444)</u>	<u>(16,552,711)</u>
Cash Flows Provided by Investing Activities:		
Interest Received on Investments	<u>1,330,830</u>	<u>1,129,629</u>
Net Increase in Cash and Cash Equivalents	8,257,828	1,943,175
Cash and Cash Equivalents at Beginning of Year	<u>27,966,672</u>	<u>26,023,497</u>
Cash and Cash Equivalents at End of Year	<u>\$ 36,224,500</u>	<u>\$ 27,966,672</u>

(Continued)

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

STATEMENTS OF CASH FLOWS (Continued)

FOR THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998

Reconciliation of Operating Income to Net Cash Provided by  
Operating Activities

	<u>1999</u>	<u>1998</u>
Operating Income	<u>\$ 12,919,113</u>	<u>\$ 12,526,200</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	5,783,555	5,402,133
Provision for Uncollectible Accounts	139,812	145,760
Amortization of Deferred Revenue	(270,899)	(124,893)
Receipt of Deferred Revenue	159,533	225,306
Other Operating Sources of Revenues	5,001,339	569,329
Hurricane Expenditures	(5,074,097)	(646,781)
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	1,419,881	(448,572)
(Increase) Decrease in Plant Material, Inventory and Fuel Stock	(623,385)	495,108
Decrease in Prepaid Expenses	35,691	152,096
(Decrease) in Accounts Payable	(212,876)	(1,099,896)
Increase (Decrease) in Accrued Expenses	(281,923)	183,198
Increase in Amounts Due to Customers	<u>89,125</u>	<u>95,103</u>
Total Adjustments	<u>6,165,756</u>	<u>4,947,891</u>
Net Cash Provided by Operating Activities	<u>\$ 19,084,869</u>	<u>\$ 17,474,091</u>

Supplemental Schedule of Non-cash Financing, Capital, and Investing Activities:

In 1999 and 1998, amortization of bond discount and issue costs was \$189,507 and \$190,550, respectively.

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and the presentation of the financial report of the Utility Board of the City of Key West, Florida "City Electric System" (the System) have been designed to conform to generally accepted accounting principles as applicable to governmental units, in accordance with the Governmental Accounting Standards Board (GASB). GASB embodies the official pronouncements previously issued by the National Council on Governmental Accounting (NCGA). The System applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The following is a summary of the significant accounting policies.

Entity Definition - The present System was created by an Act of the Florida Legislature to manage, operate and maintain the electric utility servicing the citizens of the City of Key West, Florida (the City) and the lower Florida Keys. The System is the successor of the electric public utility once owned by the City and was given all powers and rights necessary to manage, operate, maintain, control, and extend the electric utility property owned by the City of Key West at the time of its creation. The Board is composed of a Chairman who is elected every two years and four members who are elected every four years by the voters of the City. The Manager of the System serves as Secretary to the Board and is also responsible for the day to day operations of the System. The System is not a component unit of the City.

Measurement Focus - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The System's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the enterprise fund are included on the balance sheet. Fund equity (i.e. net total assets) is segregated into contributed capital and retained earnings components. Operating statements present increases (e.g. revenue) and decreases (e.g. expenses) in net total assets.

Basis of Accounting - The System's financial statements are accounted for on the basis of accounting required by the Federal Energy Regulatory Commission (FERC), which is an application of generally accepted accounting principles that is peculiar to utilities. Revenues are recognized in the period earned and expenses recognized in the period incurred.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budget - Revenue and expense budgets are prepared on an annual basis in accordance with the System's bond indentures and submitted to the Utility Board for approval prior to October 1 of the fiscal year. Legal adoption of budgets is not required. Actual revenues and expenses are compared to the budget on a line item basis (which is the legal level of control) within cost centers and an analysis of variances report is prepared and submitted to the Utility Board each month as required by bond indentures. During the year, staff can make amendments within the operating budget or the capital budget that do not change the total budget for those categories. All other budget changes are approved by the Utility Board. Supplemental appropriations were necessary and the budgetary data presented herein was amended by the Utility Board in accordance with Utility Board policies. Budget appropriations lapse at each fiscal year-end except for the Capital Budget. The budget is adopted on a basis consistent with the System's basis of accounting except for depreciation and amortization, debt service on revenue bonds and allocation of administrative costs to capital projects.

Cash and Investments - Cash and investments in U.S. Government Securities are recorded at cost or amortized cost. Amortized cost does not significantly vary from market value. Any other investments are stated at fair value in accordance with GASB 31. The System's investment policies are governed by Florida Statutes. These policies are described in more detail in Note 3.

Revenue - Revenue is recognized on the basis of monthly route billings to customers. Revenue is not accrued for services supplied but unbilled at the end of the fiscal period. Charges for new service are reported as revenue only to the extent of connection costs, while amounts exceeding this cost are recorded as additions to contributed capital.

Bond Discount and Issue Costs - Bond discount and issue costs consist of debt issue costs, original issue discounts, and underwriter discounts which are capitalized and amortized over the term of the related indebtedness.

Property, Plant and Equipment - Property, Plant and Equipment is stated at cost, which includes costs of contract work, labor, materials and allocated indirect charges, and capitalized interest. Major renewals and betterments are capitalized while minor replacements and repairs are expensed as incurred. Under FERC accounting practices and procedures, the cost of electric plant retired, together with removal costs less salvage, is charged to accumulated depreciation at such time as property is removed from service.



UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following is a summary of Property, Plant and Equipment for the year ended September 30, 1999:

	<u>Balance</u> 1998	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> 1999
Steam Plant	\$ 28,153,925	\$ 78,598	\$ 28,232,523	\$ -
Generation Plant	35,151,876	9,370,236	-	44,522,112
Transmission Plant	52,010,930	2,803,000	-	54,813,930
Distribution Plant	36,134,762	12,789,368	411,926	48,512,204
General Plant	9,920,131	609,856	100,492	10,429,495
Other	220,264	-	-	220,264
Accumulated Depreciation				
- Utility Plant	(61,391,586)	(5,827,838)	(14,964,007)	(52,255,417)
Non-Utility Plant	19,284,211	-	-	19,284,211
Accumulated Depreciation				
Non-Utility Plant	(16,274,438)	-	-	(16,274,438)
Construction in Progress	<u>8,645,799</u>	<u>6,739,681</u>	<u>11,268,549</u>	<u>4,116,931</u>
Net Property, Plant and Equipment	<u>\$111,855,874</u>	<u>\$ 26,562,901</u>	<u>\$ 25,049,483</u>	<u>\$113,369,292</u>

The System's policy concerning capitalized interest costs is in accordance with Statement of Financial Accounting Standards No. 62, which requires the capitalization of interest costs of restricted tax exempt borrowings less any interest earned on investment funds during the construction period. For the years ended 1999 and 1998, there was no capitalized interest cost.

Property, Plant and Equipment is depreciated using the straight line method at rates which will amortize costs over the estimated useful lives of the assets. The estimated useful lives of the electric plant assets are as follows:

Steam Plant	28 - 30 Years
Generation Plant	25 Years
Transmission Plant	31 - 45 Years
Distribution Plant	20 - 45 Years
General Plant	8 - 40 Years
Non-Utility Plant	Not in Service

The conversion of the Ralph Garcia Steam Plant from a production facility to a transmission facility was completed in February, 1999 pursuant to a plan adopted by the System's Board August, 1996. In connection with this plan, the Utility Board declared equipment, with a net book value of approximately

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

\$8,300,000, and \$525,000 of supplies in inventory as surplus. Additional costs of the conversion were approximately \$575,000.

The System is presently constructing an improvement to the 138KV transmission line expected to cost approximately \$4.5 million, of which disaster grants will fund approximately \$463,000. Costs incurred to date are \$1.8 million.

Income Taxes - No provision for income taxes is reflected in the financial statements as the system is considered to be a unit of local government.

Inventory - Inventories are stated at the lower of cost (determined on a average cost basis) or market.

Interest - Interest for the years ended September 30, 1999 and 1998 is summarized as follows:

	<u>1999</u>	<u>1998</u>
Bond Issue:		
Electric Refunding Revenue Bonds, Series 1987	\$ 4,616,604	\$ 4,522,788
Electric Refunding Revenue Bonds, Series 1991	1,807,672	1,773,207
Electric Revenue Bonds, Series 1993	226,993	241,044
Electric Refunding Revenue Bonds, Taxable Series 1995	556,570	777,700
Series 1995 Loss on Refunding	202,272	202,272
Interest on Customer Deposits	198,347	212,472
Line of Credit	<u>14,443</u>	<u>-</u>
Total Interest Expense	<u>\$ 7,622,901</u>	<u>\$ 7,729,483</u>

Compensated Absences - The System records compensation for unused vacation and sick leave as an expense in the year in which the vacation and sick leave is earned in accordance with GASB Statement No. 16. At September 30, 1999, annual vacation leave earned but not taken is \$287,597 and sick leave accumulated but not taken is \$351,583.

Reserves - Reserves representing the excess of amounts provided for certain restricted asset accounts over the liabilities payable therefrom are established by a reservation of retained earnings. The restricted assets and

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

liabilities are used to indicate a segregation of a portion of retained earnings equal to the net current assets that are restricted for meeting various covenants as may be specified and defined in the various revenue bond indentures. Usage of reserves has been limited to Reserve for Debt Service, which is restricted for future servicing of revenue bonds and meeting of various contingencies as may be so specified and defined in the indenture (frequently referred to as renewal and replacement).

Comparative Data - Where comparative data have been presented, amounts from the prior year have been reclassified, as necessary, to reflect classifications used in the current year.

NOTE 2 - RESTRICTED CASH AND INVESTMENTS

Certain assets are restricted by bond resolutions; additionally, some assets have been classified as restricted in accordance with government accounting standards for enterprise funds and utility industry accounting practices.

The System's restricted cash and investments as of September 30, 1999 and 1998 consist of the following:

	<u>1999</u>		<u>1998</u>	
	Cash and Investments (Including Interest Receivable )	Interest Earned	Cash and Investments (Including Interest Receivable )	Interest Earned
Emergency Reserve Fund	\$ 1,504,797	\$ 55,975	\$ 1,004,951	\$ 58,393
Sinking Fund	9,180,987	198,268	9,061,575	211,573
Contributions in Aid of Construction Fund	1,239,398	49,159	1,072,140	43,058
Renewal and Replacement Fund	7,292,404	315,002	7,505,519	357,918
Bond Amortization Fund	1,584,419	121,918	1,582,977	121,918
Rate Stabilization Fund	9,161,046	219,180	4,794,074	164,943
Customer Deposits Fund	<u>4,468,112</u>	<u>213,006</u>	<u>4,372,947</u>	<u>222,500</u>
	<u>\$ 34,431,163</u>	<u>\$ 1,172,508</u>	<u>\$ 29,394,183</u>	<u>\$ 1,180,303</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 2 - RESTRICTED CASH AND INVESTMENTS (Continued)

The System is required by revenue bond covenants to maintain a debt service reserve account in the amount of its highest annual debt service, which requirement is satisfied by a debt surety bond.

NOTE 3 - CASH AND INVESTMENTS

The System's investment policies are governed by State Statutes. In addition, the System has its own investment practices. System monies must be deposited in banks designated as qualified public depositories by the State of Florida, Department of Insurance and Treasurer. Permissible investments include the obligations of the U.S. Treasury and U.S. agencies, certificates of deposit and repurchase agreements.

Collateral is provided for demand deposits and certificates of deposit through the Florida Security for Public Deposits Act. This Act established guidelines for qualification and participation by banks and savings associations, procedures for the administration of the collateral requirements and characteristics of eligible collateral. Under the Act, the qualified public depository must pledge at least 50% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance.

Additional collateral, up to a maximum of 125%, may be required, if deemed necessary under the conditions set forth in the Act. Eligible collateral consists of obligations of the United States and its agencies and obligations of states and their political subdivisions, and unaffiliated corporations.

Obligations pledged to secure deposits must be delivered to the State Treasurer or, with the approval of the State Treasurer, to a bank, savings association, or trust company provided a power of attorney is delivered to the Treasurer. On a monthly basis, the State Treasurer determines that the collateral has a market value adequate to cover the deposits under the provisions of the Act.

For purposes of the statement of cash flows, the System considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments - The U.S. Treasury obligations are held by the System's agent in the System's name. Investments are as follows:

	<u>1999</u>		<u>1998</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
U.S. Government Securities	<u>\$ 1,569,360</u>	<u>\$ 1,569,360</u>	<u>\$ 1,567,918</u>	<u>\$ 1,567,918</u>

Deposits at September 30, 1999 and 1998 are as follows:

	<u>1999</u>	<u>1998</u>
Demand Deposits and Cash	\$ 6,283,173	\$ 1,724,086
Certificates of Deposit	24,930,222	23,745,407
Money Market Deposits	<u>5,011,105</u>	<u>2,497,179</u>
	<u>\$ 36,224,500</u>	<u>\$ 27,966,672</u>

All demand deposits and certificates of deposit are fully collateralized through the Florida Securities for Public Deposits Act, and are considered insured for risk categorization purposes.

NOTE 4 - NON-UTILITY PLANT

The Key West Steam Plant, which has a cost of \$19,284,211 and accumulated depreciation at \$16,274,438 at September 30, 1999, has been idle since 1991. The plant has been decommissioned at a cost of \$2,055,702.

The Board executed a Memorandum of Understanding in August 1998 with a private company for the long-term lease of the Key West Steam Plant building. The Memorandum of Understanding provides, among other things, for a fifty year lease term at a base rent of \$150,000 to \$200,000 with provisions for increases to base rents and System participation in project cash flows. The System expects to finalize the lease negotiations by September 2000.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 5 - LONG TERM DEBT

	<u>1999</u>	<u>1998</u>
Revenue Bonds:		
Electric System Refunding Revenue Bonds, Series 1987, collateralized by Net Revenues and certain Reserve Funds, payable from October 1, 1999 to October 1, 2013 in installments of various amounts, bearing interest at rates from 6.7% to 7.5%	\$ 27,399,682	\$ 29,089,620
Electric System Refunding Revenue Bonds, Series 1991, collateralized by Net Revenues and certain Reserve Funds, payable October 1, 1999 to October 1, 2018 in installments of various amounts, bearing interest at rates from 6.10% to 7.1%	20,847,785	21,347,785
Electric System Revenue Bonds, Series 1993, collateralized by Net Revenues and certain Reserve Funds, payable from October 1, 1999 to October 1, 2008 in installments of various amounts, bearing interest at rates from 4.05% to 5.3%	4,810,000	5,175,000
Electric System Refunding Revenue Bonds, Taxable Series 1995, collateralized by Net Revenues and certain Reserve Funds, payable from October 1, 1999 to October 1, 2000 in installments of various amounts, bearing interest at rate from 6.4% to 6.5%	8,620,000	12,130,000
Deferred Loss on Refunding, amortized on the straight line basis over the term of the Series 1995 Revenue Bonds	<u>(174,986)</u>	<u>(377,258)</u>
Total Revenue Bonds	61,502,481	67,365,147
Less Current Portion	<u>6,032,389</u>	<u>5,862,666</u>
Net Long-Term Revenue Bonds	<u>\$ 55,470,092</u>	<u>\$ 61,502,481</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 5 - LONG TERM DEBT (Continued)

Changes in Revenue Bonds during 1998 are as follows:

	<u>1998</u>	<u>Additions</u>	<u>Retired</u>	<u>1999</u>
Series 1987	\$ 29,089,620	\$ -	\$ 1,689,938	\$ 27,399,682
Series 1991	21,347,785	-	500,000	20,847,785
Series 1993	5,175,000	-	365,000	4,810,000
Series 1995, net	<u>11,752,742</u>	<u>-</u>	<u>3,307,728</u>	<u>8,445,014</u>
	<u>\$ 67,365,147</u>	<u>\$ -</u>	<u>\$ 5,862,666</u>	<u>\$ 61,502,481</u>

Net Revenues, as defined for purposes of bond security, is all income or earnings derived from the operation of the System, except Capital Improvement Charges, investment earnings on Construction and Bond Amortization Funds, and transfers to the Rate Stabilization Fund, less costs of operation and maintenance which do not include capital expenditures, extraordinary repairs, amortization of the costs of issuance of debt obligations, payments under Unconditional Output Contracts, or depreciation. See Note 7 for the rate covenant pertaining to revenues.

Summary of Debt Service Funding Requirements to Maturity

(In Thousands of Dollars)

Years Ended October 1	1987 Bonds	1991 Bonds	1993 Bonds	1995 Bonds	Funds Provided by Bond Amortization Investment	Net Debt Service
2000	\$ 2,655	\$ 1,376	\$ 611	\$ 5,208	\$ (121)	\$ 9,729
2001	8,019	1,377	615	-	(120)	9,891
2002	8,015	1,379	617	-	(121)	9,890
2003	8,016	1,379	617	-	(120)	9,892
2004	8,019	1,375	621	-	(120)	9,895
2005-2008	41,366	6,879	2,515	-	(1,882)	48,878
2009-2013	31,587	14,776	-	-	-	46,363
2014-2018	<u>-</u>	<u>37,080</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,080</u>
	107,677	65,621	5,596	5,208	(2,484)	181,618
Less amounts Representing Interest and Maturing Investments	<u>81,840</u>	<u>45,303</u>	<u>1,171</u>	<u>318</u>	<u>2,484</u>	<u>126</u>
	<u>\$ 25,837</u>	<u>\$ 20,318</u>	<u>\$ 4,425</u>	<u>\$ 4,890</u>	<u>\$ -</u>	<u>\$ 55,800</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 5 - LONG TERM DEBT (Continued)

Prior to the due date of each series of revenue bonds, the System is required to set aside sufficient funds to retire the matured principal amounts in equal, monthly amounts. Accordingly, the above schedule does not include principal amounts maturing October 1, 1999 as those funding requirements have been fully satisfied.

The long-term portion of accrued interest represents amounts payable on capital appreciation bonds which will become due October 1, 1999 to October 1, 2018. No interest is payable on these bonds until their scheduled maturity at which time it is paid in full with the principal amount.

Subsequent Events - On May 18, 1998, the Utility Board issued a Contract of Forward Bond Purchase for \$63,405,000 Electric System Refunding Revenue Bonds, Series 2000 for the purpose of refunding the Series 1987 bonds maturing after October 1, 2000. The Series 2000 bonds will be delivered on July 6, 2000 or on such other date as will have been mutually agreed upon by the Utility Board and the Underwriters of the Series 2000 bond issue.

The Utility Board approved the execution of a loan agreement in November, 1999 from the Florida Municipal Power Authority Pooled Loan Project to provide funding for certain upgrades to the Transmission Line in connection with the making of repairs as a result of damage caused by Hurricane Georges in September, 1998. The loan would be secured by a lien upon and pledge of the Net Revenues from the operation of the System, subordinate to the claims of the System's Bonds on Net Revenues. The maximum amount approved was \$1.7 million to be paid back over a period of five years at a variable interest rate.

NOTE 6 - PRIOR YEAR DEFEASANCE OF DEBT

During 1995, 1991, 1987 and 1986, the System defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the System's financial statements. At September 30, 1999, \$37,952,713 of bonds outstanding relative to the 1980C, 1983, 1984 and 1980D issues, \$23,644,215 relative to the 1985 issue, and \$16,771,919 relative to the 1988 issue are considered defeased.



UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 7 - RATE COVENANT

The System has agreed to establish and revise rates such that revenues will be sufficient to pay 100% of its costs of operations and maintenance, all required reserve payments, and 125% of the principal and interest becoming due on all outstanding bonds.

NOTE 8 - PENSION PLAN

Plan Description - The Retirement System for General Employees (the Plan) is a single-employer defined benefit pension plan administered by the Board of Trustees of the Plan. The Plan provides retirement, disability and death benefits to plan members and beneficiaries. Cost of living adjustments are automatically provided to members and beneficiaries at the rate of 2% per year. The Plan was created by resolution of the System, which resolution assigns the authority to establish and amend its provisions to the Utility Board. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Retirement System for General Employees, P.O. Drawer 6100, Key West, FL 33041-6100.

Basis of Accounting - The financial statements of the Plan are prepared using the accrual basis of accounting. The System's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits are recognized when due and payable in accordance with the terms of the Plan.

Plan investments are reported at fair value. Short-term investments are reported at cost which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Plan investments do not include any of the System's debt securities. All investments represent less than 5% of Plan net assets.

Funding Policy - The contribution requirements of plan members and the System are established and may be amended by the Utility Board. Plan members have not been required to contribute to the Plan since October 1, 1985. However, if a member has had a break in service and returns to work for the System, the Plan permits them to "buy back" their benefits earned at the time of the break in service. The System is required to contribute at an actuarially determined rate; the current rate is 21.8% of annual covered payroll.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 8 - PENSION PLAN (Continued)

Annual Pension Cost and Net Pension Obligation - The System's annual required contribution for the calendar year 1998 of \$1,318,547 was determined as part of the December 31, 1998 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return and (b) projected salary increases of 6.0% per year. Both (a) and (b) included an inflation component of 3.5%. The unfunded actuarial accrued liability is being amortized as a level payment on a closed basis. The remaining amortization period at December 31, 1998 was 30 years.

Schedule of Funding Progress

(Dollar Amounts in Thousands)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Valuation Date	Actuarial Value of Assets (AVA)	Entry Age Normal Actuarial Accrued Liability	(Overfunded) Unfunded Actuarial Accrued Liability (UAAL) (3)-(2)	Funded Ratio (2)/(3)	Annual Covered Payroll	(Overfunded) Unfunded UAAL as % of Payroll (4)/(6)
January 1, 1993	\$ 22,760	\$ 23,715	\$ 955	96.0%	\$ 5,964	16.0%
January 1, 1994	\$ 25,161	\$ 25,589	\$ 428	98.3%	\$ 6,264	6.8%
January 1, 1995	\$ 24,597	\$ 27,329	\$ 2,732	90.0%	\$ 6,256	43.7%
January 1, 1996	\$ 30,143	\$ 32,190	\$ 2,047	93.6%	\$ 5,783	35.4%
January 1, 1997	\$ 34,436	\$ 33,475	\$ (961)	102.9%	\$ 5,866	(16.4%)
January 1, 1998	\$ 40,933	\$ 34,826	\$ (6,107)	117.5%	\$ 6,038	(101.1%)
January 1, 1999	\$ 48,032	\$ 40,295	\$ (7,737)	119.2%	\$ 6,127	(126.3%)

NOTE 9 - DEFERRED REVENUE

The System has an agreement with Tele-Communications, Inc. (TCI), a cable television company, whereby the System receives a fee for the attachment of cable television lines to the electric poles. The System incorporated certain design modifications in the tieline project at additional cost in order that TCI's lines could be properly attached. The additional revenue pertaining to the design modifications was received in a lump sum and is being amortized on a straight line basis over the remaining term of the agreement, approximately 5 years.

NOTE 10 - LEASES

Rent expense under cancelable operating leases was \$52,163 and \$58,566 in 1999 and 1998, respectively.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 11 - CONTRIBUTED CAPITAL

Contributed capital consists of the portion of impact fees considered contributions in aid of construction and capital grants from the Federal Emergency Management Agency. Contributed capital activity is as follows for the year ended September 30, 1999 and 1998:

	<u>1999</u>	<u>1998</u>
Opening Balance	\$ 2,066,049	\$ 2,007,287
Additions:		
Contributions in Aid of Construction	157,656	160,911
Capital Grants	463,728	.
Depreciation on Assets Constructed with Restricted Resources	<u>(109,572)</u>	<u>(102,149)</u>
Ending Balance	<u>\$ 2,577,861</u>	<u>\$ 2,066,049</u>

NOTE 12 - PURCHASED POWER COMMITMENTS

All Requirements Power Supply Project - In July 1997, the Utility Board agreed to become a member of the Florida Municipal Power Agency (FMPA) All-Requirements Power Supply Project (the "All-Requirements Project") and began operations as a project participant effective April 1, 1998. Under the contractual arrangement with FMPA, the Utility Board has assigned all of its generating and firm purchased power resources to FMPA, and FMPA will serve all of the Utility Board's requirements (net of up to 2 MW of non-firm capacity when available from the local resource recovery facility). Further, in the event that power cannot be delivered to the Utility Board's service area over the tie-line to the mainland, the Utility Board established a policy to have island generation capability equal to at least 60% of the System peak load. The Utility Board and FMPA have agreed to meet this criteria through a combination of the Utility Board's 50.4 MW of existing generating resources and two new 17 MW combustion turbine units that will be owned by FMPA and which became operational in September 1998. The FMPA All-Requirements Project, the related assignment of resources by the Utility Board to FMPA, and other matters pertaining to the Utility Board's power supply are discussed below.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 12 - PURCHASED POWER COMMITMENTS (Continued)

The Utility Board has previously entered into several purchased power agreements with other parties including (i) the FMPA Tri-City Project, (ii) the FMPA Stanton 2 Project; and (iii) a long-term purchase agreement with FPL. As a member of the All-Requirements Project, the Utility Board's resources and costs under these three contracts have been assigned to FMPA. Other power purchase and sale arrangements include the Utility Board's purchases from a small resource recovery unit located on Stock Island, sale of power to FKEC, and interchange service agreements with other Florida utilities and with power marketers.

FMPA Tri-City Project (Stanton 1) - The Utility Board is a member of the FMPA Tri-City Project (Stanton 1). The Utility Board and FMPA have entered into a Tri-City Project Power Sales Contract and a Tri-City Project Support Contract wherein the Utility Board has agreed to purchase 54.546% of FMPA's Tri-City Project. FMPA's Tri-City Project consists of a 5.3012% undivided ownership interest in Curtis H. Stanton Energy Center ("Stanton") unit No. 1, a 425 MW coal-fired generating unit jointly owned by the Orlando Utilities Commission ("OUC"), the Kissimmee Utility Authority, and FMPA, and operated by the OUC. Stanton Unit No. 1 began commercial operation in July 1987. Based upon the unit's high dispatch rating of 425 MW, the Tri-City Project consists of a 22 MW undivided ownership and the System's power entitlement share is approximately 12 MW at the plant busbar.

FMPA Stanton 2 Project - The Utility Board is a member of the FMPA Stanton 2 Project. The Utility Board and FMPA have entered into a Stanton 2 Project Power Sales Contract and a Project Support Contract wherein the Utility Board has agreed to purchase 9.8932% of FMPA's Stanton 2 Project. FMPA's Stanton 2 Project consists of a 23.2367% undivided ownership interest in Stanton Unit No. 2, a 429 MW coal-fired generating unit jointly owned by OUC and FMPA, and operated by OUC. Stanton Unit No. 2 began commercial operation in June 1996. Based on the unit's 429 MW high dispatch rating, the Stanton 2 Project consists of a 100 MW undivided ownership and the System's power entitlement share is approximately 9.9 MW at the plant busbar.

FPL Long-Term Purchase - The Utility Board entered into an agreement with FPL on August 15, 1991, entitled the Long-Term Agreement to Provide Capacity and Energy by Florida Power & Light Company to the City Electric System of the

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 12 - PURCHASED POWER COMMITMENTS (Continued)

Utility Board of the City of Key West, Florida (the "FPL Long-Term Agreement") which became effective on June 1, 1993 after the termination of a short-term purchase agreement with FPL. The FPL Long-Term Agreement will continue in effect for 20 years. The initial purchase amount (the "Initial Contract Demand") is 45 MW. The contract demand for each year is to be designated by September 1 of each prior year, but the contract demand cannot be less than the initial contract demand during the term of the agreement. In the event the System peak load during a year is lower than the System peak load in the immediately preceding year, the Utility Board may decrease the portion of its contract demand in excess of the Initial Contract Demand, subject to certain limitations.

Southernmost Waste Energy Facility - The Utility Board has entered into a Parallel Generation Agreement where the System will purchase the net electric generation from the Southernmost Waste Energy Facility, which is a municipal solid waste-fueled resource recovery unit located on Stock Island. The unit was placed in service during February 1987 and has a net generating capacity of approximately 2.0 MW. Energy from the Southernmost unit is purchased by the System on a "take-and-pay" basis at the System's average energy cost, including fuel and purchased power capacity and energy costs. This facility is considered by the Utility Board to be a non-firm capacity resource.

NOTE 13 - JOINT INVESTMENT

To provide the long-term transmission needs of both the Utility Board and the Florida Keys Electric Cooperative (FKEC), the parties have entered into a relationship in which both the Utility Board and FKEC will maintain an appropriate ownership investment in the transmission system between the Monroe/Dade County line and the north end of the Seven Mile Bridge. Based on the estimated usage of the transmission system in 1993 and 2020, and other considerations such as allocations of losses, the parties agreed that the Utility Board will be required to maintain a 56.5% investment in the transmission system and FKEC is required to maintain a 43.5% investment in the transmission system. The System's investment of approximately \$20.6 million does not exceed the required investment percentage. This allocation shall not be changed unless both parties agree to such change in writing. Based on the agreement, the Utility Board is entitled, at all times, to 40% of the transfer limit of the FKEC 138 kV transmission system.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 13 - JOINT INVESTMENT (Continued)

The transfer capability of the transmission line is approximately 245 MW and the firm MW transfer allocation for the Utility Board is approximately 110 MW. If the Utility Board's import requirements exceed its 110 MW transfer limit, based upon availability and other factors, the FKEC and the Utility Board have an agreement whereby the Utility Board can purchase transmission capacity required in excess of 110 MW.

The term of the agreement is to be forty years from the effective date of January 1, 1992 or until all property comprising the transmission system has been disposed of and all termination costs have been paid, whichever occurs last.

As the joint investment does not constitute a separate legal entity, and as no joint debt was issued to fund this project, the System's investment in these facilities is included as part of electric plant on the System's balance sheet.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Risk Management - The System is exposed to various risks of loss related to torts, damage, theft or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The System purchases commercial insurance policies from a commercial insurance carrier and other insurance carriers to minimize its risk of loss in these areas. The System has not experienced an insurance settlement in excess of insurance coverage during the past three fiscal years. The System bears the risk of loss up to the deductible amounts which are disclosed in the accompanying statistical tables.

Sales Agreement - The Utility Board has entered into an 18-year agreement, effective January 1, 1994, (the "FKEC Capacity and Energy Sale Agreement") with the Florida Keys Electric Cooperative, "FKEC", under which the Utility Board agrees to sell power to FKEC. The contract demand availability under the agreement was originally 10.0 MW adjusted to 12.0 MW on January 1, 1995, which contract demand may be further increased or decreased at any time upon mutual agreement of both parties. The minimum demand charge is \$3.00/kW-month, which is subject to potential future adjustment based upon the increase or decrease in the Base Demand Charge which FKEC pays FPL (as defined in FKEC's power supply contract with FPL).

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 14 - COMMITMENTS AND CONTINGENCIES (Continued)

The energy charge (mills per net kilowatt hour) will be the Utility Board's average fuel cost of its diesel and combustion turbine generating units that are used in the month the energy is provided to FKEC, if such energy is provided from such generating units. If the Utility Board provides all or a portion of the energy from generating resources other than its diesel and combustion turbine generating units, the energy charge, mills per kilowatt hours, in the month the energy is provided to FKEC will be the Utility Board's net cost of such energy plus 1.0 mill per kilowatt hour for the portion of energy provided by the Utility Board to FKEC from such generating resources. The Utility Board's net cost includes, but is not limited to, fuel cost, transmission cost, and losses incurred by the Utility Board.

The Utility Board is required to provide the capacity and energy only to the extent FKEC cannot meet a portion of its load with FPL and FKEC resources. In the event the transmission line is interrupted, the Utility Board may curtail the amount it sells to FKEC pursuant to a formula in the contract which prorates FKEC's contract demand based on the relationship between the Utility Board's available resources and its projected monthly peak requirements (including FKEC's contract demand).

NOTE 15 - NAVY CONTRACT

The United States Navy is the largest customer of the System and accounted for approximately 10.7% and 10.6% of electric revenues in 1999 and 1998 respectively. The System's contract with the Navy is for a term of five years with a provision which requires the parties to commence negotiations for a new contract at least two years prior to the end of the current contract. The contract also contains provisions for minimum billing, service reduction and exclusive service provisions. Pursuant to this contract, the System has agreed to provide a maximum of 15 megawatts of power at multiple locations.

The System executed an amendment to the service contract on December 8, 1999 which modifies the existing rate schedule. The term of the contract was also extended to September, 2004 subject to certain termination and renegotiation provisions.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 16 - REGULATION

According to existing laws of the State of Florida, the five members of the Utility Board act as the regulatory authority for the establishment of electric rates.

The Florida Public Service Commission (FPSC) has authority to regulate the electric "rate structures" of municipal utilities in Florida. It is believed that "rate structures" are clearly distinguishable from the total amount of revenues which a particular utility may receive from rates, and that distinction has thus far been carefully made by the FPSC. Prior to implementation of any rate change, the System files the proposed tariff with the Florida Public Service Commission and has established the prerequisite of a Public Notice and the holding of a Public Hearing.

The Florida Electric Power Plant Siting Act has given the FPSC exclusive authority to approve the construction of new power plants. The FPSC also exercises jurisdiction under the National Energy and the Florida Energy Efficiency and Conservation Acts as related to electric use conservation programs and prescribes conformance to the Federal Energy Regulatory Commission's Uniform System of Accounts.

Operations of the System are subject to environmental regulation by Federal, State and local authorities and to zoning regulations by local authorities. Federal and State standards and procedures that govern control of the environment can change. These changes can arise from continuing legislative, regulatory, and judicial action respecting the standards and procedures. Therefore, there is no assurance that the electric plant in operation, under construction or contemplated will always remain subject to the regulations currently in effect, or will always be in compliance with future regulations. An inability to comply with environmental standards or deadlines could result in reduced operating levels or complete shutdown of individual electric generating units not in compliance. Furthermore, compliance with environmental standards or deadlines may substantially increase capital and operating costs.

NOTE 17 - EMISSIONS CREDITS

Under Title IV - Acid Rain of the Clean Air Act Amendments of 1991, the Stock



UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 17 - EMISSIONS CREDITS (Continued)

Island steam power generating unit was allocated 2,571 allowances. These allowances were issued based on the actual sulfur dioxide (SO<sub>2</sub>) emissions from the steam unit in 1987. Due to the power generating units size and relatively low emissions, the unit was affected by only the Phase 2 allowance reduction requirements, which were to begin in the Year 2000.

During October 1998, the System received notice that an additional 21 allowances (for the Years 2000 to 2009) were allocated to the steam unit's account. Thus, the total allowances in the steam unit's account is now 2,588 per year during the period 2000 to 2009. This value decreases to 2,578 for years beyond 2009 in perpetuity.

The Stock Island steam-generating unit has been decommissioned and the allowances are considered surplus property. On June 30, 1999, the System sold 2,571 sulfur dioxide emission allowances for each vintage year 2000-2004 and 2,471 sulfur dioxide emission allowances for each vintage year 2005-2009, for a total quantity of 25,210 sulfur dioxide emission allowances, at a unit price of \$170 per allowance. The total selling price was \$4,285,700.

NOTE 18 - POST RETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the System provides life insurance and health care benefits for retired employees. These benefits are provided pursuant to the System's personnel policies as adopted by the Utility Board. The System is not required to provide contributions to this benefit by any statutory, contractual or other authority. Substantially all of the System's employees hired before June 9, 1999 are eligible for these benefits if they qualify for retirement status while working for the System. At September 30, 1999, 97 retirees were eligible for and were receiving these benefits. These and similar benefits for active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. The System recognizes the cost of providing these benefits on a pay-as-you-go basis by expensing the insurance premiums for retirees which were \$247,344 and \$227,726 for 1999 and 1998, respectively.

NOTE 19 - PAYMENT TO CITY OF KEY WEST

The System is the successor of the electric public utility once owned by the

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 19 - PAYMENT TO CITY OF KEY WEST (Continued)

City. All electric utility property owned by the City of Key West was transferred to the System at the time of the System's creation. The System pays the City the greater of \$200,000 or 50% of the balance of any monies remaining in the Revenue Fund at the end of the fiscal year as a return on the City's contribution to the System. This amount is adjusted for inflation based upon the Consumer Price Index.

Paragraph (11) of Section 3.03 (B) of the Original Resolution 532 was amended on September 8, 1999 by Resolution 678 to be effective for fiscal years beginning October 1, 1999. The Board will pay to the City 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 (exclusive of Power Cost Revenues which are defined as (i) revenues determined by reference to the power cost component of base rates, plus or minus (ii) power cost adjustment charges or credits.)

NOTE 20 - DEFERRED COMPENSATION PLAN

The System offers its employees a deferred compensation plan created in 1994 in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The assets of the plan are owned prorata by the participants in the plan and are not subject to the claims of the System's creditors.

