

**GAINESVILLE REGIONAL  
UTILITIES 2001-2002  
ANNUAL REPORT**



**Staying Focused**

Five new programs

**Why Own?**

Owning lets us be more responsive

**BONUS:**

**Power Gator poster inside!**

**Side by Side**

Caring about the people we serve

**Power Gator**

Official Energy Sponsor of the Florida Gators

**More than Energy™**

Electricity is only one of our many services

**Teamwork**

Employee teams yield unique solutions

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INTERESTED PARTY, USA

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# 01-02 highlights

|  | 2002        | 2001        | % chg  |
|--|-------------|-------------|--------|
| <b>Financial</b>                         |             |             |        |
| Net revenues                             | 90,462,263  | 90,284,791  | 0.2%   |
| Aggregate debt service                   | 29,312,587  | 29,765,188  | -1.5%  |
| Aggregate bond coverage ratio            | 3.09        | 3.03        | 2.0%   |
| Total debt service coverage ratio        | 2.65        | 2.40        | 10.4%  |
| Long-term debt                           | 404,421,721 | 394,398,221 | 2.5%   |
| Net utility plant                        | 656,058,267 | 642,356,808 | 2.1%   |
| Cash and investments:                    |             |             |        |
| Rate stabilization fund and revenue fund | 82,590,027  | 92,092,935  | -10.3% |
| <b>Customers</b>                         |             |             |        |
| Residential electric                     | 73,522      | 71,975      | 2.1%   |
| Non-residential electric                 | 8,754       | 8,574       | 2.1%   |
| Total electric                           | 82,276      | 80,549      | 2.1%   |
| Water                                    | 60,348      | 58,845      | 2.6%   |
| Wastewater                               | 53,427      | 52,260      | 2.2%   |
| Natural gas                              | 29,482      | 28,845      | 2.2%   |
| <b>Sales of energy</b> gigawatt-hours    |             |             |        |
| Residential                              | 807.6       | 820.6       | -1.6%  |
| General service/large power              | 879.7       | 871.9       | 0.9%   |
| Lighting                                 | 23.6        | 23.0        | 2.5%   |
| Sales for resale                         | 135.7       | 125.5       | 8.1%   |
| Sub-total                                | 1,846.6     | 1,841.0     | 0.3%   |
| Interchange                              | 275.6       | 338.1       | -18.5% |
| Total                                    | 2,122.2     | 2,179.1     | -2.6%  |
| <b>Sales of water</b> million gallons    |             |             |        |
|  | 8,311.3     | 8,469.0     | -1.9%  |
| <b>Wastewater billed</b> million gallons |             |             |        |
|  | 5,306.4     | 5,486.3     | -3.3%  |
| <b>Natural gas</b> million therms        |             |             |        |
|  | 20.6        | 23.8        | -13.5% |

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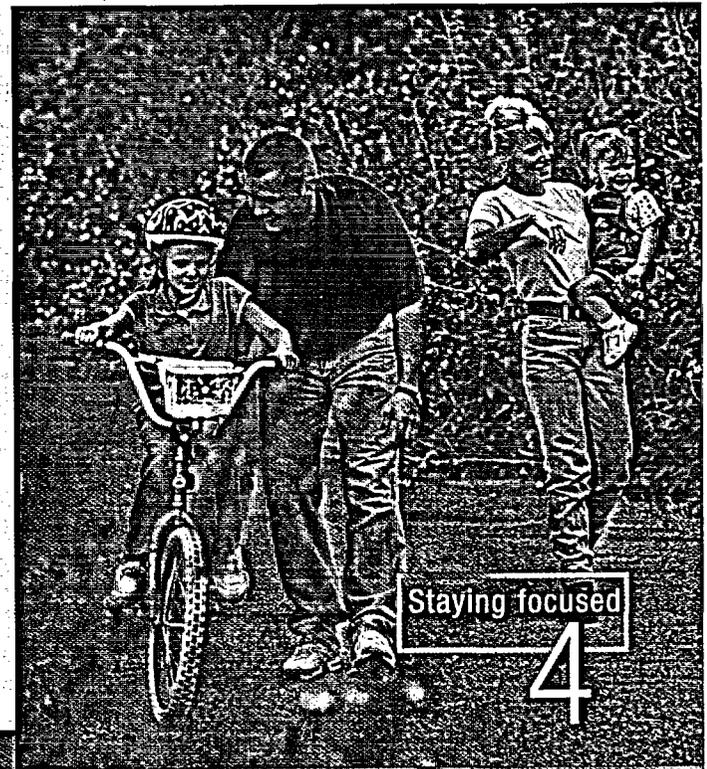
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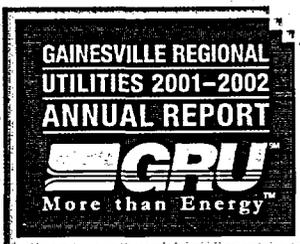
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**On the Cover** The employees shown on the cover (on the outer stairs of the new natural gas-fired combined cycle unit at our Kelly Generating Station) are representative of the many who give so much of themselves to the community. They contribute to such worthy efforts as the March of Dimes, the United Way, the American Cancer Society, the American Heart Association and countless others.

GRU as an organization has adopted a high-needs elementary school, takes underprivileged children to UF Gator sports events, organizes volunteer utility-efficient repairs on the homes of deserving customers, helps raise money for customers in temporary financial distress, holds fundraisers for many local charities, and participates in numerous community oriented activities.

