

02

FINANCIAL HIGHLIGHTS

Audited Financial Statements for Fiscal Year Ended September 30, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of KUA's annual financial report presents the analysis of the KUA's financial performance during the Fiscal Year that ended on September 30, 2002. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

- The assets of the KUA exceeded its liabilities at September 30, 2002 by \$140.4 million (net assets). Of this amount, \$122.6 million (unrestricted net assets) may be used to meet ongoing obligations to rate payers and creditors.
- The KUA's net assets increased by \$2.7 million or 2 percent.
- The KUA's net utility plant increased by \$4.1 million or 2 percent.
- During the year, the KUA's operating revenues from metered sales decreased to \$88.9 million or 6 percent and operating revenues from sales to other utilities increased to \$20.7 million or 220 percent, while operating expenses increased to \$100.8 million or 5 percent.
- The KUA's total debt outstanding decreased by \$5.5 million during the current fiscal year. This resulted from principal paid in the amount of \$6.6 million offset by an increase due to the refunding of Series 1991, 1993, and 1993A.
- Capital contributions to the KUA increased to \$1.7 million.

Required Financial Statements

The KUA maintains accounts on an accrual basis in accordance with accounting principles generally accepted in the United States. The accounts are substantially in conformity with accounting principles and methods prescribed by the Federal Energy Regulatory Commission (FERC) and other regulatory authorities. The financial statements of the KUA offer short and long-term financial information about its activities.

The *Balance Sheet* includes all of the KUA's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to KUA creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the KUA and assessing the liquidity and financial flexibility of the KUA.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Assets*. This statement measures the success of the KUA's operations over the past year and can be used to determine whether the KUA has successfully recovered all of its costs.

The other required financial statement is the *Statement of Cash Flows*. The primary purpose of this statement is to provide information about the KUA's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities; and provides answers to such questions as "where did the cash come from?", "what was cash used for?", and "what was the change in cash balance during the reporting period?".

Financial Analysis of the KUA

One of the most important questions asked about KUA's finances is, "Is the KUA better off or worse off as a result of the year's activities?". The Balance Sheet and the

Statement of Revenues, Expenses and Changes in Net Assets report information about the KUA's activities in a way that will help answer this question. These two statements report the net assets of the KUA, and changes in them. You can think of the KUA's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the KUA's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The KUA's total net assets increased from last year by \$2,713,629. The following analysis focuses on the KUA's net assets (Table 1) and changes in net assets (Table 2) during the year.

Table 1 – Net Assets

	9/30/02	9/30/01	Increase (Decrease)	
			\$	%
Capital assets	\$240,409,298	\$236,339,707	\$4,069,591	2
Current and other assets	196,482,961	201,747,151	(5,264,190)	(3)
Total assets	436,892,259	438,086,858	(1,194,599)	(1)
Long-term debt outstanding	251,110,363	257,157,334	(6,046,971)	(2)
Current and other liabilities	45,369,094	43,230,351	2,138,743	5
Total liabilities	296,479,457	300,387,685	(3,908,228)	(1)
Net Assets:				
Invested in capital assets, net of related debt	(15,383,459)	(20,255,995)	4,872,536	24
Restricted	33,237,508	28,653,852	4,583,656	16
Unrestricted	122,558,753	129,301,316	(6,742,563)	(5)
Total net assets	140,412,802	137,699,173	2,713,629	2

Capital assets increased primarily as a result of the capitalization of utility plant. Current and other assets decreased due to the decrease in cash and cash equivalents, investments and interest receivable of approximately \$5.5 million. Total liabilities decreased by approximately \$3.9 million, largely due to the payment of revenue bond principal in the amount of \$6.6 million offset by increases in other liabilities of \$2.1 million.

The first portion of net assets reflects the KUA's investment in capital assets (e.g. plant, property and equipment net of accumulated depreciation), less any related debt used to acquire those assets that are still outstanding. The KUA uses these capital assets to provide electricity and other services to rate payers. It should be noted that the resources needed to repay the related debt must be provided primarily from future operating revenues, since the capital assets themselves cannot be used to liquidate these liabilities. This amount increased primarily as a result of capitalization of utility

plant net of debt repayments during the fiscal year. The ending balance reflects the amount that debt exceeds related assets and is attributed to timing differences between the repayment of debt and the depreciation of those assets.

An additional portion of the KUA's net assets (\$33.2 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$122.6 million) may be used to meet the government's ongoing obligations to rate payers and creditors. This balance included approximately \$68 million in assets designated by the Board of Directors for a specific purpose.

Changes in the KUA's net assets can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Net Assets for the year.

Table 2 – Statement of Revenues, Expenses, and Changes in Net Assets

	9/30/02	9/30/01	Increase (Decrease)	
			\$	%
Metered Sales	\$88,914,602	\$94,760,118	(5,845,516)	(6)
Sales to Other Utilities	20,719,571	6,482,289	14,237,282	220
Other Operating Revenues	3,323,734	3,490,046	(166,312)	(5)
Total Operating Revenues	112,957,907	104,732,453	8,225,454	8
Power Generation	46,323,881	29,001,610	17,322,271	60
Purchased Power	18,977,880	32,261,266	(13,283,386)	(41)
Transmission & Distribution	5,871,529	4,688,754	1,182,775	25
Administrative & General	9,491,342	11,280,709	(1,789,367)	(16)
Intergovernmental Transfers	6,990,571	6,804,053	186,518	3
Depreciation & Amortization	13,169,601	11,612,111	1,557,490	13
Total Operating Expense	100,824,804	95,648,503	5,176,301	5
Operating Income	12,133,103	9,083,950	3,049,153	34
Non Operating Revenue (Expenses)	(11,089,556)	(6,942,648)	(4,146,908)	(60)
Capital Contributions	1,670,082	935,128	734,954	79
Change in Net Assets	2,713,629	3,076,430	(362,801)	(12)
Net Assets – Beginning of Year	137,699,173	134,622,743	3,076,430	2
Net Assets – End of Year	140,412,802	137,699,173	2,713,629	2

Year-to-date MWh sales in FY 2002 were approximately 1,119,000 compared to FY 2001 sales of 1,097,000, or a 2% increase. Sales to metered customers increased from \$78.9 million to \$81.6 million or 3.4%. The increase in sales resulted from an increase in the number of customers of 3.6% from 47,642 to 49,359 resulting from demand and customer charges that do not vary directly with MWh sales. However, a decrease in the power cost adjustment resulted in lower total metered sales revenue of 6%. An increase in sales to other utilities of \$14.2 million offset by the decrease in metered sales revenue resulted in an increase in total operating revenues of \$8.2 million or 8%. MWh sales to other utilities increased from \$6.5 million to \$20.7 million during the year. Sales to other utilities resulted from KUA's participation in the Florida Municipal Power Pool and from direct sales to Aquila Energy. These sales were possible due to additional capacity from Cane Island Unit 3 generation.

Total operating expenses were higher than the previous year, primarily due to higher fuel and depreciation expense. Higher fuel expense was a result of elevated gas prices and costs associated with increased MWh sales to other utilities as well as increased sales to metered customers. Additional depreciation expense resulted from the additions to utility plant which was predominantly the addition of Cane Island 3 steam turbine unit. Purchased power costs decreased due to the increase in generation made available by the addition of Cane Island Unit 3 steam turbine and the Cane Island combustion turbine at the end of the previous year. Administrative and general expenses decreased primarily from lower insurance expense resulting from a \$3 million transfer to the self-insurance fund during Fiscal Year 2001, offset by increased departmental expenses and lower capitalization of operating expenses as overheads.

We are required to record the fair value of our investment portfolio and recognize any corresponding increase or decrease in the fair value of investments in the income statement. For Fiscal Year 2002, our "paper loss" was \$432,533 compared to a "paper gain" for Fiscal Year 2001 of \$2,995,642. Nonoperating revenues decreased primarily as a result of this recognition of decrease in fair value, and also due to a decrease in interest income from lower cash balances to invest at lower market interest rates.

Rates

In December 1974, the City commission adopted an ordinance permitting the City (and now the KUA) to pass on directly to the customer incremental fuel cost increases on a monthly basis. This Cost of Power Adjustment (COPA) has eliminated the regulatory delay that has been a problem for many other utilities. Additionally, in June 1983, the City Commission modified the COPA Ordinance to allow the System to project the billed COPA to a levelized rate for the fiscal year. The negative or positive COPA account balance was used in calculating the projected COPA rate for the next fiscal year. In July 1991 the Board of Directors approved a COPA Resolution that allows automatic monthly adjustments to the COPA rate based on a weighted average using the prior month, estimated current month and following monthly costs. In May 1994 the Board of Directors approved a resolution permitting the KUA to pass on directly to the customer conservation costs on a monthly basis similar to the COPA mechanism. This Energy Conservation Cost Recovery (ECCR) rate is adjusted semi-annually to reflect changes in conservation costs. The COPA and ECCR rates have been combined and are presented on the customer's bill as Cost of Power and Conservation Adjustment (COPCA).

In addition to the COPCA, the KUA has from time to time changed base rates as necessary to assure proper operation of the System. Base rate increases of 7%, 6.2%, and 2% were approved in Fiscal Years 1983, 1984, and 1985, respectively. In Fiscal Year 1985, the KUA implemented a program of rate stabilization in an effort to prevent uneven increases in total electric charges to its customers.