NOTE 21 - EXTRAORDINARY EVENT

On September 25, 1998 the lower Florida Keys was struck by Hurricane Georges. The System suffered approximately \$7.0 million in damages, most of which was to its transmission and distribution systems. Grants were received from the Florida Department of Community Affairs and the Federal Emergency Management System which will reimburse 87.5% of eligible costs. The System expects to recover \$1.1 million relative to costs incurred during the 1998 fiscal year and \$4.9 million for fiscal year 1999 costs.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998

NOTE 21 - EXTRAORDINARY EVENT (Continued)

In order to fund the hurricane related repairs, the System executed a line of credit agreement with a bank. The agreement was issued October 15, 1998 with a maximum principal amount of \$10,000,000 bearing interest at 72% of the thirty-day London Inter Bank Offering Rate, and maturing September 30, 1999. The System borrowed \$3,300,000 during October and November, 1998 which was fully repaid, with interest, as of January 31, 1999.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

SCHEDULE OF REVENUES EARNED

FOR THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
Operating Revenues:		
Electric Revenues	\$ 45,278,307	\$ 45,412,149
Purchased Power Adjustment	14,089,541	16,605,847
Service Charges	114,665	108,720
Penalty Charges	392,166	454,954
Reserve Capacity Charge	463,320	444,960
Sales for Resale	-	480,181
Other	<u>31,102</u>	<u>40,653</u>
Total Operating Revenues	<u>60,369,101</u>	<u>63,547,464</u>
Other Income:		
Interest	1,260,837	1,219,430
Grant Revenue	4,439,834	1,220,691
Miscellaneous Non-operating Revenue	4,889,456	548,003
Charges for New Service	<u>45,053</u>	<u>37,080</u>
Total Other Income	<u>10,635,180</u>	<u>3,025,204</u>
Total Revenues	<u>\$ 71,004,281</u>	<u>\$ 66,572,668</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET TO ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 1999

	<u>Budget</u>	<u>Actual</u>	Variance- Favorable (Unfavorable)
Budgeted Revenues:			
Operating Revenues	\$ 61,565,255	\$ 60,414,154	\$ (1,151,101)
Grants	5,843,770	4,439,834	(1,403,936)
Interest	1,034,133	1,140,361	106,228
Miscellaneous Non-operating	<u>728,316</u>	<u>4,889,456</u>	<u>4,161,140</u>
Total Budgeted Revenue	<u>69,171,474</u>	<u>70,883,805</u>	<u>1,712,331</u>
Budgeted Expenditures:			
Production Expenses - Diesel	803,798	790,642	13,156
Purchased Power and Other Power			
Supply Expenses	29,575,804	28,317,508	1,258,296
Transmission Expenses	660,149	731,685	(71,536)
Distribution Expenses	3,069,474	3,295,190	(225,716)
Customer Accounts and Collection Expenses	875,602	1,062,064	(186,462)
Administrative and General Expenses	8,366,572	7,101,638	1,264,934
Taxes Other than Income Tax	1,581,917	1,588,173	(6,256)
Interest Expense - Customer Deposits	219,889	198,347	21,542
Dividend to City of Key West	230,708	249,644	(18,936)
Grant Expenses	6,813,058	5,074,097	1,738,961
Debt Service Sinking Fund Requirements	<u>9,726,777</u>	<u>9,741,220</u>	<u>(14,443)</u>
Total Budgeted Expenditures	<u>61,923,748</u>	<u>58,150,208</u>	<u>3,773,540</u>
Excess of Budgeted Revenues over (under) Budgeted Expenditures	<u>\$ 7,247,726</u>	<u>12,733,597</u>	<u>\$ 5,485,871</u>
Adjustments:			
Principal Portion of Budgeted Debt Service		8,215,000	
Capitalized Overhead		1,220,468	
Interest Accrued but Unfunded		(5,575,586)	
Depreciation		(5,783,556)	
Amortization of Issuance Costs		(189,507)	
Amortization of Loss on Refunding		<u>(202,272)</u>	
Net Income, GAAP Basis		<u>\$ 10,418,144</u>	

**KEMP & GREEN, P.A.**

*Certified Public Accountants*

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WM. O. KEMP, C.P.A.  
MARVA E. GREEN, C.P.A.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH BOND COVENANTS

Utility Board of the City  
of Key West, Florida  
"City Electric System"  
Key West, Florida

We have audited, in accordance with generally accepted auditing standards, the Balance Sheets of the Utility Board of the City of Key West, Florida as of September 30, 1999 and 1998 and the related Statements of Revenues, Expenses and Retained Earnings for the years then ended, and have issued our report thereon dated January 25, 2000.

In connection with our audits, nothing came to our attention that caused us to believe that the Utility Board of the City of Key West, Florida failed to comply with the terms, covenants, provisions, or conditions of Section 5.01 of Resolution No. 532 dated November 13, 1985, as amended and supplemented, in so far as they relate to accounting matters. However, it should be noted that our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Utility Board, management and others within the System, and officials of applicable Federal and State agencies and should not be used for any other purpose.

*Kemp + Green, P.A.*

Kemp & Green, P.A.  
Certified Public Accountants

January 25, 2000

KEMP & GREEN, P.A.

*Certified Public Accountants*

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING

Utility Board of the City of  
Key West, Florida  
"City Electric System"  
Key West, Florida

We have audited the financial statements of the Utility Board of the City of Key West, Florida ("the System") as of and for the year ended September 30, 1999, and have issued our report thereon dated January 25, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period

by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Kemp + Green, PA*

Kemp & Green, P.A.  
Certified Public Accountants

January 25, 2000



KEMP & GREEN, P.A.

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INDEPENDENT AUDITORS' MANAGEMENT LETTER AND MANAGEMENT'S RESPONSE

Board of Directors  
Utility Board of the City  
of Key West, Florida  
"City Electric System"  
Key West, Florida

In planning and performing our audit of the financial statements of the Utility Board of the City of Key West, Florida ("the System") for the years ended September 30, 1999 and 1998, we considered the System's internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Although our audit was not designed to provide assurance on internal control, we noted certain matters involving internal control and its operation, and are submitting for your consideration related recommendations designed to help the System make improvements and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to the System.

Reported in Prior Year's Management Letter, Not Implemented  
as of September 30, 1999

None.

Current Year Findings

Bank Reconciliations

Observation: The Revenue Account bank reconciliation for September was not prepared until mid-January. It is especially important to have an accurate account balance in this account as it determines the amount of payment to the City of Key West.

Recommendation: Bank reconciliations should be prepared promptly to provide accurate financial information.

### Segregation of Duties

Observation: The staff responsible for the preparation of bank reconciliations also assists from time to time in the cash receipts/revenue accounting section and the cash disbursements/payables section. This combination of duties could create a situation in which errors or irregularities could happen and be concealed.

Recommendation: The assignment of staff as backup for certain accounting functions should not create a lack of segregation of duties when combined with their regular work responsibilities.

### Supervision

Observation: Reconciliation of accounts receivable to the general ledger, accounts payable to the general ledger, and bank reconciliations are not reviewed by anyone else. In addition, the payroll tax returns are not agreed to the related general ledger payroll accounts.

Recommendation: The quality of the accounting records and segregation of duties is strengthened by a supervisory review.

### Accounts Receivable Write-Offs

Observation: Accounts receivable write-offs were 19% of the prior year although the volume of sales was comparable. The customer service section did not use the available aging reports, and did not routinely review these reports for potential bad debt write-offs.

Recommendation: The available aging reports should be reviewed and monitored on a routine basis. Routine procedures should not be delayed for the development of customized reports.

### Capitalized Overhead

Observation: The capitalized overhead applied to construction work orders during the year was based entirely on budgeted numbers. The System's procedures require that the actual rates be calculated quarterly, and the applied rates revised if there is a significant difference.

Recommendation: The procedures as established should be applied. The quarterly recalculation is needed to insure that any significant changes are reflected on a timely basis.

Other Required Disclosures

Marva Green was the Auditor in charge for the audit of the System. We attest that the auditor in charge met the educational requirements pursuant to Chapter 11.45, Florida Statutes.

The System was not in a state of financial emergency as described in Florida Statutes, Section 218.503(1).

Requirements relative to the Florida Department of Banking and Finance report and Public Records Modernization Trust Money do not apply to the System.

This report is intended solely for the information of the Utility Board, management and others within the System, and officials of applicable federal and state agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Kemp + Green, PA*

Kemp & Green, P.A.  
Certified Public Accountants

January 25, 2000

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

CONDENSED BALANCE SHEETS

FISCAL YEARS 1999 - 1990

	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>
<b>ASSETS</b>										
Property, Plant and Equipment:										
In-service										
Depreciated Cost	\$109,252,361	\$103,210,075	\$106,193,915	\$104,800,734	\$103,327,784	\$ 90,628,508	\$ 89,658,132	\$ 88,609,667	\$ 69,464,035	\$ 76,183,840
Construction in Progress	<u>4,116,931</u>	<u>8,645,799</u>	<u>4,752,830</u>	<u>3,263,801</u>	<u>3,469,051</u>	<u>13,305,485</u>	<u>8,639,465</u>	<u>3,296,687</u>	<u>19,376,362</u>	<u>17,085,770</u>
	<u>113,369,292</u>	<u>111,855,874</u>	<u>110,946,745</u>	<u>108,064,535</u>	<u>106,796,835</u>	<u>103,933,993</u>	<u>98,297,597</u>	<u>91,906,354</u>	<u>88,840,397</u>	<u>93,269,610</u>
Restricted Assets:										
Debt Service Accounts	10,765,406	10,644,552	10,511,789	14,503,649	15,038,177	13,897,986	14,049,596	13,743,021	12,661,857	12,538,200
Construction and Other Accounts	19,197,645	14,376,684	12,635,787	6,500,753	4,405,617	6,274,063	14,472,038	14,445,890	17,562,268	20,142,810
Customer Deposits	4,468,112	4,372,947	4,258,032	4,071,013	3,759,464	3,597,545	3,284,996	2,685,603	2,516,846	2,488,650
Deferred Compensation Accounts	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>633,640</u>	<u>448,622</u>	<u>156,360</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
	<u>34,431,163</u>	<u>29,394,183</u>	<u>27,405,608</u>	<u>25,709,055</u>	<u>23,651,880</u>	<u>23,925,954</u>	<u>31,806,630</u>	<u>30,874,514</u>	<u>32,740,971</u>	<u>35,169,660</u>
Current Assets:										
Cash and Investments	3,650,143	499,288	461,415	434,908	326,439	476,783	201,066	177,968	1,615,803	1,005,960
Accounts Receivable, Net	5,573,281	6,529,459	5,113,076	4,551,951	4,765,212	4,497,026	4,542,120	3,914,238	4,005,476	5,226,000
Plant Materials, Supplies and Fuel Inventory	2,470,040	1,846,655	2,341,763	2,981,284	3,603,032	3,854,891	3,900,877	3,728,001	3,425,624	2,589,230
Other Current Assets	<u>529,614</u>	<u>565,305</u>	<u>551,016</u>	<u>579,822</u>	<u>752,562</u>	<u>276,482</u>	<u>138,089</u>	<u>6,208</u>	<u>245,618</u>	<u>65,520</u>
	<u>12,223,078</u>	<u>9,440,707</u>	<u>8,467,270</u>	<u>8,547,965</u>	<u>9,447,245</u>	<u>9,105,182</u>	<u>8,782,152</u>	<u>7,826,415</u>	<u>9,292,521</u>	<u>8,886,730</u>
Other Assets and Deferred Charges	<u>2,300,242</u>	<u>2,489,749</u>	<u>2,619,118</u>	<u>3,090,518</u>	<u>3,234,719</u>	<u>3,865,698</u>	<u>4,212,978</u>	<u>4,239,866</u>	<u>4,567,005</u>	<u>5,009,740</u>
	<u>\$162,323,775</u>	<u>\$153,180,513</u>	<u>\$149,438,741</u>	<u>\$145,412,073</u>	<u>\$143,130,679</u>	<u>\$140,830,827</u>	<u>\$143,099,357</u>	<u>\$134,847,149</u>	<u>\$135,440,894</u>	<u>\$142,335,750</u>

(Continued)

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

CONDENSED BALANCE SHEETS (Continued)

FISCAL YEARS 1999 - 1990

	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>
<b><u>EQUITY AND LIABILITIES</u></b>										
Equity	\$ 43,858,327	\$ 32,818,799	\$ 26,490,190	\$ 20,788,715	\$ 18,039,325	\$ 14,755,565	\$ 13,899,551	\$ 13,164,246	\$ 13,105,333	\$ 22,888,447
Long Term Debt: Revenue Bonds and Capital Lease Obligations, and Accrued Interest (including current)	<u>108,132,817</u>	<u>110,437,551</u>	<u>112,656,762</u>	<u>114,238,755</u>	<u>116,976,109</u>	<u>117,984,066</u>	<u>119,224,060</u>	<u>113,793,209</u>	<u>114,094,376</u>	<u>110,649,565</u>
Current Liabilities:										
Accounts Payable	4,682,778	3,970,146	4,716,486	4,462,050	2,772,412	2,881,706	4,903,982	3,620,926	4,138,758	4,992,447
Accrued Expenses	1,028,575	1,310,498	1,127,300	1,138,957	1,059,826	1,345,189	1,655,750	1,442,851	1,456,927	1,164,276
Due to Customers	4,401,941	4,312,816	4,217,713	4,040,561	3,724,549	3,587,209	3,282,530	2,680,568	2,496,655	2,480,267
Deferred Compensation Payable	-	-	-	633,640	448,622	156,360	-	-	-	-
	<u>10,113,294</u>	<u>9,593,460</u>	<u>10,061,499</u>	<u>10,275,208</u>	<u>8,005,409</u>	<u>7,970,464</u>	<u>9,842,262</u>	<u>7,744,345</u>	<u>8,092,340</u>	<u>8,636,990</u>
Deferred Revenue	<u>219,337</u>	<u>330,703</u>	<u>230,290</u>	<u>109,395</u>	<u>109,836</u>	<u>120,732</u>	<u>133,484</u>	<u>145,349</u>	<u>148,845</u>	<u>160,753</u>
Total Liabilities	<u>118,465,448</u>	<u>120,361,714</u>	<u>122,948,551</u>	<u>124,623,358</u>	<u>125,091,354</u>	<u>126,075,262</u>	<u>129,199,806</u>	<u>121,682,903</u>	<u>122,335,561</u>	<u>119,447,308</u>
	<u>\$162,323,775</u>	<u>\$153,180,513</u>	<u>\$149,438,741</u>	<u>\$145,412,073</u>	<u>\$143,130,679</u>	<u>\$140,830,827</u>	<u>\$143,099,357</u>	<u>\$134,847,149</u>	<u>\$135,440,894</u>	<u>\$142,335,755</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

STATEMENTS OF REVENUES AND EXPENSES

FISCAL YEARS 1999 - 1990

	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>
Electric Operating Revenue	<u>\$60,369,101</u>	<u>\$63,547,464</u>	<u>\$60,837,474</u>	<u>\$54,944,251</u>	<u>\$52,659,220</u>	<u>\$51,871,072</u>	<u>\$49,277,045</u>	<u>\$44,173,632</u>	<u>\$47,265,084</u>	<u>\$45,240,187</u>
Operating Expenses:										
Production Expenses										
Steam	-	166,385	1,388,706	1,386,683	2,144,239	4,252,705	4,433,944	5,543,600	8,483,757	7,419,151
Diesel	790,642	1,036,565	1,727,963	2,043,022	1,546,792	1,595,075	2,527,630	3,163,424	1,179,871	638,470
Purchased Power	28,317,508	31,891,585	28,430,580	26,163,717	22,851,206	21,273,696	19,736,110	15,342,343	16,007,418	16,629,632
Transmission Expenses	731,685	760,025	664,908	263,685	259,894	246,893	217,402	225,242	138,880	148,424
Distribution Expenses	3,295,190	3,252,971	2,672,478	2,105,483	2,052,482	2,143,092	1,731,220	1,909,314	1,998,167	1,930,887
Customer Accounts, Collection and Service Expense	1,062,064	1,015,357	990,636	932,196	902,377	909,814	740,532	779,729	1,081,481	1,167,608
Administrative and General Expenses	5,881,170	5,928,275	5,777,256	5,866,009	6,267,686	6,851,774	5,460,800	5,384,141	6,424,359	5,571,306
Depreciation	5,783,556	5,402,133	5,237,831	5,286,752	4,933,592	4,988,735	5,172,339	5,145,616	4,477,173	3,879,755
Taxes Other than Income Tax	<u>1,588,173</u>	<u>1,567,968</u>	<u>1,519,541</u>	<u>1,400,296</u>	<u>1,322,673</u>	<u>1,315,386</u>	<u>1,238,607</u>	<u>1,022,160</u>	<u>986,460</u>	<u>717,716</u>
Total Operating Expenses	<u>47,449,988</u>	<u>51,021,264</u>	<u>48,409,899</u>	<u>45,447,843</u>	<u>42,280,941</u>	<u>43,577,170</u>	<u>41,258,584</u>	<u>38,515,569</u>	<u>40,777,566</u>	<u>38,102,949</u>
Operating Income	12,919,113	12,526,200	12,427,575	9,496,408	10,378,279	8,293,902	8,018,461	5,658,063	6,487,518	7,137,238
Interest and Other Income	10,635,180	3,025,204	1,424,181	1,638,186	1,291,591	992,605	1,098,645	2,046,536	2,542,609	2,443,197
Debt and Other Expenses	8,062,052	8,150,741	8,361,667	8,758,686	8,595,989	8,601,535	8,582,802	7,804,829	7,298,231	7,049,704
Extraordinary (Loss)	<u>(5,074,097)</u>	<u>(1,232,965)</u>	-	-	-	-	-	-	<u>(2,836,154)</u>	-
Net Income (Loss)	<u>\$10,418,144</u>	<u>\$ 6,167,698</u>	<u>\$ 5,490,089</u>	<u>\$ 2,375,908</u>	<u>\$ 3,073,881</u>	<u>\$ 684,972</u>	<u>\$ 534,304</u>	<u>\$ (100,230)</u>	<u>\$(1,104,258)</u>	<u>\$ 2,530,731</u>

UTILITY BOARD OF THE CITY OF  
KEY WEST, FLORIDA

SCHEDULES OF DEBT SERVICE COVERAGE

FISCAL YEARS 1999-1990

<u>FISCAL YEAR</u>	<u>TOTAL AVAILABLE REVENUES (Note 1)</u>	<u>TOTAL OPERATING EXPENSES (Note 2)</u>	<u>NET REVENUES AVAILABLE COVERAGE</u>	<u>ANNUAL DEBT SERVICE (Note 3)</u>	<u>DEBT SERVICE COVERAGE RATIO</u>
1999	\$62,109,246	\$41,864,779	\$20,244,467	\$9,726,777	2.08
1998	\$64,585,107	\$45,831,603	\$18,753,504	\$9,726,960	1.9
1997	\$60,736,775	\$43,368,464	\$17,368,311	\$9,719,540	1.7
1996	\$55,337,974	\$40,352,338	\$14,985,636	\$9,881,419	1.52
1995	\$54,250,673	\$37,523,506	\$16,727,167	\$9,879,580	1.69
1994	\$54,825,231	\$38,682,671	\$16,142,560	\$9,879,867	1.63
1993	\$51,775,487	\$36,160,511	\$15,614,976	\$9,417,565	1.66
1992	\$47,080,197	\$33,477,067	\$13,603,130	\$9,274,138	1.47
1991	\$47,619,599	\$36,407,767	\$11,211,832	\$7,602,288	1.47
1990	\$44,364,514	\$34,160,548	\$10,203,966	\$6,545,904	1.56

Note 1 - Total Available Revenues includes total Operating Revenues, interest income (less amounts earned on Construction Fund), charges for new service, miscellaneous non-operating revenues, transfers from (to) Rate Stabilization Fund, less transfers to Capital Improvement Fund and interest earnings on Bond Amortization Account.

Note 2 - Total Operating Expenses include interest paid to customers for customer deposits held and excludes depreciation and amortization expense.

Note 3 - Current Debt Service on Outstanding Bonds includes total interest expense less capital lease interest expense and long-term interest expenses accrued for all Capital Appreciation Bonds Outstanding plus forward supply contract purchases.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

CONSUMPTION AND ACTIVE SERVICE STATISTICS

FISCAL YEARS 1999 - 1990

	<u>Residential</u>	<u>Small Commercial</u>	<u>Large Power</u>	<u>Military</u>	<u>Street Lighting</u>	<u>Govt Rec Lighting</u>	<u>Priv Area Lighting</u>	<u>Total</u>
Consumption (in Megawatt Hours):								
1999	282,311	59,868	210,065	72,941	3,202	168	1,443	629,998
1998	281,543	59,708	211,510	73,902	3,317	183	1,443	631,606
1997	270,406	59,143	206,104	74,605	3,176	207	1,312	614,953
1996	256,452	53,672	195,265	78,470	3,484	226	1,387	588,956
1995	248,050	51,725	192,462	80,540	3,383	367	1,354	577,881
1994	236,617	50,027	185,756	80,852	3,314	356	1,333	558,255
1993	213,944	46,151	167,767	86,038	3,290	324	1,298	518,812
1992	196,861	44,455	154,960	83,298	3,056	379	1,261	484,270
1991	197,355	47,900	154,701	87,674	3,517	347	1,353	492,847
1990	188,493	45,360	151,834	85,677	3,353	438	1,375	476,530
Active Service (Number of Customers):								
1999	22,590	2,724	671	1	4	4	1,536	27,530
1998	22,334	2,659	659	1	4	4	1,536	27,197
1997	21,910	2,604	645	1	4	4	1,499	26,667
1996	21,532	2,486	646	1	4	4	1,541	26,214
1995	21,120	2,361	625	1	4	4	1,525	25,640
1994	20,828	2,298	582	1	4	7	1,454	25,174
1993	20,432	2,253	547	1	4	6	1,462	24,705
1992	19,997	2,222	499	1	4	7	1,440	24,170
1991	19,238	2,142	449	1	4	7	937	22,778
1990	19,082	2,152	442	1	4	9	758	22,448

(Continued)



UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

CONSUMPTION AND ACTIVE SERVICE STATISTICS (Continued)

FISCAL YEARS 1999 - 1990

	<u>Residential</u>	<u>Small Commercial</u>	<u>Large Power</u>	<u>Military</u>	<u>Street Lighting</u>	<u>Govt Rec Lighting</u>	<u>Priv Area Lighting</u>	<u>Total</u>
Annual Consumption per Active Service (in Kilowatt Hours):								
1999	12,497	21,978	313,063	72,940,692	800,500	42,000	939	22,884
1998	12,606	22,455	320,956	73,901,898	829,250	45,750	939	23,223
1997	12,341	22,712	319,541	74,604,534	794,000	51,750	875	23,060
1996	11,910	21,590	302,268	78,470,565	870,971	56,535	900	22,467
1995	11,745	21,908	307,939	80,540,000	845,750	91,750	888	22,538
1994	11,361	21,431	319,169	80,852,328	828,609	50,816	917	22,176
1993	10,471	20,495	306,704	86,038,000	822,500	54,000	888	21,000
1992	9,845	19,989	310,541	83,298,000	764,000	54,143	876	20,033
1991	10,259	21,664	344,546	87,674,000	879,250	49,571	1,444	21,637
1990	9,878	21,088	343,516	85,677,000	838,250	48,667	1,812	21,228

UTILITY BOARD OF THE CITY OF  
KEY WEST, FLORIDA

CLIMATOLOGICAL DATA

FISCAL YEARS 1999 - 1990

Monthly Rainfall and Temperature  
Key West, Florida

<u>Fiscal Year</u> <u>1999</u>	<u>Rain (Inches)</u>		<u>Temperature (F)</u>	
	<u>Total</u>	<u>Above (Below) Normal</u>	<u>Average</u>	<u>Above (Below) Normal</u>
October	4.78	0.36	81.1	1.1
November	2.29	(0.55)	77.3	1.7
December	1.60	(0.42)	75.0	3.5
January	1.80	1.68	71.4	0.7
February	1.88	0.08	71.4	0.9
March	.71	(1.00)	71.9	(1.9)
April	1.24	(0.11)	78.4	1.4
May	1.00	(2.44)	80.1	0.3
June	5.97	0.88	82.8	(0.3)
July	1.99	(1.62)	84.1	(0.3)
August	9.55	4.52	84.0	(0.3)
September	7.72	1.87	83.4	0.1
Monthly Average	3.38	0.24	78.4	0.58

Climatic Energy Demands

<u>Fiscal Year</u>	<u>Heating Degree-Days*</u>	<u>Cooling Degree-Days*</u>
1999	26	5,049
1998	53	4,793
1997	41	5,110
1996	64	4,622
1995	39	5,124
1994	23	5,120
1993	20	4,971
1992	14	4,599
1991	13	5,398
1990	63	5,171

Source: U.S. Department of Commerce, National Oceanic and Atmospheric Administration.

\* Degree Day is a unit measuring the extent to which the outdoor mean temperature falls below (heating) or rises above (cooling) the base of 65 degrees Fahrenheit. One degree-day is counted for each degree of deficiency below (heating) or excess over (cooling) the base, for each calendar day on which such deficiency or excess occurs.

UTILITY BOARD OF THE CITY OF  
KEY WEST, FLORIDA

DEMOGRAPHIC AND ECONOMIC STATISTICS

FISCAL YEARS 1998-1989

<u>Fiscal Year</u>	<u>Population</u>	<u>Per Capita Income(1)</u>	<u>Median Age(2)</u>	<u>Unemployment Rate (3)</u>
1998	27,522	\$28,959	40	2.2%
1997	27,305	\$22,421	37	2.4%
1996	27,009	\$15,547	34	2.7%
1995	26,842	\$13,305	34	3.4%
1994	26,417	\$12,539	34	3.7%
1993	26,122	\$12,639	34	4.5%
1992	24,937	\$12,271	34	4.7%
1991	24,794	\$11,113	34	3.9%
1990	28,710	\$11,434	40	3.0%
1989	29,177	\$10,787	40	2.7%

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

(2) Source: City of Key West Planning Department.

(3) Source: Florida Department of Labor and Employment Security, Bureau of Labor Market Information calculated by calendar year.

Information for 1999 is not available.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA  
SCHEDULE OF PROPERTY, CASUALTY AND OTHER INSURANCE  
SEPTEMBER 30, 1999

<u>Company</u>	<u>Type of Coverage</u>	<u>Limits</u>	<u>Period</u>	<u>Premium</u>
Florida Municipal Insurance Trust	Workers' Compensation	Statutory Deductible - \$0	10/1/98 - 9/30/99	\$ 119,014
The Hartford	Comprehensive General Liability (CGL)	\$2,000,000 Deductible - \$5,000	10/1/98 - 9/30/99	65,238
The Hartford	Excess Liability	\$10,000,000 Deductible - \$2,000,000	10/1/98 - 9/30/99	19,895
The Hartford	Automobile/Comprehensive/ Physical Damage	\$2,000,000 Deductible - \$1,000	10/1/98 - 9/30/99	52,416
The Hartford	Crime	\$40,000 Employee Disability \$100,000 Money and Security Theft	10/1/98 - 9/30/99	4,570
Penco	Public Officials - Errors & Omissions	\$2,000,000 Deductible - \$10,000	10/1/98 - 9/30/99	33,287
Reliance National Insurance Co.	Property Insurance	\$25,000,000 Deductible - \$50,000	5/1/99 - 5/1/00	474,048
	Boiler & Machinery	\$50,000,000 Deductible - \$50,000		
	Windstorm Flood	\$1,000,000 \$500,000		
National Flood Insurance Program	Flood	Per Location Schedule Deductible - Loc Schedule	6/14/99 - 6/14/00	75,339
Florida Windstorm Underwriters Association	Windstorm and Hail	\$1,000,000 Deductible - Loc Schedule	7/26/99 - 7/27/00	103,415
Commerce and Industry Insurance Co.	Florida Pollution Liability Mandatory Requirement	Per Location Schedule Deductible - \$500 to \$300,000	8/15/98 - 8/15/99	<u>40,949</u>
		Limits - Small Tanks \$1,000,000 each incident \$2,000,000 aggregate		
				<u>\$ 988,171</u>

UTILITY BOARD OF THE CITY OF KEY WEST

TEN HIGHEST CONSUMPTION LOCATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 1999

<u>Ranking</u>	<u>Customer Account</u>	<u>Demand KW</u>	<u>Energy Kwh</u>	<u>Dollars</u>
1	U.S. Navy	12,863	72,940,692	\$ 6,475,138
2	Monroe County Detention Center	920	5,725,000	\$ 517,228
3	City of Key West (Waste Water Plant)	971	5,324,000	\$ 489,068
4	Wyndham Casa Marina Hotel	874	5,005,600	\$ 489,301
5	Lower Florida Keys Health System	732	4,633,400	\$ 418,870
6	Winn Dixie Stores, Inc., Overseas Market (Key West)	579	4,043,600	\$ 389,114
7	Pier House Joint Venture (Hotel)	730	3,891,000	\$ 385,220
8	Florida Keys Community College	813	3,451,600	\$ 320,569
9	Key West Reach, LTD.	529	2,901,000	\$ 284,618
10	Galleon Investments, Ltd. (Time-Share)	678	2,798,800	\$ 284,259

UTILITY BOARD OF THE CITY OF KEY WEST

EMPLOYEE INFORMATION

FISCAL YEARS 1999 - 1990

DEPARTMENTS

	<u>General Manager</u>	<u>Engineering &amp; Control</u>	<u>Subtotal Manager</u>	<u>Customer Service</u>	<u>Finance</u>	<u>Transmission and Distribution</u>	<u>General Plant</u>	<u>Generation</u>	<u>Subtotal TD &amp; G</u>	<u>Total</u>
1999	11	20	31	30	22	38	12	24	74	157
1998	10	24	34	30	22	38	12	26	76	162
1997	10	24	34	30	21	39	16	24	79	164
1996	9	24	33	30	22	35	12	32	79	164
1995	7	24	31	26	23	34	13	40	87	167
1994	8	27	35	33	22	33	15	54	102	192
1993	8	27	35	33	22	33	16	54	103	193
1992	8	27	35	33	22	33	16	60	109	199
1991	8	27	35	32	23	33	15	60	108	198
1990	9	26	35	30	21	33	14	59	106	192

Notes: The numbers for each year above do not include five (5) Utility Board Members.  
 The approved budgets were used for all years except 1996.  
 For 1996, actual employee head count was used.

UTILITY BOARD OF THE CITY OF KEY WEST

GENERATION AND CAPACITY STATISTICS

FOR THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998

<u>Description</u>	<u>1999</u>	<u>1998</u>
<u>Gross Generation in MW (1):</u>		
Diesel and Combustion Turbine	-	5,899
Less: Station Auxiliaries	-	<u>1,687</u>
Net Generation	-	4,212
Sales to Other Distributors (2)	-	(18,058)
Net Delivered Purchased Power and Stanton Generation	<u>692,763</u>	<u>695,287</u>
Net Energy for Load	692,763	681,441
Less: Energy not Accounted for and Non- Revenue Energy	<u>62,765</u>	<u>49,836</u>
Retail Energy Sales (2)	<u>629,998</u>	<u>631,605</u>
Percentage of Net Energy for Load	9.1%	7.3%
<u>Generation Capacity (KW):</u>		
Name Plate Rating (3)	<u>97,450</u>	<u>97,450</u>
Net Continuous Capacity	84,400	84,400
	<u>4,000</u>	<u>4,000</u>
Less: Minimum Commitment to FKEC (4) On Island Resources	<u>80,400</u>	<u>80,400</u>
System Net Peak Demand (5)	<u>126,000</u>	<u>129,000</u>
Percent of On-Island Resources (6) for Net Peak Demand	63.8%	62.3%
<u>Delivered Purchased Power &amp; Stanton Resources (KW) (7):</u>		
FP & L Long - Term Power	45,000	45,000
FMPA Tri - City Project (Stanton 1)	12,289	12,289
FMPA Stanton 2 Project	<u>9,862</u>	<u>9,862</u>
Total Purchased	<u>67,151</u>	<u>67,151</u>
Total Generating and Purchased Net Continuous Capability	<u>151,551</u>	<u>151,551</u>
Net Reserve Margin Including Purchased Power (8)	20.3%	17.5%

UTILITY BOARD OF THE CITY OF KEY WEST

GENERATION AND CAPACITY STATISTICS (Continued)

FOR THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998

Footnotes

- (1) Summarized from monthly power plant reports.
- (2) From fiscal year - end monthly Financial and Operating Statements.
- (3) Ralph Garcia Steam Plant decommissioned by Utility Board on August 28, 1996. The plant was converted to a synchronous condenser during the fiscal year 1998. Under the FMPA A11 - Requirements Project, the Florida Municipal Power Agency (FMPA) installed two combustion turbines during fiscal year 1998.
- (4) Based on the Utility Board's Reliability Study.
- (5) Based on monthly Peak Load report.
- (6) The Utility Board revised its criteria on island capacity to meet its annual peak demand from 70% to 60%. The percentage shows the relationship of Net Continuous Capacity to Net Peak Demand.
- (7) As a member of the FMPA A11-Requirements Project, the Utility Board's resources and costs under the long-term capacity agreements with Florida Power and Light Company, and delivered capacity from FMPA's Tri-City Project (Stanton 1) and Stanton 2 Project have been assigned to FMPA.
- (8) Net Reserve Margin represents the amount of capacity in excess of the system peak demand, as a percentage of system peak demand.





UTILITY BOARD OF THE CITY OF KEY WEST

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 1999

	<u>Grant Identification Number</u>	<u>CFDA Number</u>	<u>Accrued (Deferred) 1998</u>	<u>Cash Receipts</u>	<u>Expendi- tures</u>	<u>Accrued (Deferred) 1999</u>
<u>Federal Awards</u>						
Department of Agriculture, Passed through the State of Florida, Division of Forestry:						
Cooperative Forestry Assistance	98-35	10.664	\$ -	\$ -	\$ -	\$ -
 Federal Emergency Management Agency, Passed through the State of Florida, Department of Community Affairs						
Disaster Relief Funding Agreement	99-RM-N4-05-54-20-236	83.544	<u>924,724</u>	<u>4,614,244</u>	<u>4,203,053</u>	<u>513,533</u>
Total Federal Awards			<u>\$ 924,724</u>	<u>\$ 4,614,244</u>	<u>\$ 4,203,053</u>	<u>\$ 513,533</u>
 <u>State Awards</u>						
Florida Department of Community Affairs:						
Disaster Relief Funding Agreement	98-RM-N4-11-54-20-032	*	\$ 18,973	\$ 18,973	\$ -	\$ -
Disaster Relief Funding Agreement	99-RM-N4-05-54-20-236	*	<u>154,120</u>	<u>-</u>	<u>700,509</u>	<u>854,629</u>
Total State Awards			<u>\$ 173,093</u>	<u>\$ 18,973</u>	<u>\$ 700,509</u>	<u>\$ 854,629</u>

\* Contains State Grants and Aids Appropriations  
Monies

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

UTILITY BOARD OF THE CITY OF KEY WEST

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and presentation of the Single Audit report of the System have been designed to conform to generally accepted accounting principles as applicable to local governments, including the reporting and compliance requirements of the Single Audit Act of 1984 and Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

Reporting Entity - The Single Audit Act of 1984 and OMB Circular A-133 set forth the audit and reporting requirements for federal awards. The System has included a Schedule of Expenditures of Federal and State Awards to satisfy the audit requirements of all government grantor agencies.

Basis of Accounting - Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, and to the timing of the measurements made, regardless of the measurement focus applied. Revenue from cost reimbursement contracts are recognized as program expenses are incurred. Revenue from unit cost contracts are recognized based on the units of services delivered.

NOTE 2 - CONTINGENCIES

Grant monies received and disbursed by the System are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based on prior experience, the System does not believe that such disallowance, if any, would have a material effect on the financial position of the System. As of January 25, 2000 there were no material questioned or disallowed costs as a result of grant audits in process or completed.

KEMP & GREEN, P.A.

*Certified Public Accountants*

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WM. O. KEMP, C.P.A.  
MARVA E. GREEN, C.P.A.

MEMBER OF AMERICAN INSTITUTE  
AND FLORIDA INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

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

Utility Board of the City  
of Key West, Florida  
"City Electric System"  
Key West, Florida

Compliance

We have audited the compliance of the Utility Board of the City of Key West, Florida ("the System") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended September 30, 1999. The System's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System'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 of the System's compliance with those requirements.

In our opinion, the System complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 1999.

Internal Control Over Compliance

The management of the System is responsible for establishing effective internal control over compliance with regulations, contracts and grants applicable to federal and performing our audit, we considered the System's compliance with requirements that could have a direct and major federal program in order to determine our audit purpose of expressing our opinion on compliance and internal control over compliance in accordance with OMB (

Our consideration of the internal control over necessarily disclose all matters in the internal material weaknesses. A material weakness is a condition operation of one or more of the internal control components a relatively low level the risk that noncompliance requirements of laws, regulations, contracts and grants in relation to a major federal program being audited detected within a timely period by employees performing their assigned functions. We noted no internal control over compliance and its operation material weaknesses.

This report is intended for the information of management agencies and pass-through entities. However, this report record and its distribution is not limited.