Our Murphree Water Plant Manager Rick Davis (on the lower left landing wearing the blue Gator shirt) was this year's winner of the E.T. York Distinguished Service Award as Volunteer of the Year. This prestigious award is given to the outstanding volunteer in the greater Gainesville Area.

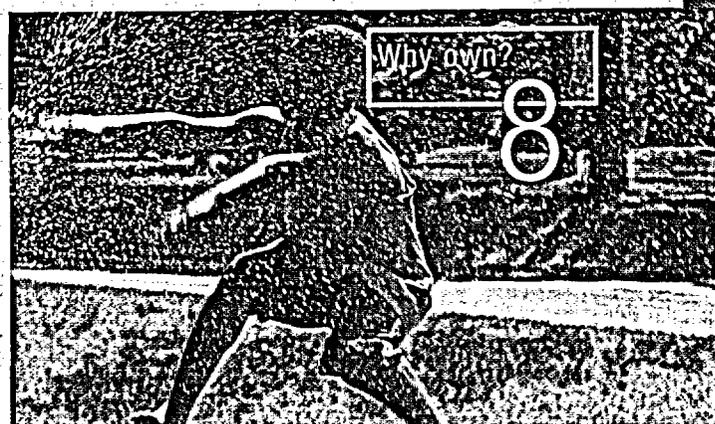


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“While our business continues to change, we remain focused on those strategies and ideals that have allowed us to thrive—meeting the needs and expectations of our customers and delivering quality services from one company.”

**Finances.** Overcoming a weak economy, we turned in a solid financial performance in fiscal 2001-02. We achieved combined net revenues of \$90,462,263. Our financial strength was evident in our debt coverage ratio of 2.65, well above our minimum requirement. And through an innovative formula designed to support our community, we provided nearly 37 percent of the City's General Fund—dollars that help pay for services such as police and fire protection. In 2002, our transfer increased by more than 5 percent to almost \$26 million.

**Savings.** Thanks to ongoing financial controls, we were able to pass along electric rate savings to our residential and business customers. This marks the ninth consecutive year that our electric rates have remained the same or decreased. The lower rates place us in the lower quartile among utilities in North Central Florida, keeping us competitive with market rates of other Florida providers and helping us deliver the value our customers expect. The new rates are the result of two back-to-back rate decreases, saving the average residential customer \$2.66 a month (based on 1,000 kilowatt hours per month). An “inverted rate structure” encourages our customers to conserve by charging less for the first 750 kWh of electricity. Our commercial customers also had the opportunity to see additional savings from electric rate decreases offered through our Business Partners long-term service agreement.

**Ratings.** Our Double-A bond ratings with Standard & Poor's Corporation and Moody's Investors Service are among the highest in the nation—shared only by 26 of the 2,000 other public power utilities.

**Deregulation.** We believe restructuring of the state's electric industry is inevitable, and eventually will offer customers choices in the selection of an electric provider. However, Florida is taking it slowly.

In the meantime, GRU has sufficient generation to meet the needs of our customers for years to come.

**Changes.** We continue to make changes that are in the best interest of our customers. A few years ago we became an owner of The Energy Authority (TEA), a cooperative public power energy organization in Jacksonville, Florida, that conducts group selling and purchasing of electricity and natural gas. The combined resources of TEA's member utilities strengthen our ability to buy and sell electricity and gas in the larger regional and national wholesale marketplaces. In May 2002, TEA assumed responsibility for our natural gas purchasing, the sale and management of our unused pipeline entitlements and our financial trading on the commodity market. This is helping us derive the most value for our assets and offer more competitive prices for our customers. We also are working with other Florida electric utilities to form a regional transmission organization (RTO) that, by federal mandate, will eventually control the planning and operation of Florida's electric transmission grid.

**Revenue.** Driving our revenue increase over the past year was our customer growth, spurred by a number of effective customer service initiatives. Through our five utility services, we serve approximately 85,000 customers. A new electric territorial agreement with Clay Electric Cooperative will bring about 1,100 new utility customers to GRU. The change will help eliminate duplication of power lines and other infrastructure, and bring in additional revenue. Subscribers to GRU.Net, our residential Internet access service, grew by 16 percent last year, and customers now can sign up for any of our utility services and pay their bills online by visiting our Web site ([www.gru.com](http://www.gru.com)).

**Expansion.** To maintain our competitive advantage, we continue to improve and expand our facili-

ties and technology. In 2002, we added two more water wells, expanded our water and wastewater pipelines and treatment facilities, completed construction of our new GRUCom telecommunications center, extended our fiber-optic network by 19 cable miles, laid 17 miles of new gas lines, and continued to boost our electric reliability with generating and distribution system upgrades.