In Fiscal Year 1987 an effective decrease in the overall base rates of 1% was implemented, while in Fiscal Year 1988 a 4.1% decrease was approved by the KUA's Board of Directors affecting the commercial classes only. In Fiscal Year 1990 the Florida Gross Receipts Tax of 1.5% was removed from the base rate and shown separately on customer bills as required by the State of Florida. This effectively reduced the base rate. An approximate 15% rate decrease was implemented in Fiscal Year 1992 to become more competitive with neighboring utilities and promote growth within our service territory. Effective October 1, 1997 a 2.5% rate decrease was put into effect. Effective October 1, 1999, 2000, and 2001, three consecutive annual rate increases of 1.45% each year was approved by the Board of Directors in order to ensure the long-term financial stability of KUA.

The KUA additionally maintains a computerized cost of service study which is updated biannually with:

- a. Past years' audited amounts to survey the adequacy of each rate and rate structure; and
- b. The current years' budgeted amounts to predict the need for a rate change.

Customer rates and rate structures are intended to follow guidelines of the Florida Public Service Commission and, as such, should be "fair, just and reasonable". It is also intended that they are competitive with neighboring utilities and equitable between rate classes.

During FY 1997, a Deregulation/Rate Stabilization Fund was created, allowing KUA the flexibility to implement sustainable competitive rate decreases in the event the electric utility industry becomes deregulated in Florida. This fund has been built-up using excess net assets resulting in balances of \$18,990,827 and \$21,494,007 for Fiscal Years 2001 and 2002, respectively. The balance in this fund will vary over time, depending on fluctuations in expenses and/or revenues. Electric sales tend to vary with customer growth and weather conditions.

Capital Assets and Debt Management

Capital assets. The following table summarizes KUA's capital assets, net of accumulated depreciation, and changes therein for the years ended September 30, 2002 and September 30, 2001:

Table 3 – Capital Assets, Net of Accumulated Depreciation

Utility Plant	9/30/02 Balance	9/30/01 Balance	Increase (Decrease)
Nuclear Production	\$715,526	\$1,059,978	\$(344,452)
Steam Production	120,343,981	61,196,643	59,147,338
Other Production	21,734,851	60,358,770	(38,623,919)
Transmission Plant	27,405,123	26,175,846	1,229,277
Distribution Plant	35,075,197	33,198,259	1,876,938
General	7,153,649	7,720,711	(567,062)
Construction in Progress	27,700,524	46,200,753	(18,500,229)
Nuclear Fuel Inventory	280,447	428,747	(148,300)
Total	\$240,409,298	\$236,339,707	\$4,069,591

Expansion of the generation, transmission and distribution system (net of accumulated depreciation) during FY 2002 included construction of Cane Island Unit 3 and Substation at the Cane Island Power Park and the Employee Substation located on Boggy Creek Road. Approximately \$36 million was reclassified from other production to steam production to accurately reflect the proper FERC asset category.

At the end of FY 2002, the KUA had \$349 million invested in a broad range of capital assets primarily power plants and electric transmission and distribution systems. This amount represents an increase of over \$35 million, or 11% over last year.

Long-Term Debt. At the end of the current fiscal year, the KUA had total debt outstanding of \$280,120,000. Of this amount, \$210.1 million is improvements and refunding revenue bonds and \$70 million is commercial paper.

	2002	2001
Revenue Bonds	\$210,120,000	\$215,600,000
Commercial Paper	70,000,000	70,000,000
Total	\$280,120,000	\$285,600,000

The KUA's total debt decreased by \$5.5 million (2.6 percent) during the current fiscal year. The key factor in this decrease was principal payments of \$6.6 million offset by an increase due to the refunding of Series 1991, 1993, and 1993A. During the current fiscal year, the KUA refinanced some of its existing debt to take advantage of favorable interest rates. The KUA issued Electric System Refunding Revenue Bonds Series 2001A and 2001B to refinance previously outstanding bonds. The result was a net present value savings of \$3 million. The KUA maintains an A and A2 underlying rating from Fitch and Moody's respectively for outstanding bond issues.

The KUA attempts to minimize external financing needs through internal generation of capital funds. The purpose of this financial policy is to establish and maintain a debt-

to-equity ratio and a coverage ratio that would minimize the impact of future debt issues for generation and transmission plants. The current fiscal policy includes the following guidelines:

1. Bond proceeds should fund all generation (capacity) and transmission projects;
2. Current earnings (cash provided from operations) should be adequate to fund operating and maintenance expenses, debt service related costs (excluding capitalized interest) and year to year capital needs generally less than \$100,000;
3. The Reserve for Future Capital Outlay funds should be used for all other purposes as approved by the Board of Directors;
4. Maintain a minimum level of \$5,000,000 in Reserve for Future Capital Outlay, indexed each year by the increase in KWh sales beginning in FY 1997 (current minimum level is \$6,100,000);
5. Maintain a minimum of two months of fixed Operating & Maintenance Expenses (excluding Depreciation, Costs Recoverable from Future Revenues and debt service related costs) in unrestricted operating cash and cash equivalents and longer-term invested working capital funds;
6. Maintain a minimum of 1.5 debt service coverage as defined in the bond resolution; and
7. Build an insurance fund adequate to fund reconstruction expenditures for our transmission and distribution system in the event of the most likely level of storm that would occur in the Central Florida area.

The principal, premium if any, and interest on all outstanding Bonds are payable solely from the Net Revenues derived by the KUA from the operation of the System. These obligations do not constitute liens upon the System or on any other property of the KUA or the City of Kissimmee, but are a lien only on the Net Revenues and special funds created by the Bond Resolution and in the manner provided therein.

The income available for debt service was \$36,502,572 and \$33,148,216 for Fiscal Years 2002 and 2001 respectively. The debt service requirements for Fiscal Years 2002 and 2001 were \$18,381,441 and \$17,863,738, respectively. Debt service coverage was 1.99x and 1.86x for Fiscal Years 2002 and 2001, respectively.

Economic Factors and Next Year's Budget and Rates

The growth for the KUA service territory continues to be projected above the national average. Growth in customers and energy sales for Fiscal Year 2003 is forecasted to be approximately 3.3% and 6% respectively. Change in Net Assets is projected to be approximately \$503,000 for FY 2003. There is no rate increase planned for the upcoming year.

Looking forward, KUA anticipates that financial risk has been hedged somewhat as a result of joining FMPA's All Requirements Project. The receipt of capacity credits will partially offset the cost to operate and finance KUA's generation units and also reduce the cost of purchase power to our customers through the cost of power allowance mechanism.

Contacting the KUA's Financial Management

This financial report is designed to provide the KUA's rate payers and creditors with a general overview of the KUA's finances and to demonstrate the KUA's accountability for the money it receives. Those interested in more detailed information may refer to the notes to the financial statements. If you have questions about this report or need additional information, contact the Finance & Risk Management Department at Kissimmee Utility Authority, 1701 W. Carroll Street, Kissimmee, Florida 34741.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Kissimmee Utility Authority

We have audited the accompanying balance sheets of Kissimmee Utility Authority (the Authority) as of September 30, 2002 and 2001 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 Kissimmee Utility Authority, as of September 30, 2002 and 2001 and its changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the financial statements, effective October 1, 2001, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis - for State and Local Governments, GASB Statement No. 37, Basic Financial Statements - and

Management's Discussion and Analysis - for State and Local Governments: Omnibus, and GASB Statement No. 38, Certain Financial Statement Note Disclosures.

In accordance with Government Auditing Standards, we have also issued our report dated November 22, 2002 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The schedule of funding progress and management's discussion and analysis as listed in the table of contents are not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst & Young LLP

November 22, 2002

**KISSIMMEE UTILITY AUTHORITY
BALANCE SHEETS
SEPTEMBER 30**

ASSETS	2002	2001
CURRENT ASSETS		
Cash and cash equivalents	\$46,688,136	\$49,343,297
Investments	35,265,337	37,455,360
Interest receivable	419,354	250,058
Accounts receivable	12,927,210	14,155,655
Less: allowance for doubtful accounts	(320,001)	(243,298)
Inventory	7,108,993	5,007,530
Deferred Cost of Power Adjustment	256,401	-
Other Current Assets	743,167	1,090,691
TOTAL CURRENT ASSETS	103,088,597	107,059,293
RESTRICTED ASSETS		
Cash and cash equivalents	34,579,200	35,201,688
Investments	10,648,259	10,951,428
Interest receivable	200,409	101,575
TOTAL RESTRICTED ASSETS	45,427,868	46,254,691
OTHER ASSETS		
Unamortized Bond Costs	2,507,606	2,618,591
Costs to be Recovered from Future Revenue	44,761,344	45,076,887
Other	697,546	737,689
TOTAL OTHER ASSETS	47,966,496	48,433,167
UTILITY PLANT		
Property, plant and equipment	349,402,585	314,248,999
Less: Accumulated depreciation	(136,974,258)	(124,538,792)
	212,428,327	189,710,207
Construction in progress	27,700,524	46,200,753
Inventory - nuclear fuel	280,447	428,747
TOTAL UTILITY PLANT	240,409,298	236,339,707
TOTAL ASSETS	\$436,892,259	\$438,086,858