*Kemp & Green, P.A.*

Kemp & Green, P.A.  
Certified Public Accountants

January 25, 2000

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 1999

Summary of Auditor's Results

We issued an unqualified opinion on the financial statements.

The requirement concerning the disclosure of reportable conditions in internal control disclosed by the audit of the financial statements and the related disclosure as to whether any such conditions were material weakness does not apply.

The audit did not disclose any noncompliance material to the financial statements of the System.

The requirement concerning the disclosure of reportable conditions in internal control over major programs disclosed by the audit and the related disclosure as to whether any such conditions were material weaknesses does not apply.

We issued an unqualified opinion on compliance for major programs.

The audit did not disclose any audit findings which we are required to report under Section .510(a) of OMB Circular A-133.

Major programs are as follows:

Disaster Relief Funding Agreement, CFDA 83.544	<u>\$ 4,203,053</u>
Total Federal Expenditures	<u>\$ 4,203,053</u>
Percentage of Major to Total Federal Expenditures	<u>100%</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 1999

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

The System did not qualify as a low-risk auditee as this was the second year of OMB Circular A-133 implementation.

Findings Relating to the Financial Statements Required to be Reported  
by Generally Accepted Governmental Auditing Standards

None

Findings and Questioned Costs for Federal Awards

None

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 1999

For the year ended September 30, 1998, there were no audit findings required to be reported by OMB Circular A-133.



UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED SEPTEMBER 30, 1999

For the year ended September 30, 1999, there were no audit findings required to be reported by OMB Circular A-133. Accordingly, no corrective action plan is required.

KEMP & GREEN, P.A.

*Certified Public Accountants*  
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WM. O. KEMP, C.P.A.  
MARVA E. GREEN, C.P.A.

INDEPENDENT AUDITORS' REPORT ON EXAMINATION OF MANAGEMENT'S ASSERTION ABOUT  
COMPLIANCE WITH SPECIFIED REQUIREMENTS

Utility Board of the City  
Of Key West, Florida  
"City Electric System"  
Key West, Florida

We have examined management's assertion dated January 25, 2000 that the Utility Board of the City of Key West, Florida ("the System") complied with the allowable cost requirements of the grants and aids appropriations identified in the schedule of expenditures of federal and state awards, for the year ended September 30, 1999. Management is responsible for the System's compliance with those requirements. Our responsibility is to express an opinion on management's assertion about the System's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the System's compliance with specified requirements.

In our opinion, management's assertion that the System complied with the allowable cost requirements of the grants and aids appropriations identified in the schedule of expenditures of federal and state awards during the fiscal year ended September 30, 1999, is fairly stated, in all material respects.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Kemp & Green, P.A.*

Kemp & Green, P.A.  
Certified Public Accountants

January 25, 2000

# Comprehensive Annual Financial Report

Utility Board  
City of Key West, Florida

For Fiscal Year Ended  
September 30, 1998

Prepared by:  
Finance Department and General Manager

Stanley T. Rzad  
Finance Manager

Larry J. Thompson  
General Manager

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# Utility Board of the City of Key West, Florida

1001 James St.  
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Key West, Florida 33041-6100

General Manager: (305) 295-1001  
Main Telephone: (305) 295-1000  
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March 16, 1999

## INTRODUCTORY

To the Chairman and Members  
of the Utility Board of the City  
of Key West, Florida

The Comprehensive Annual Financial Report ("CAFR") of the Utility Board of the City of Key West, Florida (the "System") for the Fiscal Year ended September 30, 1998, is submitted herewith, pursuant to and by the authority of Chapter 69-1191, Laws of Florida, as amended, and Resolution No. 532 of the Utility Board, Article V, Section 5.01 (H), adopted November 13, 1985, as amended and supplemented.

The CAFR was compiled by the staff of the Finance Department with the close cooperation of our independent auditor and represents the official report of the System's financial operations and conditions to the citizens, Utility Board, System management personnel, rating agencies, bond holders and other interested parties.

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

In order to meet the needs of a broad spectrum of financial statement readers, the CAFR is presented in four sections: Introductory Section, Financial Section, Statistical Section, and Single Audit / Grants Compliance Section.

The **Introductory Section** includes the table of contents, this transmittal letter, a description of our service area, a description of major events in 1998 and a list of principal officials and employees of the System.

The **Financial Section** is composed of the independent auditor's report, the financial statements, supplemental schedules and other auditor's reports. The notes to the financial statements are considered an integral and essential part of adequate disclosure and fair presentation of the financial statements.

The **Statistical Section** includes selected financial and demographic trend information. The tables within this section differ from the financial section schedules in that they present some non-accounting data covering more than two fiscal years.

The **Single Audit / Grants Compliance Section** is provided in conformance with the provisions of the Single Audit Act of 1984 and the United States Office of Management and Budget (OMB) Circular

## Letter of Transmittal

A-133 Compliance Supplement. Information related to this single audit, including the Schedule of Expenditures of Federal and State Awards, is included in this section.

The accounting policies and the presentation of the financial report of the System have been designed to conform to generally accepted accounting principles as applicable to governmental units, in accordance with the Governmental Accounting Standards Board ("GASB"). The GASB embodies the official pronouncements previously issued by the National Council on Governmental Accounting ("NCGA").

The System applies Financial Accounting Standards Boards ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

## **Financial Information**

### Internal Accounting Controls

In developing and maintaining the accounting system, consideration is given by the administration as to the adequacy of internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition; the reliability of financial records for preparing financial statements in conformity with generally accepted accounting principles; and maintaining accountability for assets.

The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the evaluation of cost and benefits require estimates and judgments by management. An evaluation by our independent auditors disclosed no material weaknesses in the internal control structure of the System.

### Basis of Accounting

The System's financial statements are prepared on the basis of accounting required by the Federal Energy Regulatory Commission ("FERC"), which is an application of generally accepted accounting principles that is peculiar to utilities. Revenues are recognized in the period earned and expenses recognized in the period incurred. Budgetary control is maintained through the use of monthly financial reports and the use of purchase orders, work orders, and miscellaneous cash disbursements and approval procedures.

Your attention is directed to Note 1 of the Notes to the Financial Statements, which fully describes the accounting practices for the presentation of the financial statements.

### Single Audit

As a recipient of federal financial assistance, the System is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to

## Letter of Transmittal

those programs. As a part of the single audit described herein, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the System has complied with applicable laws and regulations. The results of the System's single audit for the fiscal year ended September 30, 1998, indicated no violations of applicable laws and regulations.

### Budgetary Control

Revenue and expense budgets are prepared on an annual basis in accordance with the System's bond indentures and submitted to the Utility Board for approval prior to October 1 of the fiscal year. Legal adoption of budgets is not required. Actual revenues and expenses are compared to the budget on a line item basis (which is the legal level of control) within cost centers, and an analysis of variances report is prepared and submitted to the Utility Board each month as required by bond indentures.

During the year, staff can make amendments within the operating budget or the capital budget that do not change the total budget for those categories. The Utility Board approves all other budget changes. Supplemental appropriations were necessary and the Utility Board in accordance with Utility Board policies amended the budgetary data presented herein. Budget appropriations lapse at each fiscal year-end except for the capital budget. The budget is adopted on a basis consistent with the System's basis of accounting except for depreciation and amortization, and debt service on revenue bonds.

### Property, Plant and Equipment

Property, Plant and Equipment is stated at cost, which includes costs of contract work, labor, materials, allocated indirect charges, and capitalized interest. Major renewals and betterments are capitalized while minor replacements and repairs are expensed as incurred. The cost of electric plant retired, together with removal costs less salvage, is charged to accumulated depreciation at such time as property is removed from service.

### Results of Operations

The primary reasons for changes in the results of operations for the year ended September 30, 1998 compared to the year ended September 30, 1997 are as follows:

**Operating Revenues** increased for 1998 over 1997 by \$2,709,990 or 4.5%. The Electric Revenues segment was higher by \$1,204,146 due to megawatt-hour (MWh) sales of 631,605 being greater by 16,652 or 2.7% as compared to 1997. The Purchased Power Adjustment component was greater by \$1,442,689 due to higher purchased power costs.

**Operating Expenses** increased in 1998 from 1997 by \$2,611,365 or 5.4% primarily due to higher costs of purchased power per kWh combined with greater kWh sales. Purchased Power expense for 1998 increased \$3,461,005 compared to 1997 while the cost in mills per 1,000 kWh sold increased 3.42 to 49.37 versus 45.95 in 1997. The System began operations as a participant in the Florida Municipal Power Agency (FMPA) All Requirements Project effective (ARP) April 1, 1998.

## Letter of Transmittal

**Non-Operating Revenue and Expenses**, Net of \$2,794,496 in 1998, was higher by \$1,587,769 compared to 1997. Net Interest Income increased \$131,494 during 1998 due to slightly higher rates. Grant Revenue increased by \$1,205,851 related to reimbursements from the Department of Community Affairs for Hurricane Georges (\$1,078,844) and the Ground Hog Day Storm (\$136,847) while the Department of Agriculture and Consumer Services grant for the Tree Give-Away Program decreased (\$9,840). Miscellaneous Non-Operating Revenue was greater by \$263,678 primarily due to the broker energy program (\$107,580). Payment to the City of Key West was higher by \$13,254 as a result of the Bond Resolution formula calculation.

**Net income** was \$6,167,698 for 1998, an increase of \$677,609, as compared to \$5,490,089 in 1997. Income from Operations increased \$98,625. Other contributing factors to the increase were greater Interest Income and the broker energy program discussed above. The total Net Income provided funds for the budgeted transfers to the Renewal & Replacement Fund for authorized capital projects and to the Rate Stabilization Fund.

**Total Property, Plant and Equipment** was \$180,876,099 at September 30, 1998, compared to \$179,209,465 at September 30, 1997. Significant projects placed in service occurred in Distribution Plant, Transmission Plant and General Plant. The Construction in Progress account showed a \$3,892,969 increase at fiscal year end 1998, related to projects involving transmission and distribution, the White Street substation, and the computer conversion.

### Rates for Service

The following table compares average monthly charges for electric service among selected utilities in Florida for the fiscal year ended September 30, 1998.

<b>Comparison of Average Monthly Electric Bills</b>		
	<i>Residential</i> 1,000 kWh	<i>Commercial</i> 30KW -6,000 kWh
Utility Board of the City of Key West	\$92.26	\$696.86
<i>Other Municipal Utilities in Florida</i>	Ft. Pierce Utilities Authority	\$87.50
	City of Jacksonville Beach	79.30
	City of Vero Beach	81.20
<i>Investor-Owned Utilities in Florida</i>	Florida Power Corporation	\$83.15
	Florida Power & Light	75.27
	Tampa Electric Company	78.15
<small>Source: Florida Municipal Electric Association, Inc., Tallahassee, Florida</small>		



## Letter of Transmittal

### Customer Statistics

At fiscal year end 1998, the System's customer base was 27,197 or 530 more than 1997. Peak Demand (60 minute net) increased significantly to 129.0 MW compared to the 1997 peak of 119.7 MW due to the combination of warmer temperatures and new load.

The residential customer class increased by 424 to 22,334, while average annual consumption rose by 264 kWh to 12,606. The revenue per kWh, expressed in mills, was 93.84 in 1998 compared to 91.72 in 1997.

The commercial customer class increased by 69 to 3,303 while average annual consumption decreased by 600 kWh to 104,312. The revenue per kWh, in mills, was 101.34 in 1998 compared to 99.82 in 1997.

### Purchased Power Arrangements

The Utility Board voted on July 7, 1997, to participate in the FMPA All-Requirements Project (ARP) whereby the System will purchase their bulk power supply requirements, in excess of certain excluded resources, from the Project. The System began operations as a project participant effective April 1, 1998.

The Utility Board has previously entered into several purchased power arrangements including (i) the FMPA Tri-City Project (Stanton 1); (ii) the FMPA Stanton 2 Project, and (iii) long-term purchase agreement from Florida Power & Light Company ("FPL"). As a member of the ARP, the Utility Board's resources and costs under these three contracts have been assigned to FMPA. Other power resource and sale arrangements include the Utility Board's purchases from a small resource recovery unit located on Stock Island; sale of power to the Florida Keys Electric Cooperative Association, Inc. (FKEC) and interchange service arrangements with other Florida utilities and with power marketers.

All of the power purchases listed above, except for the purchase from the resource recovery unit, require transmission over the FKEC transmission system. On January 1, 1992, this became a jointly owned system between the System and FKEC and is covered by a Long-Term Joint Investment Transmission Agreement. Please see Notes 12 and 13 in the Notes to the Financial Statements for further information.

### Generating Resources

The System currently owns, operates and maintains nine generating units with a total maximum net continuous capability of 50.4 MW. This includes a combustion turbine unit, the two medium-speed diesel units at Stock Island and six high-speed diesel units located at Stock Island, Big Pine Key and Cudjoe Key. Additionally, FMPA owns two 17 MW combustion turbines at Stock Island. These two units contribute to The System's total on-island capacity of 84.4 MW. The System operates the combustion turbines along with six high-speed and two medium-speed diesel units with No. 2 oil. Under provisions of the ARP Supply Contract, the output of the System-owned generating facilities is being purchased in its entirety by FMPA as part of the ARP.

## Letter of Transmittal

The Ralph Garcia Steam Plant was decommissioned by the Board in August 1996 and was converted to a synchronous condenser in February 1999. The table entitled "Generation and Capacity Statistics" in the Statistical Section provides more detailed information.

### Debt Administration

The principal amount of Long Term Debt, net of the current portion, of revenue bonds outstanding at September 30, 1998, was \$61,502,481 compared to \$67,365,147 at September 30, 1997. All outstanding debt had fixed interest rates. Total debt was comprised of four refunding bond issues: 1987, 1991 and 1995 and one new money issue, 1993. All five issues are rated AAA by Standard & Poor's Ratings Group and insured by AMBAC Indemnity Corporation.

On May 18, 1998, the Utility Board issued a Contract of Forward Bond Purchase for \$63,405,000 Electric System Refunding Revenue Bonds, Series 2000 for the purpose of refunding the Series 1987 bonds maturing after October 1, 2000. The Series 2000 bonds will be delivered on July 6, 2000 or on such date as will have been mutually agreed upon by the parties involved. Please refer to Note 5 in the Notes to the Financial Statements for further information.

### Cash Management

Restricted cash and investments, as detailed in Notes 2 of the Notes to the Financial Statements, are invested in accordance with the System's practices, which are governed by State Statutes. System monies must be deposited in banks designated as qualified public depositories by the State of Florida, Department of Insurance and Treasurer.

Permissible investments include obligations of the U.S. Treasury and U. S. agencies, certificates of deposit and repurchase agreements. The System's investment policy is to obtain competitive yields while providing the absolute maximum security against loss of principal. The cash management performance for the year ended September 30, 1998 produced earnings in the amount of \$1,219,430. This amount was \$131,494 more than the previous year's earnings as a result of slightly higher interest rates.

### Risk Management

The System's assets are protected through the Risk Management Program developed and managed by the Risk Management Section. The table entitled "Schedule of Property, Casualty and Other Insurance" in the Statistical Section provides more detailed information on specific coverages.

Under this program, coverage is provided for worker's compensation, comprehensive general liability, excess liability, automobile comprehensive and physical damage, crime and fiduciary, public officials errors and omissions, property, boiler and machinery, windstorm, flood and pollution liability.

The Risk Management Section, through their coordinated and continuous efforts in monitoring potential risk exposures and implementing safety control programs, such as Safety Training Observation

## Letter of Transmittal

Program ("STOP"), coupled with effective claims administration, is striving to meet the goal of continuous no-lost time accidents and minimizing injury claims.

### Independent Audit

Resolution No. 532 of the Utility Board, Article V, Section 5.01 (F), adopted November 13, 1985, as amended and supplemented requires an annual audit by independent certified public accountants. The Utility Board selected the accounting firm of Kemp & Green, P.A. The auditor's report on the financial statements is included in the Financial Section of this report.

### Certificate of Achievement

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to the Utility Board of the City of Key West for its comprehensive annual financial report for the fiscal year ended September 30, 1997. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

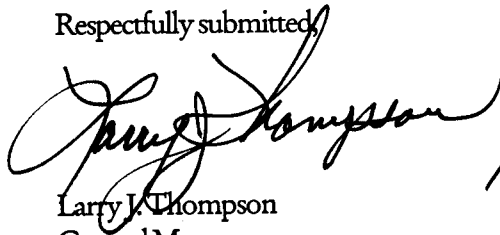
A Certificate of Achievement is valid for a period of one year only. The Utility Board of the City of Key West, Florida has received a Certificate of Achievement for the last six consecutive years (fiscal years ended 1992-1997). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

### Acknowledgments

We extend our personal thanks to the dedicated employees who spent many hours preparing, revising and finalizing this document.

In closing, we would like to thank the members of the Utility Board of the City of Key West for their interest and support in planning and conducting the operations of the System in a responsible and progressive manner.

Respectfully submitted,



Larry J. Thompson  
General Manager



Stanley T. Rząd  
Finance Manager

Certificate of Achievement

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

Utility Board of the City of  
Key West, Florida

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 1997

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.



*Douglas R. Ellaworth*  
President

*Jeffrey L. Essler*  
Executive Director

## Our Service Area

### **Our Service Area**

The City of Key West was first incorporated in 1828 and is the County Seat of Monroe County, Florida. It is located near the southern extreme of the Florida Keys, a string of coral islands extending in a southwesterly arc from Biscayne Bay to the Dry Tortugas, and lies further south than any other point in the continental United States.



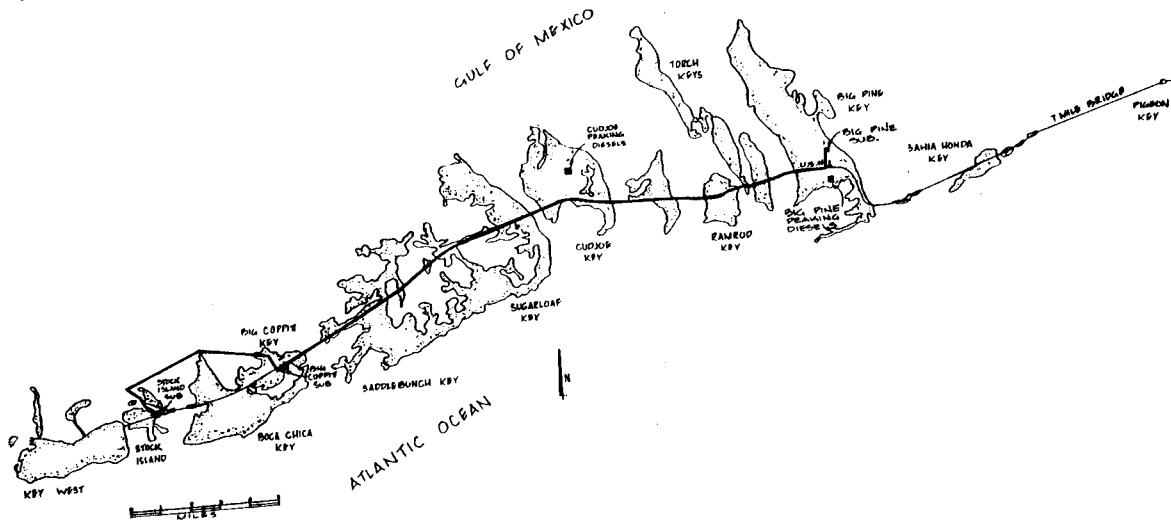
The City lies 98 miles north of Cuba and is approximately 160 miles southwest of Miami.

It is the largest seat of population in the Florida Keys and serves as a center for most of the cultural and economic activities in Monroe County.

The local economy experienced booming growth in the late 1980's, based on tourism, with the other significant industry being military operations. However, with the implementation of State mandated growth management regulation in the Keys and the possibility of reduced military presence, the local economy shows signs of slowing.

The Utility Board of the City of Key West operates, maintains and manages an electric generation, transmission and distribution system which is owned by the City. The System's service area covers approximately 74 square miles in the lower Florida Keys including the City and several other island keys within a distance approximately 44 miles east of the City.

### City Electric System Service Area

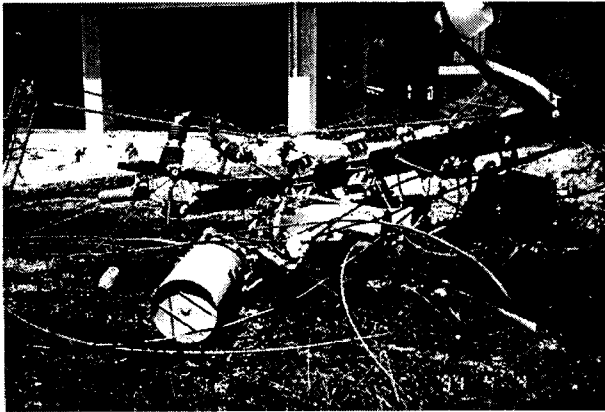


Major Events and Initiatives

## Major Events and Initiatives

### Hurricane Georges wreaks havoc

September 25th is a day few people in the Keys will soon forget. Hurricane Georges, a category 2 hurricane, plowed through the Lower Florida damaging and destroying homes, uprooting trees and plunging the area into darkness. City Electric System was faced with the daunting task of restoring power to literally every customer from Key West to Sunshine Key.



The 138-kilovolt transmission line that carries power into the Keys from the mainland sustained extensive damage. The tieline literally lay on the ground and in the water for miles; 69 insulators were broken requiring replacement; the power line was off insulators in 105 separate locations; and more than 2,000 shear pins were ripped out. The distribution system, which carries power into neighborhoods and to residences and businesses, was in shambles. Twenty-

one miles of new primary line; 10 miles of new secondary lines; and 22 miles of new service drops were strung. At least the same amount of primary and secondary lines and services drops were picked up off the ground and rehung. City Electric System replaced more than 1,200 insulators. An untold amount of trees were trimmed away from power lines.

The restoration effort was largely complete in just two weeks thanks to the efforts of City Electric System employees and nearly 300 utility workers from other utilities who came to our assistance. Repairs and administrative work associated with the Hurricane will extend well into Fiscal Year 1999.

#### *Poles down by Key*

Key West	30
Stock Island	32
Bay Point	15
Sugarloaf Key	35
Cudjoe Key	45
Summerland Key	20
Big Torch to Little Torch	23
Big Pine Key	75
<b>Total</b>	<b>275</b>

## Major Events and Initiatives

### Utility reduces costs for customers

As deregulation approaches, customers will have the ability to choose their electricity provider. City Electric System has been preparing to be "The Utility of Choice" in the Keys for several years. The utility has focused on safety, reliability, customer service and cost. In deciding who to buy electricity from, many customers will look at the bottom-line cost. City Electric System is implementing cost-cutting measures and exploring income-producing opportunities.

During Fiscal Year 1997, City Electric System joined the Florida Municipal Power Agency's All-Requirements Project - a strategic alliance with nine other Florida municipal electric utilities - in order to reduce energy costs for our customers. As a member of All-Requirements, City Electric System's generation and power requirements are pooled with the other utilities to achieve significant savings. The All-Requirements Project became active this year on April 1, and customers began to see the savings from the project through reduced purchased power adjustments in late 1998. Customers' purchased power adjustment dropped from \$28 per 1,000 kWh in November to \$22 in December. The savings will continue through Fiscal Year 1999. Projections indicate that CES will realize a savings of more than \$15 million dollars in purchase power costs, which will be passed along to customers in the purchased power adjustment costs between now and 2004.

Through the All-Requirements Project, FMPA agreed to maintain the Utility Board's policy of providing at least 60 percent on-island backup generation. FMPA purchased and installed two 17-megawatt combustion turbines in the summer of 1998 at Stock Island to fulfill its agreement of maintaining on-island backup generation. The two combustion turbines were critical to City Electric System providing electricity to its customers during the Hurricane Georges restoration period.



## *Major Events and Initiatives*

In May, the Utility Board approved a uniquely structured bond deal, which will save City Electric System more than \$6 million in debt service beginning in October 2000. The Utility Board approved the forward refunding of the Electric System Refunding Revenue Bonds, Series 1987. The forward refunding is essentially a refinancing of \$63,405,000 of the Refunding Revenue Bonds, Series 1987 at current, low interest rates. The refinancing will amount to a 9.49 percent savings. The refunding revenue bonds will enable City Electric System to achieve annual debt service savings of \$750,000 each year from October 2000 through September 2013.

### *Old Steam Plant offers new revenue*

As a possible new stream of revenue, City Electric System signed a Memorandum of Understanding with Washington Square Partners for redeveloping the decommissioned Key West Steam Plant. The developers plan to invest more than \$14 million in the Steam Plant to develop a six-plex cinema, retail space and housing. In addition to providing the utility with a new stream of revenue, the Memorandum of Understanding asks Washington Square Partners to design and permit the remodeling of the first floor of the Service Building. Remodeling the first floor will enable City Electric System to provide a more efficient Customer Service facility. The lease for the Key West Steam Plant is expected to be executed by City Electric System and Washington Square Partners in early 2000.

### *New computer prepares for tomorrow*

City Electric System tackled a major computer conversion during 1998. Recognizing that the System's old mainframe was outdated and being not compliant for Year 2000, City Electric System decided to replace the mainframe with a new server-based computer system. Harris Computer Systems of Canada installed the new server and the software associated with customer information and accounting. The customer information portion of the system was activated in July, and the accounting portion was activated just after the close of Fiscal Year 1998. City Electric System staff has experienced the expected growing pains of a computer conversion.



## Major Events and Initiatives

### Meeting Our Customers' Needs

As a result of the new computer system, City Electric System established statement billing. Statement billing has enabled City Electric System to provide the customer with more detailed information about their electric account. Additionally through statement billing, the utility provides each customer with a return envelope and an informational brochure. Customers are thrilled to receive the return envelope and the number of mail payments has increased.

City Electric System held its Annual Energy Conservation Poster Contest among elementary school students. The Utility Board recognized the winners of the art contest, and two posters from each grade level illustrated the 1999 calendar that City Electric System offered to its customers.

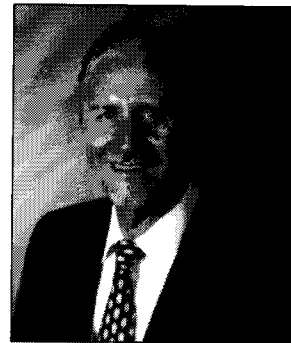
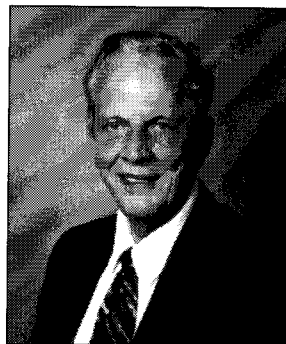
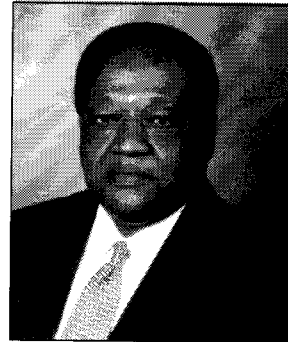
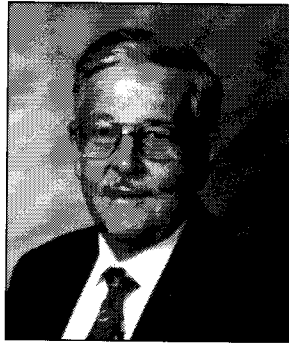


Finally, the Utility Board approved establishing an Advisory Committee in order to improve the utility's two-way communications. Advisory Committee members were selected late in Fiscal Year 1998 and the first meetings were held at the close of Calendar Year 1998.

City Electric System and its employees continue to be active in the community with membership in two Rotaries; the Military Affairs Committee; the Chamber of Commerce, Leadership Monroe; Governmental Affairs Committee; the Woman's Club; Beta Sigma Phi; the American Cancer Society; the America Red Cross; the Heart Council; and Monroe County Schools. City Electric System employees continued to rank as one of the top fund raising groups in the American Cancer Society's Key West "Relay for Life" annual event.

## Officials and Employees

### Utility Board of the City of Key West, Florida



**Chairman Robert R. Padron** has served on the Utility Board since 1995. He was employed by City Electric System from 1961 to 1994, and retired as the General Manager. Mr. Padron holds a Bachelor of Science Degree from Tulane University and a Master's of Science from NOVA University. He serves on various committees of the Florida Municipal Electric Association (FMEA) and the American Public Power Association (APPA).

**Vice-Chairman Dr. Otha Cox** has served on the Utility Board since 1979. He is retired from the Monroe County School Board where he served in various capacities, finishing as Assistant Superintendent of Schools. Dr. Cox earned his Ph.D. from Michigan State University. He serves on various committees of the APPA and is a member of the FMEA. He was the 1995 recipient of the APPA's Spence Vanderlinden Public Official Award.

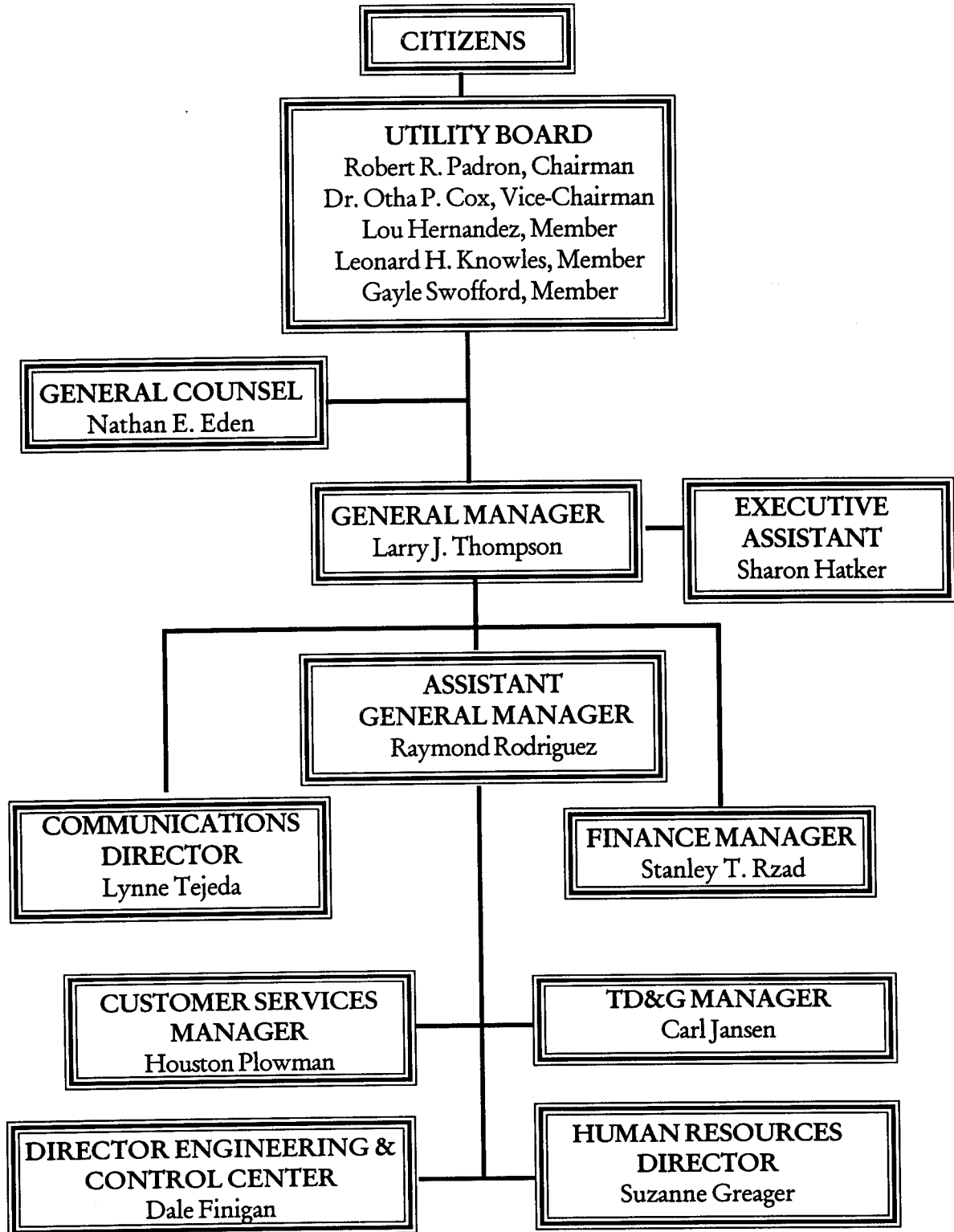
**Lou Hernandez** has served on the Utility Board since 1997. He is the Executive Director of HELPLINE, Inc., a crisis intervention and information referral telephone hot line in Monroe County. He graduated from Texas A&M University.

**Leonard H. Knowles** has served on the Utility Board since 1991. He retired in 1998 from Monroe County where he was Chief Deputy in the Property Appraiser's office. He was employed by City Electric System from 1959 to 1987 retiring as Superintendent of Meter and Commercial Department. He serves on various committees of the FMEA.

**Gayle Swofford** has served on the Utility Board since 1997. He had previously served as Chairman of the Utility Board from 1975 until 1979. Mr. Swofford built the first FM radio station in the Florida Keys in 1965. He owned and operated WKIZ AM and WEOV FM until May 1990.

Officials and Employees

Organizational Chart Fiscal Year ending 1997-98



## Officials and Employees

### City Electric System Employees as of September 30, 1998

Sylvia Adams	Rolando Diaz	Tom Mariucci	Billy Russel
John Albury	Patty Dixon	James McClendon	Stan Rzad
Matthew Alfonso	Michael Domenech	Phillip Medina	Steve Rodriguez
Barbara Archer	Eugene Edwards	Neil Mellies	Manuel Sanchez
Heather Arencibia *	Paulette Esquinardo	Ony Mendez	Chris Sauls
Pedro Arencibia	Clarence Ferguson	James Menite	Michael Siegrist
Derek Atwell	Dale Finigan	Armando Mira III	Vin Smith
Jose Avalos	Chuck Finlayson	Horace Mobley	Randy Smithwick
Raymond Baker	Nancy Flores	Patrick Mobley	Bob Srednicki
Robert Barrios	Alvin Frazier	Lee Moon	Sandy Stephenson
Terry Beeman	Kim Free	Stephen Nacrelli	Dennis Stone
Faye Bethel	Russell Free	James Newton	Joe Stone
Harry Bethel, Jr.	Daniel Garcia	Angel Noda	Frank Story
Tony Bethel	Eddie Garcia	Terry O'Dell	Rick Story
Karla Bravo	Juan Carlos Garcia	Chomi Oropeza	Holli Summerville
Kris Bremer	Mark Garcia	Allen Palka	Alex Tejada
Lynda Bringle	Ralph A. Garcia	Carliss Parks	Lynne Tejada
Robert Burchett	Roger George	Don Paxson	Larry Thompson
Elaine Carey	Dave Gerstenkorn	Steve Pereira	Lupe Torres
Mike Carey	Thomas Grassi	Desi Perez*	Hugo Valdes
Vince Casas	Suzanne Greager	Susan Pinder	Brian Veliz
Walter Cashwell	Brodie Grooms	Jack Pins	Chuck Vinson
Dan Cassel	Susan Ham	Albert Pita	David Wagoner
Manuel Castillo	Sharon Hatker	Gerry Pita	Tony Waldner
Pat Cates	Kevin Hawthorne	Susy Pita	Peggy Walls
Juan Cavanzon	Vicki Hawthorne	Houston Plowman	Charles Walterson
Gloria Cisneros	Frank Hernandez	Susie Plowman	Kate Ward
Carl Clarke	Timothy Hertzog	Eva Pope	Stefan Washington
Michael Commander	Perry Hill	David Price**	Chuck Weitzel
Jason Cohen	Carl Jansen	Martha Ramas	Jack Wetzler
David Cottar	Alberic Jemison	Beverly Ray	Bobby Wickes
Catherine Courtney	Jose Jimenez	Jim Raymond	Eddie Williams
Kevin Crockett	Suki Karash*	Roger Rewolinski	Lazaro Zerpa
Eric Cubria	Johnny Kerr	Anne Rivera	
Fred Culppeper	Sidney Kerr	Milton Roberts	
Gay Curry	Steven Key	Randy Roberts	
John Curry	Harold Knowles	David Rodriguez	
Larry Davila	Patricia Knowles	Manuel Rodriguez	
Wayne Davila	James Kobezak	Raymond Rodriguez	
Jose Del Rio	Brenda LaLama	Steve Rodriguez	
Julie Diaz	Julio Lot	Bobby Ruble	

\* *Employees of the Quarter in 1998*

\*\* *Employee of the Year 1998*

KEMP & GREEN, P.A.

*Certified Public Accountants*

1438 KENNEDY DRIVE

P. O. BOX 1529

KEY WEST, FLORIDA 33041-1529

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MEMBER OF AMERICAN INSTITUTE  
AND FLORIDA INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

WM. O. KEMP, C.P.A.  
MARVA E. GREEN, C.P.A.