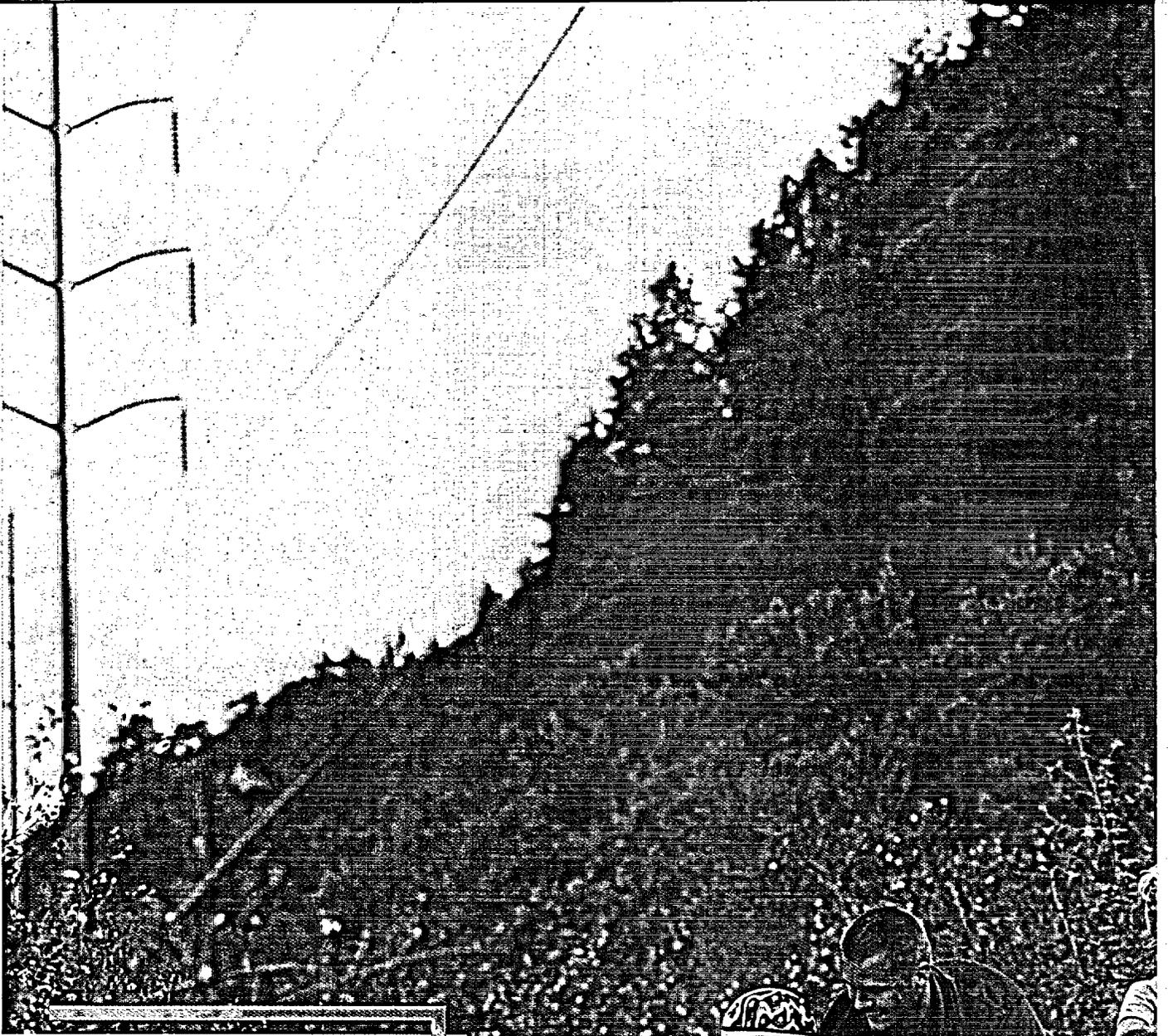
**Security.** We remain vigilant about the security of our facilities. Working in concert with federal, state and local agencies and national security authorities, we have taken steps to further safeguard our community's utility infrastructure. We will continue to ensure the safety of our customers, employees and community, and the reliability of our services.

**FOCUS.** While our business continues to change, we remain focused on those strategies and ideals that have allowed us to thrive—meeting the needs and expectations of our customers and delivering a multitude of services from one company. We are "More than Energy.™" ■



Michael L. Kurtz, General Manager

A handwritten signature in black ink that reads "Michael L. Kurtz". The signature is written in a cursive, flowing style.



We selectively remove vegetation that poses a threat to electric service while leaving a natural corridor that provides food and safe haven to native wildlife. Families enjoy strolling down this trail in a nearby park through a transmission right-of-way that serves as a Project Habitat™ demonstration site.



# staying focused:

## FIVE NEW PROGRAMS

**A**s a community-owned utility, we act in the best interest of our customers, but we recognize that not every GRU product or service suits every customer. We offer products and services in ways that meet the unique needs of our customers—whether they be large businesses, “green energy” buyers, homeowners, elderly residents or customers in temporary financial strife.



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## Vegetation management refocuses to profit-centered program

Some enterprising  
marketing has  
helped our vege-

tation management program transform from a core cost center into a profitable state-wide business operation.

Since the early 1990s, our vegetation management team has mainly used herbicides in place of tree-cutting and mowing for long-term vegetation control of GRU rights-of-way. The low-maintenance approach prevents unwanted plants and trees from growing into power lines while letting desirable native grasses and low-growing plants flourish. Program Manager Tracy Maxwell, our Vegetation Maintenance Manager, is marketing his team's special expertise to other municipal utilities and electric cooperatives throughout Florida. His department also generates revenue from the sale and replanting of timber on selected tracts of GRU property, and fees for forest management consultation. The vegetation management program has generated more than \$1 million since 1998 in timber sales and combined consulting fees.

"The cycle of planting and harvesting timber keeps the forest young and healthy for many wildlife species and provides a steady stream of revenue for GRU," Maxwell said. "Since the newly-planted trees mature so quickly, the forest will never run out of trees. It's a continuous, sustainable process that fits well with our business goals and environmental commitment." ■

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### GRU HELPS MAKE GAINESVILLE A GREEN CITY

1 Along with its many scenic lakes and wetlands, our service area boasts the densest tree canopy of any community its size in the country—explaining Gainesville's designation as a Tree City USA community. Like our many environmentally-conscious customers, we believe that practicing conservation is practicing sustainability of our natural resources.