KISSIMMEE UTILITY AUTHORITY
BALANCE SHEETS
SEPTEMBER 30
continued

LIABILITIES AND NET ASSETS	2002	2001
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$8,761,504	\$6,485,167
Due to other governments	1,309,027	918,415
Deferred cost of power adjustment	-	1,007,823
Energy conservation cost recovery	282,930	199,562
Other accrued liabilities	991,859	727,354
TOTAL CURRENT LIABILITIES	11,345,320	9,338,321
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Current portion of revenue bonds	7,190,000	6,595,000
Accrued interest payable-revenue bonds	5,260,942	5,935,728
Advances for construction	1,881,259	2,161,322
Customer deposits	3,548,159	3,290,108
Accounts payable from construction funds	-	175,640
Other	1,500,000	1,500,000
TOTAL LIABILITIES PAYABLE FROM RESTRICTED ASSETS	19,380,360	19,657,798
LONG-TERM DEBT		
Revenue bonds payable	202,930,000	209,005,000
Commercial paper notes	70,000,000	70,000,000
Unamortized bond premium	2,810,121	-
Less: unamortized loss on reacquired debt	(22,542,330)	(18,441,844)
Less: unamortized bond discount	(2,087,428)	(3,405,822)
TOTAL LONG-TERM DEBT	251,110,363	257,157,334

KISSIMMEE UTILITY AUTHORITY
BALANCE SHEETS
SEPTEMBER 30
continued

OTHER LONG-TERM LIABILITIES	2002	2001
Co-insurance fund	11,819,612	11,628,836
Accrued compensated absences	1,589,051	1,376,247
Maintenance reserve fund	1,213,343	1,194,685
CR3 special assessment	21,408	34,464
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TOTAL OTHER LONG-TERM LIABILITIES	14,643,414	14,234,232
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TOTAL LIABILITIES	296,479,457	300,387,685
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NET ASSETS		
Invested in capital assets, net of related debt	(15,383,459)	(20,255,995)
Restricted	33,237,508	28,653,852
Unrestricted	122,558,753	129,301,316
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TOTAL NET ASSETS	140,412,802	137,699,173
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COMMITMENTS AND CONTINGENT LIABILITIES (NOTES 10 & 11)		
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TOTAL LIABILITIES AND NET ASSETS	\$436,892,259	\$438,086,858
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The accompanying notes are an integral part of these financial statements

KISSIMMEE UTILITY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the Years Ended September 30

	2002	2001
OPERATING REVENUES		
Metered sales	\$88,914,602	\$94,760,118
Sales to other utilities	20,719,571	6,482,289
Other operating revenues	3,323,734	3,490,046
TOTAL OPERATING REVENUES	112,957,907	104,732,453
OPERATING EXPENSES		
Power Generation	46,323,881	29,001,610
Purchased Power	18,977,880	32,261,266
Transmission/Distribution	5,871,529	4,688,754
Administrative and general	9,491,342	11,280,709
Intergovernmental transfers	6,990,571	6,804,053
Depreciation and amortization	13,169,601	11,612,111
TOTAL OPERATING EXPENSES	100,824,804	95,648,503
OPERATING INCOME	12,133,103	9,083,950
NONOPERATING REVENUES (EXPENSES)		
Investment income	4,050,444	8,782,983
Interest expense	(11,255,511)	(11,435,440)
Other	(1,898,864)	(2,056,159)
Plant costs recovered through capital contributions	(1,670,082)	(935,128)
Costs to be recovered from future revenue	(315,543)	(1,298,904)
TOTAL NONOPERATING REVENUES (EXPENSES)	(11,089,556)	(6,942,648)
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,043,547	2,141,302
Capital contributions	1,670,082	935,128
CHANGE IN NET ASSETS	2,713,629	3,076,430
NET ASSETS - BEGINNING OF YEAR	137,699,173	134,622,743
NET ASSETS - END OF YEAR	\$140,412,802	\$137,699,173

The accompanying notes are an integral part of these financial statements

KISSIMMEE UTILITY AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended September 30

	2002	2001
CASH FLOWS FROM		
OPERATING ACTIVITIES		
Receipts from Customers	\$89,038,894	\$94,299,269
Receipts from Sales to Other Utilities	20,719,571	6,482,289
Receipts from Other Sources	3,323,734	3,490,046
TOTAL CASH PROVIDED	113,082,199	104,271,604
Payments to suppliers for goods and services	(71,406,707)	(77,089,777)
Payments to employees for services	(12,595,900)	(10,988,840)
Payments for benefits on behalf of employees	(3,028,276)	(2,896,377)
TOTAL CASH USED	(87,030,883)	(90,974,993)
NET CASH PROVIDED BY OPERATING ACTIVITIES	26,051,316	13,296,611
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets and nuclear fuel	(24,840,394)	(74,878,178)
Advances for construction & advances from co-owners	8,342,067	30,914,686
Proceeds from debt issue	75,520,000	73,985,399
Payment to defease debt	(74,405,000)	-
Debt Issuance Costs	(1,537,448)	-
Principal paid on long-term debt	(6,595,000)	(41,120,000)
Interest paid on long-term debt	(11,866,227)	(13,566,597)
Other debt costs	(222,469)	(275,097)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(35,604,471)	(24,939,787)

KISSIMMEE UTILITY AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended September 30
continued

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(52,100,000)	(23,400,000)
Proceeds from maturities of investment securities	54,480,921	90,753,552
Interest on investments	3,894,585	7,823,848
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>6,275,506</u>	<u>75,177,400</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,277,649)	63,534,224
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>84,544,985</u>	<u>21,010,761</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$81,267,336</u></u>	<u><u>\$84,544,985</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$12,133,103	\$9,083,950
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	13,420,366	11,850,469
Net amortization	(250,765)	(238,358)
(Increase) decrease in accounts receivable, net	1,305,148	(2,518,338)
(Increase) decrease in other assets	346,969	1,571,928
(Increase) decrease in inventory	(2,101,463)	643,094
(Increase) decrease in deferred cost of power adjustment	(1,264,224)	1,994,275
(Increase) decrease in energy conservation cost recovery	83,368	63,214

KISSIMMEE UTILITY AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended September 30
continued

	2002	2001
Increase (decrease) in accounts payable	1,107,412	(12,562,027)
Increase (decrease) in due to other governments	390,612	(307,759)
Increase (decrease) in customer deposits	194,047	(103,852)
Increase (decrease) in other accrued liabilities	477,309	155,549
Increase (decrease) in other designated liabilities	209,434	3,664,466
	\$26,051,316	\$13,296,611
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:		
(Decrease) increase in fair value of investments	(\$432,533)	\$2,995,642

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Entity Definition: The accompanying financial statements present the financial position, changes in financial position and cash flows of the Kissimmee Utility Authority (KUA) in accordance with Governmental Accounting Standards Board Statement (GASB) No. 14, "The Financial Reporting Entity." The reporting entity for the KUA includes all functions in which the KUA exercises financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. As a result of applying the above reporting entity criteria, no other component units exist in which the KUA has any financial accountability which would require inclusion in the KUA's financial statements.

Description of Business: The KUA is a municipal electric utility authority created effective October 1, 1985 by the City of Kissimmee Ordinance No. 1285 adopted on February 19, 1985 and ratified by the voters on March 26, 1985. The KUA serves customers in Kissimmee and the surrounding area. The KUA Board (Board) has 6 members. The Mayor of the City of Kissimmee is a non-voting Ex-Officio member. The 5 voting members are nominated by the Board and ratified by the City Commission. The KUA has exclusive jurisdiction, control and management of the electric utility. Under the definition of GASB No. 14, the KUA is properly excluded from the City of Kissimmee's financial statements.

KUA also offers internet access to the residents of Osceola and surrounding counties. The service, KUA.net, features high-speed internet access, e-mail, personal web pages, 24-hour help desk, free internet classes, and convenient billing options. By offering internet services, KUA continues to expand its involvement in the community.

Regulation: According to existing laws of the State of Florida, the five voting members of the KUA 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.

As noted above, the FPSC has jurisdiction to regulate electric "rate structures" of municipal utilities. In addition, the Florida Energy Efficiency and Conservation Act has given the FPSC exclusive authority to approve the construction of new power plants under the Florida Electrical Power Plant Siting Act. The FPSC also exercises jurisdiction under the National Energy Act, including electric use conservation programs.

Operations of the KUA are subject to environmental regulations 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 units 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.

Basis of Accounting: The KUA consists of a single Enterprise Fund including the electric utility and the Internet Service Provider (ISP) segments. The KUA maintains its accounts on the accrual basis in accordance with accounting principles generally accepted in the United States. The accounts are substantially in conformity with accounting principles and methods prescribed by the Federal Energy Regulatory Commission and other regulatory authorities.

The accounting and reporting policies of the KUA conform with the accounting rules prescribed by the GASB. The KUA has elected under GASB No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," to apply all applicable GASB pronouncements, as well as all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

The KUA adopted the provisions of GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures", during the year ended September 30, 2002. Statement 34 establishes standards for external financial reporting for all state and local governmental entities which includes a Management's Discussion and Analysis section, a Balance Sheet, a Statement of Revenues, Expenses, and Changes in Net Assets and a Statement of Cash Flows. It requires the classification of Net Assets into three components – Invested in Capital Assets, net of related debt; Restricted; and Unrestricted. Statement 38 primarily clarifies the disclosures concerning debt service requirements and lease obligations.