INDEPENDENT AUDITORS' REPORT

FINANCIAL

Utility Board of the City  
of Key West, Florida  
"City Electric System"  
Key West, Florida

We have audited the accompanying financial statements of the Utility Board of the City of Key West, Florida ("the System") as of and for the years ended September 30, 1998 and 1997 as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility Board of the City of Key West, Florida, as of September 30, 1998 and 1997, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to

the basic financial statements taken as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 1999 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the System taken as a whole. The accompanying schedule of expenditures of federal and state awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Kemp + Green, P.A.

Kemp & Green, P.A.  
Certified Public Accountants

January 19, 1999

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

BALANCE SHEETS

SEPTEMBER 30, 1998 AND 1997

ASSETS

	<u>1998</u>	<u>1997</u>
Property, Plant and Equipment:		
Utility Plant	\$ 161,591,888	\$ 159,925,254
Non-Utility Plant	<u>19,284,211</u>	<u>19,284,211</u>
Total Property, Plant and Equipment	180,876,099	179,209,465
Less Accumulated Depreciation	<u>77,666,024</u>	<u>73,015,550</u>
	103,210,075	106,193,915
Construction in Progress	<u>8,645,799</u>	<u>4,752,830</u>
Net Property, Plant and Equipment	<u>111,855,874</u>	<u>110,946,745</u>
Restricted Assets:		
Cash and Cash Equivalents	27,467,384	25,562,082
Investments	1,567,918	1,566,475
Interest Receivable	<u>358,881</u>	<u>277,051</u>
Total Restricted Assets	<u>29,394,183</u>	<u>27,405,608</u>
Current Assets:		
Cash and Cash Equivalents	499,288	461,415
Customer Accounts Receivable, net of Allowance for Bad Debts of \$230,401 and \$ 163,704 for 1998 and 1997 respectively	5,165,401	4,862,589
Other Accounts Receivable	266,241	250,487
Due From Other Governments	1,097,817	-
Plant Material and Operating Supplies Inventory	1,846,655	1,864,359
Fuel Stock	-	477,404
Prepaid Expenses	<u>565,305</u>	<u>551,016</u>
Total Current Assets	<u>9,440,707</u>	<u>8,467,270</u>
Bond Discount and Issue Costs, Net	<u>2,489,749</u>	<u>2,619,118</u>
Total Assets	<u>\$ 153,180,513</u>	<u>\$ 149,438,741</u>

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

BALANCE SHEETS (Continued)

SEPTEMBER 30, 1998 AND 1997

EQUITY AND LIABILITIES

	<u>1998</u>	<u>1997</u>
Equity:		
Retained Earnings:		
Reserved for Debt Service	\$ 1,745,834	\$ 1,724,280
Unreserved	<u>29,006,916</u>	<u>22,758,623</u>
Total Retained Earnings	<u>30,752,750</u>	<u>24,482,903</u>
Contributed Capital	<u>2,066,049</u>	<u>2,007,287</u>
Total Equity	<u>32,818,799</u>	<u>26,490,190</u>
Long-term Debt, Net of Current Portion:		
Revenue Bonds	61,502,481	67,365,147
Accrued Interest	<u>40,238,624</u>	<u>36,706,380</u>
Total Long-term Debt	<u>101,741,105</u>	<u>104,071,527</u>
Amounts Payable from Restricted Assets:		
Current Portion of Long-Term Debt	7,747,728	7,532,728
Accounts Payable	148,466	381,094
Accrued Interest	948,718	1,052,507
Due to Customers	<u>4,312,816</u>	<u>4,217,713</u>
Total Amounts Payable from Restricted Assets	<u>13,157,728</u>	<u>13,184,042</u>
Current Liabilities:		
Accounts Payable	3,821,680	4,335,392
Accrued Expenses	<u>1,310,498</u>	<u>1,127,300</u>
Total Current Liabilities	<u>5,132,178</u>	<u>5,462,692</u>
Deferred Revenue	<u>330,703</u>	<u>230,290</u>
Total Liabilities	<u>120,361,714</u>	<u>122,948,551</u>
Total Equity and Liabilities	<u>\$ 153,180,513</u>	<u>\$ 149,438,741</u>

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



UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
Operating Revenues	\$ 63,547,464	\$ 60,837,474
Operating Expenses:		
Production Expenses - Steam	166,385	1,388,706
Production Expenses - Diesel	1,036,565	1,727,963
Purchased Power	31,891,585	28,430,580
Transmission Expenses	760,025	664,908
Distribution Expenses	3,252,971	2,672,478
Customer Accounts and Collection Expenses	1,015,357	990,636
Administrative and General Expenses	5,928,275	5,777,256
Depreciation	5,402,133	5,237,831
Taxes Other than Income Taxes	1,567,968	1,519,541
Total Operating Expenses	<u>51,021,264</u>	<u>48,409,899</u>
Income From Operations	<u>12,526,200</u>	<u>12,427,575</u>
Non-operating Revenue and Expenses:		
Interest Income	1,219,430	1,087,936
Grant Revenue	1,220,691	14,840
Miscellaneous Non-operating Revenue	585,083	321,405
Payment to City of Key West	(230,708)	(217,454)
	<u>2,794,496</u>	<u>1,206,727</u>
Income Before Debt Expenses	<u>15,320,696</u>	<u>13,634,302</u>
Debt Expenses:		
Interest	7,729,483	7,831,873
Amortization of Bond Discount and Issue Costs	190,550	312,340
Total Debt Expenses	<u>7,920,033</u>	<u>8,144,213</u>
Income Before Extraordinary Item	7,400,663	5,490,089
Extraordinary Item - Hurricane Georges	<u>(1,232,965)</u>	<u>-</u>
Net Income	6,167,698	5,490,089
Amounts Arising from Contributions in Aid of Construction Applicable to Depreciation on Contributed Assets	102,149	95,755
Retained Earnings, Beginning of Year	<u>24,482,903</u>	<u>18,897,059</u>
Retained Earnings, End of Year	<u>\$ 30,752,750</u>	<u>\$ 24,482,903</u>

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997

Increase (Decrease) in Cash and Cash Equivalents

	<u>1998</u>	<u>1997</u>
Cash Flows Provided (Used by) Operating Activities:		
Cash Received From Customers	\$ 61,577,178	\$ 58,365,532
Cash Payments to Suppliers for Goods and Services	(38,111,718)	(33,585,695)
Cash Payments to Employees for Services	(6,696,064)	(6,633,699)
Cash Received for Deposits	964,248	845,679
Cash Deposits Refunded	(869,145)	(668,527)
Cash Received for Taxes	1,515,708	1,519,541
Cash Paid for Taxes	(1,575,858)	(1,525,453)
Cash Received from Other Operating Sources	<u>669,742</u>	<u>498,405</u>
Net Cash Provided by Operating Activities	<u>17,474,091</u>	<u>18,815,783</u>
Cash Flows Provided (Used by) Noncapital Financing Activities:		
Cash Received from Grants	122,874	14,840
Cash Paid to City of Key West, Florida	<u>(230,708)</u>	<u>(217,454)</u>
Net Cash (Used by) Non-Capital Financing Activities:	<u>(107,834)</u>	<u>(202,614)</u>
Cash Flows Provided (Used by) Capital and Related Financing Activities:		
Principal Paid on Revenue Bond Maturities	(7,735,000)	(6,985,000)
Interest Paid on Revenue Bond Maturities	(2,213,694)	(2,371,093)
Contributions in Aid of Construction	160,911	211,386
Acquisition and Construction of Capital Assets	(6,555,790)	(8,155,063)
Proceeds from Sale of Equipment	11,900	6,609
Cost of Bond Issuance	<u>(221,038)</u>	<u>-</u>
Net Cash (Used by) Capital and Related Financing Activities	<u>(16,552,711)</u>	<u>(17,293,161)</u>
Cash Flows Provided by Investing Activities:		
Maturities of Investments	-	456,000
Interest Received on Investments	<u>1,129,629</u>	<u>998,591</u>
Net Cash Provided by Investing Activities	<u>1,129,629</u>	<u>1,454,591</u>
Net Increase in Cash and Cash Equivalents	1,943,175	2,774,599
Cash and Cash Equivalents at Beginning of Year	<u>26,023,497</u>	<u>23,248,898</u>
Cash and Cash Equivalents at End of Year	<u>\$ 27,966,672</u>	<u>\$ 26,023,497</u>

(Continued)

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

STATEMENTS OF CASH FLOWS (Continued)

FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997

Reconciliation of Operating Income to Net Cash Provided by  
Operating Activities

	<u>1998</u>	<u>1997</u>
Operating Income	\$ 12,526,200	\$ 12,427,575
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	5,402,133	5,237,831
Provision for Uncollectible Accounts	145,760	144,342
Amortization of Deferred Revenue	(124,893)	(40,658)
Receipt of Deferred Revenue	225,306	161,553
Other Operating Sources	569,329	321,405
Hurricane Expenditures	(646,781)	-
Change in Assets and Liabilities:		
(Increase) in Accounts Receivable	(448,572)	(705,467)
Decrease in Plant Material, Inventory and Fuel Stock	495,108	639,521
Decrease in Prepaid Expenses	152,096	181,337
Increase (Decrease) in Accounts Payable	(1,099,896)	282,849
Increase (Decrease) in Accrued Expenses	183,198	(11,657)
Increase in Amounts Due to Customers	95,103	177,152
Total Adjustments	<u>4,947,891</u>	<u>6,388,208</u>
Net Cash Provided by Operating Activities	<u>\$ 17,474,091</u>	<u>\$ 18,815,783</u>

Supplemental Schedule of Non-cash Financing, Capital, and Investing Activities:

In 1998 and 1997, amortization of bond discount and issue costs was \$190,550 and \$312,340, respectively.

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and the presentation of the financial report of the Utility Board of the City of Key West, Florida "City Electric System" (the System) have been designed to conform to generally accepted accounting principles as applicable to governmental units, in accordance with the Governmental Accounting Standards Board (GASB). GASB embodies the official pronouncements previously issued by the National Council on Governmental Accounting (NCGA). The System applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The following is a summary of the significant accounting policies.

Entity Definition - The present System was created by an Act of the Florida Legislature to manage, operate and maintain the electric utility servicing the citizens of the City of Key West, Florida (the City) and the lower Florida Keys. The System is the successor of the electric public utility once owned by the City and was given all powers and rights necessary to manage, operate, maintain, control, and extend the electric utility property owned by the City of Key West at the time of its creation. The Board is composed of a Chairman who is elected every two years and four members who are elected every four years by the voters of the City. The Manager of the System serves as Secretary to the Board and is also responsible for the day to day operations of the System. The System is not a component unit of the City.

Measurement Focus - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The System's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the enterprise fund are included on the balance sheet. Fund equity (i.e. net total assets) is segregated into contributed capital and retained earnings components. Operating statements present increases (e.g. revenue) and decreases (e.g. expenses) in net total assets.

Basis of Accounting - The System's financial statements are accounted for on the basis of accounting required by the Federal Energy Regulatory Commission (FERC), which is an application of generally accepted accounting principles that is peculiar to utilities. Revenues are recognized in the period earned and expenses recognized in the period incurred.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budget - Revenue and expense budgets are prepared on an annual basis in accordance with the System's bond indentures and submitted to the Utility Board for approval prior to October 1 of the fiscal year. Legal adoption of budgets is not required. Actual revenues and expenses are compared to the budget on a line item basis (which is the legal level of control) within cost centers and an analysis of variances report is prepared and submitted to the Utility Board each month as required by bond indentures. During the year, staff can make amendments within the operating budget or the capital budget that do not change the total budget for those categories. All other budget changes are approved by the Utility Board. Supplemental appropriations were necessary and the budgetary data presented herein was amended by the Utility Board in accordance with Utility Board policies. Budget appropriations lapse at each fiscal year-end except for the Capital Budget. The budget is adopted on a basis consistent with the System's basis of accounting except for depreciation and amortization, and debt service on revenue bonds.

Cash and Investments - Cash and investments in U.S. Government Securities are recorded at cost or amortized cost. Amortized cost does not significantly vary from market value. Any other investments are stated at fair value in accordance with GASB 31. The System's investment policies are governed by Florida Statutes. These policies are described in more detail in Note 3.

Revenue - Revenue is recognized on the basis of monthly route billings to customers. Revenue is not accrued for services supplied but unbilled at the end of the fiscal period. Charges for new service are reported as revenue only to the extent of connection costs, while amounts exceeding this cost are recorded as additions to contributed capital.

Bond Discount and Issue Costs - Bond discount and issue costs consist of debt issue costs, original issue discounts, and underwriter discounts which are capitalized and amortized over the term of the related indebtedness.

Property, Plant and Equipment - Property, Plant and Equipment is stated at cost, which includes costs of contract work, labor, materials and allocated indirect charges, and capitalized interest. Major renewals and betterments are capitalized while minor replacements and repairs are expensed as incurred. Under FERC accounting practices and procedures, the cost of electric plant retired, together with removal costs less salvage, is charged to accumulated depreciation at such time as property is removed from service.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following is a summary of Property, Plant and Equipment for the year ended September 30, 1998:

	<u>Balance</u> 1997	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> 1998
Steam Plant	\$ 28,104,335	\$ 49,590	\$ -	\$ 28,153,925
Combustion Engine				
Production Plant	35,133,470	18,406	-	35,151,876
Transmission Plant	51,127,888	883,042	-	52,010,930
Distribution Plant	35,384,191	958,062	207,491	36,134,762
General Plant	9,955,106	521,093	556,068	9,920,131
Other	220,264	-	-	220,264
Accumulated Depreciation				
Utility Plant	(56,741,112)	(5,414,033)	(763,559)	(61,391,586)
Non-Utility Plant	19,284,211	-	-	19,284,211
Accumulated Depreciation				
Non-Utility Plant	(16,274,438)	-	-	(16,274,438)
Construction in Progress	<u>4,752,830</u>	<u>6,326,162</u>	<u>2,430,193</u>	<u>8,645,799</u>
Net Property, Plant and Equipment	<u>\$110,946,745</u>	<u>\$ 3,339,322</u>	<u>\$ 2,430,193</u>	<u>\$111,855,874</u>

The System's policy concerning capitalized interest costs is in accordance with Statement of Financial Accounting Standards No. 62, which requires the capitalization of interest costs of restricted tax exempt borrowings less any interest earned on investment funds during the construction period. For the years ended 1998 and 1997, there was no capitalized interest cost.

Property, Plant and Equipment is depreciated using the straight line method at rates which will amortize costs over the estimated useful lives of the assets. The estimated useful lives of the electric plant assets are as follows:

Steam Plant	28 - 30 Years
Combustion Engine Production Plant	25 Years
Transmission Plant	31 - 45 Years
Distribution Plant	20 - 45 Years
General Plant	8 - 40 Years
Non-Utility Plant	Not in Service

The conversion of the Ralph Garcia Steam Plant from a production facility to a transmission facility was completed in February, 1999 pursuant to a plan adopted by the System's Board August, 1996. In connection with this plan, the Utility Board declared equipment, with a net book value of approximately

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

\$7,800,000, and \$347,000 of supplies in inventory as surplus. The salvage value of the equipment and supplies is not presently known. Additional costs of the conversion were approximately \$575,000.

Income Taxes - No provision for income taxes is reflected in the financial statements as the system is considered to be a unit of local government.

Inventory - Inventories are stated at the lower of cost (determined on a average cost basis) or market.

Interest - Interest for the years ended September 30, 1998 and 1997 is summarized as follows:

	<u>1998</u>	<u>1997</u>
Bond Issue:		
Electric Refunding Revenue Bonds, Series 1985	\$ -	\$ 50,250
Electric Refunding Revenue Bonds, Series 1987	4,522,788	4,436,985
Electric Refunding Revenue Bonds, Series 1991	1,773,207	1,741,145
Electric Revenue Bonds, Series 1993	241,044	253,820
Electric Refunding Revenue Bonds, Taxable Series 1995	777,700	944,480
Series 1995 Loss on Refunding	202,272	202,272
Interest on Customer Deposits	212,472	196,396
Other	-	6,525
	<u>\$ 7,729,483</u>	<u>\$ 7,831,873</u>
Total Interest Expense		

Compensated Absences - The System records compensation for unused vacation and sick leave as an expense in the year in which the vacation and sick leave is earned in accordance with GASB Statement No. 16. At September 30, 1998, annual vacation leave earned but not taken is \$298,914 and sick leave accumulated but not taken is \$418,682.

Reserves - Reserves representing the excess of amounts provided for certain restricted asset accounts over the liabilities payable therefrom are established by a reservation of retained earnings. The restricted assets and liabilities are used to indicate a segregation of a portion of retained earnings equal to the net current assets that are restricted for meeting

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

various covenants as may be specified and defined in the various revenue bond indentures. Usage of reserves has been limited to Reserve for Debt Service, which is restricted for future servicing of revenue bonds and meeting of various contingencies as may be so specified and defined in the indenture (frequently referred to as renewal and replacement).

Comparative Data - Where comparative data have been presented, amounts from the prior year been reclassified, as necessary, to reflect classifications used in the current year.

NOTE 2 - RESTRICTED CASH AND INVESTMENTS

Certain assets are restricted by bond resolutions; additionally, some assets have been classified as restricted in accordance with government accounting standards for enterprise funds and utility industry accounting practices.

The System's restricted cash and investments as of September 30, 1998 and 1997 consist of the following:

	<u>1998</u>		<u>1997</u>	
	<u>Cash and Investments (Including Interest Receivable )</u>	<u>Interest Earned</u>	<u>Cash and Investments (Including Interest Receivable)</u>	<u>Interest Earned</u>
Debt Service Reserve Fund	\$ -	\$ -	\$ -	\$ 197,773
Emergency Reserve Fund	1,004,951	58,393	1,006,394	53,009
Sinking Fund	9,061,575	211,573	8,930,255	163,276
Contributions in Aid of Construction Fund	1,072,140	43,058	911,803	16,797
Renewal and Replacement Fund	7,505,519	357,918	6,703,084	167,665
Bond Amortization Fund	1,582,977	121,918	1,581,534	111,878
Rate Stabilization Fund	4,794,074	164,943	4,014,506	154,226
Customer Deposits Fund	<u>4,372,947</u>	<u>222,500</u>	<u>4,258,032</u>	<u>196,623</u>
	<u>\$ 29,394,183</u>	<u>\$ 1,180,303</u>	<u>\$27,405,608</u>	<u>\$ 1,061,247</u>



UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 2 - RESTRICTED CASH AND INVESTMENTS (Continued)

The System is required by revenue bond covenants to maintain a debt service reserve account in the amount of its highest annual debt service, which requirement is satisfied by a debt surety bond.

NOTE 3 - CASH AND INVESTMENTS

The System's investment policies are governed by State Statutes. In addition, the System has its own investment practices. System monies must be deposited in banks designated as qualified public depositories by the State of Florida, Department of Insurance and Treasurer. Permissible investments include the obligations of the U.S. Treasury and U.S. agencies, certificates of deposit and repurchase agreements.

Collateral is provided for demand deposits and certificates of deposit through the Florida Security for Public Deposits Act. This Act established guidelines for qualification and participation by banks and savings associations, procedures for the administration of the collateral requirements and characteristics of eligible collateral. Under the Act, the qualified public depository must pledge at least 50% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance.

Additional collateral, up to a maximum of 125%, may be required, if deemed necessary under the conditions set forth in the Act. Eligible collateral consists of obligations of the United States and its agencies and obligations of states and their political subdivisions, and unaffiliated corporations.

Obligations pledged to secure deposits must be delivered to the State Treasurer or, with the approval of the State Treasurer, to a bank, savings association, or trust company provided a power of attorney is delivered to the Treasurer. On a monthly basis, the State Treasurer determines that the collateral has a market value adequate to cover the deposits under the provisions of the Act.

For purposes of the statement of cash flows, the System considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments - The U.S. Treasury obligations are held by the System's agent in the System's name. Investments are as follows:

	<u>1998</u>		<u>1997</u>	
	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Carrying Amount</u>	<u>Market Value</u>
U.S. Government Securities	<u>\$ 1,567,918</u>	<u>\$ 1,567,918</u>	<u>\$ 1,566,475</u>	<u>\$ 1,566,475</u>

Deposits at September 30, 1998 and 1997 are as follows:

	<u>1998</u>	<u>1997</u>
Demand Deposits and Cash	\$ 1,724,086	\$ 1,058,540
Certificates of Deposit	23,745,407	22,329,288
Money Market Deposits	<u>2,497,179</u>	<u>2,635,669</u>
	<u>\$ 27,966,672</u>	<u>\$ 26,023,497</u>

All demand deposits and certificates of deposit are fully collateralized through the Florida Securities for Public Deposits Act, and are considered insured for risk categorization purposes.

NOTE 4 - NON-UTILITY PLANT

The Key West Steam Plant, which has a cost of \$19,284,211 and accumulated depreciation at \$16,274,438 at September 30, 1998, has been idle since 1991. The plant has been decommissioned at a cost of \$2,055,702.

The Board executed a Memorandum of Understanding in August 1998 with a private company for the long-term lease of the Key West Steam Plant building. The Memorandum of Understanding provides, among other things, for a fifty year lease term at a base rent of \$150,000 to \$200,000 with provisions for increases to base rents and System participation in project cash flows. The System expects to finalize the lease negotiations by September 1999.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 5 - LONG TERM DEBT

	<u>1998</u>	<u>1997</u>
Revenue Bonds:		
Electric System Refunding Revenue Bonds, Series 1985 collateralized by Net Revenues and certain Reserve Funds, payable October 1, 1997 in a final installment bearing interest at 8.375%	\$ -	\$ 600,000
Electric System Refunding Revenue Bonds, Series 1987, collateralized by Net Revenues and certain Reserve Funds, payable from October 1, 1998 to October 1, 2013 in installments of various amounts, bearing interest at rates from 6.6% to 7.5%	29,089,620	30,934,336
Electric System Refunding Revenue Bonds, Series 1991, collateralized by Net Revenues and certain Reserve Funds, payable October 1, 1998 to October 1, 2018 in installments of various amounts, bearing interest at rates from 6.0% to 7.1%	21,347,785	21,822,785
Electric System Revenue Bonds, Series 1993, collateralized by Net Revenues and certain Reserve Funds, payable from October 1, 1998 to October 1, 2008 in installments of various amounts, bearing interest at rates from 3.85% to 5.3%	5,175,000	5,525,000
Electric System Refunding Revenue Bonds, Taxable Series 1995, collateralized by Net Revenues and certain Reserve Funds, payable from October 1, 1998 to October 1, 2000 in installments of various amounts, bearing interest at rate from 6.3% to 6.5%	12,130,000	14,820,000
Deferred Loss on Refunding, amortized on the straight line basis over the term of the Series 1995 Revenue Bonds	<u>(377,258)</u>	<u>(579,530)</u>
Total Revenue Bonds	67,365,147	73,122,591
Less Current Portion	<u>5,862,666</u>	<u>5,757,444</u>
Net Long-Term Revenue Bonds	<u>\$ 61,502,481</u>	<u>\$ 67,365,147</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 5 - LONG TERM DEBT (Continued)

Changes in Revenue Bonds during 1998 are as follows:

	<u>1997</u>	<u>Additions</u>	<u>Retired</u>	<u>1998</u>
Series 1985	\$ 600,000	\$ -	\$ 600,000	\$ -
Series 1987	30,934,336	-	1,844,716	29,089,620
Series 1991	21,822,785	-	475,000	21,347,785
Series 1993	5,525,000	-	350,000	5,175,000
Series 1995, net	<u>14,240,470</u>	<u>-</u>	<u>2,487,728</u>	<u>11,752,742</u>
	<u>\$ 73,122,591</u>	<u>\$ -</u>	<u>\$ 5,757,444</u>	<u>\$ 67,365,147</u>

Net Revenues, as defined for purposes of bond security, is all income or earnings derived from the operation of the System, except Capital Improvement Charges, investment earnings on Construction and Bond Amortization Funds, and transfers to the Rate Stabilization Fund, less costs of operation and maintenance which do not include capital expenditures, extraordinary repairs, amortization of the costs of issuance of debt obligations, payments under Unconditional Output Contracts, or depreciation. See Note 7 for the rate covenant pertaining to revenues.

Summary of Debt Service Funding Requirements to Maturity

(In Thousands of Dollars)

Years Ended October 1	1987 Bonds	1991 Bonds	1993 Bonds	1995 Bonds	Funds Provided by Bond Amortization Investment	Net Debt Service
1999	\$ 3,570	\$ 1,379	\$ 612	\$ 4,287	\$ (120)	\$ 9,728
2000	2,655	1,376	611	5,208	(121)	9,729
2001	8,019	1,377	615	-	(121)	9,890
2002	8,015	1,379	616	-	(121)	9,889
2003	8,016	1,379	617	-	(120)	9,892
2004-2008	41,486	6,880	3,137	-	(2,002)	49,501
2009-2013	39,487	6,880	-	-	-	46,367
2014-2018	<u>-</u>	<u>46,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,350</u>
	111,248	67,000	6,208	9,495	(2,605)	191,346
Less amounts Representing Interest and Maturing Investments	<u>83,848</u>	<u>46,152</u>	<u>1,398</u>	<u>875</u>	<u>(2,605)</u>	<u>129,668</u>
	<u>\$ 27,400</u>	<u>\$ 20,848</u>	<u>\$ 4,810</u>	<u>\$ 8,620</u>	<u>\$ -</u>	<u>\$ 61,678</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 5 - LONG TERM DEBT (Continued)

Prior to the due date of each series of revenue bonds, the System is required to set aside sufficient funds to retire the matured principal amounts in equal, monthly amounts. Accordingly, the above schedule does not include principal amounts maturing October 1, 1998 as those funding requirements have been fully satisfied.

The long-term portion of accrued interest represents amounts payable on capital appreciation bonds which will become due October 1, 1998 to October 1, 2018. No interest is payable on these bonds until their scheduled maturity at which time it is paid in full with the principal amount.

New Debt Issue - On May 18, 1998, the Utility Board issued a Contract of Forward Bond Purchase for \$63,405,000 Electric System Refunding Revenue Bonds, Series 2000 for the purpose of refunding the Series 1987 bonds maturing after October 1, 2000. The Series 2000 bonds will be delivered on July 6, 2000 or on such other date as will have been mutually agreed upon by the Utility Board and the Underwriters of the Series 2000 bond issue.

NOTE 6 - PRIOR YEAR DEFEASANCE OF DEBT

During 1995, 1991, 1987 and 1986, the System defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the System's financial statements. At September 30, 1998, \$40,332,434 of bonds outstanding relative to the 1980C, 1983, 1984 and 1980D issues, \$25,076,883 relative to the 1985 issue, and \$17,246,919 relative to the 1988 issue are considered defeased.

NOTE 7 - RATE COVENANT

The System has agreed to establish and revise rates such that revenues will be sufficient to pay 100% of its costs of operations and maintenance, all required reserve payments, and 125% of the principal and interest becoming due on all outstanding bonds.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 8 - PENSION PLAN

Plan Description - The Retirement System for General Employees (the Plan) is a single-employer defined benefit pension plan administered by the Board of Trustees of the Plan. The Plan provides retirement, disability and death benefits to plan members and beneficiaries. Cost of living adjustments are automatically provided to members and beneficiaries at the rate of 2% per year. The Plan was created by resolution of the System, which resolution assigns the authority to establish and amend its provisions to the Utility Board. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Retirement System for General Employees, P.O. Drawer 6100, Key West, FL 33041-6100.

Basis of Accounting - The financial statements of the Plan are prepared using the accrual basis of accounting. The System's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits are recognized when due and payable in accordance with the terms of the Plan.

Plan investments are reported at fair value. Short-term investments are reported at cost which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Plan investments do not include any of the System's debt securities. All investments represent less than 5% of Plan net assets.

Funding Policy - The contribution requirements of plan members and the System are established and may be amended by the Utility Board. Plan members have not been required to contribute to the Plan since October 1, 1985. However, if a member has had a break in service and returns to work for the System, the Plan permits them to "buy back" their benefits earned at the time of the break in service. The System is required to contribute at an actuarially determined rate; the current rate is 21.8% of annual covered payroll.

Annual Pension Cost and Net Pension Obligation - The System's annual required contribution of \$1,286,178 for calendar year 1997 was equal to the

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 8 - PENSION PLAN (Continued)

contribution made. There was no net pension obligation at the end of 1997. Information for 1996 and 1995 is not available.

Schedule of Funding Progress

(Dollar Amounts in Thousands)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Valuation Date	Actuarial Value of Assets AVA)	Entry Age Normal Actuarial Accrued Liability	(Overfunded) Unfunded Actuarial Accrued Liability (UAAL)(3)-(2)	Funded Ratio (2)/(3)	Annual Covered Payroll	(Overfunded) Unfunded UAAL as % of Payroll (4)/(6)
January 1, 1992	\$ 21,470	\$ 21,767	\$ 297	98.6%	\$ 5,741	5.2%
January 1, 1993	\$ 22,760	\$ 23,715	\$ 955	96.0%	\$ 5,964	16.0%
January 1, 1994	\$ 25,161	\$ 25,589	\$ 428	98.3%	\$ 6,264	6.8%
January 1, 1995	\$ 24,597	\$ 27,329	\$ 2,732	90.0%	\$ 6,256	43.7%
January 1, 1996	\$ 30,143	\$ 32,190	\$ 2,047	93.6%	\$ 5,783	35.4%
January 1, 1997	\$ 34,436	\$ 33,475	\$ (961)	102.9%	\$ 5,866	(16.4%)
January 1, 1998	\$ 40,933	\$ 34,826	\$ (6,107)	117.5%	\$ 6,038	(101.1%)

NOTE 9 - DEFERRED REVENUE

The System has an agreement with Tele-Communications, Inc. (TCI), a cable television company, whereby the System receives a fee for the attachment of cable television lines to the electric poles. The System incorporated certain design modifications in the tieline project at additional cost in order that TCI's lines could be properly attached. The additional revenue pertaining to the design modifications was received in a lump sum and is being amortized on a straight line basis over the remaining term of the agreement, approximately 6 years.

NOTE 10 - LEASES

Rent expense under cancelable operating leases was \$58,566 and \$50,031 in 1998 and 1997, respectively.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 11 - CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction consisted of the following at September 30, 1998 and 1997:

	<u>1998</u>	<u>1997</u>
Opening Balance	\$ 2,007,287	\$ 1,891,656
Contributions Received	160,911	211,386
Depreciation on Assets Constructed with Restricted Resources	<u>(102,149)</u>	<u>(95,755)</u>
Ended Balance	<u>\$ 2,066,049</u>	<u>\$ 2,007,287</u>

NOTE 12 - PURCHASED POWER COMMITMENTS

All Requirements Power Supply Project - In July 1997, the Utility Board agreed to become a member of the Florida Municipal Power Agency (FMPA) All-Requirements Power Supply Project (the "All-Requirements Project") and began operations as a project participant effective April 1, 1998. Under the contractual arrangement with FMPA, the Utility Board has assigned all of its generating and firm purchased power resources to FMPA, and FMPA will serve all of the Utility Board's requirements (net of up to 2 MW of non-firm capacity when available from the local resource recovery facility). Further, in the event that power cannot be delivered to the Utility Board's service area over the tie-line to the mainland, the Utility Board established a policy to have island generation capability equal to at least 60% of the System peak load. The Utility Board and FMPA have agreed to meet this criteria through a combination of the Utility Board's 50.4 MW of existing generating resources and two new 17 MW combustion turbine units that will be owned by FMPA and which became operational in September 1998. The FMPA All-Requirements Project, the related assignment of resources by the Utility Board to FMPA, and other matters pertaining to the Utility Board's power supply are discussed below.

The Utility Board has previously entered into several purchased power agreements with other parties including (i) the FMPA Tri-City Project, (ii)



UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 12 - PURCHASED POWER COMMITMENTS (Continued)

the FMPA Stanton 2 Project; and (iii) a long-term purchase agreement with FPL. As a member of the All-Requirements Project, the Utility Board's resources and costs under these three contracts have been assigned to FMPA. Other power purchase and sale arrangements include the Utility Board's purchases from a small resource recovery unit located on Stock Island, sale of power to FKEC, and interchange service agreements with other Florida utilities and with power marketers.

FMPA Tri-City Project (Stanton 1) - The Utility Board is a member of the FMPA Tri-City Project (Stanton 1). The Utility Board and FMPA have entered into a Tri-City Project Power Sales Contract and a Tri-City Project Support Contract wherein the Utility Board has agreed to purchase 54.546% of FMPA's Tri-City Project. FMPA's Tri-City Project consists of a 5.3012% undivided ownership interest in Curtis H. Stanton Energy Center ("Stanton") unit No. 1, a 425 MW coal-fired generating unit jointly owned by the Orlando Utilities Commission ("OUC"), the Kissimmee Utility Authority, and FMPA, and operated by the OUC. Stanton Unit No. 1 began commercial operation in July 1987. Based upon the unit's high dispatch rating of 425 MW, the Tri-City Project consists of a 22 MW undivided ownership and the System's power entitlement share is approximately 12 MW at the plant busbar.

FMPA Stanton 2 Project - The Utility Board is a member of the FMPA Stanton 2 Project. The Utility Board and FMPA have entered into a Stanton 2 Project Power Sales Contract and a Project Support Contract wherein the Utility Board has agreed to purchase 9.8932% of FMPA's Stanton 2 Project. FMPA's Stanton 2 Project consists of a 23.2367% undivided ownership interest in Stanton Unit No. 2, a 429 MW coal-fired generating unit jointly owned by OUC and FMPA, and operated by OUC. Stanton Unit No. 2 began commercial operation in June 1996. Based on the unit's 429 MW high dispatch rating, the Stanton 2 Project consists of a 100 MW undivided ownership and the System's power entitlement share is approximately 9.9 MW at the plant busbar.

FPL Long-Term Purchase - The Utility Board entered into an agreement with FPL on August 15, 1991, entitled the Long-Term Agreement to Provide Capacity and Energy by Florida Power & Light Company to the City Electric System of the Utility Board of the City of Key West, Florida (the "FPL Long-Term Agreement") which became effective on June 1, 1993 after the termination of a short-term

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 12 - PURCHASED POWER COMMITMENTS (Continued)

purchase agreement with FPL. The FPL Long-Term Agreement will continue in effect for 20 years. The initial purchase amount (the "Initial Contract Demand") is 45 MW. The contract demand for each year is to be designated by September 1 of each prior year, but the contract demand cannot be less than the initial contract demand during the term of the agreement. In the event the System peak load during a year is lower than the System peak load in the immediately preceding year, the Utility Board may decrease the portion of its contract demand in excess of the Initial Contract Demand, subject to certain limitations.

Southernmost Waste Energy Facility - The Utility Board has entered into a Parallel Generation Agreement where the System will purchase the net electric generation from the Southernmost Waste Energy Facility, which is a municipal solid waste-fueled resource recovery unit located on Stock Island. The unit was placed in service during February 1987 and has a net generating capacity of approximately 2.0 MW. Energy from the Southernmost unit is purchased by the System on a "take-and-pay" basis at the System's average energy cost, including fuel and purchased power capacity and energy costs. This facility is considered by the Utility Board to be a non-firm capacity resource.

NOTE 13 - JOINT INVESTMENT

To provide the long-term transmission needs of both the Utility Board and the Florida Keys Electric Cooperative (FKEC), the parties have entered into a relationship in which both the Utility Board and FKEC will maintain an appropriate ownership investment in the transmission system between the Monroe/Dade County line and the north end of the Seven Mile Bridge. Based on the estimated usage of the transmission system in 1993 and 2020, and other considerations such as allocations of losses, the parties agreed that the Utility Board will be required to maintain a 56.5% investment in the transmission system and FKEC is required to maintain a 43.5% investment in the transmission system. The System's investment of approximately \$20.2 million does not exceed the required investment percentage. This allocation shall not be changed unless both parties agree to such change in writing. Based on the agreement, the Utility Board is entitled, at all times, to 40% of the transfer limit of the FKEC 138 kV transmission system.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 13 - JOINT INVESTMENT (Continued)

The transfer capability of the transmission line is approximately 245 MW and the firm MW transfer allocation for the Utility Board is approximately 110 MW. If the Utility Board's import requirements exceed its 110 MW transfer limit, based upon availability and other factors, the FKEC and the Utility Board have an agreement whereby the Utility Board can purchase transmission capacity required in excess of 110 MW.

The term of the agreement is to be forty years from the effective date of January 1, 1992 or until all property comprising the transmission system has been disposed of and all termination costs have been paid, whichever occurs last.

As the joint investment does not constitute a separate legal entity, and as no joint debt was issued to fund this project, the System's investment in these facilities is included as part of electric plant on the System's balance sheet.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Risk Management - The System is exposed to various risks of loss related to torts, damage, theft or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The System purchases commercial insurance policies from the Florida League of Cities and other insurance carriers to minimize its risk of loss in these areas. The System has not experienced an insurance settlement in excess of insurance coverage during the past three fiscal years. The System bears the risk of loss up to the deductible amounts which are disclosed in the accompanying statistical tables.