The National Arbor Day Foundation has named GRU a Tree Line USA Utility for the third straight year in recognition of quality tree care, tree planting and public education. And *Relay* magazine, a

publication of the Florida Municipal Electric Association, recently cited GRU's conservation and beautification efforts in helping to make Gainesville the "Greenest City in the South."

We have many conservation and environmental programs to keep our dynamic community "green" in the face of urban growth. Our vegetation management program has received the "Best Rights of Way" Award from the national Project Habitat™ program, which encourages utility companies to control vegetation growth on their rights-of-way land in ways that protect wildlife habitat. The State of Florida recently designated

the 1,100-acre woodlands surrounding our Deerhaven Generating Station as a "Stewardship Forest," citing our exemplary management of natural resources. Each year, we give away more than 2,000 mid-sized trees and native shrubs to our customers during our "Tree-mendous Appreciation Day" event.

### GAINESVILLE GOES GREEN WITH CONSTRUCTION

2 We have been quick to adopt greener energy practices, and we are committed to helping our customers do likewise. We encourage green alternatives to energy consumption by offering solar and natural gas rebates. We also have teamed with the University of Florida and local governments to form the Gainesville Green Building Coalition, which is helping the City of Gainesville to adopt green-building practices for its buildings and create green-construction incentive programs for local builders and developers.

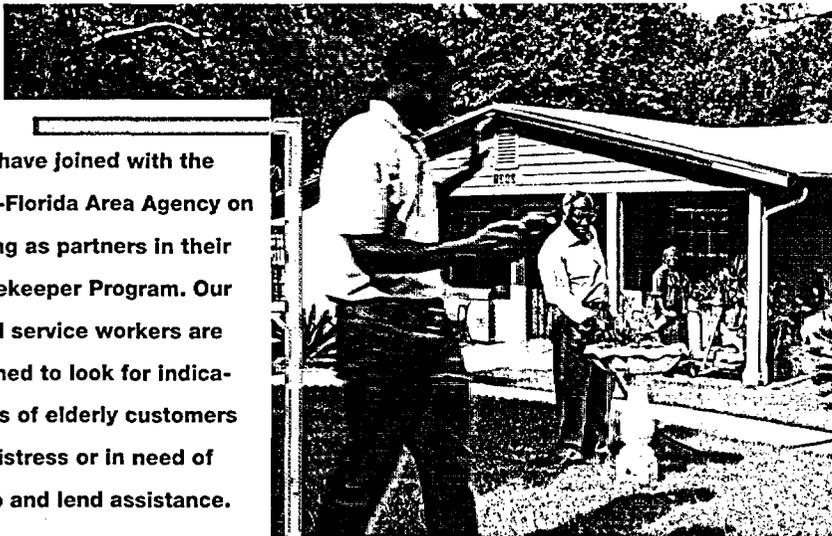
In 2003, we will start converting landfill-derived gas to "green electricity" for sale to GRU customers. The volume of methane gas produced from garbage degradation at the county's now-closed Southwest Landfill will generate enough electricity in the first year to power about 2,000 homes.

Through our annual HomeFix Project, our employees take a hands-on approach to making Gainesville more conservation conscious, volunteering to make household repairs and improve the energy efficiency of homes for qualified families. The program's primary mission is to help deserving families find ways to save money and live comfortably through energy-efficient practices.

### HYDRONIC HEATING HELPS MAKE GAS A GREAT CHOICE

3 Everyone benefits when we can deliver a service that not only lowers our customers' energy costs, but also lessens the impact on the environment. That is why we aggres-

We have joined with the Mid-Florida Area Agency on Aging as partners in their Gatekeeper Program. Our field service workers are trained to look for indications of elderly customers in distress or in need of help and lend assistance.



sively promote the use of natural gas as a clean and affordable alternative to electricity for heating, cooling, cooking and other functions.

Many natural gas appliances are more energy-efficient than comparable electric appliances. Residential natural gas water heating, for example, costs about half as much to operate as electric water heating. A primary advantage of using natural gas is its limited emissions.

Because we offer the lowest gas rates in the state, our customers have more incentive to use natural gas. Virtually every new subdivision in our community is served by natural gas from GRU. Many homebuilders and apartment complexes are opting for technology called hydronic gas heating—or “combo heating”—which uses a gas-fired water boiler and coils instead of a gas furnace for space and water heating. The smaller combo heaters require less space and have a simpler design than standard gas furnace units.

“We are building relationships with more apartment complex owners and developers to promote natural gas as a new option for their energy needs,” said Mike Brown, Senior Sales Representative for Gas Marketing. “Using natural gas lowers energy costs for property owners and their tenants, and lets us serve more customers in a concentrated space at less cost, improving the return on

GRU’s investment.”

In 2002, we laid about 17 miles of new gas lines, increasing our natural gas infrastructure to 601 miles. To reduce operational expenses, we cross-train our gas service crews to lay underground electric cables at the same time they install new gas lines—work previously requiring two separate crews.

#### PROGRAMS EXTEND A HAND TO CUSTOMERS WITH SPECIAL NEEDS

4 Operating in a state with the highest proportion of elderly residents in the country, we continually seek ways to meet the emergency utility needs of Gainesville’s elderly and those in financial hardship.

Last spring we became involved in the Gatekeeper Program with the Mid-Florida Area Agency on Aging. GRU meter readers and other field service employees are trained as “gatekeepers” to watch for signs of elderly residents in need—such as overgrown lawns, mail build-up or a confused homeowner—during their daily contact with customers. Meter readers also play the lead role in a program called FOCUS (Field Observation of Customer Utility Services), reporting any damage to outdoor pipes, utility lines and other gas, water or electric equipment they observe during their monthly house calls.