The adoption of Statement 34 had little effect on the basic financial statements except for the classification of net assets, the reflection of capital contributions as a change in net assets, presentation of the Statement of Cash Flows using the direct method, and the inclusion of a Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and changes in position. Statement 34 also requires that metered sales revenues be reported net of any bad debt allowance. The amount of allowance for Fiscal Years 2002 and 2001 was \$592,000 and \$538,000, respectively.

The adoption of Statement 38 had no effect on the basic financial statements. The additional debt service disclosure requirements have been integrated as required.

Budget: The KUA is required by charter to adopt an annual budget (budget). The budget is adopted on a basis consistent with generally accepted accounting principles.

The KUA follows these procedures in establishing the budget:

1. The President and General Manager submits to the Board of Directors a proposed operating budget for the ensuing fiscal year. The operating budget includes proposed uses and the sources of funds to finance them.
2. During several workshops, which are open to the public, the staff and Board of Directors discuss and revise the submitted budget. A public hearing is conducted to obtain ratepayer comments.
3. The budget is approved by the Board of Directors and becomes the basis for operations for the ensuing fiscal year.

The President and General Manager is authorized to approve all budget transfers and all interdepartmental transfers are reported to the Board of Directors monthly. Budget amendments which increase the adopted budget are approved by the Board of Directors. Both budget transfers and budget amendments were made during the fiscal year. Operating budgets lapse at year end. Capital projects are budgeted for the project life rather than for the current fiscal year. The unexpended portion of project budgets do not lapse until the conclusion of the project.

Costs to be Recovered from Future Revenue: The KUA's electric rates are established based upon debt service and cash operating requirements. Depreciation, unrealized gains or losses on investments, and other non cash items are not considered in the cost of service calculation. This results in timing differences between when costs are included in the ratemaking process versus when costs are incurred. Costs to be recovered from future revenue consist principally of the difference between depreciation and the amortization of the gain and loss on bond refunding and the debt principal requirements included in the determination of rates and changes in the fair value of investments. The recognition in income of outstanding amounts associated with costs to be recovered from future revenue will coincide with the inclusion of these amounts in rates charged to customers. This method was adopted in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" in order to reflect the economics of regulation in the determination of reinvested earnings.

Operating Revenues and Expenses: Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. The principal operating revenue of the KUA is charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The KUA accrues base revenue for services rendered but unbilled to provide a closer matching of revenues and expenses.

Utility Plant: Property, plant and equipment are stated at cost when purchased or constructed. Depreciation is provided using the straight-line method. The estimated useful lives of the various classes of depreciable property, plant and equipment are as follows:

Production	12 1/3 to 33 1/3 years
Transmission	29 2/5 to 50 years
Distribution	22 1/4 to 32 1/4 years
General	6 2/3 to 33 1/3 years

The cost of maintenance and repairs, including renewal of minor items of property, is charged to operating expense as incurred. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to utility plant. The cost of units replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

Nuclear Fuel: Amortization of nuclear fuel is based on cost, which is prorated by fuel assembly batch in accordance with the thermal energy that each assembly produces. The KUA is currently paying 1 mill per KWh for residual future disposal costs in addition to estimated labor and waste burial costs.

Inventory: Inventory is stated at weighted average cost.

Unamortized Bond Costs: Unamortized bond discounts and issuance costs on long-term debt are amortized over the life of the issue on a straight-line basis. The KUA considered the effective interest method of amortizing bond discounts and determined that no material difference results from the continued use of the straight-line method.

Unamortized Loss of Reacquired Debt: Unamortized gains or losses on refunded debt are amortized to income over the life of the new debt consistent with the methods used for setting rates. Unamortized gains and losses on bond refundings have been netted for financial statement purposes.

Net Assets: Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any long-term debt that is attributable to the acquisition, construction, or improvement of those capital assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted – Consists of net assets with constraints placed on their use by revenue bond resolution or other external agreement.
- Unrestricted – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Reclassifications: Certain amounts presented for the prior year have been reclassified in order to be consistent with the current year’s presentation.

Advances for Construction: The KUA receives funds from developers for electric line extensions and from co-owners of the Cane Island Units 1, 2, and 3. These funds are recorded as reductions to gross plant costs and amortized over the life of related assets. However, for financial reporting purposes, such contributions are presented as capital contributions with a corresponding expense for contributed plant costs in the Statements of Revenues, Expenses and Changes in Net Assets.

Deferred Cost of Power Adjustment: Deferred cost of power adjustment represents the KUA’s cost of power adjustment revenues collected, but for which costs have not

been incurred or costs that have been incurred, but for which cost of power adjustment revenues have not been collected.

Energy Conservation Cost Recovery: Energy conservation cost recovery represents the KUA's energy conservation cost revenues collected, but for which costs have not been incurred or costs that have been incurred, but for which energy conservation cost recovery revenues have not been collected.

Payments to the City of Kissimmee: By charter the KUA is required to pay to the City of Kissimmee a minimum of \$6.24 per 1,000 KWh. This payment is treated as an operating and maintenance expense in the Statements of Revenues, Expenses and Changes in Net Assets. The total amount paid to the City of Kissimmee was approximately \$6,969,600 and \$6,792,200 for the years ended September 30, 2002 and 2001, respectively. The amount owed to the City of Kissimmee was approximately \$1,154,400 and \$835,000 for the years ended September 30, 2002 and 2001, respectively.

The KUA collects Osceola County Public Service tax revenues on behalf of Osceola County from customers who live outside the City of Kissimmee. In accordance with an Interlocal Agreement between Osceola County and the KUA, twenty-five percent of these revenues collected are transferred to the City of Kissimmee for Parks and Recreation use. The total amount transferred to the City of Kissimmee was approximately \$590,700 and \$566,500 for the years ended September 30, 2002 and 2001, respectively. The amount owed to the City of Kissimmee was approximately \$57,900 and \$50,600 at September 30, 2002 and 2001, respectively.

The KUA collects revenues on behalf of the City of Kissimmee for City of Kissimmee utility services including water, sewer, solid waste and utility taxes. The amount paid to the City of Kissimmee by the KUA for utility service revenues collected was approximately \$29,500,000 and \$29,596,300 for the years ended September 30, 2002 and 2001, respectively. The amount owed to the City of Kissimmee was approximately \$131,000 and \$82,400 at September 30, 2002 and 2001, respectively.

The KUA pays the City of Kissimmee for miscellaneous fees that are operating expenses for the KUA. The amount paid to the City of Kissimmee was approximately \$297,900 and \$161,500 for the years ended September 30, 2002 and 2001, respectively.

The KUA performs certain customer related services for the City of Kissimmee for which the City of Kissimmee paid the KUA approximately \$841,000 and \$772,600 for the years ended September 30, 2002 and 2001, respectively. The amount owed by the City of Kissimmee to the KUA was approximately \$73,000 and \$66,400 at September 30, 2002 and 2001, respectively. As of September 30, 2002 and 2001, the City of Kissimmee also owed the KUA \$511,100 and \$797,700, respectively, which represents the remaining balance of funds KUA loaned to the City at 0% interest rate related to a customer overbilling and overpayment in prior years. The amounts paid by the City of Kissimmee to the KUA was approximately \$286,500 and \$286,500 for the years ended September 30, 2002 and 2001, respectively.

Cash and Cash Equivalents: Cash and cash equivalents include short-term, highly liquid investments that are both readily convertible to known amounts of cash and whose original maturity is three months or less. These consist of repurchase agreements, the State Board of Administration Pool and the carrying amount of the KUA's deposits with financial institutions.

Investments: Investments are recorded at fair value. Fair value is determined based on quoted market prices. The Local Government Investment Pool operated by the Florida State Board of Administration is a 2a-7-like pool; therefore, it is not presented at fair value but at its actual pooled share price. Because KUA's financial statements are prepared under a regulatory basis of accounting pursuant to the provisions of Statement of Financial Accounting Standards No. 71, whereby certain income and expense amounts are deferred and not included in the determination of net income until such costs are recoverable, the net change to the investments carrying value is included in interest revenue and costs to be recovered from future revenues with no impact on net assets.

Compensated Absences: In accordance with GASB No. 16, "Accounting for Compensated Absences," the KUA accrues a liability for employees' rights to receive compensation for future absences when certain conditions are met.

The KUA has not normally, nor is it legally required to, accumulate expendable available financial resources to liquidate this obligation. Accordingly, the liability for compensated absences is included in Other Long-term Liabilities in the accompanying Balance Sheets.

2. CASH, CASH EQUIVALENTS, INVESTMENTS AND INTEREST RECEIVABLE

Florida Statutes, the KUA Charter and the KUA Investment Policy authorize the investment of excess funds in time deposits or savings accounts of financial institutions approved by the State Treasurer, obligations of United States Government agencies, certain instruments guaranteed by the U.S. Government, the State Board of Administration (SBA) Pool, bankers' acceptances, and commercial paper. Revenue Bond Covenants also restrict the type and maturities of investments in the required trust funds (see Note 9).