Sales Agreement - The Utility Board has entered into an 18-year agreement, effective January 1, 1994, (the "FKEC Capacity and Energy Sale Agreement") with the Florida Keys Electric Cooperative, "FKEC", under which the Utility Board agrees to sell power to FKEC. The contract demand availability under the agreement was originally 10.0 MW adjusted to 12.0 MW on January 1, 1995, which contract demand may be further increased or decreased at any time upon mutual agreement of both parties. The minimum demand charge is \$3.00/kw-month, which is subject to potential future adjustment based upon the increase or decrease in the Base Demand Charge with FKEC pays FPL (as defined in FKEC's power supply contract with FPL).

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 14 - COMMITMENTS AND CONTINGENCIES (Continued)

The energy charge (mills per net kilowatt hour) will be the Utility Board's average fuel cost of its diesel and combustion turbine generating units that are used in the month the energy is provided to FKEC, if such energy is provided from such generating units. If the Utility Board provides all or a portion of the energy from generating resources other than its diesel and combustion turbine generating units, the energy charge, mills per kilowatt hours, in the month the energy is provided to FKEC will be the Utility Board's net cost of such energy plus 1.0 mill per kilowatt hour for the portion of energy provided by the Utility Board to FKEC from such generating resources. The Utility Board's net cost includes, but is not limited to, fuel cost, transmission cost, and losses incurred by the Utility Board.

The Utility Board is required to provide the capacity and energy only to the extent FKEC cannot meet a portion of its load with FPL and FKEC resources. In the event the transmission line is interrupted, the Utility Board may curtail the amount it sells to FKEC pursuant to a formula in the contract which prorates FKEC's contract demand based on the relationship between the Utility Board's available resources and its projected monthly peak requirements (including FKEC's contract demand).

NOTE 15 - NAVY CONTRACT

The United States Navy is the largest customer of the System and accounted for approximately 10.6% and 11.5% of electric revenues in 1998 and 1997 respectively. The System executed a new service contract with the Navy on August 15, 1997 to be effective with the September, 1997 billing. The contract is for a term of five years with a provision which requires the parties to commence negotiations for a new contract at least two years prior to the end of the current contract. The contract also contains provisions for minimum billing, service reduction and exclusive service provisions. Pursuant to this contract, the System has agreed to provide a maximum of 15 megawatts of power at multiple locations.

NOTE 16 - REGULATION

According to existing laws of the State of Florida, the five members of the Utility Board act as the regulatory authority for the establishment of electric rates.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 16 - REGULATION (Continued)

The Florida Public Service Commission (FPSC) has authority to regulate the electric "rate structures" of municipal utilities in Florida. It is believed that "rate structures" are clearly distinguishable from the total amount of revenues which a particular utility may receive from rates, and that distinction has thus far been carefully made by the FPSC. Prior to implementation of any rate change, the System files the proposed tariff with the Florida Public Service Commission and has established the prerequisite of a Public Notice and the holding of a Public Hearing.

The Florida Electric Power Plant Siting Act has given the FPSC exclusive authority to approve the construction of new power plants. The FPSC also exercises jurisdiction under the National Energy and the Florida Energy Efficiency and Conservation Acts as related to electric use conservation programs and prescribes conformance to the Federal Energy Regulatory Commission's Uniform System of Accounts.

Operations of the System are subject to environmental regulation by Federal, State and local authorities and to zoning regulations by local authorities. Federal and State standards and procedures that govern control of the environment can change. These changes can arise from continuing legislative, regulatory, and judicial action respecting the standards and procedures. Therefore, there is no assurance that the electric plant in operation, under construction or contemplated will always remain subject to the regulations currently in effect, or will always be in compliance with future regulations. An inability to comply with environmental standards or deadlines could result in reduced operating levels or complete shutdown of individual electric generating units not in compliance. Furthermore, compliance with environmental standards or deadlines may substantially increase capital and operating costs.

NOTE 17 - EMISSIONS CREDITS

Under Title IV - Acid Rain of the Clean Air Act Amendments of 1991, the Stock Island steam unit was allocated 2,567 allowances. These allowances were issued based on the actual sulfur dioxide (SO<sub>2</sub>) emissions from the steam unit in 1987. Due to Stock Island's size and relatively low emissions, the unit was affected by only the Phase 2 allowance reduction requirements, which were to begin in the Year 2000.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 17 - EMISSIONS CREDITS (Continued)

During October 1998, the System received notice that an additional 21 allowances (for the Years 2000 to 2009) were allocated to the steam unit's account. Thus, the total allowances in the steam unit's account is now 2,588 per year during the period 2000 to 2009. This value decreases to 2,578 for years beyond 2009 in perpetuity.

The Stock Island Steam unit has been decommissioned and the allowances are considered surplus property. The System is contemplating the proposed sale of a number of vintage year allowances and expects to finalize the transaction during the fiscal year ended September 30, 1999.

NOTE 18 - POST RETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the System provides life insurance and health care benefits for retired employees. These benefits are provided pursuant to the System's personnel policies as adopted by the Utility Board. The System is not required to provide contributions to this benefit by any statutory, contractual or other authority. Substantially all of the System's employees become eligible for these benefits if they qualify for retirement status while working for the System. At September 30, 1998, 117 retirees were eligible for and were receiving these benefits. These and similar benefits for active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. The System recognizes the cost of providing these benefits on a pay-as-you-go basis by expensing the insurance premiums for retirees which were \$227,726 and \$223,182 for 1998 and 1997, respectively.

NOTE 19 - PAYMENT TO CITY OF KEY WEST

The System is the successor of the electric public utility once owned by the City. All electric utility property owned by the City of Key West was transferred to the System at the time of the System's creation. The System pays the City the greater of \$200,000 or 50% of the balance of any monies remaining in the Revenue Fund at the end of the fiscal year as a return on the City's contribution to the System. This amount is adjusted for inflation based upon the Consumer Price Index.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 20 - DEFERRED COMPENSATION PLAN

The System offers its employees a deferred compensation plan created in 1994 in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Effective January, 1997, the assets of the plan are owned prorata by the participants in the plan and are not subject to the claims of the System's creditors.

NOTE 21 - EXTRAORDINARY EVENT

On September 25, 1998 the lower Florida Keys was struck by Hurricane Georges. The System suffered approximately \$6.3 million in damages, most of which was to its transmission and distribution systems. Grants were received from the Florida Department of Community Affairs and the Federal Emergency Management System which will reimburse 87.5% of eligible costs. The System expects to recover \$1.1 million relative to costs incurred during the 1998 fiscal year and \$4.5 million for fiscal year 1999 costs.

In order to fund the hurricane related repairs, the System executed a line of credit agreement with a bank. The agreement was issued October 15, 1998 with a maximum principal amount of \$10,000,000 bearing interest at 72% of the thirty-day London Inter Bank Offering Rate, and maturing September 30, 1999. At September 30, 1998, the System had not drawn on the line of credit.

NOTE 22 - IMPACT OF YEAR 2000

The Year 2000 issue is the result of shortcomings in many electronic processing systems and other electronic equipment that may adversely affect the System's operations as early as fiscal year 1999.

The System is in the process of taking a thorough inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting System operations. It is unknown as of September 30, 1998, what effects, if any, failing to remediate such systems will have upon System operations and financial reporting. Because of

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

NOTE 22 - IMPACT OF YEAR 2000 (Continued)

the unprecedented nature of the Year 2000 issues, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the System is or will be Year 2000 ready, that the System's remediation efforts will be successful in whole or in part, or that parties with whom the System does business will be 2000 ready.



UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

SCHEDULE OF REVENUES EARNED

FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
Operating Revenues:		
Electric Revenues	\$ 45,412,149	\$ 44,172,003
Purchased Power Adjustment	16,605,847	15,163,158
Service Charges	108,720	121,470
Penalty Charges	454,954	403,648
Reserve Capacity Charge	444,960	438,480
Sales for Resale	480,181	514,321
Other	<u>40,653</u>	<u>24,394</u>
 Total Operating Revenues	 <u>63,547,464</u>	 <u>60,837,474</u>
 Other Income:		
Interest	1,219,430	1,087,936
Grant Revenue	1,220,691	14,840
Miscellaneous Non-operating Revenue	548,003	260,089
Charges for New Service	<u>37,080</u>	<u>61,316</u>
 Total Other Income	 <u>3,025,204</u>	 <u>1,424,181</u>
 Total Revenues	 <u>\$ 66,572,668</u>	 <u>\$ 62,261,655</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET TO ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 1998

	<u>Budget</u>	<u>Actual</u>	Variance- Favorable (Unfavorable)
Budgeted Revenues:			
Operating Revenues	\$ 61,016,836	\$ 63,584,544	\$ 2,567,708
Interest	1,072,000	1,098,955	26,955
Miscellaneous Non-operating	<u>636,691</u>	<u>1,768,694</u>	<u>1,132,003</u>
Total Budgeted Revenue	<u>62,725,527</u>	<u>66,452,193</u>	<u>3,726,666</u>
Budgeted Expenditures:			
Production Expenses - Steam	1,002,077	166,385	835,692
Production Expenses - Diesel	1,654,386	1,036,565	617,821
Purchased Power and other Power			
Supply Expenses	28,225,518	31,891,585	(3,666,067)
Transmission Expenses	405,140	760,025	(354,085)
Distribution Expenses	2,579,392	3,252,971	(673,579)
Customer Accounts and Collection Expenses	752,383	1,015,357	(262,974)
Administrative and General Expenses	8,384,621	7,647,790	736,831
Taxes Other than Income Tax	1,558,102	1,567,968	(9,866)
Interest Expense - Customer Deposits	200,000	212,472	(12,472)
Dividend to City of Key West	230,708	230,708	-
Debt Service Sinking Fund Requirements	<u>9,727,524</u>	<u>9,726,960</u>	<u>564</u>
Total Budgeted Expenditures	<u>54,719,851</u>	<u>57,508,786</u>	<u>(2,788,935)</u>
Excess of Budgeted Revenues over (under) Budgeted Expenditures	<u>\$ 8,005,676</u>	<u>8,943,407</u>	<u>\$ 937,731</u>
Adjustments:			
Principal Portion of Budgeted Debt Service		7,950,000	
Capitalized Overhead		1,719,515	
Interest Accrued but Unfunded		(5,417,304)	
Depreciation		(5,402,133)	
Amortization of Issuance Costs		(190,550)	
Amortization of Loss on Refunding		<u>(202,272)</u>	
Total Adjustments		<u>(1,542,744)</u>	
Net Income Before Extraordinary Item, GAAP Basis		<u>\$ 7,400,663</u>	

**KEMP & GREEN, P.A.**

*Certified Public Accountants*

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WM. O. KEMP, C.P.A.  
MARVA E. GREEN, C.P.A.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH BOND COVENANTS

Utility Board of the City  
of Key West, Florida  
"City Electric System"  
Key West, Florida

We have audited, in accordance with generally accepted auditing standards, the Balance Sheets of the Utility Board of the City of Key West, Florida as of September 30, 1998 and 1997 and the related Statements of Revenues, Expenses and Retained Earnings for the years then ended, and have issued our report thereon dated January 19, 1999.

In connection with our audits, nothing came to our attention that caused us to believe that the Utility Board of the City of Key West, Florida failed to comply with the terms, covenants, provisions, or conditions of Section 5.01 of Resolution No. 532 dated November 13, 1985, as amended and supplemented, in so far as they relate to accounting matters. However, it should be noted that our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Utility Board, management and others within the System, and officials of applicable Federal and State agencies and should not be used for any other purpose.

*Kemp + Green, P.A.*

Kemp & Green, P.A.  
Certified Public Accountants

January 19, 1999

KEMP & GREEN, P.A.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING

Utility Board of the City of  
Key West, Florida  
"City Electric System"  
Key West, Florida

We have audited the financial statements of the Utility Board of the City of Key West, Florida ("the System") as of and for the year ended September 30, 1998, and have issued our report thereon dated January 19, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We

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

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Kemp + Green, P.A.*

Kemp & Green, P.A.  
Certified Public Accountants

January 19, 1999

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INDEPENDENT AUDITORS' MANAGEMENT LETTER AND MANAGEMENT'S RESPONSE

Board of Directors  
Utility Board of the City  
of Key West, Florida  
"City Electric System"  
Key West, Florida

In planning and performing our audit of the financial statements of the Utility Board of the City of Key West, Florida ("the System") for the years ended September 30, 1998 and 1997, we considered the System's internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Although our audit was not designed to provide assurance on internal control, we noted certain matters involving internal control and its operation, and are submitting for your consideration related recommendations designed to help the System make improvements and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to the System.

Reported in Prior Year's Management Letter, Not Implemented  
as of September 30, 1998

None

Other Required Disclosures

Marva Green was the Auditor in charge for the audit of the System. We attest that the auditor in charge met the educational requirements pursuant to Chapter 11.45, Florida Statutes.

The System was not in a state of financial emergency as described in Florida Statutes, Section 218.503(1).

Requirements relative to the Florida Department of Banking and Finance report and Public Records Modernization Trust money do not apply to the System.

This report is intended solely for the information of the Utility Board, management and others within the System, and officials of applicable federal and state agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Kemp + Green, PA*

Kemp & Green, P.A.  
Certified Public Accountants

January 19, 1999





UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

CONDENSED BALANCE SHEETS

FISCAL YEARS 1998 - 1989

	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>	<u>1989</u>
<b>ASSETS</b>										
Property, Plant and Equipment:										
In-service										
Depreciated Cost	\$103,210,075	\$106,193,915	\$104,800,734	\$103,327,784	\$ 90,628,508	\$ 89,658,132	\$ 88,609,667	\$ 69,464,035	\$ 76,183,841	\$ 76,053,985
Construction in Progress	<u>8,645,799</u>	<u>4,752,830</u>	<u>3,263,801</u>	<u>3,469,051</u>	<u>13,305,485</u>	<u>8,639,465</u>	<u>3,296,687</u>	<u>19,376,362</u>	<u>17,085,774</u>	<u>3,919,299</u>
	<u>111,855,874</u>	<u>110,946,745</u>	<u>108,064,535</u>	<u>106,796,835</u>	<u>103,933,993</u>	<u>98,297,597</u>	<u>91,906,354</u>	<u>88,840,397</u>	<u>93,269,615</u>	<u>79,973,284</u>
Restricted Assets:										
Debt Service Accounts	10,644,552	10,511,789	14,503,649	15,038,177	13,897,986	14,049,596	13,743,021	12,661,857	12,538,202	14,451,029
Construction and Other Accounts	14,376,684	12,635,787	6,500,753	4,405,617	6,274,063	14,472,038	14,445,890	17,562,268	20,142,816	27,647,609
Customer Deposits	4,372,947	4,258,032	4,071,013	3,759,464	3,597,545	3,284,996	2,685,603	2,516,846	2,488,650	2,810,019
Deferred Compensation Accounts			<u>633,640</u>	<u>448,622</u>	<u>156,360</u>					
	<u>29,394,183</u>	<u>27,405,608</u>	<u>25,709,055</u>	<u>23,651,880</u>	<u>23,925,954</u>	<u>31,806,630</u>	<u>30,874,514</u>	<u>32,740,971</u>	<u>35,169,668</u>	<u>44,908,657</u>
Current Assets:										
Cash and Investments	499,288	461,415	434,908	326,439	476,783	201,066	177,968	1,615,803	1,005,969	891,859
Accounts Receivable, Net	6,529,459	5,113,076	4,551,951	4,765,212	4,497,026	4,542,120	3,914,238	4,005,476	5,226,000	4,577,628
Plant Materials, Supplies and Fuel Inventory	1,846,655	2,341,763	2,981,284	3,603,032	3,854,891	3,900,877	3,728,001	3,425,624	2,589,234	2,412,614
Other Current Assets	<u>565,305</u>	<u>551,016</u>	<u>579,822</u>	<u>752,562</u>	<u>276,482</u>	<u>138,089</u>	<u>6,208</u>	<u>245,618</u>	<u>65,528</u>	<u>152,302</u>
	<u>9,440,707</u>	<u>8,467,270</u>	<u>8,547,965</u>	<u>9,447,245</u>	<u>9,105,182</u>	<u>8,782,152</u>	<u>7,826,415</u>	<u>9,292,521</u>	<u>8,886,731</u>	<u>8,034,403</u>
Other Assets and Deferred Charges	<u>2,489,749</u>	<u>2,619,118</u>	<u>3,090,518</u>	<u>3,234,719</u>	<u>3,865,698</u>	<u>4,212,978</u>	<u>4,239,866</u>	<u>4,567,005</u>	<u>5,009,741</u>	<u>5,321,104</u>
	<u>\$153,180,513</u>	<u>\$149,438,741</u>	<u>\$145,412,073</u>	<u>\$143,130,679</u>	<u>\$140,830,827</u>	<u>\$143,099,357</u>	<u>\$134,847,149</u>	<u>\$135,440,894</u>	<u>\$142,335,755</u>	<u>\$138,237,448</u>

(Continued)

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

CONDENSED BALANCE SHEETS (Continued)

FISCAL YEARS 1998 - 1989

	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>	<u>1989</u>
<b><u>EQUITY AND LIABILITIES</u></b>										
Equity	\$ 32,818,799	\$ 26,490,190	\$ 20,788,715	\$ 18,039,325	\$ 14,755,565	\$ 13,899,551	\$ 13,164,246	\$ 13,105,333	\$ 22,888,447	\$ 20,803,647
Long Term Debt:										
Revenue Bonds and Capital Lease Obligations, and Accrued Interest (including current)	<u>110,437,551</u>	<u>112,656,762</u>	<u>114,238,755</u>	<u>116,976,109</u>	<u>117,984,066</u>	<u>119,224,060</u>	<u>113,793,209</u>	<u>114,094,376</u>	<u>110,649,565</u>	<u>110,957,958</u>
Current Liabilities:										
Accounts Payable	3,970,146	4,716,486	4,462,050	2,772,412	2,881,706	4,903,982	3,620,926	4,138,758	4,992,447	2,994,818
Accrued Expenses	1,310,498	1,127,300	1,138,957	1,059,826	1,345,189	1,655,750	1,442,851	1,456,927	1,164,276	1,014,854
Due to Customers	4,312,816	4,217,713	4,040,561	3,724,549	3,587,209	3,282,530	2,680,568	2,496,655	2,480,267	2,293,511
Deferred Compensation Payable			633,640	448,622	156,360					
	<u>9,593,460</u>	<u>10,061,499</u>	<u>10,275,208</u>	<u>8,005,409</u>	<u>7,970,464</u>	<u>9,842,262</u>	<u>7,744,345</u>	<u>8,092,340</u>	<u>8,636,990</u>	<u>6,303,183</u>
Deferred Revenue	<u>330,703</u>	<u>230,290</u>	<u>109,395</u>	<u>109,836</u>	<u>120,732</u>	<u>133,484</u>	<u>145,349</u>	<u>148,845</u>	<u>160,753</u>	<u>172,660</u>
Total Liabilities	<u>120,361,714</u>	<u>122,948,551</u>	<u>124,623,358</u>	<u>125,091,354</u>	<u>126,075,262</u>	<u>129,199,806</u>	<u>121,682,903</u>	<u>122,335,561</u>	<u>119,447,308</u>	<u>117,433,801</u>
	<u>\$153,180,513</u>	<u>\$149,438,741</u>	<u>\$145,412,073</u>	<u>\$143,130,679</u>	<u>\$140,830,827</u>	<u>\$143,099,357</u>	<u>\$134,847,149</u>	<u>\$135,440,894</u>	<u>\$142,335,755</u>	<u>\$138,237,448</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

STATEMENTS OF REVENUES AND EXPENSES

FISCAL YEARS 1998 - 1989

	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>	<u>1989</u>
Electric Operating Revenue	<u>\$63,547,464</u>	<u>\$60,837,474</u>	<u>\$54,944,251</u>	<u>\$52,659,220</u>	<u>\$51,871,072</u>	<u>\$49,277,045</u>	<u>\$44,173,632</u>	<u>\$47,265,084</u>	<u>\$45,240,187</u>	<u>\$41,850,025</u>
Operating Expenses:										
Production Expenses										
Steam	166,385	1,388,706	1,386,683	2,144,239	4,252,705	4,433,944	5,543,600	8,483,757	7,419,151	7,256,456
Diesel	1,036,565	1,727,963	2,043,022	1,546,792	1,595,075	2,527,630	3,163,424	1,179,871	638,470	409,584
Purchased Power	31,891,585	28,430,580	26,163,717	22,851,206	21,273,696	19,736,110	15,342,343	16,007,418	16,629,632	13,778,578
Transmission Expenses	760,025	664,908	263,685	259,894	246,893	217,402	225,242	138,880	148,424	146,932
Distribution Expenses	3,252,971	2,672,478	2,105,483	2,052,482	2,143,092	1,731,220	1,909,314	1,998,167	1,930,887	1,617,212
Customer Accounts, Collection and Service Expense	1,015,357	990,636	932,196	902,377	909,814	740,532	779,729	1,081,481	1,167,608	953,231
Administrative and General Expenses	5,928,275	5,777,256	5,866,009	6,267,686	6,851,774	5,460,800	5,384,141	6,424,359	5,571,306	4,851,473
Depreciation	5,402,133	5,237,831	5,286,752	4,933,592	4,988,735	5,172,339	5,145,616	4,477,173	3,879,755	3,886,106
Taxes Other than Income Tax	<u>1,567,968</u>	<u>1,519,541</u>	<u>1,400,296</u>	<u>1,322,673</u>	<u>1,315,386</u>	<u>1,238,607</u>	<u>1,022,160</u>	<u>986,460</u>	<u>717,716</u>	<u>612,572</u>
Total Operating Expenses	<u>51,021,264</u>	<u>48,409,899</u>	<u>45,447,843</u>	<u>42,280,941</u>	<u>43,577,170</u>	<u>41,258,584</u>	<u>38,515,569</u>	<u>40,777,566</u>	<u>38,102,949</u>	<u>33,512,144</u>
Operating Income	12,526,200	12,427,575	9,496,408	10,378,279	8,293,902	8,018,461	5,658,063	6,487,518	7,137,238	8,337,881
Interest and Other Income	3,025,204	1,424,181	1,638,186	1,291,591	992,605	1,098,645	2,046,536	2,542,609	2,443,197	1,730,878
Debt and Other Expenses	8,150,741	8,361,667	8,758,686	8,595,989	8,601,535	8,582,802	7,804,829	7,298,231	7,049,704	7,036,590
Extraordinary (Loss)	<u>(1,232,965)</u>							<u>(2,836,154)</u>		
Net Income (Loss)	<u>\$ 6,167,698</u>	<u>\$ 5,490,089</u>	<u>\$ 2,375,908</u>	<u>\$ 3,073,881</u>	<u>\$ 684,972</u>	<u>\$ 534,304</u>	<u>\$ (100,230)</u>	<u>\$(1,104,258)</u>	<u>\$ 2,530,731</u>	<u>\$ 3,032,169</u>

UTILITY BOARD OF THE CITY OF  
KEY WEST, FLORIDA

SCHEDULES OF DEBT SERVICE COVERAGE

FISCAL YEARS 1998-1989

<u>FISCAL YEAR</u>	<u>TOTAL AVAILABLE REVENUES (Note 1)</u>	<u>TOTAL OPERATING EXPENSES (Note 2)</u>	<u>NET REVENUES AVAILABLE COVERAGE</u>	<u>ANNUAL DEBT SERVICE (Note 3)</u>	<u>DEBT SERVICE COVERAGE RATIO</u>
1998	\$64,585,107	\$45,831,603	\$18,753,504	\$9,726,960	1.93
1997	\$60,736,775	\$43,368,464	\$17,368,311	\$9,719,540	1.79
1996	\$55,337,974	\$40,352,338	\$14,985,636	\$9,881,419	1.52
1995	\$54,250,673	\$37,523,506	\$16,727,167	\$9,879,580	1.69
1994	\$54,825,231	\$38,682,671	\$16,142,560	\$9,879,867	1.63
1993	\$51,775,487	\$36,160,511	\$15,614,976	\$9,417,565	1.66
1992	\$47,080,197	\$33,477,067	\$13,603,130	\$9,274,138	1.47
1991	\$47,619,599	\$36,407,767	\$11,211,832	\$7,602,288	1.47
1990	\$44,364,514	\$34,160,548	\$10,203,966	\$6,545,904	1.56
1989	\$42,001,120	\$29,568,078	\$12,433,042	\$6,797,527	1.83

Note 1 - Total Available Revenues includes total Operating Revenues, interest income (less amounts earned on Construction Fund), charges for new service, miscellaneous non-operating revenues, transfers from (to) Rate Stabilization Fund, less transfers to Capital Improvement Fund and interest earnings on Bond Amortization Account.

Note 2 - Total Operating Expenses include interest paid to customers for customer deposits held and excludes depreciation and amortization expense.

Note 3 - Current Debt Service on Outstanding Bonds includes total interest expense less capital lease interest expense and long-term interest expenses accrued for all Capital Appreciation Bonds Outstanding plus forward supply contract purchases.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

CONSUMPTION AND ACTIVE SERVICE STATISTICS

FISCAL YEARS 1998 - 1989

	<u>Residential</u>	<u>Small Commercial</u>	<u>Large Power</u>	<u>Military</u>	<u>Street Lighting</u>	<u>Govt Rec Lighting</u>	<u>Priv Area Lighting</u>	<u>Total</u>
Consumption (in Megawatt Hours):								
1998	281,543	59,708	211,510	73,902	3,317	183	1,443	631,605
1997	270,406	59,143	206,104	74,605	3,176	207	1,312	614,953
1996	256,452	53,672	195,265	78,470	3,484	226	1,387	588,956
1995	248,050	51,725	192,462	80,540	3,383	367	1,354	577,881
1994	236,617	50,027	185,756	80,852	3,314	356	1,333	558,255
1993	213,944	46,151	167,767	86,038	3,290	324	1,298	518,812
1992	196,861	44,455	154,960	83,298	3,056	379	1,261	484,270
1991	197,355	47,900	154,701	87,674	3,517	347	1,353	492,847
1990	188,493	45,360	151,834	85,677	3,353	438	1,375	476,530
1989	177,786	43,428	142,543	85,706	3,506	349	1,229	454,547
Active Service (Number of Customers):								
1998	22,334	2,659	659	1	4	4	1,536	27,197
1997	21,910	2,604	645	1	4	4	1,499	26,667
1996	21,532	2,486	646	1	4	4	1,541	26,214
1995	21,120	2,361	625	1	4	4	1,525	25,640
1994	20,828	2,298	582	1	4	7	1,454	25,174
1993	20,432	2,253	547	1	4	6	1,462	24,705
1992	19,997	2,222	499	1	4	7	1,440	24,170
1991	19,238	2,142	449	1	4	7	937	22,778
1990	19,082	2,152	442	1	4	9	758	22,448
1989	18,505	2,086	417	1	4	9	723	21,745

(Continued)

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

CONSUMPTION AND ACTIVE SERVICE STATISTICS (Continued)

FISCAL YEARS 1998 - 1989

	<u>Residential</u>	<u>Small Commercial</u>	<u>Large Power</u>	<u>Military</u>	<u>Street Lighting</u>	<u>Govt Rec Lighting</u>	<u>Priv Area Lighting</u>	<u>Total</u>
Annual Consumption per Active Service (in Kilowatt Hours):								
1998	12,606	22,455	320,956	73,901,898	829,250	45,750	939	23,223
1997	12,341	22,712	319,541	74,604,534	794,000	51,750	875	23,060
1996	11,910	21,590	302,268	78,470,565	870,971	56,535	900	22,467
1995	11,745	21,908	307,939	80,540,000	845,750	91,750	888	22,538
1994	11,361	21,431	319,169	80,852,328	828,609	50,816	917	22,176
1993	10,471	20,495	306,704	86,038,000	822,500	54,000	888	21,000
1992	9,845	19,989	310,541	83,298,000	764,000	54,143	876	20,033
1991	10,259	21,664	344,546	87,674,000	879,250	49,571	1,444	21,637
1990	9,878	21,088	343,516	85,677,000	838,250	48,667	1,812	21,228
1989	9,600	20,817	341,830	85,709,000	876,500	38,778	1,698	20,889

UTILITY BOARD OF THE CITY OF  
KEY WEST, FLORIDA

CLIMATOLOGICAL DATA

FISCAL YEARS 1998 - 1989

Monthly Rainfall and Temperature  
Key West, Florida

Fiscal Year 1998	Rain (Inches)		Temperature (F)	
	Total	Above (Below) Normal	Average	Above (Below) Normal
October	1.15	(3.27)	79.00	(1.00)
November	2.15	(0.69)	75.60	0.00
December	4.41	2.39	70.60	(0.90)
January	2.80	0.68	70.70	0.80
February	4.87	3.07	70.70	0.20
March	3.13	1.42	70.60	(3.20)
April	1.01	(0.74)	76.50	0.50
May	0.86	(2.60)	79.80	(0.80)
June	0.86	(4.23)	85.10	2.00
July	1.12	(2.49)	85.80	1.40
August	3.37	(1.66)	84.60	0.30
September	3.25	(2.60)	83.70	0.40
Monthly Average	2.42	0.89	77.73	0.04

Climatic Energy Demands

Fiscal Year	Heating Degree-Days*	Cooling Degree-Days*
1998	53	4,793
1997	41	5,110
1996	64	4,622
1995	39	5,124
1994	23	5,120
1993	20	4,971
1992	14	4,599
1991	13	5,398
1990	63	5,171
1989	40	5,255

Source: U.S. Department of Commerce, National Oceanic and Atmospheric Administration.

\* Degree Day is a unit measuring the extent to which the outdoor mean temperature falls below (heating) or rises above (cooling) the base of 65 degrees Fahrenheit. One degree-day is counted for each degree of deficiency below (heating) or excess over (cooling) the base, for each calendar day on which such deficiency or excess occurs.

UTILITY BOARD OF THE CITY OF  
KEY WEST, FLORIDA

DEMOGRAPHIC AND ECONOMIC STATISTICS

FISCAL YEARS 1997-1988

<u>Fiscal Year</u>	<u>Population</u>	<u>Per Capita Income(1)</u>	<u>Median Age(2)</u>	<u>Unemployment Rate (3)</u>
1997	27,305	\$22,421	37	2.4%
1996	27,009	\$15,547	34	2.7%
1995	26,842	\$13,305	34	3.4%
1994	26,417	\$12,539	34	3.7%
1993	26,122	\$12,639	34	4.5%
1992	24,937	\$12,271	34	4.7%
1991	24,794	\$11,113	34	3.9%
1990	28,710	\$11,434	40	3.0%
1989	29,177	\$10,787	40	2.7%
1988	29,000	\$10,176	39	2.3%

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

(2) Source: City of Key West Planning Department.

(3) Source: Florida Department of Labor and Employment Security, Bureau of Labor Market Information calculated by calendar year.

Information for 1998 is not available.



UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA  
SCHEDULE OF PROPERTY, CASUALTY AND OTHER INSURANCE

SEPTEMBER 30, 1998

<u>Company</u>	<u>Type of Coverage</u>	<u>Limits</u>	<u>Period</u>	<u>Premium</u>
Florida League of Cities	Workers' Compensation	Statutory Deductible - \$0	10/1/97 - 9/30/98	\$ 141,528
Penco	Comprehensive General Liability (CGL)	\$2,000,000 Deductible - \$5,000	10/1/97 - 9/30/98	63,700
Penco	Excess Liability	\$10,000,000 Deductible - \$2,000,000	10/1/97 - 9/30/98	19,418
Penco - Hartford Casualty	Automobile/Comprehensive/ Physical Damage	\$2,000,000 Deductible - \$1,000	10/1/97 - 9/30/98	56,191
Penco - Hartford Fire	Crime	\$40,000 Employee Disability \$100,000 Money and Security Theft	10/1/97 - 9/30/98	3,810
Penco	Public Officials - Errors & Omissions	\$2,000,000 Deductible - \$10,000	10/1/97 - 9/30/98	29,854
Protection Mutual	Property, Boiler & Machinery	\$112,000,000 Deductible - \$250,000	5/1/98 - 5/1/99	412,420
	Windstorm and Flood	\$10,000,000 Deductible - \$1,000,000		
National Flood Insurance Program	Flood	Per Location Schedule Deductible - \$750/500	6/14/98 - 6/14/99	75,499
Florida Windstorm Underwriters Association	Windstorm and Hail	\$1,000,000 Deductible - \$500/structure	7/26/98 - 7/27/99	130,629
Florida Petroleum Liability Insurance Program Administrations	Pollution Liability and Corrective Action	Per Location Schedule Deductible - \$500 to \$300,000	8/15/98 - 8/15/99	41,394
		Limits - Small Tanks \$1,000,000 each incident \$2,000,000 aggregate		
				<u>\$ 974,443</u>

UTILITY BOARD OF THE CITY OF KEY WEST

TEN HIGHEST CONSUMPTION LOCATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 1998

<u>Ranking</u>	<u>Customer Account</u>	<u>Demand KW</u>	<u>Energy Kwh</u>	<u>Dollars</u>
1	U.S. Navy	13,262	73,901,898	\$ 6,833,136
2	Monroe County Detention Center	998	7,057,300	\$ 583,146
3	City of Key West (Waste Water Plant)	920	5,249,000	\$ 498,452
4	Marriott Casa Marina Hotel	820	5,652,000	\$ 489,651
5	Lower Florida Keys Health System	720	4,540,000	\$ 427,681
6	Pier House Joint Venture (Hotel)	730	4,248,000	\$ 402,742
7	Winn Dixie Stores, Inc., Overseas Market (Key West)	573	4,021,800	\$ 402,432
8	Florida Keys Community College	910	3,076,200	\$ 306,733
9	Galleon Investments, Ltd. (Time-Share)	696	2,581,580	\$ 296,204
10	Key West Reach, Ltd.	540	2,962,200	\$ 294,191

UTILITY BOARD OF THE CITY OF KEY WEST

EMPLOYEE INFORMATION

FISCAL YEARS 1998 - 1987

DEPARTMENTS

	<u>General Manager</u>	<u>Engineering &amp; Control</u>	<u>Subtotal Manager</u>	<u>Customer Service</u>	<u>Finance</u>	<u>Transmission Operations</u>	<u>General Plant</u>	<u>Generation</u>	<u>Subtotal TD &amp; G</u>	<u>Total</u>
1998	10	24	34	30	22	38	12	26	76	162
1997	10	24	34	30	21	39	16	24	79	164
1996	9	24	33	30	22	35	12	32	79	164
1995	7	24	31	26	23	34	13	40	87	167
1994	8	27	35	33	22	33	15	54	102	192
1993	8	27	35	33	22	33	16	54	103	193
1992	8	27	35	33	22	33	16	60	109	199
1991	8	27	35	32	23	33	15	60	108	198
1990	9	26	35	30	21	33	14	59	106	192
1989	7	27	34	30	20	33	13	58	104	188

Notes: The numbers for each year above do not include five (5) Utility Board Members.  
 The approved budgets were used for all years except 1996 and 1989.  
 For 1996, actual employee head count was used.  
 For 1989, the 1990 budget column headed "Existing Positions" was used.

UTILITY BOARD OF THE CITY OF KEY WEST

GENERATION AND CAPACITY STATISTICS

FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997

<u>Description</u>	<u>1998</u>	<u>1997</u>
<u>Gross Generation in MW (1):</u>		
Diesel and Combustion Turbine	5,899	18,863
Less: Station Auxiliaries	<u>1,687</u>	<u>3,575</u>
Net Generation	4,212	15,288
Sales to Other Distributors (2)	(18,058)	(9,445)
Net Delivered Purchased Power and Stanton Generation	<u>684,114</u>	<u>663,561</u>
Net Energy for Load	670,268	669,404
Less: Energy not Accounted for and Non- Revenue Energy	<u>29,276</u>	<u>54,450</u>
Retail Energy Sales (2)	<u>640,992</u>	<u>614,954</u>
Percentage of Net Energy for Load	4.4%	8.1%
<u>Generation Capacity (KW):</u>		
Name Plate Rating (3)	<u>97,450</u>	<u>56,450</u>
Net Continuous Capacity	84,400	50,400
	<u>4,000</u>	<u>4,000</u>
Less: Minimum Commitment to FKEC (4) On Island Resources	<u>80,400</u>	<u>46,400</u>
System Net Peak Demand (5)	<u>129,000</u>	<u>119,700</u>
Percent of On-Island Resources (6) for Net Peak Demand	62.3%	38.8%
<u>Delivered Purchased Power &amp; Stanton Resources (KW) (7):</u>		
FP & L Long - Term Power	45,000	45,000
FMPA Tri - City Project (Stanton 1)	12,289	12,434
FMPA Stanton 2 Project	9,862	9,885
Other Short Term Firm	<u>-</u>	<u>15,000</u>
Total Purchased	<u>67,151</u>	<u>82,319</u>
Total Generating and Purchased Net Continuous Capability	<u>151,551</u>	<u>132,719</u>
Net Reserve Margin Including Purchased Power (8)	17.5%	10.9%

UTILITY BOARD OF THE CITY OF KEY WEST

GENERATION AND CAPACITY STATISTICS (Continued)

FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997

Footnotes

- (1) Summarized from monthly power plant reports.
- (2) From fiscal year - end monthly Financial and Operating Statements.
- (3) Ralph Garcia Steam Plant decommissioned by Utility Board on August 28, 1996. The plant was converted to a synchronous condenser during the fiscal year 1998. Under the FMPA A11 - Requirements Project, the Florida Municipal Power Agency (FMPA) installed two combustion turbines during fiscal year 1998.
- (4) Based on the Utility Board's Reliability Study.
- (5) Based on monthly Peak Load report.
- (6) The Utility Board revised its criteria on island capacity to meet its annual peak demand from 70% to 60%. The percentage shows the relationship of Net Continuous Capacity to Net Peak Demand.
- (7) As a member of the FMPA All-Requirements Project, the Utility Board's resources and costs under the long-term capacity agreements with Florida Power and Light Company, and delivered capacity from FMPA's Tri-City Project (Stanton 1) and Stanton 2 Project have been assigned to FMPA.
- (8) Net Reserve Margin represents the amount of capacity in excess of the system peak demand, as a percentage of system peak demand.