We also work with the Alachua County Housing Authority to assist low-income persons with initial utilities deposits, and our new “Extend-a-Hand” program arranges for deferred payment of utilities bills for customers experiencing short-term financial setbacks such as losing a job.

“The goal is to help our customers get to where they can pay their current charges every month without falling further behind,” said Bob Bergdoll, GRU Director of Customer Operations.

We provide some services simply to make life easier for our customers. ■

#### BUSINESS PARTNERS PROGRAM SERVES OUR LARGEST CUSTOMERS

5 Through our Business Partners program, we foster good relations by helping local businesses improve their profitability. Lower rates, in exchange for 10-year contracts, are a key offering. Today, more than 700 commercial Business Partners have signed agreements to purchase electricity exclusively from GRU for 10 years, representing approximately 68 percent of GRU’s commercial electric revenue. Our Business Partners also appreciate our value-added services such as energy and water conservation surveys, high-efficiency lighting retrofits and rebates for gas cooling.

Our aim with Business Partners is to know the “special something” that drives our customers’ buying decisions, and then work to meet their needs better than anyone else can.

# Why Own?

## Owning our facilities lets us be more

As a provider of electric, natural gas, water, waste-water and telecommunications services, owning our own high-quality core facilities is essential in our mission to provide "More than Energy" to our customers. We can ensure that our facilities are operated and maintained in a way that meets community standards and goals, and facility ownership gives us extensive flexibility to meet changing conditions of the utility industry.

### INCREASINGLY EFFICIENT POWER PLANTS

GRU has two power plants that make more than enough electricity to meet our customer demand even during the hottest days of Florida's summers. The 424-megawatt Deerhaven Generating Station was the first process water "zero discharge" plant in the Southeast and is recognized as one of Florida's most efficient and economical power plants. Our smaller Kelly Generating Station, a defining landmark in the city's Downtown Historic District since 1913, recently underwent a \$42

million "repowering" of its existing equipment to emerge as our cleanest and most efficient power generator. The new generator produces five times more energy with half the air emissions of older steam units. The refurbished plant, adorned with new fencing and landscaping, is the focal point of a major neighborhood improvement effort in downtown Gainesville.

Including our 1.4 percent ownership in the nearby Crystal River Power Plant, GRU has a total combined generating capacity of more than 621 megawatts. We have the

capability to sell excess electricity to other utilities in need, which improves plant efficiency and helps us maintain low electric rates for customers.

### A TREASURE OF PURE DRINKING WATER

Gainesville has one of the purest water supplies in the nation, and we take great care to keep the area's drinking water pure, safe and available on demand for more than 60,000 customers. Our Murphree Water Treatment Plant supplies drinking water for more than 70 percent of Alachua County's population. To





## responsive to community issues

lessen the impact of the region's persistent drought, GRU has added four new water production wells to the Murphree wellfield since 2000. We now have 13 water wells in service that can supply up to 44 million gallons per day, and we will add two more wells by 2006 to meet increasing water demands.

We also installed a 20-inch water main, 1.7 miles long, in 2001 to improve water pressure in the rapidly growing southwestern portion of our service area. In 2002, we buried two miles of 36-inch pipe to increase water pressure in Gainesville's

**△ IN THE PAST TWO YEARS WE HAVE IMPROVED WATER PRESSURE TO THE EXPANDING WESTERN PORTION OF OUR SERVICE AREA. INCREASED WATER PRESSURE IMPROVES FIRE PROTECTION AND BETTER MEETS IRRIGATION DEMANDS.**

expanding northwestern corridor. GRU will continue extending the pipeline westward in 2003.

Conserving water is always a vital concern to GRU, and the new wells and system improvements, along with our customers' willing observation of

voluntary water conservation measures, have helped us avoid mandatory watering restrictions during the past two unusually dry seasons. Our goal is to provide a plentiful, safe water supply to all GRU customers and future generations.

## RECLAIMED WATER EXPANSION MEANS A GREENER COMMUNITY

One way to reduce the demand for groundwater is to encourage innovative ways to reuse treated wastewater for irrigation and community beautification. Reclaimed water is treated to drinking standards at our state-of-the-art Kanapaha Water Reclamation

Facility in southwest Gainesville, one of only two plants in Florida permitted to return treated effluent directly into the aquifer. We deliver more than two million gallons of reclaimed water a day to 400 residential customers and several large commercial and recreational users, mainly for lawn and park irrigation, golf courses

and scenic water gardens.

A \$13 million expansion of our reclaimed water system, started in early 2002, will increase the Kanapaha plant's daily capacity from 10 million gallons to 12.5 million. Additional biological treatment basins and filters should be installed and operational by August 2003 to improve flow capacity.