Investments must be in the KUA's name and represented by bank safekeeping receipts which enumerate the various securities held, except for the Crystal River Unit No. 3 Decommissioning Reserve and Florida Gas Utility (FGU) Collateral Funds, which are held in trust, and are not in the name of KUA.

The Statutes also require depositories of public funds to provide collateral each month at least equal to 50 percent of the average daily balance of all public deposits in excess of deposit insurance. Any loss not covered by the pledged securities and deposit insurance would be assessed by the State Treasurer and paid by other qualified public depositories.

The components of the KUA's total cash, cash equivalents, investments and interest receivable at their respective carrying amounts at September 30, 2002 and 2001 are as follows:

2002	Current	Restricted	Total
Cash & Cash			
Equivalents	\$46,688,136	\$34,579,200	\$81,267,336
Investments	35,265,337	10,648,259	45,913,596
Interest Receivable	419,354	200,409	619,763
TOTALS	\$82,372,827	\$45,427,868	\$127,800,695

2001			
Cash & Cash			
Equivalents	\$49,343,297	\$35,201,688	\$84,544,985
Investments	37,455,360	10,951,428	48,406,788
Interest Receivable	250,058	101,575	351,633
TOTALS	\$87,048,715	\$46,254,691	\$133,303,406

The level of credit risk assigned to investments are defined and summarized as follows:

Category 1 - Insured or registered, with securities held by the KUA or its agent in the KUA's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the KUA's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the KUA's name.

2002	Category of Risk (000's)			Total Fair Value
	1	2	3	
U.S. Government				
Securities	\$ -	\$ 221	\$ -	\$ 221
U.S. Instrumental				
Securities	39,928	3,500	2,265	45,693
Total Investments	\$39,928	\$3,721	\$2,265	\$45,914

2001				
U.S. Government				
Securities	\$ -	\$ 1,123	\$ -	\$ 1,123
U.S. Instrumental				
Securities	45,358	-	1,926	47,284
Total Investments	\$45,358	\$1,123	\$1,926	\$48,407

GASB No. 31, "Accounting and Financial Reporting for certain investments and External Investment Pools", requires that investments are recorded at fair value. The effect of adjusting the investments to fair value at September 30, 2002 and 2001 was a (decrease) increase to the investments carrying value of approximately \$(532,500) and \$2,996,000, respectively.

The balance in the SBA was approximately \$54,121,000 and \$84,620,000 at September 30, 2002 and 2001 respectively, and is collateralized in accordance with Florida Statutes. All investments are delivered to the SBA's custody bank and held for

the SBA's account according to their instructions. The KUA's SBA funds are invested in the SBA's Local Government Surplus Funds Investment Pool Trust Fund.

As of September 30, 2002, the Local Government Surplus Funds Investment Pool Trust Fund contained certain floating and variable rate notes, which could be classified as "derivative" investments under GASB Technical Bulletin No. 94-1. Per GASB Technical Bulletin No. 94-1, derivatives are generally defined as contracts whose value depend on, or derive from, the value of an underlying asset, reference rate or index. Floating and variable rate notes were the only investments traded which could be classified as "derivative" investments.

Floating and variable rate notes are debt instruments with a variable interest rate generally tied to prevailing short-term interest rates. During the reporting period October 1, 2001 through September 30, 2002, all floating and variable rate notes owned by the Local Government Surplus Funds Investment Pool Trust Fund were index based floaters set off the fixed prime rate and/or one and three month LIBOR rates. These notes were purchased to add relative value to the portfolio. Generally, floating and variable rate instruments are priced at par close to reset dates. The investment in floaters represented approximately .72% and 1.04% of the total Pool investments for the years ended September 30, 2002 and 2001, respectively. Therefore, KUA's exposure to these floaters is approximately \$390,000 and \$880,000 for the years ended September 30, 2002 and 2001, respectively.

Repurchase agreements result entirely from a banking services agreement requiring overnight repurchase agreements of securities guaranteed by the United States Government. The value of repurchase agreements held with the KUA's depository bank was approximately \$241,000 and \$155,000 at September 30, 2002 and 2001, respectively. Repurchase agreements are held in the name of the KUA's depository bank. The maximum repurchase agreement was \$4,833,000 and \$35,114,000 during 2002 and 2001, respectively.

At September 30, 2002 and 2001 the carrying amount of the KUA's deposits with financial institutions was \$550,000 and \$0 for each year respectively, and the bank balance was approximately \$331,000 and \$333,000, respectively. All bank balances are fully insured in accordance with Florida Statute 280, which established the multiple financial institution collateral pool.

3. CURRENT CASH AND INVESTMENTS

Certain designations of current cash, investments, and interest receivable are made in the financial records during the fiscal year to identify a portion of cash, cash equivalents, investments and interest receivable intended to be used for specific purposes in a future period. Current cash and cash equivalents, investments and interest receivable at September 30, 2002 and 2001 included the following:

Current Assets	2002	2001
Undesignated	\$14,227,185	\$13,846,444
Designated for:		
Capital Improvements	29,405,093	37,268,591
Co-Insurance	11,819,612	11,628,836
Decommissioning	519,488	499,139
Combined Cycle Maintenance	4,814,991	4,727,749
EPPIC Excess Liability	82,604	81,057
Good Neighbor Funds	9,847	6,072
Deregulation/Rate Stabilization	21,494,007	18,990,827
Total	\$82,372,827	\$87,048,715

4. RESTRICTED CASH AND INVESTMENTS

Restrictions are made in accordance with bond resolutions, contracts with developers and the Florida Municipal Power Agency (FMPA), agreements with customers, and in accordance with Nuclear Regulatory Commission (NRC) rules and regulations. Restricted assets, which consist of cash, cash equivalents, investments and interest receivable at September 30, 2002 and 2001 included the following:

Restricted Assets	2002	2001
Debt Service Reserve	\$20,271,150	\$20,271,150
Sinking Fund	12,450,942	12,530,727
Construction Fund	-	4,538,041
Renewal, Replacement & Improvement	1,500,000	1,500,000
Advances for Construction	1,881,259	2,161,322
Customer Deposits	3,548,159	3,290,108
Crystal River Unit #3 Decommissioning	2,276,358	1,963,343
FGU Collateral Funds	3,500,000	-
Total	\$45,427,868	\$46,254,691

5. UTILITY PLANT

Utility plant activity for the years ended September 30, 2002 and 2001 was as follows:

Utility Plant	10/01/01		Deletions & Reclassifications	9/30/02 Balance
	Balance	Additions		
Nuclear Production	\$6,058,012	\$155,979	\$ -	\$6,213,991
Steam Production	80,464,459	63,535,907	(463,680)	143,536,686
Other Production	104,272,549	231,029	(35,910,482)	68,593,096
Transmission Plant	40,797,530	2,597,623	-	43,395,153
Distribution Plant	60,257,544	9,385,597	(5,278,760)	64,364,381
General	22,398,905	1,114,805	(214,432)	23,299,278
Subtotal	314,248,999	77,020,940	(41,867,354)	349,402,585
Less: Accumulated				
Depreciation	(124,538,792)	(13,201,943)	766,477	(136,974,258)
Total	\$189,710,207	\$63,818,997	\$(41,100,877)	\$212,428,327

Utility Plant	10/01/00		Deletions & Reclassifications	9/30/01 Balance
	Balance	Additions		
Nuclear Production	\$ 6,006,416	\$ 51,596	\$ -	\$ 6,058,012
Steam Production	73,366,474	7,257,275	(159,290)	80,464,459
Other Production	68,090,837	36,187,723	(6,011)	104,272,549
Transmission Plant	40,329,076	470,001	(1,547)	40,797,530
Distribution Plant	58,080,253	5,389,669	(3,212,377)	60,257,545
General	20,147,775	2,576,572	(325,443)	22,398,904
Subtotal	266,020,831	51,932,836	(3,704,668)	314,248,999
Less: Accumulated				
Depreciation	(113,674,132)	(11,608,402)	743,742	(124,538,792)
Total	\$152,346,699	\$40,324,434	\$(2,960,926)	\$189,710,207

Depreciation expense for Utility Plant totaled approximately \$13,420,000 and \$11,850,000 for years ended September 30, 2002 and 2001, respectively.

6. CONSTRUCTION PROJECT INTEREST COST

The KUA entered into FMPA's variable rate Pooled Loan Program to fund the initial construction of Cane Island Unit 3, and subsequently refunded the Pooled Loan by issuing Series A Commercial Paper. Construction of Unit 3 was basically completed during 2001. In accordance with SFAS No. 71, the KUA capitalized approximately \$0 and \$2,459,000 in interest costs for the year ended September 30, 2002 and 2001, respectively.

The KUA capitalizes, as part of construction costs, interest earnings on monies held in the construction fund. Recognition of this item as a contribution to the utility plant is consistent with the current accounting adopted under SFAS No. 71 (see Note 1). The

KUA capitalized interest income of approximately \$0 and \$1,093,000 in 2002 and 2001, respectively.