UTILITY BOARD OF THE CITY OF KEY WEST

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 1998

	<u>Grant Identification Number</u>	<u>CFDA Number</u>	<u>Accrued (Deferred) 1997</u>	<u>Cash Receipts</u>	<u>Expendi- tures</u>	<u>Accrued (Deferred) 1998</u>
<u>Federal Awards</u>						
Department of Agriculture, Passed through the State of Florida, Division of Forestry:						
Cooperative Forestry Assistance	97-29	10.664	\$ -	\$ 5,000	\$ 5,000	\$ -
Federal Emergency Management Agency, Passed through the State of Florida, Department of Community Affairs						
Disaster Relief Funding Agreement	98-RM-N4-11-54-20-032	83.544	-	117,874	117,874	-
Disaster Relief Funding Agreement	99-RM-05-11-54-20-236	83.544	-	-	924,724	924,724
<b>Total Federal Awards</b>			<u>\$ -</u>	<u>\$ 122,874</u>	<u>\$ 1,047,598</u>	<u>\$ 924,724</u>
<u>State Awards</u>						
Florida Department of Community Affairs:						
Disaster Relief Funding Agreement	98-RM-N4-11-54-20-032	*	\$ -	\$ -	\$ 18,973	\$ 18,973
Disaster Relief Funding Agreement	99-RM-05-11-54-20-236	*	-	-	154,120	154,120
<b>Total State Awards</b>			<u>\$ -</u>	<u>\$ -</u>	<u>\$ 173,093</u>	<u>\$ 173,093</u>

\* Contains State Grants and Aids Appropriations  
Monies

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

**SINGLE AUDIT/  
GRANTS COMPLIANCE**

UTILITY BOARD OF THE CITY OF KEY WEST

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and presentation of the Single Audit report of the System have been designed to conform to generally accepted accounting principles as applicable to local governments, including the reporting and compliance requirements of the Single Audit Act of 1984 and Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

Reporting Entity - The Single Audit Act of 1984 and OMB Circular A-133 set forth the audit and reporting requirements for federal awards. The System has included a Schedule of Expenditures of Federal and State Awards to satisfy the audit requirements of all government grantor agencies.

Basis of Accounting - Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, and to the timing of the measurements made, regardless of the measurement focus applied. Revenue from cost reimbursement contracts are recognized as program expenses are incurred. Revenue from unit cost contracts are recognized based on the units of services delivered.

NOTE 2 - CONTINGENCIES

Grant monies received and disbursed by the System are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based on prior experience, the System does not believe that such disallowance, if any, would have a material effect on the financial position of the System. As of January 19, 1999 there were no material questioned or disallowed costs as a result of grant audits in process or completed.



**KEMP & GREEN, P.A.**

*Certified Public Accountants*  
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MEMBER OF AMERICAN INSTITUTE  
AND FLORIDA INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

WM. O. KEMP, C.P.A.  
MARVA E. GREEN, C.P.A.

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

Utility Board of the City  
of Key West, Florida  
"City Electric System"  
Key West, Florida

Compliance

We have audited the compliance of the Utility Board of the City of Key West, Florida ("the System") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended September 30, 1998. The System's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System'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 of the System's compliance with those requirements.

In our opinion, the System complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 1998.

### Internal Control Over Compliance

The management of the System is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the System's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Kemp & Green, P.A.*

Kemp & Green, P.A.  
Certified Public Accountants

January 19, 1999

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 1998

Summary of Auditor's Results

We issued an unqualified opinion on the financial statements.

The requirement concerning the disclosure of reportable conditions in internal control disclosed by the audit of the financial statements and the related disclosure as to whether any such conditions were material weakness does not apply.

The audit did not disclose any noncompliance material to the financial statements of the System.

The requirement concerning the disclosure of reportable conditions in internal control over major programs disclosed by the audit and the related disclosure as to whether any such conditions were material weaknesses does not apply.

We issued an unqualified opinion on compliance for major programs.

The audit did not disclose any audit findings which we are required to report under Section .510(a) of OMB Circular A-133.

Major programs are as follows:

Disaster Relief Funding Agreement, CFDA 83.544	<u>\$ 1,042,598</u>
Total Federal Expenditures	<u>\$ 1,047,598</u>
Percentage of Major to Total Federal Expenditures	<u>99.5%</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 1998

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

The System did not qualify as a low-risk auditee as this was the first year of OMB Circular A-133 implementation.

Findings Relating to the Financial Statements Required to be Reported  
by Generally Accepted Governmental Auditing Standards

None

Findings and Questioned Costs for Federal Awards

None

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 1998

For the year ended September 30, 1997, there were no audit findings required to be reported by OMB Circular A-133.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED SEPTEMBER 30, 1998

For the year ended September 30, 1998, there were no audit findings required to be reported by OMB Circular A-133. Accordingly, no corrective action plan is required.

KEMP & GREEN, P.A.

*Certified Public Accountants*  
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MEMBER OF AMERICAN INSTITUTE  
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WM. O. KEMP, C.P.A.  
MARVA E. GREEN, C.P.A.

INDEPENDENT AUDITORS' REPORT ON EXAMINATION OF MANAGEMENT'S ASSERTION ABOUT  
COMPLIANCE WITH SPECIFIED REQUIREMENTS

Utility Board of the City  
Of Key West, Florida  
"City Electric System"  
Key West, Florida

We have examined management's assertion dated January 19, 1999 that the Utility Board of the City of Key West, Florida ("the System") complied with the allowable cost requirements of the grants and aids appropriations identified in the schedule of expenditures of federal and state awards, for the year ended September 30, 1998. Management is responsible for the System's compliance with those requirements. Our responsibility is to express an opinion on management's assertion about the System's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the System's compliance with specified requirements.

In our opinion, management's assertion that the System complied with the allowable cost requirements of the grants and aids appropriations identified in the schedule of expenditures of federal and state awards during the fiscal year ended September 30, 1998, is fairly stated, in all material respects.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Kemp & Green, P.A.*

Kemp & Green, P.A.  
Certified Public Accountants

January 19, 1999

# Comprehensive Annual Financial Report

Utility Board  
City of Key West, Florida

For Fiscal Year Ended  
September 30, 1997

Prepared by:  
Finance Department and General Manager

Stanley T. Rzad  
Finance Manager

Larry J. Thompson  
General Manager



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# Utility Board of the City of Key West, Florida

1001 James St.  
P.O. Drawer 6100  
Key West, Florida 33041-6100

General Manager: (305) 295-1001  
Main Telephone: (305) 295-1000  
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March 11, 1998

**INTRODUCTORY**

To the Chairman and Members  
of the Utility Board of the City  
of Key West, Florida

The Comprehensive Annual Report of the Utility Board of the City of Key West, Florida (the "System") for the Fiscal Year ended September 30, 1997, is submitted herewith, pursuant to and by the authority of Chapter 69-1191, Laws of Florida, as amended, and Resolution No. 532 of the Utility Board, Article V, Section 5.01 (H), adopted November 13, 1985, as amended and supplemented.

The Comprehensive Annual Report was compiled by the staff of the Finance Department with the close cooperation of our independent auditor and represents the official report of the System's financial operations and conditions to the citizens, Utility Board, System management personnel, rating agencies, bond holders and other interested parties.

Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the System. We believe the data, as presented, is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and results of operations and cash flows of the System.

All disclosures necessary for the reader to gain a thorough understanding of the System's financial condition have been included.

In order to meet the needs of a broad spectrum of financial statement readers, the Comprehensive Annual Financial Report is presented in three sections:

- Introductory Section
- Financial Section
- Statistical Section

The **Introductory Section** includes the table of contents, this transmittal letter, a description of our service area, a description of major events in 1997 and a list of principal officials and employees of City Electric System.

The **Financial Section** is composed of the independent auditor's report, the financial statements, supplemental schedules and other auditor's reports. The notes to the financial statements are considered an integral and essential part of adequate disclosure and fair presentation of the financial statements.

## ***Letter of Transmittal***

The **Statistical Section** includes selected financial and demographic trend information. The tables within this section differ from the financial section schedules in that they present some non-accounting data covering more than two fiscal years.

The accounting policies and the presentation of the financial report of the Utility Board of the City of Key West, Florida "City Electric System" (the System) have been designed to conform to generally accepted accounting principles as applicable to governmental units, in accordance with the Governmental Accounting Standards Board (GASB). GASB embodies the official pronouncements previously issued by the National Council on Governmental Accounting (NCGA).

The System applies Financial Accounting Standards Boards (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

### **Financial Information**

#### ***Internal Accounting Controls***

In developing and maintaining the accounting system, consideration is given by the administration as to the adequacy of internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance as to:

- the safeguarding of assets against loss from unauthorized use or disposition;
- The reliability of financial records for preparing financial statements in conformity with generally accepted accounting principles; and
- maintaining accountability for assets.

The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the evaluation of cost and benefits require estimates and judgments by management. An evaluation by our independent auditors disclosed no material weaknesses in the internal control structure of the System.

#### ***Basis of Accounting***

The System's financial statements are prepared on the basis of accounting required by the Federal Energy Regulatory Commission (FERC), which is an application of generally accepted accounting principles that is peculiar to utilities. Revenues are recognized in the period earned and expenses recognized in the period incurred. Budgetary control is

## ***Letter of Transmittal***

maintained through the use of monthly financial reports and the use of purchase orders, work orders, and miscellaneous cash disbursements and approval procedures.

Your attention is directed to Note 1 - Summary of Significant Accounting Policies, which fully describes the accounting practices for the presentation of the financial statements.

### ***Budgetary Control***

Revenue and expense budgets are prepared on an annual basis in accordance with the System's bond indentures and submitted to the Utility Board for approval prior to October 1 of the fiscal year. Legal adoption of budgets is not required. Actual revenues and expenses are compared to the budget on a line item basis (which is the legal level of control) within cost centers, and an analysis of variances report is prepared and submitted to the Utility Board each month as required by bond indentures. During the year, staff can make amendments only within the Operating Budget that do not change the total budget for those categories. The Utility Board must approve all other budget changes, including the Capital Budget. Supplemental appropriations were necessary and the Utility Board in accordance with Utility Board policies amended the budgetary data presented herein. Budget appropriations lapse at each fiscal year-end except for the capital budget. The budget is adopted on a basis consistent with the System's basis of accounting except for depreciation and amortization, and debt service on revenue bonds.

### ***Property, Plant and Equipment***

Property, Plant and Equipment is stated at cost, which includes costs of contract work, labor, materials, allocated indirect charges, and capitalized interest. Major renewals and betterments are capitalized while minor replacements and repairs are expensed as incurred. The cost of electric plant retired, together with removal costs less salvage, is charged to accumulated depreciation at such time as property is removed from service.

### ***Results of Operations***

The primary reasons for changes in the results of operations for the year ended September 30, 1997 compared to the year ended September 30, 1996 are as follows:

**Revenues** increased for 1997 over 1996 by \$5,893,223 or 10.7% primarily due to warmer temperatures and increased loads. Megawatt hour (MWh) sales of 614,953 were greater by 25,997 or 4.4% as compared to 1996.

**Expenses** increased in 1997 from 1996 by \$2,962,056 or 6.5% primarily due to higher costs of purchased power per kWh combined with greater kWh sales. Purchased Power expense for 1997 increased \$2,266,863 compared to 1996 while the cost in mills per 1,000 kWh sold increased 1.81 to 45.95 versus 44.14 in 1996.

## *Letter of Transmittal*

**Non-Operating Revenue and Expenses, Net** of \$1,206,727 in 1997, was lower by \$220,896 compared to 1996. Net Interest Income increased \$58,807 during 1997 due to slightly higher rates. Grant Revenue decreased by \$3,110 related to reimbursements from the Department of Agriculture and Consumer Services for the Tree Give-Away Program. Miscellaneous Non-Operating Revenue was reduced by \$269,702 primarily due to a prior year energy fuel cost refund and additional negotiated pole attachment fees not occurring in 1996. Payment to the City of Key West was higher by \$6,891 as a result of the Bond Resolution formula calculation.

**Net income** was \$5,490,089 for 1997, as compared to \$2,375,908 in 1996. The increase of \$3,114,181 resulted primarily from warmer temperatures and increased loads previously mentioned.

**Total Property, Plant and Equipment** was \$179,209,465 at September 30, 1997, compared to \$173,275,056 at September 30, 1996. Significant projects placed in service occurred in Distribution Plant, Transmission Plant and General Plant. Additional increases occurred in the Non Utility Plant category. Construction in Progress showed a \$1,489,029 net increase during the fiscal year.

### *Rates for Service*

The following table compares average monthly charges for electric service among selected utilities in Florida for the fiscal year ended September 30, 1997.

<b>Comparison of Average Monthly Electric Bills</b>		
	<i>Residential</i> 1,000 kWh	<i>Commercial</i> 30 kWh – 6,000 kWh
Utility Board City of Key West	\$91.81	\$695.62
<i>Other Municipal Utilities in Florida</i> City of Vero Beach	\$86.56	\$532.69
Ft. Pierce Utilities Authority	89.90	569.66
City of Jacksonville Beach	80.35	520.74
<i>Investor Owned Utilities in Florida</i> Florida Power Corporation	\$82.80	407.00
Florida Power & Light	77.20	454.84
Tampa Electric Company	78.49	427.60

*Source: Florida Municipal Electric Association, Inc., Tallahassee, Florida*

### **Customer Statistics**

At fiscal year end 1997, the System's customer base was 26,667 or 453 more than 1996. Peak Demand (60 minute net) increased significantly to 119.7 compared to the 1996 peak of 109.9 due to the combination of warmer temperatures and new load.

## ***Letter of Transmittal***

The residential customer class increased by 378 to 21,910, while average annual consumption rose by 431 kWh to 12,342. The revenue per kWh, expressed in mills, was 91.72 in 1997 compared to 86.87 in 1996.

The commercial customer class increased by 116 to 3,234 while average annual consumption only increased by 69 kWh to 104,912. The revenue per kWh, in mills, was 99.82 in 1997 compared to 94.91 in 1996.

### ***Generating Resources***

The System currently operates nine generating units with total maximum net continuous capability of 50.4 MW. This includes the combustion turbine unit, the two medium-speed diesel units at Stock Island and six high-speed diesel units located at Stock Island, Big Pine Key and Cudjoe Key. The System operates the combustion turbine along with six high-speed and two medium-speed diesel units with No. 2 oil. The Ralph Garcia Steam Plant, 36.0 MW, was decommissioned by the Utility Board August 28, 1996 and the conversion to a synchronous condenser will be completed during the fiscal year ended September 30, 1998. The table entitled "Generation and Capacity Statistics" in the Statistical Section provides more detailed information.

### ***Purchased Power Arrangements***

The Utility Board has entered into several purchased power arrangements including (i) purchases from a small waste-to-energy resource recovery unit located on Stock Island; (ii) purchases from the Florida Municipal Power Agency ("FMPA") Tri-City Project (Stanton 1); (iii) the FMPA Stanton 2 Project; (iv) long-term purchases from Florida Power & Light Company ("FPL"); and (v) interchange service agreements with nineteen Florida utilities.

The Utility Board voted on July 7, 1997, to participate in the FMPA All-Requirements Project whereby the System will purchase their bulk power supply requirements, in excess of certain excluded resources, from the Project. The Contract will become effective upon a date to be determined by the FMPA Board of Directors and shall remain in effect until October 1, 2025.

All of the power purchases listed above, except for the purchase from the resource recovery unit, require transmission over the Florida Keys Electric Cooperative Association, Inc. ("FKEC") transmission system. On January 1, 1992, this became a jointly owned system between the System and FKEC and is covered by a 40-year Long-Term Joint Investment Transmission Agreement. Please see Notes 12 and 13 in the Notes to the Financial Statements for further information.

## ***Letter of Transmittal***

### ***Debt Administration***

The principal amount of revenue bonds outstanding at September 30, 1997 was \$67,365,147 compared to \$73,122,591 at September 30, 1996. All outstanding debt had fixed interest rates. The System issued Electric System Refunding Revenue Bonds; Taxable Series 1995, in the amount of \$14,820,000, to advance refund a portion of outstanding 1985 Series bonds.

Total debt was comprised of four refunding bond issues: 1985, 1987, 1991 and 1995 and one new money issue, 1993. All five issues are rated AAA by Standard & Poor's Ratings Group and insured by AMBAC Indemnity Corporation. Please refer to Note 5 in the Notes to the Financial Statements for further information.

### ***Cash Management***

Restricted assets, as detailed in Notes 2 of the Notes to the Financial Statements, are invested in accordance with the System's practices, which are governed by State Statutes. System monies must be deposited in banks designated as qualified public depositories by the State of Florida, Department of Insurance and Treasurer. Permissible investments include obligations of the U.S. Treasury and U. S. agencies, certificates of deposit and repurchase agreements. The System's investment policy is to obtain competitive yields while providing the absolute maximum security against loss of principal. The cash management performance for the year ended September 30, 1997 produced earnings in the amount of \$1,087,936. This was \$58,807 more than the previous year's earnings as a result of slightly higher interest rates.

### ***Risk Management***

The System's assets are protected through the Risk Management Program developed and managed by the Risk Management Section. A complete listing of coverage's provided is shown on the Schedule of Property, Casualty and Other Insurance on Page 41.

Under this program, coverage is provided for worker's compensation, comprehensive general liability, auto comprehensive and physical damage, crime and fiduciary, errors and omissions, property, boiler and machinery, windstorm, flood and pollution.

The Risk Management Section, through their coordinated and continuous efforts in monitoring potential risk exposures and implementing safety control programs, such as Safety Training Observation Program ("STOP"), coupled with effective claims administration, is striving to meet the goal of continuous no-lost time accidents and minimizing injury claims.

## **Letter of Transmittal**

### **Independent Audit**

The bond indenture requires an annual audit by independent certified public accountants. The Utility Board selected the accounting firm of Kemp & Green, P.A. The auditor's report on the financial statements is included in the Financial Section of this report.

### **Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Utility Board of the City of Key West for its comprehensive annual financial report for the fiscal year ended September 30, 1996. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

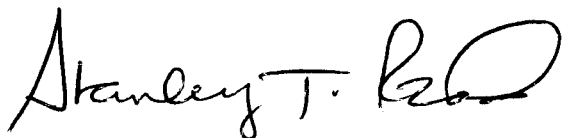
A Certificate of Achievement is valid for a period of one year only. The Utility Board of the City of Key West, Florida has received a Certificate of Achievement for the last five consecutive years (fiscal years ended 1992-1996). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

### **Acknowledgments**

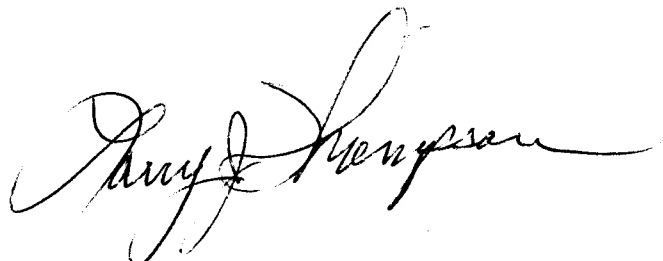
We extend our personal thanks to the dedicated employees who spent many hours preparing, revising and finalizing this document.

In closing, we would like to thank the members of the Utility Board of the City of Key West for their interest and support in planning and conducting the operations of the System in a responsible and progressive manner.

Respectfully submitted,



Stanley T. Rząd  
Finance Manager



Larry J. Thompson  
General Manager



Certificate of Achievement

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

Utility Board of the  
City of Key West,  
Florida

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 1996

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 K. Savitsky*  
President

*Jeffrey L. Essler*  
Executive Director



## Major Events and Initiatives

### Major Events and Initiatives

#### Focus on Becoming the "Utility of Choice"

Throughout 1997 City Electric System focused on preparing for the future and the deregulated environment that the electric utility industry is entering into. City Electric System staff and Utility Board members focused their planning-efforts on answering: how can we become the "Utility of Choice" in the Lower Keys? The System's plans focused on maintaining/reducing rates, increasing reliability and responding to customer needs. The System's Master Plan, originally prepared in 1996 and continually updated, addresses the many issues and programs that support the System's "Utility of Choice" goal .

#### Reduce Costs, Add New Streams of Revenue

In deciding who to buy electricity from, many customers will look at the bottom-line cost. City Electric System is looking at many cost-cutting measures and income-producing opportunities.

In order to reduce customer costs, City Electric System joined the Florida Municipal Power Agency's All-Requirements Project. All Requirements is a strategic alliance with nine other Florida municipal electric utilities. As a member of



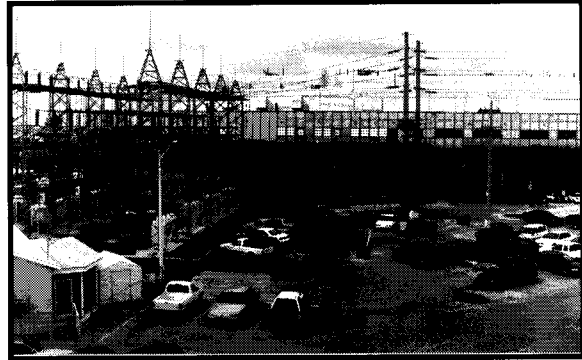
All-Requirements, City Electric System's generation and power requirements will be pooled with the other utilities to achieve significant savings. Projections indicate that CES will realize a savings of more than \$15 million dollars in purchase

power costs which will be reflected in lower fuel adjustment costs for our customers between now and 2004. Also significant, the Project will maintain the Utility Board's policy of providing at least 60 percent on-island backup generation. FMPA will purchase two combustion turbines at a cost of \$10 million dollars for installation in 1998.

As a possible new stream of revenue, City Electric System has continued to look into the possibility of developing the decommissioned Key West Steam Plant. In January, the Utility Board

## *Major Events and Initiatives*

awarded a \$1.2 million contract to LVI Environmental to remove the asbestos in the Plant; and staff reissued the Request for Proposals to lease the Steam Plant. In April, two prospective bidders offered proposals for the redevelopment and long-term lease of the Key West Steam Plant. By September, the Utility Board directed staff to begin negotiating with Washington Square Partners for its proposal to develop a six-plex cinema, restaurants, and a mix of market-rate and affordable housing in the plant. In late 1997, the Utility Board asked Washington Square Partners to consider adding an element of community recreation to their project. In early 1998, the City Commission passed a Resolution asking the Utility Board to delay signing any agreements with Washington Square Partners until the possibility of adding community recreational facilities to the site had been explored. Going into 1998, City Electric System will continue to negotiate with Washington Square Partners while cooperating with the City to develop a project that is in the best interest of the Key West taxpayers and City Electric System ratepayers - taking into account community benefit and financial responsibility.



Finally, maintaining a healthy customer base is critical to maintaining or reducing electric rates. To that end, City Electric System negotiated a five-year contract with the US Navy, which provides a five percent discount to the Navy. City Electric System and the Navy had been without a contract since 1990.

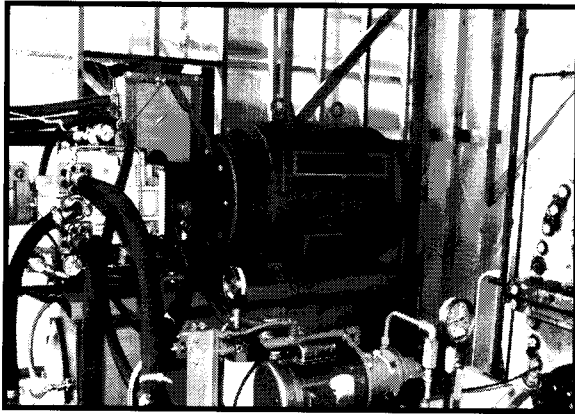
### *Provide Reliable, Quality Electricity*

City Electric System focused on improving electrical reliability throughout 1997. To improve the reliability of City Electric System's distribution system, continued working on its conversion from 4,160 volts to 13,800 volts. Perhaps most impressive was completion of the Thompson Street Substation, which was designed and engineered by City Electric System staff. The substa-

## *Major Events and Initiatives*

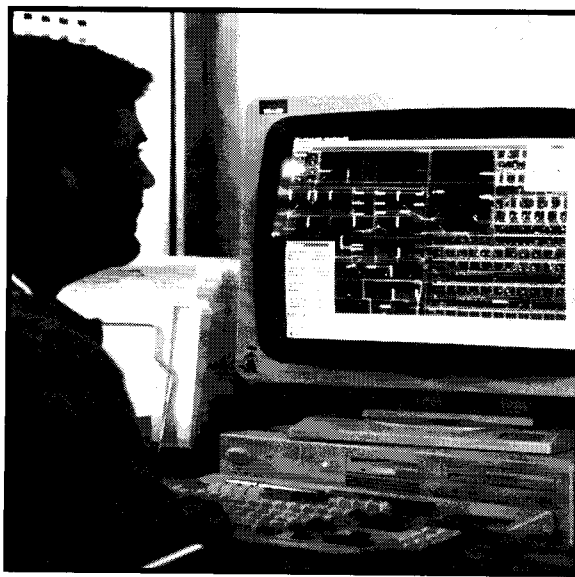
tion was constructed to improve reliability, to prepare for increasing electrical demands in the Key West area, and to prepare for the rebuild of the Key West Steam Plant Substation

Other efforts to improve distribution reliability include establishing a joint-tree trimming program with the City of Key West, Tele-Communications Inc. and Bell South.



To improve transmission reliability and voltage City Electric System continued working with Florida Keys Electric Cooperative to re-insulate the 138kV transmission line between Islamorada and Tavernier. City Electric System also worked throughout 1997 on retrofitting the Ralph Garcia Steam Plant generator into a synchronous condenser. The Synchronous Condenser which was completed in January 1998 will improve voltage stability by

supplying vars. Additionally, the synchronous condenser will increase the import transfer megawatt limit on the transmission line for both City Electric System and FKEC.



Finally, City Electric System completed its geographical information system, which provides a visual database of the System's primary and secondary equipment. The database contains all electrical equipment from the tie line down to the residential meter throughout the service area. Information from the database is accessible throughout the System.

### *Meet Our Customers' Needs*

During 1997 City Electric System strived to provide needed programs and excellent customer service. City Electric System established the Power Sentry Program to

## *Major Events and Initiatives*

provide customers with power surge protection including a whole house protective device which is installed at the meter, power strips and uninterruptible power supplies. The products are offered at cost. City Electric System also established a Disconnect-By-Phone Program to enable customers to call in and request a service disconnect. City Electric System held its second tree giveaway as part of the "Add Some Power to Your Home This Arbor Day" program. Through a grant from the Department of Agriculture and Consumer Services, City Electric System was able to give away more than 3,000 indigenous shade trees. City Electric System also educated the community about the benefits of planting trees in terms of energy conservation.

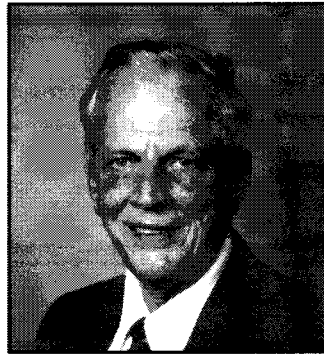
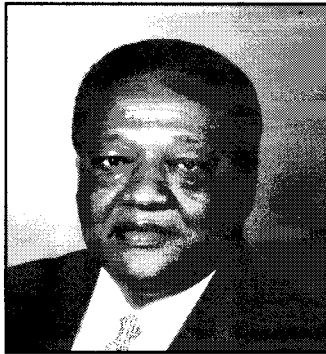


To provide customers with pertinent information, City Electric System established its Community Luncheon program. Every month, City Electric System invited various community leaders to visit for lunch, a discussion of the utility's activities and for a tour. The luncheon program provided valuable feedback from customers. Additionally, City Electric System established its informational web site at [kwcityelectric.com](http://kwcityelectric.com).

City Electric System and its employees are active in the community with membership in both Rotaries; the Military Affairs Committee; the Chamber of Commerce, Leadership Monroe; Governmental Affairs Committee; the Woman's Club; the American Cancer Society; the American Red Cross; the Heart Council; Monroe County Schools; and the Key West Planning Board.

*Officials and Employees*

**Utility Board of the City of Key West, Florida**



**Chairman Robert R. Padron** has served on the Utility Board since 1995. He was employed by City Electric System from 1961 to 1994, and retired as the General Manager. He serves on various committees of the Florida Municipal Electric Association (FMEA) and the American Public Power Association (APPA).

**Vice-Chairman Marty Arnold**, has served on the Utility Board since 1977. He is employed by Monroe County as Director of Code Enforcement. He has a Bachelor of Arts degree from the University of South Florida. He is a member of the FMEA.

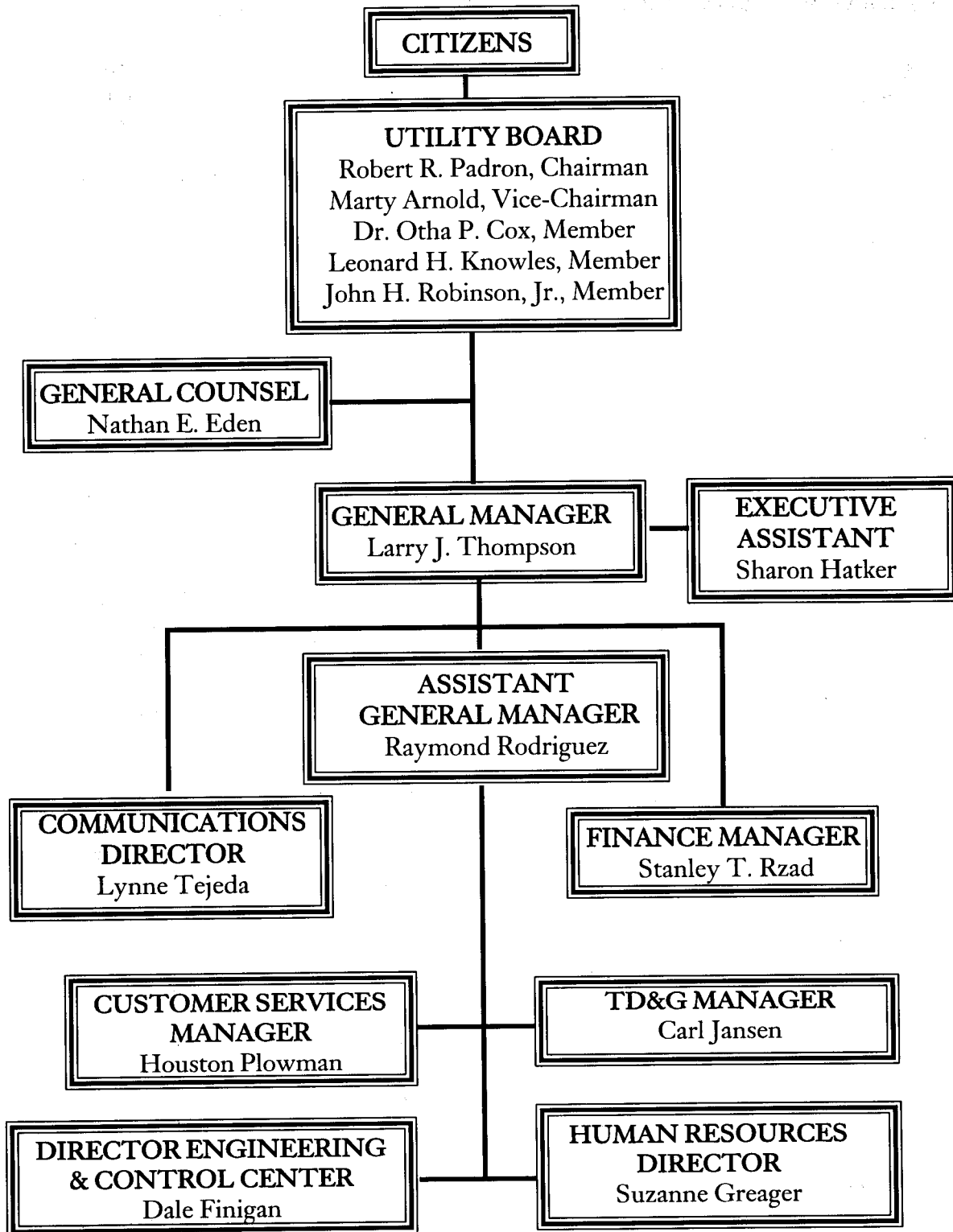
**Dr. Otha P. Cox**, has served on the Utility Board since 1979. He is retired from the Monroe County School Board where he served in various capacities, finishing as Assistant Superintendent of Schools. Dr. Cox has his Ph.D. from Michigan State University. He serves on various committees of the APPA and is a member of the FMEA. He was the 1995 recipient of the APPA's Spence Vanderlinden Public Official Award.

**Leonard H. Knowles**, has served on the Utility Board since 1991. He is employed by Monroe County as Chief Deputy in the Property Appraiser's office. He was employed by City Electric System from 1959 to 1987 retiring as Superintendent of Meter and Commercial Department. He serves on various committees of the FMEA.

**John H. Robinson, Jr.** has served on the Utility Board since 1987. He presently owns and manages property in Monroe County. He serves on various committees of the FMEA.

*Officials and Employees*

**Organizational Chart Fiscal Year ending 1996-97**





Officials and Employees

City Electric System Employees as of September 30, 1997

Sylvia Adams	Jose Del Rio	James Kobezak, Jr.	Randy Roberts, Sr.
John Albury	Julie Diaz	Brenda LaLama	David Rodriguez
Matthew Alfonso	Rolando Diaz	Jose Landrian	Manuel Rodriguez
Barbara Archer	Patty Dixon	Julio Lot	Raymond Rodriguez
Heather Arencibia	Michael Domenech	Tom Mariucci	Steve Rodriguez
Pedro Arencibia	Eugene Edwards	James McClendon	Bobby Ruble
Derek Atwell	Paulette Esquinaldo	Phillip Medina, Jr.	Billy Russel
Jose Avalos	Clarence Ferguson	Ony Mendez	Stan Rzad
Raymond Baker	Dale Finigan	James Menite	Steve Rodriguez
Alfredo Barcenas	Chuck Finlayson, III	Neil Mellies	Manuel Sanchez
Robert Barrios	Nancy Flores	Horace Mobley, Jr.	Chris Sauls
Terry Beeman	Alvin Frazier, III	Patrick Mobley	Rob Shaw
Faye Bethel	Kim Free	Lee Moon	Michael Siegrist *
Harry Bethel, Jr.	Russell Free	David Moss	Vin Smith
Tony Bethel	Daniel Garcia, Jr.	Stephen Nacrelli	Randy Smithwick
Jack Biaza	Eddie Garcia	James Newton	Bob Srednicki
Karla Bravo	Juan Carlos Garcia	Anthony Niles	Sandy Stephenson
Kris Bremer	Mark Garcia	Angel Noda, Jr.	Dennis Stone, Jr.
Lynda Bringle	Ralph A. Garcia	Terry O'Dell	Joe Stone, Jr.
Robert Burchett	Roger George	Chomi Oropeza*	Frank Story
Mike Carey	Dave Gerstenkorn	Paul Overton	Rick Story
Frank Cartonina	Thomas Grassi	Carliss Parks	Holli Summerville
Vince Casas, Jr.	Suzanne Greager	Don Paxson	Andy Tabag
Walter Cashwell	Brodie Grooms	Steve Pereira	Alex Tejada
Dan Cassel	Susan Ham	Desi Perez, Jr.	Lynne Tejada
Manuel Castillo, Jr.	Marvalene Hannibal	Susan Pinder	Larry Thompson
Pat Cates	Sharon Hatker	John Pins *	Lupe Torres
Juan Cavanzon, Jr.	Kevin Hawthorne	Albert Pita, Jr.	Hugo Valdes Jr.
Gloria Cisneros	Vicki Hawthorne	Jerry Pita, Jr.	Bryan Veliz
Carl Clarke	Frank Hernandez	Susy Pita	Chuck Vinson
Jason Cohen	Timothy Hertzog	Houston Plowman	David Wagoner
Michael Commander	Perry Hill	Susie Plowman	Tony Waldner
David Cottar	Carl Jansen	Eva Pope	Diane Wallace
Catherine Courtney	Alberic Jemison	David Price	Charles Walterson, Jr.
Kevin Crockett	Jose Jimenez	Martha Ramas	Stefan Washington
Eric Cubria	Suki Karash	Beverly Ray	Chuck Weitzel
Fred Culppeper	Johnny Kerr	Jim Raymond	Jack Wetzler*
Gay Curry	Sidney Kerr	Roger Rewolinski	Bobby Wickes
John Curry	Steven Key	Anne Rivera	Eddie Williams, Sr.
Larry Davila	Harold Knowles	Mary Ellen Roberts	Lee Yongue
Wayne Davila, Sr.	Patricia Knowles	Milton Roberts	Lazaro Zerpa

\* Employees of the Quarter in 1997

**KEMP & GREEN, P.A.**

*Certified Public Accountants*  
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P. O. BOX 1529  
KEY WEST, FLORIDA 33041-1529  
(305) 294-2581  
FAX # (305) 294-4778

MEMBER OF AMERICAN INSTITUTE  
AND FLORIDA INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

WM. O. KEMP, C.P.A.  
MARVA E. GREEN, C.P.A.