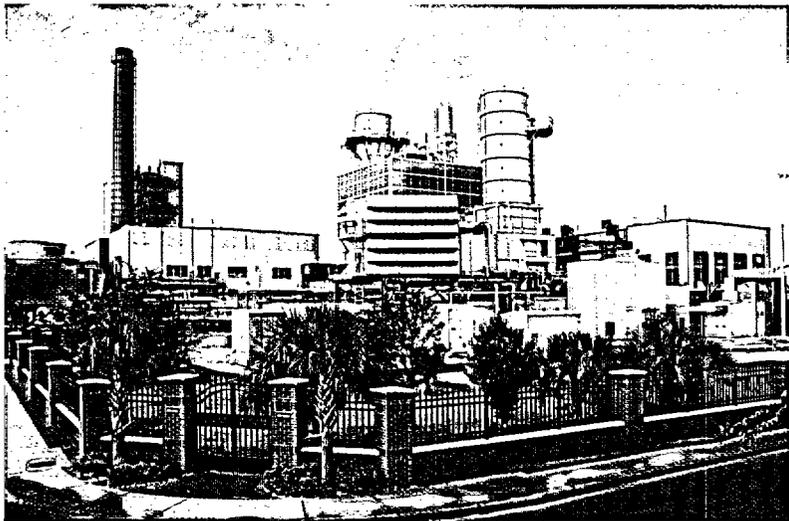
"The Kanapaha plant is nearing its permitted capacity," said Kim Zoltek, GRU's Water and Wastewater Engineering Director. "These upgrades will improve system reliability and provide adequate wastewater treatment capacity to our customers through 2010. We are designing some novel modifications that could increase treatment capacity to 15 million gallons a day."

**"THESE UPGRADES WILL  
IMPROVE SYSTEM RELIABILITY  
AND PROVIDE ADEQUATE  
WASTEWATER TREATMENT  
CAPACITY TO OUR  
CUSTOMERS THROUGH 2010."**

GRU's other wastewater facility, the Main Street Wastewater Treatment Plant, treats about seven million gallons of effluent daily from customers living in east Gainesville.

## RECLAIMED WATER WILL FLOW FROM MAIN STREET PLANT

By fall of 2003, a new, 24-inch pipe should be in place as the backbone of a system that can deliver reclaimed water from the Main Street plant to Gainesville's eastside, including the City's public golf course and sports stadium. The expanded eastside line could be extended into neighborhoods for residential use in the future. About 40,000 gallons a day will be used to irrigate the proposed Depot Avenue stormwater park just south of downtown Gainesville, contributing to ambitious downtown redevelopment and neighborhood improvement efforts. ■



ALLEN CHEVRONT & ASSOCIATES

## Historic power station wins beautification award

When we built Gainesville's first public power plant in 1914, we never envisioned it would still be a source of civic pride and recognition nearly 90 years later. That's the case, though, with our downtown Kelly Generating Station, which earned the City Beautification Board's 2002 Gold Award for aesthetic and artistic appeal in the restoration and adaptive reuse category.

As part of Kelly Generating Station's repowering project completed last year, GRU hosted public meetings to give neighbors a hand in the design and landscaping of the refurbished plant campus. Besides improving airborne emissions at the Kelly Plant, the effort resulted in several hundred thousand dollars worth of landscaping and an elegant, wrought-iron fence with red-brick columns.

While the repowering upgrades will help us meet Gainesville's future electricity needs, the community involvement helped us create an attractive generating station that preserves the neighborhood's historical flavor and supports downtown revitalization. ■

# how well do you know GRU?

1) Which GRU service provides several wireless telephone service providers with the use of our fiber-optic network and 11 communication towers?

- a) GRU.Net
- b) Energy Supply
- c) GRUCom
- d) Energy Delivery

2) Which GRU plant recently underwent a "repowering" of its equipment by upgrading the generator to produce five times more energy with half the air emissions?

- a) Kelly Generating Station
- b) Murphree Water Treatment Plant
- c) Deerhaven Generating Station
- d) Kanapaha Water Reclamation Facility

3) Since 2000, what has GRU added to improve its drinking water service?

- a) Four new water production wells to lessen the impact of the drought
- b) A 20-inch water main, 1.7 miles long, to improve water pressure
- c) Two miles of 36-inch pipe along 53rd Avenue to increase water pressure
- d) All of the above

4) How does the Kanapaha Water Reclamation Facility convert organic wastewater sludge into a low-grade fertilizer for local agricultural use?

- a) Boil it for two days
- b) Treat it with bugs that feed on raw wastewater
- c) Filter it with specialized filtration systems underground
- d) Closely monitor a seven-step treatment process

5) What benefits besides price discounts does GRU offer members of the Business Partner's program?

- a) Energy and water conservation surveys
- b) High-efficiency lighting retrofits and rebates for gas cooling
- c) Tips on insulation, landscaping and choice of energy sources
- d) All of the above

6) Which of the following is a GRU public recreational park and wildlife observatory with a birding trail, scenic ponds, streams and waterfalls supplied by reclaimed water?

- a) Kanapaha Botanical Gardens
- b) Lake Wauberg
- c) Chapman's Pond and Nature Trails
- d) None of the above

7) What have the GRU powerline undergrounding programs accomplished since 1985?

- a) They converted the entire downtown district from overhead power lines to underground cables
- b) They helped reduce service interruptions
- c) They contributed to the aesthetics of the downtown revitalization project
- d) All of the above

8) What is the name of the program that gives thousands of students and their families an opportunity to attend a multitude of Gator sport events?