7. PARTICIPATION AND POWER SUPPLY AGREEMENTS

- A. FMPA All-Requirements Power Supply Project:** As a result of joining the ARP, effective October 1, 2002, KUA will assign to FMPA, as agent for the ARP, all of its rights, title and interest to all participation and power supply agreements, except those resources specifically excluded. FMPA will assume all payment obligations and other responsibilities and will be entitled to exercise all rights under these contracts. Excluded resources consist of KUA's entitlement shares and/or ownership in the St. Lucie Project and Crystal River No. 3 Nuclear Power Plant.
- B. Cane Island Project (the Project):** During 1992, the KUA entered into a Participation Agreement with the FMPA for the joint construction, ownership and operation of the KUA's Cane Island Project. The Project is located at Cane Island, 14 miles west of the KUA's existing service territory on 990 acres of land. The Project is owned and operated by the KUA. The agreement resulted in a 50 percent ownership in generating facilities constructed on this site beginning with the first unit, a 40.6 MW combustion turbine which began commercial operation on January 1, 1995. The second unit is approximately 120 MW and is a combined cycle unit which began commercial operation on June 1, 1995. The third unit is approximately 250 MW and is also a combined cycle unit. The combustion turbine portion of the unit began commercial operation in July 2001. The steam portion of the unit began commercial operation in January 2002.
- C. Stanton Energy Center Units (SEC 1 & 2):** In 1984, the KUA entered into a Participation Agreement with Orlando Utilities Commission (OUC) to acquire a 4.8193% (20MW) undivided ownership interest in SEC 1 and to participate in the use of related common and external facilities. The KUA acquired its share of the SEC common facilities, related to its ownership of SEC 1. The capacity and energy of the KUA's ownership interest in SEC 1 is transmitted through OUC's transmission facilities to the KUA's transmission facilities. SEC 1 is part of the Stanton Energy Center, which involved the development of an approximately 3,200 acre plant site located approximately 20 miles northeast of the City of Kissimmee. In addition to SEC 1, the Stanton Energy Center is capable of accommodating two more units with a total capacity at the Stanton Energy Center of approximately 2000 MW. Each participant in the project financed their share of the cost independently and no liability exists for the debt service required by the other participants. Stanton Energy Center began commercial operations on July 1, 1987. The KUA does not exercise significant influence or control over operating or financial policies of OUC.

In 1991, the KUA entered into a Power Supply Acquisition Agreement with the FMPA. The KUA receives a 3.8314% power entitlement, approximately 16.7 MW, in Stanton Energy Center Unit No. 2 (SEC 2). SEC 2 began commercial operation on June 1, 1996.

In 1995, the KUA entered into a Transfer Agreement with the City of Lake Worth for the transfer of all of the City of Lake Worth's share of the FMPA SEC 2 Project.

The KUA acquired the City of Lake Worth's 1.9157% power entitlement share in SEC 2, approximately 8.3 MW.

Additionally, in 1995 the KUA entered into a Transfer Agreement with the City of Homestead for the transfer of 50% of the City of Homestead's Power Entitlement Share of the FMPA SEC 1 and the SEC 2 Projects. The KUA acquired a 1.8072% power entitlement share in SEC 1, approximately 7.9 MW and 1.9157% power entitlement share in SEC 2, approximately 8.3 MW. As a result of the City of Homestead's Power Entitlement Share Transfer Agreement of the FMPA SEC 1 Project, KUA was required to reimburse the City of Homestead for equity funds previously paid in the amount of approximately \$829,300. The equity funds paid are recorded as other assets and are amortized over the remaining life of SEC 1.

In summary, the KUA has a total power entitlement share of 7.6628%, approximately 33.33 MW in SEC 2 and a total power entitlement share of 1.8072%, approximately 7.9 MW in SEC 1. Costs associated with these agreements are included in purchased power expenses.

- D. **Crystal River Unit No. 3 (CR3):** In 1975, the KUA entered into a Participation Agreement with Florida Power Corporation (FPC) to purchase a .6754% undivided interest in their 806 net MW nuclear powered electric generating plant designated Crystal River Unit No.3. The KUA is billed for its share of operating and capital costs. Capital costs are included in Property, Plant and Equipment and operating costs are included as power generation expenses. The KUA's benefit in the Agreement is the added availability of capacity and energy of the facilities through its participation in future energy purchases and it does not otherwise maintain an ongoing financial interest or responsibility for the project. The KUA does not exercise significant influence or control over the operating or financial policies of FPC.

- E. **Indian River Combustion Turbine:** In 1988, the KUA entered into a Participation Agreement with OUC to acquire a 12.2% (11.7 MW) undivided ownership interest in the Indian River Combustion Turbine and participate in the use of related common and external facilities. Each participant in the project financed their share of the cost independently and no liability exists for the debt service required by the other participants. The KUA does not exercise significant influence or control over the operating or financial policies of OUC.

- F. **St. Lucie Nuclear Power Plant:** In 1981, the KUA entered into a Power Supply Acquisition Agreement with the FMPA in which the KUA receives approximately 7 MW of power from the St. Lucie nuclear power plant.

According to the participation agreements, each participant must provide its own financing and each participant's share of expenses for operations of the plants are included in the corresponding operating expenses of its own income statement. The amounts of utility plant in service for CR3 and Indian River do not include the cost of common and external facilities for which participants pay user charges to the operating entity. Accumulated depreciation on utility plant in service is determined by each participant based on their depreciation methods and rates relating to their share of each plant.

Following is a summary of the KUA's proportionate share of the non-operated jointly owned plants at September 30:

2002	SEC 1	CR3	Indian River
Utility Plant	\$21,641,200	\$6,213,991	\$2,588,005
Less: Accumulated			
Depreciation	(8,315,321)	(5,498,465)	(1,304,286)
Net Utility Plant	\$13,325,879	\$ 715,526	\$1,283,719

2001			
Utility Plant	\$21,597,293	\$6,058,012	\$2,588,005
Less: Accumulated			
Depreciation	(7,756,714)	(4,998,034)	(1,211,475)
Net Utility Plant	\$13,840,579	\$1,059,978	\$1,376,530

8. PENSION

Plan Description - The Kissimmee Utility Authority Pension Plan (the "Plan") is a single employer defined benefit pension plan. The Plan provides for pension, death and disability benefits. Participation in the Plan is required as a condition of employment. The Plan is subject to provisions of Chapter 112 of the State of Florida Statutes and the oversight of the Florida Division of Retirement. The Plan is governed by a five member pension board. The Plan issues a publicly available financial report that includes financial statements and required supplementary information which may be obtained by writing to our offices at 1701 W. Carroll Street, Kissimmee, FL 34741 or by calling (407) 933-7777, ext. 1125.

Funding Policy - The KUA is obligated to fund all Plan costs based upon actuarial valuations. The KUA is authorized to establish benefit levels and to approve the actuarial assumptions used in the determination of contribution levels. The KUA's contribution rate for the year ended September 30, 2002 was 10.6 percent of earnings. The Plan has been a non-contributory Plan since 1986.

Annual Pension Cost - For the years ended September 30, 2002, 2001, and 2000, respectively, the annual pension costs of \$1,100,225, \$910,656, and \$884,588 were equal to the KUA's required and actual contributions. The annual required contribution was determined as part of the October 1, 2001 actuarial valuation using the Frozen Entry Age Method. The actuarial assumptions included (a) life expectancy was calculated using the 1983 Group Annuity Mortality Table; (b) 8% investment rate of return (net of administrative expenses); and (c) projected salary increases of 6% per year, including an inflation component of 3%. The assumptions included post retirement benefits increases of 0%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at October 1, 2001 was 29 years.

9. LONG-TERM DEBT

The Revenue Bond resolutions provide for:

1. **Establishment and maintenance of various funds:**
 - Revenue Fund records all operating revenues and expenses of the system;
 - Sinking Fund records principal and interest requirements;
 - Bond Amortization Fund records funds held for the retirement of term bonds;
 - Reserve Fund records funds held for the maximum annual debt service requirement;
 - Renewal, Replacement & Improvement Fund is to be used only for making improvements, extensions and replacements to the system; and
 - Construction Fund records the cost of major additions to the system financed by revenue bonds.

2. **Restrictions on the use of cash from operations in order of priority:**
 - Deposits are made to the Revenue Fund to meet current operations according to the Budget;
 - Deposits to the Sinking Fund Account are required on or before the 25th day of each month equal to one-sixth (1/6) of the interest coming due on the next semi-annual interest payment date and one-twelfth (1/12) of the principal coming due on the next principal payment date;
 - Deposits to the Bond Amortization Fund are required on or before the 25th of each month equal to one-sixth (1/6) of the amortization installment coming due on the next semi-annual payment date;
 - Deposits to the Reserve Fund are to be made when required to maintain the Fund at the reserve requirements (maximum annual debt service); and
 - Deposits to the Renewal, Replacement and Improvement Fund are required each month in an amount equal to one-twelfth (1/12) of the adopted budget for that fund. The total annual deposit may not be less than 5% of the gross revenues for the preceding fiscal year after deducting 100% of the fuel expense and the energy component of purchased power expenses incurred in such preceding fiscal year. However, no such monthly deposit shall be required when the amount in such fund shall at least equal \$1,500,000.