INDEPENDENT AUDITORS' REPORT

Utility Board of the City  
of Key West, Florida  
"City Electric System"  
Key West, Florida

**FINANCIAL**

We have audited the accompanying financial statements of the Utility Board of the City of Key West, Florida ("the System") as of and for the years ended September 30, 1997 and 1996 as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility Board of the City of Key West, Florida, as of September 30, 1997 and 1996, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

In accordance with Government Auditing Standards, we have also issued a report dated January 7, 1998 on our consideration of the System's internal control and a report dated January 7, 1998 on its compliance with laws and regulations.

*Kemp & Green, P.A.*

Kemp & Green, P.A.  
Certified Public Accountants

January 7, 1998

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

BALANCE SHEETS

SEPTEMBER 30, 1997 AND 1996

	<u>1997</u>	<u>1996</u>
<u>ASSETS</u>		
Property, Plant and Equipment:		
Utility Plant	\$ 159,925,254	\$ 173,275,056
Non-Utility Plant	<u>19,284,211</u>	<u>                    </u>
Total Property, Plant and Equipment	179,209,465	173,275,056
Less Accumulated Depreciation	<u>73,015,550</u>	<u>68,474,322</u>
	106,193,915	104,800,734
Construction in Progress	<u>4,752,830</u>	<u>3,263,801</u>
Net Property, Plant and Equipment	<u>110,946,745</u>	<u>108,064,535</u>
Restricted Assets:		
Cash and Cash Equivalents	25,562,082	22,813,990
Investments	1,566,475	2,705,916
Interest Receivable	<u>277,051</u>	<u>189,149</u>
Total Restricted Assets	<u>27,405,608</u>	<u>25,709,055</u>
Current Assets:		
Cash and Cash Equivalents	461,415	434,908
Customer Accounts Receivable, net of Allowance for Bad Debts of \$163,704 and \$ 123,007 for 1997 and 1996 respectively	4,862,589	4,058,834
Other Accounts Receivable	250,487	493,117
Plant Material and Operating Supplies Inventory	1,864,359	2,351,699
Fuel Stock	477,404	629,585
Prepaid Expenses	<u>551,016</u>	<u>579,822</u>
Total Current Assets	<u>8,467,270</u>	<u>8,547,965</u>
Bond Discount and Issue Costs, Net	<u>2,619,118</u>	<u>3,090,518</u>
Total Assets	<u>\$ 149,438,741</u>	<u>\$ 145,412,073</u>

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

BALANCE SHEETS (Continued)

SEPTEMBER 30, 1997 AND 1996

EQUITY AND LIABILITIES

	<u>1997</u>	<u>1996</u>
Equity:		
Retained Earnings:		
Reserved for Debt Service	1,724,280	6,420,587
Unreserved	<u>22,758,623</u>	<u>12,476,472</u>
Total Retained Earnings	<u>24,482,903</u>	<u>18,897,059</u>
Contributed Capital	<u>2,007,287</u>	<u>1,891,656</u>
Total Equity	<u>26,490,190</u>	<u>20,788,715</u>
Long-term Debt, Net of Current Portion:		
Revenue Bonds	67,365,147	73,122,591
Accrued Interest	<u>36,706,380</u>	<u>33,210,249</u>
Total Long-term Debt	<u>104,071,527</u>	<u>106,332,840</u>
Amounts Payable from Restricted Assets:		
Current Portion of Long-Term Debt	7,532,728	6,782,728
Accounts Payable	381,094	409,507
Accrued Interest	1,052,507	1,123,187
Due to Customers	4,217,713	4,040,561
Deferred Compensation Payable	<u>                    </u>	<u>633,640</u>
Total Amounts Payable from Restricted Assets	<u>13,184,042</u>	<u>12,989,623</u>
Current Liabilities:		
Accounts Payable	4,335,392	4,052,543
Accrued Expenses	<u>1,127,300</u>	<u>1,138,957</u>
Total Current Liabilities	<u>5,462,692</u>	<u>5,191,500</u>
Deferred Revenue	<u>230,290</u>	<u>109,395</u>
Total Liabilities	<u>122,948,551</u>	<u>124,623,358</u>
Total Equity and Liabilities	<u>\$ 149,438,741</u>	<u>\$ 145,412,073</u>

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA  
STATEMENTS OF REVENUES, EXPENSES AND RETAINED EARNINGS  
FOR THE YEARS ENDED SEPTEMBER 30, 1997 AND 1996

	<u>1997</u>	<u>1996</u>
Operating Revenues	\$ 60,837,474	\$ 54,944,251
Operating Expenses:		
Production Expenses - Steam	1,388,706	1,386,683
Production Expenses - Diesel	1,727,963	2,043,022
Purchased Power	28,430,580	26,163,717
Transmission Expenses	664,908	263,685
Distribution Expenses	2,672,478	2,105,483
Customer Accounts and Collection Expenses	990,636	932,196
Administrative and General Expenses	5,777,256	5,866,009
Depreciation	5,237,831	5,286,752
Taxes Other than Income Taxes	<u>1,519,541</u>	<u>1,400,296</u>
Total Operating Expenses	<u>48,409,899</u>	<u>45,447,843</u>
Income From Operations	<u>12,427,575</u>	<u>9,496,408</u>
Non-operating Revenue and Expenses:		
Interest Income	1,087,936	1,029,129
Grant Revenue	14,840	17,950
Miscellaneous Non-operating Revenue	321,405	591,107
Payment to City of Key West	<u>(217,454)</u>	<u>(210,563)</u>
	<u>1,206,727</u>	<u>1,427,623</u>
Income Before Debt Expenses	<u>13,634,302</u>	<u>10,924,031</u>
Debt Expenses:		
Interest	7,831,873	8,064,523
Amortization of Bond Discount and Issue Costs	<u>312,340</u>	<u>483,600</u>
Total Debt Expenses	<u>8,144,213</u>	<u>8,548,123</u>
Net Income	5,490,089	2,375,908
Amounts Arising from Contributions in Aid of Construction Applicable to Depreciation on Contributed Assets	95,755	84,057
Retained Earnings, Beginning of Year	<u>18,897,059</u>	<u>16,437,094</u>
Retained Earnings, End of Year	<u>\$ 24,482,903</u>	<u>\$ 18,897,059</u>

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 1997 AND 1996

Increase (Decrease) in Cash and Cash Equivalents

	<u>1997</u>	<u>1996</u>
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 59,885,073	\$ 55,407,230
Cash Payments to Suppliers for Goods and Services	(33,585,695)	(30,271,775)
Cash Payments to Employees for Services	(6,633,699)	(6,601,705)
Cash Received for Deposits	845,679	1,439,516
Cash Deposits Refunded	(668,527)	(1,123,504)
Cash Paid for Taxes	(1,525,453)	(1,353,144)
Cash Received from Other Operating Sources	<u>498,405</u>	<u>504,150</u>
Net Cash Provided by Operating Activities	<u>18,815,783</u>	<u>18,000,768</u>
Cash Flows (Used by) Noncapital Financing Activities:		
Cash Received from Grants	14,840	17,950
Cash Paid to City of Key West, Florida	<u>(217,454)</u>	<u>(210,563)</u>
Net Cash (Used by) Non-Capital Financing Activities:	<u>(202,614)</u>	<u>(192,613)</u>
Cash Flows (Used by) Capital and Related Financing Activities:		
Principal Paid on Revenue Bond Maturities	(6,985,000)	(8,660,000)
Interest Paid on Revenue Bond Maturities	(2,371,093)	(2,141,877)
Contributions in Aid of Construction	211,386	373,482
Acquisition and Construction of Capital Assets	(8,155,063)	(6,019,454)
Proceeds from Sale of Equipment	6,609	3,733
Disposal Costs of Assets Retired or Sold	<u>-</u>	<u>(10,242)</u>
Net Cash (Used by) Capital and Related Financing Activities	<u>(17,293,161)</u>	<u>(16,454,358)</u>
Cash Flows From Investing Activities:		
Maturities of Investments	456,000	555,000
Purchase of Investment Securities	-	(165,253)
Interest Received on Investments	<u>998,591</u>	<u>1,028,437</u>
Net Cash Provided by Investing Activities	<u>1,454,591</u>	<u>1,418,184</u>
Net Increase in Cash and Cash Equivalents	2,774,599	2,771,981
Cash and Cash Equivalents at Beginning of Year	<u>23,248,898</u>	<u>20,476,917</u>
Cash and Cash Equivalents at End of Year	<u>\$ 26,023,497</u>	<u>\$ 23,248,898</u>

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

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

STATEMENTS OF CASH FLOWS (Continued)

FOR THE YEARS ENDED SEPTEMBER 30, 1997 AND 1996

Reconciliation of Operating Income to Net Cash Provided by  
Operating Activities

	<u>1997</u>	<u>1996</u>
Operating Income	\$ <u>12,427,575</u>	\$ <u>9,496,408</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	5,237,831	5,286,752
Provision for Uncollectible Accounts	144,342	98,850
Amortization of Deferred Revenue	(40,658)	(29,134)
Receipt of Deferred Revenue	161,553	28,693
Deferred Compensation Contributions	-	165,253
Other Operating Sources	321,405	591,107
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(705,467)	114,411
Decrease in Plant Material, Inventory and Fuel Stock	639,521	621,748
(Increase) Decrease in Prepaid Expenses	181,337	(146,176)
Increase in Accounts Payable	282,849	1,377,713
Increase (Decrease) in Accrued Expenses	(11,657)	79,131
Increase in Amounts Due to Customers	<u>177,152</u>	<u>316,012</u>
Total Adjustments	<u>6,388,208</u>	<u>8,504,360</u>
Net Cash Provided by Operating Activities	\$ <u>18,815,783</u>	\$ <u>18,000,768</u>

Supplemental Schedule of Non-cash Financing, Capital, and Investing Activities:

In 1997 and 1996, amortization of bond discount and issue costs was \$312,340 and \$483,600, respectively.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1997 AND 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and the presentation of the financial report of the Utility Board of the City of Key West, Florida "City Electric System" (the System) have been designed to conform to generally accepted accounting principles as applicable to governmental units, in accordance with the Governmental Accounting Standards Board (GASB). GASB embodies the official pronouncements previously issued by the National Council on Governmental Accounting (NCGA). The System applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The following is a summary of the significant accounting policies.

Entity Definition - The present System was created by an Act of the Florida Legislature to manage, operate and maintain the electric utility servicing the citizens of the City of Key West, Florida (the City) and the lower Florida Keys. The System is the successor of the electric public utility once owned by the City and was given all powers and rights necessary to manage, operate, maintain, control, and extend the electric utility property owned by the City of Key West at the time of its creation. The Board is composed of a Chairman who is elected every two years and four members who are elected every four years by the voters of the City. The Manager of the System serves as Secretary to the Board and is also responsible for the day to day operations of the System. The System is not a component unit of the City.

Measurement Focus - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The System's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the enterprise fund are included on the balance sheet. Fund equity (i.e. net total assets) is segregated into contributed capital and retained earnings components. Operating statements present increases (e.g. revenue) and decreases (e.g. expenses) in net total assets.

Basis of Accounting - The System's financial statements are accounted for on the basis of accounting required by the Federal Energy Regulatory Commission (FERC), which is an application of generally accepted accounting principles that is peculiar to utilities. Revenues are recognized in the period earned and expenses recognized in the period incurred.



UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1997 AND 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budget - Revenue and expense budgets are prepared on an annual basis in accordance with the System's bond indentures and submitted to the Utility Board for approval prior to October 1 of the fiscal year. Legal adoption of budgets is not required. Actual revenues and expenses are compared to the budget on a line item basis (which is the legal level of control) within cost centers and an analysis of variances report is prepared and submitted to the Utility Board each month as required by bond indentures. During the year, staff can make amendments within the operating budget or the capital budget that do not change the total budget for those categories. All other budget changes are approved by the Utility Board. Supplemental appropriations were necessary and the budgetary data presented herein was amended by the Utility Board in accordance with Utility Board policies. Budget appropriations lapse at each fiscal year-end except for the Capital Budget. The budget is adopted on a basis consistent with the System's basis of accounting except for depreciation and amortization, and debt service on revenue bonds.

Cash and Investments - Cash and investments are recorded at cost or amortized cost. Amortized cost does not significantly vary from market value. The System's investment policies are governed by Florida Statutes. These policies are described in more detail in Note 3.

Revenue - Revenue is recognized on the basis of monthly cycle billings to customers. Revenue is not accrued for services supplied but unbilled at the end of the fiscal period. Charges for new service are reported as revenue only to the extent of connection costs, while amounts exceeding this cost are recorded as additions to contributed capital.

Bond Discount and Issue Costs - Bond discount and issue costs consist of debt issue costs, original issue discounts, and underwriter discounts which are capitalized and amortized over the term of the related indebtedness.

Property, Plant and Equipment - Property, Plant and Equipment is stated at cost, which includes costs of contract work, labor, materials and allocated indirect charges, and capitalized interest. Major renewals and betterments are capitalized while minor replacements and repairs are expensed as incurred. Under FERC accounting practices and procedures, the cost of electric plant retired, together with removal costs less salvage, is charged to accumulated depreciation at such time as property is removed from service.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1997 AND 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following is a summary of Property, Plant and Equipment for the year ended September 30, 1997:

	<u>Balance</u> 1996	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance</u> 1997
Steam Plant	\$ 45,524,494	\$ 1,455	\$ (193,105)	\$ (17,228,509)	\$ 28,104,335
Combustion Engine Production Plant	35,135,856	25,617	(28,003)	-	35,133,470
Transmission Plant	50,203,020	924,868	-	-	51,127,888
Distribution Plant	32,875,744	2,662,258	(153,811)	-	35,384,191
General Plant	9,315,678	995,724	(356,296)	-	9,955,106
Other	220,264	-	-	-	220,264
Accumulated Depreciation					
- Utility Plant	(68,474,322)	(5,244,440)	703,212	16,274,438	(56,741,112)
Non-Utility Plant	-	2,055,702	-	17,228,509	19,284,211
Accumulated Depreciation Non-Utility Plant	-	-	-	(16,274,438)	(16,274,438)
Construction in Progress	<u>3,263,801</u>	<u>6,070,948</u>	<u>(4,581,919)</u>	-	<u>4,752,830</u>
Net Property, Plant and Equipment	<u>\$108,064,535</u>	<u>\$ 7,492,132</u>	<u>\$ (4,609,922)</u>	<u>\$ -</u>	<u>\$110,946,745</u>

The System's policy concerning capitalized interest costs is in accordance with Statement of Financial Accounting Standards No. 62, which requires the capitalization of interest costs of restricted tax exempt borrowings less any interest earned on investment funds during the construction period. For the years ended 1997 and 1996, there was no capitalized interest cost.

Property, Plant and Equipment is depreciated using the straight line method at rates which will amortize costs over the estimated useful lives of the assets. The estimated useful lives of the electric plant assets are as follows:

Steam Plant	28 - 30 Years
Combustion Engine Production Plant	25 Years
Transmission Plant	31 - 45 Years
Distribution Plant	20 - 45 Years
General Plant	8 - 40 Years
Non-Utility Plant	Not in Service

The Ralph Garcia Steam Plant will be converted from a production facility to a transmission facility January, 1998 pursuant to a plan adopted by the System's Board August, 1996. In connection with this plan, the Utility Board declared equipment, with a net book value of approximately \$7,800,000, and

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1997 AND 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

\$347,000 of supplies in inventory as surplus. The salvage value of the equipment and supplies is not presently known. Additional costs of the conversion are expected to be approximately \$575,000.

Income Taxes - No provision for income taxes is reflected in the financial statements as the system is considered to be a unit of local government.

Inventory - Inventories are stated at the lower of cost (determined on a average cost basis) or market.

Interest - Interest for the years ended September 30, 1997 and 1996 is summarized as follows:

	<u>1997</u>	<u>1996</u>
Bond Issue:		
Electric Refunding Revenue Bonds, Series 1985	\$ 50,250	\$ 581,124
Electric Refunding Revenue Bonds, Series 1987	4,436,985	4,164,890
Electric Revenue Bonds, Series 1988	-	26,520
Electric Refunding Revenue Bonds, Series 1991	1,741,145	1,688,270
Electric Revenue Bonds, Series 1993	253,820	265,720
Electric Refunding Revenue Bonds, Taxable Series 1995	944,480	944,480
Series 1995 Loss on Refunding	202,272	202,272
Interest on Customer Deposits	196,396	190,965
Other	<u>6,525</u>	<u>282</u>
Total Interest Expense	<u>\$ 7,831,873</u>	<u>\$ 8,064,523</u>

Compensated Absences - The System records compensation for unused vacation and sick leave as an expense in the year in which the vacation and sick leave is earned in accordance with GASB Statement No. 16. At September 30, 1997, annual vacation leave earned but not taken is \$320,804 and sick leave accumulated but not taken is \$381,110.

Reserves - Reserves representing the excess of amounts provided for certain restricted asset accounts over the liabilities payable therefrom are established by a reservation of retained earnings. The restricted assets and

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1997 AND 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

liabilities are used to indicate a segregation of a portion of retained earnings equal to the net current assets that are restricted for meeting various covenants as may be specified and defined in the various revenue bond indentures. Usage of reserves has been limited to Reserve for Debt Service, which is restricted for future servicing of revenue bonds and meeting of various contingencies as may be so specified and defined in the indenture (frequently referred to as renewal and replacement).

NOTE 2 - RESTRICTED CASH AND INVESTMENTS

Certain assets are restricted by bond resolutions; additionally, some assets have been classified as restricted in accordance with government accounting standards for enterprise funds and utility industry accounting practices.

The System's restricted cash and investments as of September 30, 1997 and 1996 consist of the following:

	<u>1997</u>		<u>1996</u>	
	<u>Cash and Investments (Including Interest Receivable)</u>	<u>Interest Earned</u>	<u>Cash and Investments (Including Interest Receivable)</u>	<u>Interest Earned</u>
Debt Service Reserve	\$ -	\$ 197,773	\$ 5,177,025	\$ 298,274
Emergency Reserve	1,006,394	53,009	1,009,193	55,022
Sinking Fund	8,930,255	163,276	7,710,349	184,298
New Service Fees	911,803	16,797	676,949	10,121
Renewal and Replacement Fund	6,703,084	167,665	1,621,373	63,524
Bond Amortization Fund	1,581,534	111,878	1,565,032	111,878
Interest Escrow Fund	-	-	51,243	-
Rate Stabilization Fund	4,014,506	154,226	3,181,989	73,393
Capitalized Interest Fund	-	-	11,249	-
Customer Deposits and Interest Thereon	4,258,032	196,623	4,071,013	202,729
Deferred Compensation Funds	-	-	633,640	-
	<u>\$27,405,608</u>	<u>\$ 1,061,247</u>	<u>\$25,709,055</u>	<u>\$ 999,239</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1997 AND 1996

NOTE 2 - RESTRICTED CASH AND INVESTMENTS (Continued)

The System is required by revenue bond covenants to maintain a debt service reserve account in the amount of its highest annual debt service. As of September 30, 1996, this requirement was satisfied by the maintenance of an investment account equal to half of the highest annual debt service and the purchase of a debt surety bond. For the year ended 1997, the requirement is now entirely satisfied by a debt surety bond. The excess debt service funds were transferred to the renewal and replacement fund.

NOTE 3 - CASH AND INVESTMENTS

The System's investment policies are governed by State Statutes. In addition, the System has its own investment practices. System monies must be deposited in banks designated as qualified public depositories by the State of Florida, Department of Insurance and Treasurer. Permissible investments include the obligations of the U.S. Treasury and U.S. agencies, certificates of deposit and repurchase agreements.

Collateral is provided for demand deposits and certificates of deposit through the Florida Security for Public Deposits Act. This Act established guidelines for qualification and participation by banks and savings associations; procedures for the administration of the collateral requirements and characteristics of eligible collateral. Under the Act, the qualified public depository must pledge at least 50% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance.

Additional collateral, up to a maximum of 125%, may be required, if deemed necessary under the conditions set forth in the Act. Eligible collateral consists of obligations of the United States and its agencies and obligations of states and their political subdivisions, and unaffiliated corporations.

Obligations pledged to secure deposits must be delivered to the State Treasurer or, with the approval of the State Treasurer, to a bank, savings association, or trust company provided a power of attorney is delivered to the Treasurer. On a monthly basis, the State Treasurer determines that the collateral has a market value adequate to cover the deposits under the provisions of the Act.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1997 AND 1996

NOTE 3 - CASH AND INVESTMENTS (Continued)

For purposes of the statement of cash flows, the System considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments - The U.S. Treasury obligations are held by the System's agent in the System's name. Investments are as follows:

	<u>1997</u>		<u>1996</u>	
	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Carrying Amount</u>	<u>Market Value</u>
U.S. Government Securities	<u>\$ 1,566,475</u>	<u>\$ 1,566,475</u>	<u>\$ 2,072,276</u>	<u>\$ 2,072,276</u>

Deposits at September 30, 1997 and 1996 are as follows:

	<u>1997</u>	<u>1996</u>
Demand Deposits and Cash	\$ 1,058,540	\$ 1,500,424
Certificates of Deposit	22,329,288	18,112,291
Money Market Deposits	<u>2,635,669</u>	<u>3,636,185</u>
	<u>\$ 26,023,497</u>	<u>\$ 23,248,900</u>

All demand deposits and certificates of deposit are fully collateralized through the Florida Securities for Public Deposits Act, and are considered insured for risk categorization purposes.

NOTE 4 - NON-UTILITY PLANT

The Key West Steam Plant, which has a cost of \$19,284,211 and accumulated depreciation at \$16,274,438 at September 30, 1997, has been idle since 1991. The plant has been decommissioned at a cost of \$2,055,702.

The System issued a request for proposals January, 1997 to qualified developers for the long-term lease and development of the Key West Steam Plant. It is anticipated that the negotiation process with the successful applicant will be completed by September, 1998.



UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1997 AND 1996

NOTE 5 - LONG TERM DEBT

	<u>1997</u>	<u>1996</u>
Revenue Bonds:		
Electric System Refunding Revenue Bonds, Series 1985 collateralized by Net Revenues and certain Reserve Funds, payable October 1, 1997 in a final installment bearing interest at 8.375%	\$ 600,000	\$ 3,237,559
Electric System Refunding Revenue Bonds, Series 1987, collateralized by Net Revenues and certain Reserve Funds, payable from October 1, 1997 to October 1, 2013 in installments of various amounts, bearing interest at rates from 6.5% to 7.5%	30,934,336	31,216,711
Electric System Revenue Bonds, Series 1988, collateralized by Net Revenues and certain Reserve Funds, payable October 1, 1996 in a final installment bearing interest at 6.8%	-	390,000
Electric System Refunding Revenue Bonds, Series 1991, collateralized by Net Revenues and certain Reserve Funds, payable October 1, 1997 to October 1, 2018 in installments of various amounts, bearing interest at rates from 5.9% to 7.1%	21,822,785	21,877,785
Electric System Revenue Bonds, Series 1993, collateralized by Net Revenues and certain Reserve Funds, payable from October 1, 1997 to October 1, 2008 in installments of various amounts, bearing interest at rates from 3.65% to 5.3%	5,525,000	5,865,000
Electric System Refunding Revenue Bonds, Taxable Series 1995, collateralized by Net Revenues and certain Reserve Funds, payable from October 1, 1997 to October 1, 2000 in installments of various amounts, bearing interest at rate from 6.2% to 6.5%	14,820,000	14,820,000
Deferred Loss on Refunding, amortized on the straight line basis over the term of the Series 1995 Revenue Bonds	<u>(579,530)</u>	<u>(781,802)</u>
Total Revenue Bonds	73,122,591	76,625,253
Less Current Portion	<u>5,757,444</u>	<u>3,502,662</u>
Net Long-Term Revenue Bonds	<u>\$ 67,365,147</u>	<u>\$ 73,122,591</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1997 AND 1996

NOTE 5 - LONG TERM DEBT (Continued)

Changes in Revenue Bonds during 1996 are as follows:

	<u>1996</u>	<u>Additions</u>	<u>Retired</u>	<u>1997</u>
Series 1985	\$ 3,237,559	\$ -	\$ 2,637,559	\$ 600,000
Series 1987	31,216,711	-	282,375	30,934,336
Series 1988	390,000	-	390,000	-
Series 1991	21,877,785	-	55,000	21,822,785
Series 1993	5,865,000	-	340,000	5,525,000
Series 1995, net	<u>14,038,198</u>	<u>-</u>	<u>(202,272)</u>	<u>14,240,470</u>
	<u>\$ 76,625,253</u>	<u>\$ -</u>	<u>\$ 3,502,662</u>	<u>\$ 73,122,591</u>

Net Revenues, as defined for purposes of bond security, is all income or earnings derived from the operation of the System, except Capital Improvement Charges, investment earnings on Construction and Bond Amortization Funds, and transfers to the Rate Stabilization Fund, less costs of operation and maintenance which do not include capital expenditures, extraordinary repairs, amortization of the costs of issuance of debt obligations, payments under Unconditional Output Contracts, or depreciation. See Note 7 for the rate covenant pertaining to revenues.

Summary of Debt Service Funding Requirements to Maturity

(In Thousands of Dollars)

Years Ending October 1	1987 Bonds	1991 Bonds	1993 Bonds	1995 Bonds	Funds Provided by Bond Amortization Investment	Net Debt Service
1998	\$ 3,575	\$ 1,379	\$ 606	\$ 4,288	\$ (121)	9,727
1999	3,570	1,379	612	4,287	(120)	9,728
2000	2,655	1,376	611	5,208	(121)	9,729
2001	8,019	1,377	615	-	(121)	\$ 9,890
2002	8,015	1,379	616	-	(121)	9,889
2003-2007	41,606	6,883	3,122	-	(2,122)	49,489
2008-2012	39,483	6,884	632	-	-	46,999
2013-2017	7,900	38,452	-	-	-	46,352
2018	-	9,270	-	-	-	9,270
	<u>114,823</u>	<u>68,379</u>	<u>6,814</u>	<u>13,783</u>	<u>(2,726)</u>	<u>201,073</u>
Less amounts Representing Interest and Maturing Investments	<u>85,733</u>	<u>47,031</u>	<u>1,639</u>	<u>1,653</u>	<u>(2,726)</u>	<u>133,330</u>
	<u>\$ 29,090</u>	<u>\$ 21,348</u>	<u>\$ 5,175</u>	<u>\$ 12,130</u>	<u>\$ -</u>	<u>\$ 67,743</u>



UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1997 AND 1996

NOTE 5 - LONG TERM DEBT (Continued)

Prior to the due date of each series of revenue bonds, the System is required to set aside sufficient funds to retire the matured principal amounts in equal, monthly amounts. Accordingly, the above schedule does not include principal amounts maturing October 1, 1997 as those funding requirements have been fully satisfied.

The long-term portion of accrued interest represents amounts payable on capital appreciation bonds which will become due October 1, 1997 to October 1, 2018. No interest is payable on these bonds until their scheduled maturity at which time it is paid in full with the principal amount.

NOTE 6 - PRIOR YEAR DEFEASANCE OF DEBT

During 1995, 1991, 1987 and 1986, the System defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the System's financial statements. At September 30, 1997, \$42,691,841 of bonds outstanding relative to the 1980C, 1983, 1984 and 1980D issues, \$26,427,903 relative to the 1985 issue, and \$17,686,919 relative to the 1988 issue are considered defeased.

NOTE 7 - RATE COVENANT

The System has agreed to establish and revise rates such that revenues will be sufficient to pay 100% of its costs of operations and maintenance, all required reserve payments, and 125% of the principal and interest becoming due on all outstanding bonds.

NOTE 8 - PENSION PLAN

Plan Description - The Retirement System for General Employees (the Plan) is a single-employer defined benefit pension plan administered by the Board of Trustees of the Plan. The Plan provides retirement, disability and death benefits to plan members and beneficiaries. Cost of living adjustments are automatically provided to members and beneficiaries at the rate of 2% per year. The Plan was created by resolution of the System, which resolution

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1997 AND 1996

NOTE 8 - PENSION PLAN (Continued)

assigns the authority to establish and amend its provisions to the Utility Board. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Retirement System for General Employees, P.O. Drawer 6100, Key West, FL 33041-6100.

Basis of Accounting - The financial statements of the Plan are prepared using the accrual basis of accounting. Plan members have not been required to contribute to the Plan since October 1, 1985. However, if a member has had a break in service and returns to work for the System, the Plan permits them to "buy back" their benefits earned at the time of the break in service. The System's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits are recognized when due and payable in accordance with the terms of the Plan.

Plan investments are reported at fair value. Short-term investments are reported at cost which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Plan investments do not include any of the System's debt securities. All investments represent less than 5% of Plan net assets.

Schedule of Funding Progress

(Dollar Amounts in Thousands)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Valuation Date	Actuarial Value of Assets (AVA)	Entry Age Normal Actuarial Accrued Liability	(Overfunded) Unfunded Actuarial Accrued Liability (UAAL) (3)-(2)	Funded Ratio (2)/(3)	Annual Covered Payroll	(Overfunded) Unfunded UAAL as % of Payroll (4)/(6)
January 1, 1992	\$ 21,470	\$ 21,767	\$ 297	98.6%	\$ 5,741	5.2%
January 1, 1993	\$ 22,760	\$ 23,715	\$ 955	96.0%	\$ 5,964	16.0%
January 1, 1994	\$ 25,161	\$ 25,589	\$ 428	98.3%	\$ 6,264	6.8%
January 1, 1995	\$ 24,597	\$ 27,329	\$ 2,732	90.0%	\$ 6,256	43.7%
January 1, 1996	\$ 30,143	\$ 32,190	\$ 2,047	93.6%	\$ 5,783	35.4%
January 1, 1997	\$ 34,436	\$ 33,475	\$ (961)	102.9%	\$ 5,866	(16.4%)

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1997 AND 1996

NOTE 9 - DEFERRED REVENUE

The System has an agreement with Tele-Communications, Inc. (TCI), a cable television company, whereby the System receives a fee for the attachment of cable television lines to the electric poles. The System incorporated certain design modifications in the tieline project at additional cost in order that TCI's lines could be properly attached. The additional revenue pertaining to the design modifications was received in a lump sum and is being amortized on a straight line basis over the remaining term of the agreement, approximately 7 years.

NOTE 10 - LEASES

Rent expense under cancelable operating leases was \$50,031 and \$53,639 in 1997 and 1996, respectively.

NOTE 11 - CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction consisted of the following at September 30, 1997 and 1996:

	<u>1997</u>	<u>1996</u>
Opening Balance	\$ 1,891,656	\$ 1,602,231
Contributions Received	211,386	373,482
Depreciation on Assets Constructed with Restricted Resources	<u>(95,755)</u>	<u>(84,057)</u>
Ending Balance	<u>\$ 2,007,287</u>	<u>\$ 1,891,656</u>

NOTE 12 - PURCHASED POWER COMMITMENTS

The System has an agreement with the Florida Municipal Power Agency ("FMPA") that provides for the purchase of electric generating capacity entitlement of approximately 12.4 megawatts from the Tri City Project (Stanton 1), a 430 megawatt coal fired generating unit that began commercial operations in July 1987.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1997 AND 1996

NOTE 12 - PURCHASED POWER COMMITMENTS (Continued)

The agreement will remain in effect until the latest of (1) the date that the bonds issued to fund the construction of the project are paid, (2) the date the Tri City Project is no longer used to produce electricity or the FMPA no longer has an interest in it, or (3) the date FMPA satisfies all obligations under the project participation agreement.

Under the agreement, the System is committed to purchase certain energy output associated with the purchased generating capacity entitlement. The total cost to be incurred under this agreement is dependent on budgeted power and transmission costs prepared on a yearly basis. The budget may be amended if at any time the budget will not substantially correspond with actual costs. The budget is reviewed at least quarterly. The fixed costs are payable whether or not any energy is actually produced by the Tri City Plant Project or purchased by the System. Total costs incurred for the years ended September 30, 1997 and 1996 were \$4,270,887 and \$4,743,087 respectively.

The System's portion of the charges for electric generating capacity in 1998 are estimated by FMPA to be as follows:

<u>Variable Per</u>	<u>Fixed Costs</u>
<u>Megawatt Hour</u>	
\$ 18.86	\$ 3,003,230

The Utility Board entered into an agreement with Florida Power and Light Company (FPL) effective on June 1, 1993, which will continue in effect for 20 years. The initial contract demand is 45 megawatts. The contract demand for each year is to be designated by September 1 of each prior year, but the contract demand cannot be less than the initial contract demand during the term of the agreement. The charge for the initial contract demand of 45 megawatts is the sum of the levelized demand charge and the levelized demand charge adder, which totaled \$9.55 and \$9.99 per kilowatt month for 1997 and 1996 respectively. The charge is subject to potential future adjustments based on formulary methodology, whereby monthly payments are estimated subject to an annual adjustment to prior year actual costs.

The System has an agreement with the Florida Municipal Power Agency ("FMPA") that will provide for the purchase of electric generating capacity entitlement

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1997 AND 1996

NOTE 12 - PURCHASED POWER COMMITMENTS (Continued)

of approximately 9.9 megawatts from the Stanton 2 Project, a 430 megawatt unit which replicates Stanton 1. Stanton 2 was placed in service in June 1996. Total costs incurred for the years ended September 30, 1997 and 1996 were \$2,981,123 and \$1,289,429 respectively. The System's portion of the charges for electric generating capacity in 1998 are estimated by FMPA to be as follows:

<u>Variable Per</u> <u>Megawatt Hour</u>	<u>Fixed Costs</u>
\$ 18.86	\$ 1,820,743

Estimates for years subsequent to 1998 are not available.

The Utility Board voted July 7, 1997 to participate in the FMPA All Requirements Power Supply project whereby the System will purchase their bulk power supply requirements, in excess of certain excluded resources, from the Project. The Contract will become effective upon a date to be determined by the FMPA Board of Directors and shall remain in effect until October 1, 2025. The agreement is subject to certain extension provisions and defines conditions of "Contract Rate of Delivery" and minimum charges for network transmission and direct assignment facilities costs. Members of the project may withdraw pursuant to provisions described in the agreement.

This agreement will replace the System's previous purchase commitments to FMPA. The System has assigned, to the extent permitted, its purchase agreement with FPL for the initial contract demand of 45MW to FMPA. If the FPL contract is not assignable, the Utility Board has appointed FMPA as its agent for such contract whereby FMPA will assume all payment obligations and be entitled to exercise all rights under such contract.

NOTE 13 - JOINT INVESTMENT

On January 2, 1992, the System entered into a 40-year long-term joint investment transmission agreement with the Florida Keys Electric Cooperative ("FKEC") whereby the two entities will share the use of and investment in

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1997 AND 1996

NOTE 13 - JOINT INVESTMENT (Continued)

certain transmission facilities. The new transmission line and necessary substation improvements were energized in March, 1995. The System's investment in this transmission line does not exceed its investment percentage of 56.5%. The System's total investment in these transmission facilities, including the joint investment in the 138KV tieline, is approximately \$20.3 million.

As the joint investment does not constitute a separate legal entity, and as no joint debt was issued to fund this project, the System's investment in these facilities is included as part of electric plant on the System's balance sheet.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Risk Management - The System is exposed to various risks of loss related to torts, damage, theft or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The System purchases commercial insurance policies from the Florida League of Cities and other insurance carriers to minimize its risk of loss in these areas. The System has not experienced an insurance settlement in excess of insurance coverage during the past three fiscal years. The System bears the risk of loss up to the deductible amounts which are disclosed in the accompanying statistical tables.