- a) Extend-A-Hand
- b) Game Day with the Gators
- c) Adopt-A-School
- d) Gator Jam

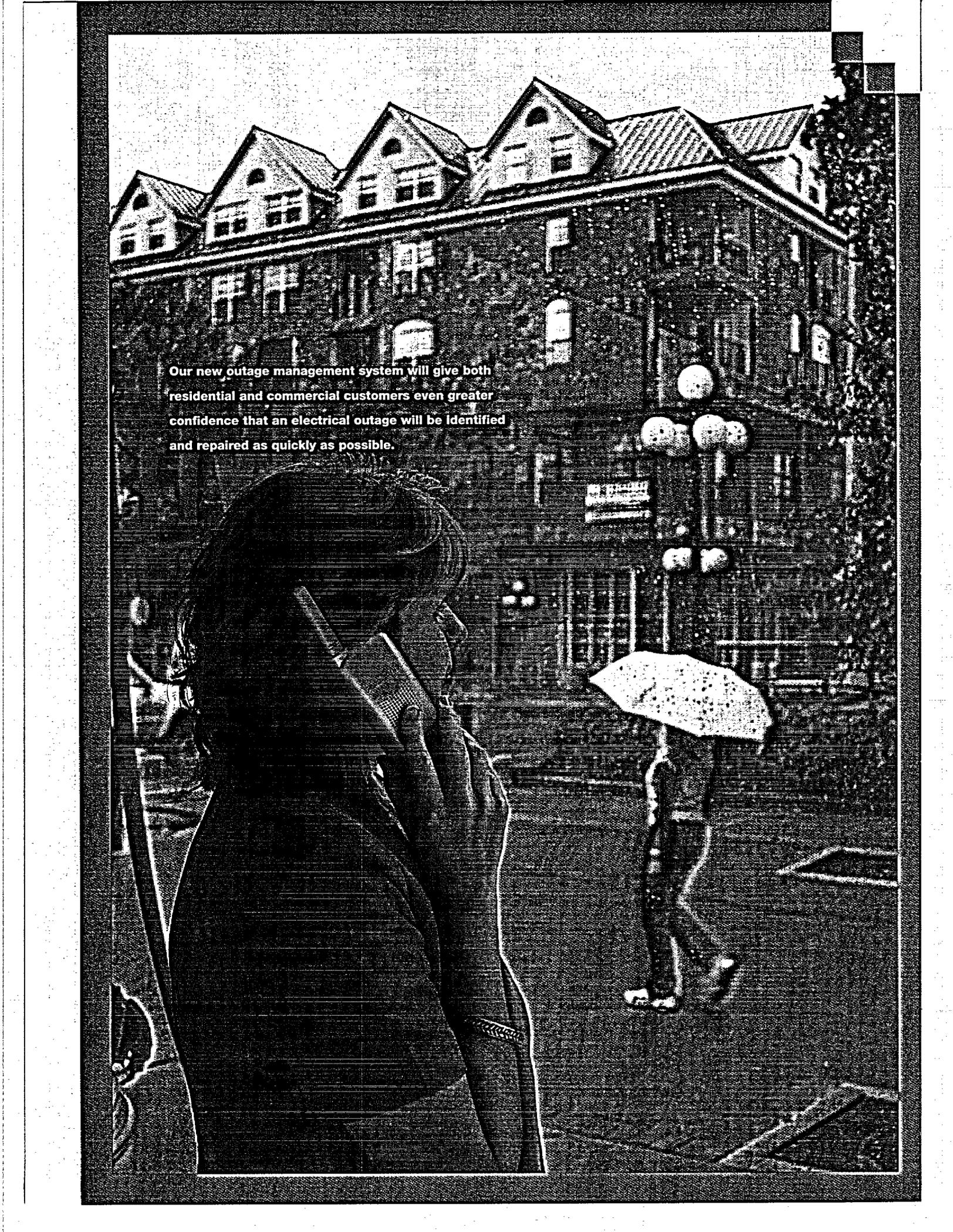
9) What is the name of the slogan for GRU's public information campaign designed to show how GRU supports police and fire protection and the convenience of our one-stop utility services?

- a) GRU — More than Energy™
- b) GRU — Energy and then Some™
- c) GRU — Not Just an Energy Provider™
- d) GRU — We do More than Turn on the Lights™

10) In 2002, GRU added approximately 17 miles of \_\_\_\_\_ lines to transport this clean and affordable alternative to electricity for heating, cooling, cooking and other functions.

- a) Neon Gas
- b) Propane Gas
- c) Natural Gas
- d) Hydrogen Gas

Answers: 1(c); 2(a); 3(d);  
4(b); 5(d); 6(c); 7(d); 8(b);  
9(a); 10(c)



**Our new outage management system will give both residential and commercial customers even greater confidence that an electrical outage will be identified and repaired as quickly as possible.**

Being alert to advances in technology  
means we are always giving our customers  
the most-up-to-date services

# techno- savvy

As a publicly owned utility for more than a century, GRU is a leader in the utility industry. To remain a successful business in the future, we pursue beneficial technological advances that create a competitive advantage and further enhance our delivery of utility services to our customers. >>>



Our high-speed wireless broadband Internet service, available at apartment complexes, reduces load time and leaves UF students more time for fun.

## apartment complexes go Wireless

GRUCom, our telecommunications arm, is giving Gainesville a head start on the next major innovation in Internet use—wireless access to the Web.

In the fall of 2002, tenants of The Courtyards apartment complex, located across from the University of Florida campus, were able to connect to the Web through our new wireless broadband Internet service. GRUCom signed a five-year contract with the parent company of the complex to install and maintain antennas, fiber-optic cables and radios at the complex. Students can connect to the Internet anywhere in the building—their bedroom, dining room, balcony—or even outside by the pool without power cords or wires. After registering with GRUCom, tenants at The Courtyards logon using a laptop or handheld computer with a wireless Ethernet card. The wireless network at the 386-unit complex is GRU's first public application of mobile-computing technology.

GRUCom also will provide high-speed Internet access for Alachua County government's "Digital Downtown Project." ■

### COMPUTERIZED 'MAPPING' IMPROVES GRU RESPONSE TO POWER OUTAGES

People don't think much about their utility provider when everything is working correctly. Flip a switch and light instantly illuminates or dims at your whim. Click the TV remote and "West Wing" fills the screen. Turn the thermostat down to 76 and Florida's summer heat is forgotten. And that is the way we like it.