3. **Rate Covenant:**
 - The KUA will at all times establish, fix, prescribe and collect rates and charges for the services and facilities furnished by the Electric System which, together with other income, are reasonably expected to yield annual Net Revenues in each fiscal year at least equal to 125% of the bond service requirement in the Bond Year which ends one day after such fiscal year. There was a change to the bond resolution reducing the required coverage by debt service of net revenues from 125% to 110%. This amendment was recommended in connection with the process of preparing for issuance of the Authority's Series 1999 bonds for the Cane Island Unit 3 project in order to provide the Authority additional flexibility to operate in a deregulated energy environment. These bond covenants will become effective only after a majority of the bond holders are under them.

4. Early redemption:

- The bond ordinance provides for early redemption of outstanding bonds, except original issue discount bonds, at call rates varying from 100% to 102% of the instruments' face value, dependent upon the call date. Original issue discount bonds may be redeemed early at call rates of 80% to 100% of the face value, dependent upon the call date.

5. Investment restrictions:

- Funds of the Sinking Fund, Bond Amortization Fund, Reserve Fund and Renewal, Replacement & Improvement Fund are required to be continuously secured in the same manner as municipal deposits of funds are required to be secured by the Laws of the State of Florida; and
- Monies on deposit in the Sinking Fund and the Bond Amortization Fund shall be invested only in direct obligations of, or obligations on which the principal and interest are guaranteed by the United States of America and which do not permit redemption prior to maturity at the option of the KUA. Monies on deposit in the Revenue Fund, Reserve Fund and Renewal, Replacement & Improvement Fund may be invested as described above as well as in the following: obligations rating an "A" or better from Moody's Investors Service, Inc., bank time deposits represented by certificates of deposit and bankers acceptances, repurchase agreements, commercial paper which has the highest investment grade rating and shares of investment companies which invest principally in United States government securities.

Long-term debt outstanding at September 30, 2002 and 2001 consisted of the following serial and term bonds, and outstanding commercial paper notes:

Final Maturity	Original Amount	2002	2001
Improvements & Refunding Revenue Bonds, Series 1991			
5.55%-6.60% - 4/1; 10/1			
10/01/08	\$75,550,000	\$ -	\$10,710,000
Improvements & Refunding Revenue Bonds, Series 1993			
3.90%-5.50% - 4/2; 10/2			
10/01/18	145,800,000	90,550,000	136,970,000
Refunding Revenue Bonds, Series 1993A			
3.70%-5.30% - 4/1; 10/1			
10/01/17	21,165,000	-	20,810,000
Refunding Revenue Bonds, Series 1997			
3.85%-5% - 4/2; 10/2			
10/01/12	56,180,000	44,050,000	47,110,000
Refunding Revenue Bonds, Series 2001A			
3.50%-4.70% - 4/2; 10/2			
10/01/17	31,020,000	31,020,000	-
Refunding Revenue Bonds, Series 2001B			
4%-5% - 4/2; 10/2			
10/01/15	44,500,000	44,500,000	-
Commercial Paper Program, Series A			
Interest at various market rates			
	35,000,000	35,000,000	35,000,000
Commercial Paper Program, Series B			
Interest at various market rates			
	35,000,000	35,000,000	35,000,000
Total Amount Outstanding		280,120,000	285,600,000
Less: Current Portion		(7,190,000)	(6,595,000)
Unamortized Bond			
Discount		(2,087,428)	(3,405,822)
Unamortized Loss on			
Reacquired Debt		(22,542,330)	(18,441,844)
Unamortized Bond Premium		2,810,121	-
Long Term Debt		\$251,110,363	\$257,157,334

The annual long-term debt service requirements at September 30, 2002 are as follows (excludes Series A and B Commercial Paper):

	Interest	Principal	Total
2002	\$ 10,087,344	\$ 7,190,000	\$ 17,277,344
2003	10,005,680	7,715,000	17,720,680
2004	9,667,035	8,045,000	17,712,035
2005	9,325,318	8,390,000	17,715,318
2006	8,949,728	8,765,000	17,714,728
2007-2011	37,927,726	55,800,000	93,727,726
2012-2016	21,959,306	76,940,000	98,899,306
2017-2018	2,953,815	37,275,000	40,228,815
Total	\$110,875,952	\$210,120,000	\$320,995,952

KUA authorized the issuance of the Commercial Paper Notes pursuant to Resolution No. 00-04, adopted by the Board on October 25, 2000. The Notes were issued in two series, 2000A and 2000B, each for \$35,000,000 to (i) finance the cost of the Cane Island Project (including repayment of amounts previously borrowed to provide financing therefore) and (ii) pay the costs of issuance of the Commercial Paper Notes. The aggregate principal amount of all Commercial Paper Notes outstanding at any one time shall not exceed the lesser of \$100,000,000 or the amount of the Available Commitment under the Purchase Agreement (the current Available Commitment is \$80,000,000). During the year ended September 30, 2002, interest rates on the Commercial Paper ranged from 2.48% to 1.50% and averaged 1.76%.

The Commercial Paper Notes are secured by the Commercial Paper Purchase Agreement between KUA and The Bank of Nova Scotia, New York Agency. In the Purchase Agreement, the Bank has agreed, subject to certain conditions, to purchase Commercial Paper Notes which have not been sold by the Dealers so that monies will be available in the CP Note Payment Fund to pay the maturing principal of outstanding Notes. The obligation of the Bank under the Purchase Agreement provides only for payment of maturing principal of Commercial Paper Notes; KUA is obligated to make provision for payment of interest on maturing Commercial Paper Notes from Subordinated Revenues.

The amount of the Bank's obligation under the Purchase Agreement is limited to \$80 million, reduced by the amount of any outstanding Notes previously purchased by the Bank and subject to adjustment upward upon request of KUA and consent of the Bank or downward upon unilateral request by KUA, in either case in \$1 million increments.

The duration of the Bank's obligation under the Commercial Paper Purchase Agreement is for 364 days, beginning on the date of issuance of the Commercial Paper Notes and terminating on the day prior to the first anniversary of the date of issuance subject to extension upon the request of KUA and consent of the Bank, for an additional period of 364 days or such other period agreeable to the Bank. KUA must request such an extension at least 60 days prior to the expiration of the Purchase Agreement (unless the Bank consents to a later request), and the Bank must notify the

Issuing and Paying Agent within 30 days of receipt of the request whether the Bank consents to such extension and must deliver a written acknowledgement of the extension within 15 days of its consent to the Issuing and Paying Agent. As of September 30, 2002, all \$70,000,000 of the Series A and B were outstanding.

On October 25, 2001, the KUA issued \$31,020,000 in Kissimmee Utility Authority Electric System Refunding Revenue Bonds, Series 2001A and \$44,500,000 in Kissimmee Utility Authority Electric System Refunding Revenue Bonds, Series 2001 B. The bonds were issued to (i) refund all of the KUA's outstanding Electric System Improvements and Refunding Revenue Bonds, Series 1991, and all of its Electric System Refunding Revenue Bonds, Series 1993A and a portion of its Electric System Improvement and Refunding Revenue Bonds, Series 1993, in the total outstanding amount of \$74,405,000 and (ii) pay certain expenses related to the issuance and sale of the Series 2001 Bonds. The result of the refunding was a net present value savings of \$3,099,342 or approximately 4.17% of the refunded bonds.

Long-term liability activity for the years ended September 30, 2002 and 2001 was as follows:

	Revenue Bonds Payable	Commercial Paper	Deferred Amounts	Long-Term Liabilities
10/01/01				
Balance	\$209,005,000	\$70,000,000	\$(21,847,666)	\$257,157,334
Additions	75,520,000	-	(2,856,231)	72,663,769
Reductions	(81,595,000)	-	2,884,260	(78,710,740)
9/30/02				
Balance	\$202,930,000	\$70,000,000	\$(21,819,637)	\$251,110,363
Due within one year				
	\$ 7,190,000	\$ -	\$ 1,487,414	\$ 8,677,414

	Revenue Bonds Payable	Commercial Paper	Pooled Loan Program	Deferred Amounts	Long-Term Liabilities
10/01/00					
Balance	\$215,600,000	\$ -	\$31,014,601	\$(23,234,116)	\$223,380,485
Additions	-	70,000,000	3,985,399	-	73,985,399
Reductions	(6,595,000)	-	(35,000,000)	1,386,450	(40,208,550)
9/30/01					
Balance	\$209,005,000	\$70,000,000	\$ -	\$(21,847,666)	\$257,157,334
Due within one year					
	\$ 6,595,000	\$ -	\$ -	\$ 1,386,450	\$ 7,981,450

The KUA refunds and defeases debt primarily as a means of reducing debt service, thereby postponing or reducing future electric rate adjustments. Outstanding serial bonds, which were refunded through the full cash defeasance method on January 4, 1978 and through the net cash defeasance method on February 25, 1982, January 25, 1983, December 31, 1985, April 1, 1987, December 18, 1991, June 16, 1993, September 30, 1993, August 27, 1997 and October 25, 2001 are as follows at September 30, 2002:

Electric & Water Bond Issues *	2002
1975	\$ 575,000
Electric Revenue Bonds	
1977 Series A	9,665,000
1979	1,465,000
1982	35,970,000
1982-A	48,060,000
1984	23,650,000
1985	28,915,000
1987	42,855,000
1991	68,225,000
1993	44,215,000
1993A	20,745,000
Total	\$324,340,000

*Prior to 1977 the KUA, which was a department of the City of Kissimmee until October 1, 1985, combined their Electric & Water Bond Issues

Since governmental obligations are held in escrow for the payment of principal and interest on these bonds, they are not liabilities to the KUA.