Sales Agreement - The Utility Board has entered into an 18-year agreement, effective January 1, 1994, with Florida Keys Electric Cooperative, "FKEC", (the "FKEC Capacity and Energy Sale Agreement") under which the Utility Board agrees to sell power to FKEC. The contract demand availability under the agreement was originally 10.0 MW adjusted to 12.0 MW on January 1, 1995, which contract demand may be further increased or decreased at any time upon mutual agreement of both parties. The minimum demand charge is \$3.00/kW-mo, which is subject to potential future adjustment based upon the increase or decrease in the Base Demand Charge with FKEC pays FPL (as defined in FKEC's power supply contract with FPL).

The energy charge (mills per net kilowatt hour) will be the Utility Board's average fuel cost of its diesel and combustion turbine generating units in the month the energy is provided to FKEC, if such energy is provided from such



UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1997 AND 1996

NOTE 14 - COMMITMENTS AND CONTINGENCIES (Continued)

generating units. If the Utility Board provides all or a portion of the energy from generating resources other than its diesel and combustion turbine generating units, the energy charge, mills per kilowatt hours, in the month the energy is provided to FKEC will be the Utility Board's net cost of such energy plus 1.0 mill per kilowatt hour for the portion of energy provided by the Utility Board to FKEC from such generating resources. The Utility Board's net costs includes, but is not limited to, fuel cost, transmission cost, and losses incurred by the Utility Board.

NOTE 15 - NAVY CONTRACT

The United States Navy is the largest customer of the System and accounted for approximately 11.5% and 12.4% of electric revenues in 1997 and 1996 respectively. The System executed a new service contract with the Navy on August 15, 1997 to be effective with the September, 1997 billing. The contract is for a term of five years with a provision which requires the parties to commence negotiations for a new contract at least two years prior to the end of the current contract. The contract also contains provisions for minimum billing, service reduction and exclusive service provisions. Pursuant to this contract, the System has agreed to provide a maximum of 15 megawatts of power at multiple locations.

NOTE 16 - REGULATION

According to existing laws of the State of Florida, the five members of the Utility Board act as the regulatory authority for the establishment of electric rates.

The Florida Public Service Commission (FPSC) has authority to regulate the electric "rate structures" of municipal utilities in Florida. It is believed that "rate structures" are clearly distinguishable from the total amount of revenues which a particular utility may receive from rates, and that distinction has thus far been carefully made by the FPSC. Prior to implementation of any rate change, the System files the proposed tariff with the Florida Public Service Commission and has established the prerequisite of a Public Notice and the holding of a Public Hearing.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1997 AND 1996

NOTE 16 - REGULATION (Continued)

The Florida Electric Power Plant Sighting Act has given the FPSC exclusive authority to approve the construction of new power plants. The FPSC also exercises jurisdiction under the National Energy and the Florida Energy Efficiency and Conservation Acts as related to electric use conservation programs and prescribes conformance to the Federal Energy Regulatory Commission's Uniform System of Accounts.

Operations of the System are subject to environmental regulation by Federal, State and local authorities and to zoning regulations by local authorities. Federal and State standards and procedures that govern control of the environment can change. These changes can arise from continuing legislative, regulatory, and judicial action respecting the standards and procedures. Therefore, there is no assurance that the electric plant in operation, under construction or contemplated will always remain subject to the regulations currently in effect, or will always be in compliance with future regulations. An inability to comply with environmental standards or deadlines could result in reduced operating levels or complete shutdown of individual electric generating units not in compliance. Furthermore, compliance with environmental standards or deadlines may substantially increase capital and operating costs.

NOTE 17 - POST RETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the System provides life insurance and health care benefits for retired employees. These benefits are provided pursuant to the System's personnel policies as adopted by the Utility Board. The System is not required to provide contributions to this benefit by any statutory, contractual or other authority. Substantially all of the System's employees become eligible for these benefits if qualify for retirement status while working for the System. At September 30, 1997, 113 retirees were eligible for and were receiving these benefits. These and similar benefits for active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. The System recognizes the cost of providing these benefits on a pay-as-you-go basis by expensing the insurance premiums for retirees which were \$223,182 and \$292,940 for 1997 and 1996, respectively.



UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 1997 AND 1996

NOTE 18 - PAYMENT TO CITY OF KEY WEST

The System is the successor of the electric public utility once owned by the City. All electric utility property owned by the City of Key West was transferred to the System at the time of the System's creation. The System pays the City the greater of \$200,000 or 50% of the balance of any monies remaining in the Revenue Fund at the end of the fiscal year to the City as a return on the City's contribution to the System. This amount is adjusted for inflation based upon the Consumer Price Index.

NOTE 19 - DEFERRED COMPENSATION PLAN

The System offers its employees a deferred compensation plan created in 1994 in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Effective January, 1997, the assets of the plan are owned prorata by the participants in the plan and are no longer subject to the claims of the System's creditors. As a result, the deferred compensation plan assets have been removed from the System's balance sheet.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

SCHEDULE OF REVENUES EARNED

FOR THE YEARS ENDED SEPTEMBER 30, 1997 AND 1996

NOTE 17 - POST RETIREMENT HEALTH CARE BENEFITS (Continued)

	<u>1997</u>	<u>1996</u>
Operating Revenues:		
Electric Revenues	\$ 44,172,003	\$ 42,381,724
Fuel Adjustment Charge	15,163,158	11,567,153
Service Charges	121,470	129,225
Penalty Charges	403,648	385,127
Reserve Capacity Charge	438,480	451,440
Sales for Resale	514,321	9,995
Other	<u>24,394</u>	<u>19,587</u>
Total Operating Revenues	<u>60,837,474</u>	<u>54,944,251</u>
Other Income:		
Interest	1,087,936	1,029,129
Grant Revenue	14,840	17,950
Miscellaneous Non-operating Revenue	260,089	483,895
Charges for New Service	<u>61,316</u>	<u>107,212</u>
Total Other Income	<u>1,424,181</u>	<u>1,638,186</u>
Total Revenues	<u>\$ 62,261,655</u>	<u>\$ 56,582,437</u>

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET TO ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 1997

	<u>Budget</u>	<u>Actual</u>	Variance- Favorable (Unfavorable)
<b>Budgeted Revenues:</b>			
Operating Revenues	\$ 58,672,370	\$ 60,898,790	\$ 2,226,420
Interest	894,500	967,461	72,961
Miscellaneous Non-operating	<u>290,000</u>	<u>274,929</u>	<u>(15,071)</u>
<b>Total Budgeted Revenue</b>	<u><b>59,856,870</b></u>	<u><b>62,141,180</b></u>	<u><b>2,284,310</b></u>
<b>Budgeted Expenditures:</b>			
Production Expenses - Steam	990,826	1,388,706	(397,880)
Production Expenses - Diesel	1,689,310	1,727,963	(38,653)
Purchased Power and other Power Supply Expenses	26,630,189	28,430,580	(1,800,391)
Transmission Expenses	496,584	664,908	(168,324)
Distribution Expenses	2,373,082	2,672,478	(299,396)
Customer Accounts and Collection Expenses	872,731	990,636	(117,905)
Administrative and General Expenses	7,999,075	7,575,771	423,304
Taxes Other than Income Tax	1,545,127	1,519,541	25,586
Interest Expense - Customer Deposits	175,000	196,396	(21,396)
Dividend to City of Key West	216,880	217,454	(574)
Debt Service Sinking Fund Requirements	<u>9,719,489</u>	<u>9,769,790</u>	<u>(50,301)</u>
<b>Total Budgeted Expenditures</b>	<u><b>52,708,293</b></u>	<u><b>55,154,223</b></u>	<u><b>(2,445,930)</b></u>
<b>Excess of Budgeted Revenues over (under) Budgeted Expenditures</b>	<u><b>\$ 7,148,577</b></u>	<u><b>6,986,957</b></u>	<u><b>\$ (161,620)</b></u>
<b>Adjustments:</b>			
Principal Portion of Budgeted Debt Service		7,735,000	
Capitalized Overhead		1,798,515	
Interest Accrued but Unfunded		(5,271,416)	
Depreciation		(5,237,831)	
Amortization of Issuance Costs		(312,340)	
Amortization of Loss on Refunding		(202,272)	
Other Unbudgeted Items		<u>(6,524)</u>	
<b>Total Adjustments</b>		<u><b>(1,496,868)</b></u>	
<b>Net Income, GAAP Basis</b>		<u><b>\$ 5,490,089</b></u>	

**KEMP & GREEN, P.A.**

*Certified Public Accountants*

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WM. O. KEMP, C.P.A.  
MARVA E. GREEN, C.P.A.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH BOND COVENANTS

Utility Board of the City  
of Key West, Florida  
"City Electric System"  
Key West, Florida

We have audited, in accordance with generally accepted auditing standards, the Balance Sheets of the Utility Board of the City of Key West, Florida as of September 30, 1997 and 1996 and the related Statements of Revenues, Expenses and Retained Earnings for the years then ended, and have issued our report thereon dated January 7, 1998.

In connection with our audits, nothing came to our attention that caused us to believe that the Utility Board of the City of Key West, Florida failed to comply with the terms, covenants, provisions, or conditions of Section 5.01 of Resolution No. 532 dated November 13, 1985, as amended and supplemented, in so far as they relate to accounting matters. However, it should be noted that our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Utility Board, management and others within the System, and officials of applicable Federal and State agencies and should not be used for any other purpose.

*Kemp + Green, PA*

Kemp & Green, P.A.  
Certified Public Accountants

January 7, 1998

**KEMP & GREEN, P.A.**

*Certified Public Accountants*  
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

Utility Board of the City of  
Key West, Florida  
"City Electric System"  
Key West, Florida

We have audited the financial statements of the Utility Board of the City of Key West, Florida ("the System"), for the year ended September 30, 1997, and have issued our report thereon dated January 7, 1998.

We conducted our audit in accordance with generally accepted auditing standards and 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.

The management of the System is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the System, for the year ended September 30, 1997, we obtained an understanding of internal controls. With respect to internal controls we obtained an

understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

Our consideration of internal control would not necessarily disclose all matters in the system of internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal controls and its operations that we consider to be material weaknesses as defined above.

We also noted other matters involving internal control and its operation that we have reported to the management of the System in the Auditors' Management Letter dated January 7, 1998 included at page 30.

This report is intended for the information of the Utility Board, management and others within the System, and officials of applicable federal and state agencies. However, this report is a matter of public record, and its distribution is not limited.

*Kemp + Green, PA*

Kemp & Green, P.A.  
Certified Public Accountants

January 7, 1998

**KEMP & GREEN, P.A.**

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INDEPENDENT AUDITORS MANAGEMENT LETTER AND MANAGEMENT'S RESPONSE

Board of Directors  
Utility Board of the City  
of Key West, Florida  
"City Electric System"  
Key West, Florida

In planning and performing our audit of the financial statements of the Utility Board of the City of Key West, Florida ("the System") for the years ended September 30, 1997 and 1996, we considered the System's internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Although our audit was not designed to provide assurance on internal control, we noted certain matters involving internal control and its operation, and are submitting for your consideration related recommendations designed to help the System make improvements and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to the System.

Reported in Prior Year's Management Letter. Not Implemented  
as of September 30, 1997

Disaster Recovery

Observation: The System does not have a completed contingency plan document for alternative processing in the event of a disaster.

Recommendation: Safety and contingency plans for computer processing should be developed to minimize the effect of a major disruption in operations.

Management's Response:

Prior plan was put on hold while new computer system is being installed. At that time, the current plan will be revised.



Other Required Disclosures

Marva Green was the Auditor in charge for the audit of the System. We attest that the auditor in charge met the educational requirements pursuant to Chapter 11.45, Florida Statutes.

The System was not in a state of financial emergency as described in Florida Statutes, Section 218.503(1).

Requirements relative to the Florida Department of Banking and Finance report and Public Records Modernization Trust money do not apply to the System.

This report is intended solely for the information of the Utility Board, management and others within the System, and officials of applicable federal and state agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Kemp & Green, P.A.*

Kemp & Green, P.A.  
Certified Public Accountants

January 7, 1998



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Utility Board of the City  
of Key West, Florida  
"City Electric System"  
Key West, Florida

We have audited the financial statements of the Utility Board of the City of Key West, Florida ("the System") as of and for the year ended September 30, 1997 and have issued our report thereon dated January 7, 1998.

We conducted our audit in accordance with generally accepted auditing standards and 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.

Compliance with laws, regulations, contracts, and grants applicable to the System, is the responsibility of the System's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the System's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

This report is intended for the information of the Utility Board, management and others within the System, and applicable federal and state agencies. This report is a matter of public record and its distribution is not limited.

*Kemp & Green, PA*

Kemp & Green, P.A.  
Certified Public Accountants,

January 7, 1998

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

CONDENSED BALANCE SHEETS

FISCAL YEARS 1997 - 1988

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
<b>ASSETS</b>										
Property, Plant and Equipment:										
In-service										
Depreciated Cost	\$106,193,915	\$104,800,734	\$103,327,784	\$ 90,628,508	\$ 89,658,132	\$ 88,609,667	\$ 69,464,035	\$ 76,183,841	\$ 76,053,985	\$ 77,471,622
Construction in Progress	<u>4,752,830</u>	<u>3,263,801</u>	<u>3,469,051</u>	<u>13,305,485</u>	<u>8,639,465</u>	<u>3,296,687</u>	<u>19,376,362</u>	<u>17,085,774</u>	<u>3,919,299</u>	<u>384,243</u>
	<u>110,946,745</u>	<u>108,064,535</u>	<u>106,796,835</u>	<u>103,933,993</u>	<u>98,297,597</u>	<u>91,906,354</u>	<u>88,840,397</u>	<u>93,269,615</u>	<u>79,973,284</u>	<u>77,855,865</u>
Restricted Assets:										
Debt Service Accounts	10,511,789	14,503,649	15,038,177	13,897,986	14,049,596	13,743,021	12,661,857	12,538,202	14,451,029	15,755,475
Construction and Other Accounts	12,635,787	6,500,753	4,405,617	6,274,063	14,472,038	14,445,890	17,562,268	20,142,816	27,647,609	25,469,436
Customer Deposits	4,258,032	4,071,013	3,759,464	3,597,545	3,284,996	2,685,603	2,516,846	2,488,650	2,810,019	2,320,257
Deferred Compensation Accounts		<u>633,640</u>	<u>448,622</u>	<u>156,360</u>						
	<u>27,405,608</u>	<u>25,709,055</u>	<u>23,651,880</u>	<u>23,925,954</u>	<u>31,806,630</u>	<u>30,874,514</u>	<u>32,740,971</u>	<u>35,169,668</u>	<u>44,908,657</u>	<u>43,545,168</u>
Current Assets:										
Cash and Investments	461,415	434,908	326,439	476,783	201,066	177,968	1,615,803	1,005,969	891,859	464,064
Accounts Receivable, Net	5,113,076	4,551,951	4,765,212	4,497,026	4,542,120	3,914,238	4,005,476	5,226,000	4,577,628	4,160,697
Plant Materials, Supplies and Fuel Inventory	2,341,763	2,981,284	3,603,032	3,854,891	3,900,877	3,728,001	3,425,624	2,589,234	2,412,614	2,421,159
Other Current Assets	<u>551,016</u>	<u>579,822</u>	<u>752,562</u>	<u>276,482</u>	<u>138,089</u>	<u>6,208</u>	<u>245,618</u>	<u>65,528</u>	<u>152,302</u>	<u>236,226</u>
	<u>8,467,270</u>	<u>8,547,965</u>	<u>9,447,245</u>	<u>9,105,182</u>	<u>8,782,152</u>	<u>7,826,415</u>	<u>9,292,521</u>	<u>8,886,731</u>	<u>8,034,403</u>	<u>7,282,146</u>
Other Assets and Deferred Charges	<u>2,619,118</u>	<u>3,090,518</u>	<u>3,234,719</u>	<u>3,865,698</u>	<u>4,212,978</u>	<u>4,239,866</u>	<u>4,567,005</u>	<u>5,009,741</u>	<u>5,321,104</u>	<u>5,616,200</u>
	<u>\$149,438,741</u>	<u>\$145,412,073</u>	<u>\$143,130,679</u>	<u>\$140,830,827</u>	<u>\$143,099,357</u>	<u>\$134,847,149</u>	<u>\$135,440,894</u>	<u>\$142,335,755</u>	<u>\$138,237,448</u>	<u>\$134,299,379</u>

(Continued)

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

CONDENSED BALANCE SHEETS (Continued)

FISCAL YEARS 1997 - 1988

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
<b>EQUITY AND LIABILITIES</b>										
Equity	\$ 26,490,190	\$ 20,788,715	\$ 18,039,325	\$ 14,755,565	\$ 13,899,551	\$ 13,164,246	\$ 13,105,333	\$ 22,888,447	\$ 20,803,647	\$ 18,003,510
Long Term Debt: Revenue Bonds and Capital Lease Obligations, and Accrued Interest (including current)	112,656,762	114,238,755	116,976,109	117,984,066	119,224,060	113,793,209	114,094,376	110,649,565	110,957,958	110,868,709
Current Liabilities:										
Accounts Payable	4,716,486	4,462,050	2,772,412	2,881,706	4,903,982	3,620,926	4,138,758	4,992,447	2,994,818	2,151,968
Accrued Expenses	1,127,300	1,138,957	1,059,826	1,345,189	1,655,750	1,442,851	1,456,927	1,164,276	1,014,854	877,098
Due to Customers	4,217,713	4,040,561	3,724,549	3,587,209	3,282,530	2,680,568	2,496,655	2,480,267	2,293,511	2,213,526
Deferred Compensation Payable		633,640	448,622	156,360						
	10,061,499	10,275,208	8,005,409	7,970,464	9,842,262	7,744,345	8,092,340	8,636,990	6,303,183	5,242,592
Deferred Revenue	230,290	109,395	109,836	120,732	133,484	145,349	148,845	160,753	172,660	184,568
Total Liabilities	122,948,551	124,623,358	125,091,354	126,075,262	129,199,806	121,682,903	122,335,561	119,447,308	117,433,801	116,295,869
	\$149,438,741	\$145,412,073	\$143,130,679	\$140,830,827	\$143,099,357	\$134,847,149	\$135,440,894	\$142,335,755	\$138,237,448	\$134,299,379

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

STATEMENTS OF REVENUES AND EXPENSES

FISCAL YEARS 1997 - 1988

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Electric Operating Revenue	\$ 60,837,474	\$ 54,944,251	\$ 52,659,220	\$ 51,871,072	\$ 49,277,045	\$ 44,173,632	\$ 47,265,084	\$ 45,240,187	\$ 41,850,025	\$ 36,838,440
Operating Expenses:										
Production Expenses:										
Steam	1,388,706	1,386,683	2,144,239	4,252,705	4,433,944	5,543,600	8,483,757	7,419,151	7,256,456	6,204,123
Diesel	1,727,963	2,043,022	1,546,792	1,595,075	2,527,630	3,163,424	1,179,871	638,470	409,584	566,587
Purchased Power	28,430,580	26,163,717	22,851,206	21,273,696	19,736,110	15,342,343	16,007,418	16,629,632	13,778,578	13,225,643
Transmission Expenses	664,908	263,685	259,894	246,893	217,402	225,242	138,880	148,424	146,932	175,760
Distribution Expenses	2,672,478	2,105,483	2,052,482	2,143,092	1,731,220	1,909,314	1,998,167	1,930,887	1,617,212	1,705,389
Customer Accounts, Collection and Service Expense	990,636	932,196	902,377	909,814	740,532	779,729	1,081,481	1,167,608	953,231	945,282
Administrative and General Expenses	5,777,256	5,866,009	6,267,686	6,851,774	5,460,800	5,384,141	6,424,359	5,571,306	4,851,473	4,255,913
Depreciation	5,237,831	5,286,752	4,933,592	4,988,735	5,172,339	5,145,616	4,477,173	3,879,755	3,886,106	3,102,972
Taxes Other than Income Tax	1,519,541	1,400,296	1,322,673	1,315,386	1,238,607	1,022,160	986,460	717,716	612,572	543,866
Total Operating Expenses	<u>48,409,899</u>	<u>45,447,843</u>	<u>42,280,941</u>	<u>43,577,170</u>	<u>41,258,584</u>	<u>38,515,569</u>	<u>40,777,566</u>	<u>38,102,949</u>	<u>33,512,144</u>	<u>30,725,535</u>
Operating Income	12,427,575	9,496,408	10,378,279	8,293,902	8,018,461	5,658,063	6,487,518	7,137,238	8,337,881	6,112,905
Interest and Other Income	1,424,181	1,638,186	1,291,591	992,605	1,098,645	2,046,536	2,542,609	2,443,197	1,730,878	1,422,924
Debt and Other Expenses	8,361,667	8,758,686	8,595,989	8,601,535	8,582,802	7,804,829	7,298,231	7,049,704	7,036,590	6,829,453
Extraordinary Gain (Loss) on Advance Refunding							(2,836,154)			
Net Income (Loss)	<u>\$ 5,490,089</u>	<u>\$ 2,375,908</u>	<u>\$ 3,073,881</u>	<u>\$ 684,972</u>	<u>\$ 534,304</u>	<u>\$ (100,230)</u>	<u>\$ (1,104,258)</u>	<u>\$ 2,530,731</u>	<u>\$ 3,032,169</u>	<u>\$ 706,376</u>

UTILITY BOARD OF THE CITY OF  
KEY WEST, FLORIDA

SCHEDULES OF DEBT SERVICE COVERAGE

FISCAL YEARS 1997-1988

<u>FISCAL YEAR</u>	<u>TOTAL AVAILABLE REVENUES (Note 1)</u>	<u>TOTAL OPERATING EXPENSES (Note 2)</u>	<u>NET REVENUES AVAILABLE COVERAGE</u>	<u>ANNUAL DEBT SERVICE (Note 3)</u>	<u>DEBT SERVICE COVERAGE RATIO</u>
1997	\$60,736,775	\$43,368,464	\$17,368,311	\$9,719,540	1.79
1996	\$55,337,974	\$40,352,338	\$14,985,636	\$9,881,419	1.52
1995	\$54,250,673	\$37,523,506	\$16,727,167	\$9,879,580	1.69
1994	\$54,825,231	\$38,682,671	\$16,142,560	\$9,879,867	1.63
1993	\$51,775,487	\$36,160,511	\$15,614,976	\$9,417,565	1.66
1992	\$47,080,197	\$33,477,067	\$13,603,130	\$9,274,138	1.47
1991	\$47,619,599	\$36,407,767	\$11,211,832	\$7,602,288	1.47
1990	\$44,364,514	\$34,160,548	\$10,203,966	\$6,545,904	1.56
1989	\$42,001,120	\$29,568,078	\$12,433,042	\$6,797,527	1.83
1988	\$37,655,017	\$27,568,953	\$10,086,064	\$5,747,045	1.76

Note 1 - Total Available Revenues includes total Operating Revenues, interest income (less amounts earned on Construction Fund), charges for new service, miscellaneous non-operating revenues, transfers from (to) Rate Stabilization Fund, less transfers to Capital Improvement Fund and interest earnings on Bond Amortization Account.

Note 2 - Total Operating Expenses include interest paid to customers for customer deposits held and excludes depreciation and amortization expense.

Note 3 - Current Debt Service on Outstanding Bonds includes total interest expense less capital lease interest expense and long-term interest expenses accrued for all Capital Appreciation Bonds Outstanding plus forward supply contract purchases.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

CONSUMPTION AND ACTIVE SERVICE STATISTICS

FISCAL YEARS 1997 - 1988

	<u>Residential</u>	<u>Small Commercial</u>	<u>Large Power</u>	<u>Military</u>	<u>Street Lighting</u>	<u>Govt Rec Lighting</u>	<u>Priv Area Lighting</u>	<u>Total</u>
<u>Consumption (in Megawatt Hours):</u>								
1997	270,406	59,143	206,104	74,605	3,176	207	1,312	614,953
1996	256,452	53,672	195,265	78,470	3,484	226	1,387	588,956
1995	248,050	51,725	192,462	80,540	3,383	367	1,354	577,881
1994	236,617	50,027	185,756	80,852	3,314	356	1,333	558,255
1993	213,944	46,151	167,767	86,038	3,290	324	1,298	518,812
1992	196,861	44,455	154,960	83,298	3,056	379	1,261	484,270
1991	197,355	47,900	154,701	87,674	3,517	347	1,353	492,847
1990	188,493	45,360	151,834	85,677	3,353	438	1,375	476,530
1989	177,786	43,428	142,543	85,706	3,506	349	1,229	454,547
1988	161,880	39,959	128,258	83,395	3,578	345	1,255	418,670
<u>Active Service (Number of Customers):</u>								
1997	21,910	2,604	645	1	4	4	1,499	26,667
1996	21,532	2,486	646	1	4	4	1,541	26,214
1995	21,120	2,361	625	1	4	4	1,525	25,640
1994	20,828	2,298	582	1	4	7	1,454	25,174
1993	20,432	2,253	547	1	4	6	1,462	24,705
1992	19,997	2,222	499	1	4	7	1,440	24,170
1991	19,238	2,142	449	1	4	7	937	22,778
1990	19,082	2,152	442	1	4	9	758	22,448
1989	18,505	2,086	417	1	4	9	723	21,745
1988	18,071	2,093	387	1	3	9	720	21,284

(Continued)

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA

CONSUMPTION AND ACTIVE SERVICE STATISTICS (Continued)

FISCAL YEARS 1997 - 1988

	<u>Residential</u>	<u>Small Commercial</u>	<u>Large Power</u>	<u>Military</u>	<u>Street Lighting</u>	<u>Govt Rec Lighting</u>	<u>Priv Area Lighting</u>	<u>Total</u>
Annual Consumption per Active Service (in Kilowatt Hours):								
1997	12,341	22,712	319,541	74,604,534	794,000	51,750	875	23,060
1996	11,910	21,590	302,268	78,470,565	870,971	56,535	900	22,467
1995	11,745	21,908	307,939	80,540,000	845,750	91,750	888	22,538
1994	11,361	21,431	319,169	80,852,328	828,609	50,816	917	22,176
1993	10,471	20,495	306,704	86,038,000	822,500	54,000	888	21,000
1992	9,845	19,989	310,541	83,298,000	764,000	54,143	876	20,033
1991	10,259	21,664	344,546	87,674,000	879,250	49,571	1,444	21,637
1990	9,878	21,088	343,516	85,677,000	838,250	48,667	1,812	21,228
1989	9,600	20,817	341,830	85,709,000	876,500	38,778	1,698	20,889
1988	8,958	19,183	331,416	83,395,000	1,192,667	38,333	1,743	19,680

UTILITY BOARD OF THE CITY OF  
KEY WEST, FLORIDA

CLIMATOLOGICAL DATA

FISCAL YEARS 1997 - 1988

Monthly Rainfall and Temperature  
Key West, Florida

<u>Fiscal Year</u> <u>1997</u>	<u>Rain (Inches)</u>		<u>Temperature (F)</u>	
	<u>Total</u>	<u>Above (Below) Normal</u>	<u>Average</u>	<u>Above (Below) Normal</u>
October	11.87	7.45	79.00	(1.00)
November	0.12	(2.72)	75.60	0.00
December	1.44	(0.58)	72.50	1.00
January	3.75	1.74	70.90	1.00
February	0.63	(1.17)	75.10	4.60
March	1.87	0.16	77.50	3.70
April	2.62	0.87	77.50	0.50
May	1.00	(2.46)	82.00	1.40
June	4.84	(0.25)	83.20	0.10
July	6.90	3.29	84.00	(0.40)
August	3.63	(1.40)	84.50	0.20
September	6.50	0.65	81.90	(1.40)
Monthly Average	<u>3.76</u>	<u>0.465</u>	<u>78.64</u>	<u>0.81</u>

Climatic Energy Demands

<u>Fiscal Year</u>	<u>Heating Degree-Days*</u>	<u>Cooling Degree-Days*</u>
1997	41	5,110
1996	64	4,622
1995	39	5,124
1994	23	5,120
1993	20	4,971
1992	14	4,599
1991	13	5,398
1990	63	5,171
1989	40	5,255
1988	64	4,508

Source: U.S. Department of Commerce, National Oceanic and Atmospheric Administration.

\* Degree Day is a unit measuring the extent to which the outdoor mean temperature falls below (heating) or rises above (cooling) the base of 65 degrees Fahrenheit. One degree-day is counted for each degree of deficiency below (heating) or excess over (cooling) the base, for each calendar day on which such deficiency or excess occurs.



UTILITY BOARD OF THE CITY OF  
KEY WEST, FLORIDA

DEMOGRAPHIC AND ECONOMIC STATISTICS

FISCAL YEARS 1996-1987

<u>Fiscal Year</u>	<u>Population</u>	<u>Per Capita Income(1)</u>	<u>Median Age(2)</u>	<u>Unemployment Rate (3)</u>
1996	27,009	\$15,547	34	2.7%
1995	26,842	\$13,305	34	3.4%
1994	26,417	\$12,539	34	3.7%
1993	26,122	\$12,639	34	4.5%
1992	24,937	\$12,271	34	4.7%
1991	24,794	\$11,113	34	3.9%
1990	28,710	\$11,434	40	3.0%
1989	29,177	\$10,787	40	2.7%
1988	29,000	\$10,176	39	2.3%
1987	26,600	\$ 9,600	35	2.5%

(1) Source: City of Key West Planning Department, Solin & Associates.

(2) Source: City of Key West Planning Department.

(3) Source: Florida Department of Labor and Employment Security, Bureau of Labor Market Information calculated by calendar year.

Information for 1997 is not available.

UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA  
SCHEDULE OF PROPERTY, CASUALTY AND OTHER INSURANCE

SEPTEMBER 30, 1997

<u>Company</u>	<u>Type of Coverage</u>	<u>Limits</u>	<u>Period</u>	<u>Premium</u>
Florida League of Cities	Workers' Compensation	Statutory Deductible - \$0	10/1/96 - 9/30/97	\$ 151,273
Penco	Comprehensive General Liability (CGL)	\$2,000,000 Deductible - \$5,000	10/1/96 - 9/30/97	66,412
Penco	Excess Liability	\$10,000,000 Deductible - \$2,000,000	10/1/96 - 9/30/97	23,776
Penco - Hartford Casualty	Automobile/Comprehensive/ Physical Damage	\$2,000,000 Deductible - \$1,000	10/1/96 - 9/30/97	56,486
Penco - Hartford Fire	Crime	\$40,000 Employee Disability \$100,000 Money and Security Theft	10/1/96 - 9/30/97	2,997
Penco	Public Officials - Errors & Omissions	\$2,000,000 Deductible - \$10,000	10/1/96 - 9/30/97	30,009
Protection Mutual	Property, Boiler & Machinery	\$112,000,000 Deductible - \$250,000	5/1/97 - 5/1/98	597,776
	Windstorm and Flood	\$10,000,000 Deductible - \$1,000,000		
National Flood Insurance Program	Flood	Per Location Schedule Deductible - \$750/500	6/14/97 - 6/14/98	50,214
Florida Windstorm Underwriters Association	Windstorm and Hail	\$1,000,000 Deductible - \$500/structure	7/26/97 - 7/27/98	77,730
Florida Petroleum Liability Insurance Program Administrations	Pollution Liability and Corrective Action	Per Location Schedule Deductible - \$500 to \$300,000	8/15/97 - 8/15/98	\$ 18,274
		Limits - Small Tanks \$1,000,000 each incident \$2,000,000 aggregate		
				<u>\$ 1,074,947</u>

UTILITY BOARD OF THE CITY OF KEY WEST

TEN HIGHEST CONSUMPTION LOCATIONS

FOR THE YEAR ENDING SEPTEMBER 30, 1997

<u>Ranking</u>	<u>Customer Account</u>	<u>Demand KW</u>	<u>Energy Kwh</u>	<u>Dollars</u>
1	U.S. Navy	13,194	74,604,534	\$ 6,854,981
2	Monroe County Detention Center	998	6,305,250	\$ 564,288
3	Marriott Casa Marina Hotel	820	4,738,000	\$ 517,281
4	City of Key West (Waste Water Plant)	920	4,891,000	\$ 458,192
5	Lower Florida Keys Health System	720	4,586,000	\$ 422,772
6	Winn Dixie Stores, Inc., Overseas Market (Key West)	573	4,032,500	\$ 392,636
7	Pier House Joint Venture (Hotel)	730	3,736,000	\$ 379,644
8	Key West Reach, Ltd.	536	3,176,000	\$ 317,393
9	Galleon Investments, Ltd. (Time-Share)	696	2,966,600	\$ 304,036
10	Florida Keys Community College	910	3,086,800	\$ 298,267

UTILITY BOARD OF THE CITY OF KEY WEST

EMPLOYEE INFORMATION

FISCAL YEARS 1997 - 1988

DEPARTMENTS

	<u>General Manager</u>	<u>Engineering &amp; Control</u>	<u>Subtotal Manager</u>	<u>Customer Service</u>	<u>Finance</u>	<u>Transmission Operations</u>	<u>General Plant</u>	<u>Generation</u>	<u>Subtotal TD &amp; G</u>	<u>Total</u>
1997	10	24	34	30	21	39	16	24	79	164
1996	9	24	33	30	22	35	12	32	79	164
1995	7	24	31	26	23	34	13	40	87	167
1994	8	27	35	33	22	33	15	54	102	192
1993	8	27	35	33	22	33	16	54	103	193
1992	8	27	35	33	22	33	16	60	109	199
1991	8	27	35	32	23	33	15	60	108	198
1990	9	26	35	30	21	33	14	59	106	192
1989	7	27	34	30	20	33	13	58	104	188
1988	9	27	36	31	20	32	13	57	102	189

Notes: The numbers for each year above do not include five (5) Utility Board Members.  
 The approved budgets were used for all years except 1996, 1989 and 1988.  
 For 1996, actual employee head count was used.  
 For 1989, the 1990 budget column headed "Existing Positions" was used.  
 For 1988, the October list of active employees attached to Anthem Insurance Premium Statement was used.

UTILITY BOARD OF THE CITY OF KEY WEST

GENERATION AND CAPACITY STATISTICS

FOR THE YEARS ENDING SEPTEMBER 30, 1997 AND 1996

<u>Description</u>	<u>1997</u>	<u>1996</u>
<u>Gross Generation in MW (1):</u>		
Diesel and Combustion Turbine	18,863	16,802
Less: Station Auxiliaries	3,575	3,908
Sales to Other Distributors (2)	<u>9,445</u>	<u>262</u>
Net Generation	5,843	12,632
Net Delivered Purchased Power and Stanton Generation	<u>663,561</u>	<u>621,227</u>
Net Energy for Load	669,404	633,859
Less: Energy not Accounted for and Non- Revenue Energy	<u>54,450</u>	<u>44,903</u>
Retail Energy Sales (2)	<u>614,954</u>	<u>588,956</u>
Percentage of Net Energy for Load	8.1%	7.1%
<u>Generation Capacity (KW):</u>		
Name Plate Rating (3)	<u>56,450</u>	<u>56,450</u>
Net Continuous Capacity	50,400	50,400
Less: Minimum Commitment to FKEC (4)	<u>4,000</u>	<u>4,000</u>
On Island Resources	<u>46,400</u>	<u>46,400</u>
System Net Peak Demand (5)	<u>119,700</u>	<u>119,700</u>
Percent of On-Island Resources (6) for Net Peak Demand	38.8%	42.2%
<u>Delivered Purchased Power &amp; Stanton Resources (KW) (7):</u>		
FP & L Long - Term Power	45,000	45,000
FMPA Tri - City Project (Stanton 1)	12,434	12,434
FMPA Stanton 2 Project	9,885	9,885
Other Short Term Firm	<u>15,000</u>	<u>15,000</u>
Total Purchased	<u>82,319</u>	<u>82,319</u>
Total Generating and Purchased Net Continuous Capability	<u>132,719</u>	<u>132,719</u>
Net Reserve Margin Including Purchased Power (8)	10.9%	20.8%

UTILITY BOARD OF THE CITY OF KEY WEST

GENERATION AND CAPACITY STATISTICS (Continued)

FOR THE YEARS ENDING SEPTEMBER 30, 1997 AND 1996

Footnotes

- (1) Summarized from monthly power plant reports.
- (2) From fiscal year - end monthly Financial and Operating Statements.
- (3) Ralph Garcia Steam Plant decommissioned by Utility Board on August 28, 1996. The plant will be converted to a synchronous condenser during the fiscal year 1997/1998.
- (4) Based on the Utility Board's Reliability Study.
- (5) Based on monthly Peak Load report.
- (6) The Utility Board maintain sufficient capacity on - island to meet 60% of its annual peak demand. The percentage shows the relationship of Net Continuous Capacity to Net Peak Demand. The policy changed from 70% on June 18, 1996.
- (7) Includes capacity from a long - term power agreement with Florida Power & Light Company, effective June, 1993, and delivered capacity from Florida Municipal Power Agency's Tri-City Project (Stanton 1) and Stanton 2 Project.
- (8) Net Reserve Margin represents the amount of capacity in excess of the system peak demand, as a percentage of system peak demand.