10. COMMITMENTS AND CONTINGENT LIABILITIES

The KUA has made certain commitments in connection with its continuing capital improvements program. The KUA estimates that capital expenditures for its ongoing business during 2003 will be approximately \$16,955,000 and \$52,300,000 for years 2004 through 2007. This includes KUA's share of construction costs of the Stanton Energy Center A.

The KUA is involved in litigation arising during the normal course of its business. In the opinion of management, the resolution of these matters will not have a material effect on the financial position of the Authority.

The KUA has purchase agreements with utilities whereby the KUA must pay capacity demand or reservation fees whether electricity or fuel is received from these utilities or not. The utilities involved and the approximate charges to be paid are as follows:

	Date	Commitment
Orlando Utilities Commission (OUC)		
Schedule D	2003	\$ 744,943
SEC 1	NONE	197,805
Indian River	NONE	113,032
Florida Power Corp.	NONE	76,145
FMPA (St. Lucie, SEC2)	NONE	11,024,092
Florida Gas Transmission (FGT)	2005 *	8,445,734
Florida Gas Utility (FGU)	2008	2,662,882
Stanton A		
PPA	NONE	245,856
Ownership	NONE	312,480
Gas	NONE	1,566,383
Total		\$25,389,352

* Extension Rights – Rights of First Refusal

Several of the contracts are flexible and allow the KUA to contract more capacity for a short time if demand increases more sharply than anticipated, or if the KUA's generating resources become unavailable. In such an event, the minimum annual commitment would increase in proportion to the increased capacity purchased. The charges paid to OUC and FPC are recorded as purchased power while charges paid to FGT and FGU are recorded as power generation expenses.

The KUA owns a portion of Florida Power Corporation's nuclear power plant at Crystal River, Florida. This plant is scheduled to be decommissioned beginning in the year 2015 and ending 2022. The KUA will be liable for approximately \$3,733,000 in decommissioning costs in 2001 dollars. In June 1988, the Nuclear Regulatory Commission (NRC) required utilities to provide financial assurance that decommissioning funds would be sufficient and available when needed for NRC required decommissioning activities. On July 12, 1990 the KUA and the FMPA entered into an agreement whereby the FMPA would act as agent for the KUA and certain other CR3 participants to coordinate the administration of a trust fund. Contributions to this trust fund are not available to the KUA for any other purpose except the decommissioning of CR3. The KUA's carrying balance in this Trust at September 30, 2002 and 2001 including interest earnings was approximately \$2,276,000 and \$1,963,000, respectively. Future contributions will be made to this trust account as needed based on updated cost estimates and trust fund earnings.

As a result of its ownership interest in CR3 the KUA is subject to the Price Anderson Act which was enacted to provide financial protection for the public in the event of a nuclear power plant accident. The first layer of financial protection was the purchase of \$200 million of public liability insurance from pools of commercial insurers. The second layer of financial protection is provided under an industry retrospective payment plan. Under that plan, owners are subject to an assessment of \$90.74 million per incident with provision for payment of such assessment to be made over time as necessary to limit the payment in any one year to no more than \$10 million per incident. The KUA is liable for its ownership interest of any assessment made against CR3 under this plan.

The KUA has recorded a liability at September 30, 2002 and 2001 of approximately \$34,000 and \$47,000, respectively, of which approximately \$21,000 and \$34,000, respectively, is long-term and a related deferred charge for its estimated portion of the costs for the decommissioning and decontamination of the United States Department of Energy nuclear fuel enrichment facilities as provided for by the National Energy Policy Act of 1992 (Energy Act) for its .6754% share of Crystal River Unit No.3. The Energy Act states, among other things, that utilities with nuclear reactors will contribute an aggregate total of \$150 million annually, based upon an assessment, for a period of fifteen years, up to a total of \$2.25 billion (in 1992 dollars), for such decommissioning and decontamination costs. The Energy Act also provides that these costs are a "necessary and reasonable current cost of fuel and shall be fully recoverable in rates in all jurisdictions in the same manner as other fuel costs." The KUA intends to recover these deferred costs through the Cost of Power Adjustment clause.

On November 30, 1993, a gas turbine was in the process of being delivered to the KUA's Cane Island site when it was struck by an Amtrak Train. At the time of the accident, delivery had not been made to the KUA nor had the unit been accepted by the KUA; title to the gas turbine had passed to the KUA, however General Electric retained the risk of loss until the turbine was accepted by the KUA. The National Transportation Safety Board determined that the probable cause of the accident was the failure of the transport company to notify the railroad (CSX) in advance of its intent to cross the railroad track and to ensure through CSX that it was safe to do so. A jury in U.S. Federal Court found that KUA was not responsible for the accident. That same jury found the following entities responsible for causing the accident and assigned the following percentages of fault: Roundtree Transport & Rigging, Inc. – 59%; CSX Transportation, Inc. – 33%; Amtrak – 8%. A U.S. District Judge has ruled that an indemnification provision contained in a Private Road Grade Crossing Agreement between KUA and CSX is enforceable against KUA, with respect to this accident, and consequently KUA could be held responsible for both CSX and Amtrak's losses. KUA settled with substantially all remaining personal injury Plaintiffs for approximately \$422,000. On December 1, 1999, KUA entered into an agreement with Amtrak and CSX to extinguish all claims of those entities accrued to date, with the exception of any liability they might have for claims of damage to the turbine, brought by American Home Assurance Company (American Home, the insurer of the turbine). That settlement was for \$540,000 and also extinguished any liability KUA might have had for the claims of Roundtree. On December 3, 1999, the U.S. District Judge ruled that the damages of American Home were \$4,516,640. On October 4, 2000 a U.S. District Judge ruled that KUA's liability related to the accident and due to the indemnification provision discussed above was approximately \$425,911. This case is currently on appeal and is pending before the Florida Supreme Court. If the Court rules in favor of KUA with respect to sovereign immunity, KUA would have no liability for either damages of American Home or responsibility to indemnify CSX and Amtrak for their attorneys' fees and costs. In management's best estimate of this matter, it will not exceed the amount set aside in the co-insurance reserve fund.

On November 17, 2000 equipment needed for the construction of Cane Island Unit 3 was being delivered to the Cane Island site when it was struck by an Amtrak train. It is management's opinion that KUA has no direct responsibility related to this accident. It is not expected that KUA will have any financial exposure related to this accident.

The Florida Energy 2020 Commission had been tasked by the Governor to study Florida's energy policy for the next two decades. Their final report, completed during November 2001, identifies a plan to deregulate Florida's wholesale electric utility industry that would allow out-of-state power companies to enter into the Florida market. In 2004, another energy study commission is expected to be assembled to study potential retail deregulation. In an effort to prepare for this prospect, the KUA has entered into long-term contracts with many of its larger commercial customers.

11. RISK MANAGEMENT

The KUA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The KUA has established a Co-Insurance reserve to account for and finance its uninsured risks of loss for the transmission and distribution system as well as other uninsured losses. The reserve balance is approximately \$11,820,000 and \$11,629,000 for the years ended September 30, 2002 and 2001, respectively. The Co-Insurance reserve is the KUA's best estimate based upon available information and is increased by interest earnings each year. This reserve is reflected as a liability under Other Long-term Liabilities on the Balance Sheet.

Years Ended September 30	Beginning Balance	Claims/ Payments	Increase In Reserve	Ending Balance
2002	\$11,628,836	(\$121,221)	\$ 311,997	\$11,819,612
2001	8,231,416	(102,132)	3,499,552	11,628,836

The KUA purchases commercial insurance for all other risks of loss, including general liability, excess liability, workers compensation, property insurance, employee health, life and accident insurance. Settled claims have not exceeded the commercial coverage insurance in any of the past five fiscal years.

12. RESTRICTED NET ASSETS

Restricted net assets are comprised of the following at September 30, 2002 and 2001:

	2002	2001
Debt Service:		
Debt service and sinking funds	\$ 27,461,150	\$ 26,690,509
Other:		
Crystal River Unit #3 Decommissioning	2,276,358	1,963,343
FGU Collateral requirements	3,500,000	-
Total restricted net assets	\$ 33,237,508	\$ 28,653,852

KISSIMMEE UTILITY AUTHORITY EMPLOYEES' RETIREMENT PLAN

The following is a Schedule of Funding Progress for the Plan:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAL)
10/01/01	\$28,565,661	\$29,407,089	\$841,428
10/01/00	27,476,780	28,292,829	816,049
10/01/99	24,543,409	24,543,409	-
10/01/98	21,310,000	21,310,000	-
10/01/97	37,242,142	37,242,142	-
10/01/96	30,720,860	30,720,860	-
10/01/95	26,061,527	26,061,527	-

Actuarial Valuation Date	Funded Ratio	Annual Covered Payroll	UAL Ratio to Covered Payroll
10/01/01	97.14%	\$10,349,488	8.13%
10/01/00	97.12%	9,622,892	8.48%
10/01/99	100.0%	9,338,568	-
10/01/98	100.0%	9,077,176	-
10/01/97	100.0%	19,037,030	-
10/01/96	100.0%	18,082,940	-
10/01/95	100.0%	17,301,380	-