To minimize outages and speed the restoration of power to our customers, we began a project to implement a new computerized Outage Management System. The system will

By reducing power outages and improving how we respond to them, we want to make service interruptions the last thing on our customers' minds.

provide automated, real-time analysis and graphic mapping of outage problems on our electric distribution network. The system also has computer-aided features for rerouting power, operations dispatch and maintenance scheduling.

"With our old system, we had to manually trace the outage upstream on our distribution network and dispatch a truck and crew to the area. This technology improves our speed and accuracy in pinpointing the outage, assessing the cause and extent of the problem and dispatching our crews to restore power. Our operators also can relay that information to our customers much faster," said Patti Tuttle, GRU Electric Systems Control Technical Support Manager. "The Outage Management System is scheduled to go live by early 2003."

By reducing power outages and improving how we respond to them, we want to make service interruptions the last thing on our customers' minds.

**ON-SITE GENERATION  
POSITIONS GRU AS A FIRST-  
CHOICE PROVIDER**

As the future of Florida's changing electric industry unfolds, consumers are expecting greater reliability in their electric service and new choices from their electric provider. Along with ongoing improvements in our centralized distribution system, we are positioning ourselves as the first-choice provider of on-site power generation through the development of "distributed generation" units.

Instead of producing electricity solely at central plants, we can install small distributed generation units at or near the point of use—mainly, on-site at major businesses. Commercial customers who choose this option would pay GRU a monthly fee for the installation, operation and maintenance of the utility-owned generators.

"Many of our commercial customers with high reliability require-

ments, such as hospitals, university facilities and 24-hour call centers, can benefit by choosing on-site power generation," said David Beaulieu,

reducing capital improvements, increasing operating efficiencies and reducing distribution and transmission line losses.

"Many of our commercial customers with high reliability requirements, such as hospitals, university facilities and 24-hour call centers, can benefit by choosing on-site power generation."

GRU Assistant General Manager for Energy Delivery. "The power generated by these smaller, localized units would be fully integrated into GRU's electric system. Electricity is always available on-site and we can redistribute any excess power to other customers as needed."

The small-scale technology of distributed generation can save both GRU and customers money by

"Distributed generation can increase power reliability and quality by minimizing the effects of weather and long-term service interruptions that sometimes affect centralized distribution systems," Beaulieu said. "Continued reliance upon GRU for all of their energy needs allows commercial customers to remain focused on their core business, without having to become energy experts themselves." ■

**Commercial customers with high reliability needs, such as the hospital shown here, have the option of on-site distributed generation units, installed and serviced by GRU. These units will provide emergency power to customers during outage situations and will be financially beneficial for both them and us.**



Caring about the people  
we serve just makes good sense

# SidebySide

GRU and GRU employees are an integral part of Gainesville and Alachua County. We live and play side by side with the customers we serve. We breathe the same air, drink the water and enjoy the same lush natural surroundings that help make Gainesville "The Best Place to Live in America" (according to a 1996 *Money Magazine* ranking). This shared perspective inspires a menu of GRU services and programs that reinforce community-wide goals, support a livable community and practice social responsibility.

## **PASSIVE PARK FILTERS 1.5 MILLION GALLONS OF RECLAIMED WATER**

We have a knack for transforming essential operational activities into opportunities to improve the "livability" of our community. The Chapman's Pond and Nature Trails, a GRU-constructed, passive-recreation park, is one of many reclaimed water projects that add to the beauty of Gainesville. The nature park and wildlife observatory, always open and free to the public, is an inviting oasis

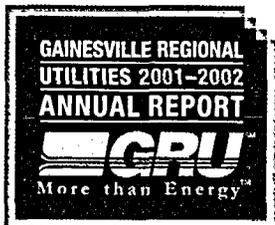
for butterflies, birds, turtles and other wildlife. We recycle 1.5 million gallons of reclaimed water a day from our neighboring Kanapaha Water Reclamation Facility to supply the park's scenic ponds, streams, waterfalls and irrigation. More than 150 different species of birds have been charted at the park's birding trail,

*continued on page 20*

Local schoolchildren wanted to create a garden to show their appreciation to the "Officer Friendly" who lives on their campus and provides them with a warm safe feeling. These kids were able to realize their project through a Mini-Grant from GRU.



Your suggestions are  
important to us.



Thank you for reviewing the 2001-2002 GRU annual report.

In the next two to three weeks you will receive a letter requesting your input about our annual report on a short survey.

Please look for the letter and accompanying survey and take a few moments to give us your ideas.

Thank you for your assistance.

*Michael L. Kurtz*

Mike Kurtz

GRU General Manager

Chicago had cows, Seattle had pigs, and now Gainesville has (what else?) Gators. GRU's contribution to this community project is Power Gator (right), one of 54 life-sized, fiberglass Gators in the Gator Trails art exhibition. The expertly crafted alligators, each decorated with its own personality and flair, have been placed along "trails" throughout Alachua County. The gator figures are sponsored by businesses and art patrons and painted by selected artists. Seen here with a lady friend, UF mascot Alberta, Power Gator wears a super hero outfit with various parts representing GRU's multiple utility services. Together these elements make up (trumpet fanfare!) Power Gator. His mission: to serve the utility interests of our customers.

**GO GATORS!**



UF's Alberta and GRU's Power Gator



## Outreach shows Commitment beyond our bottom line

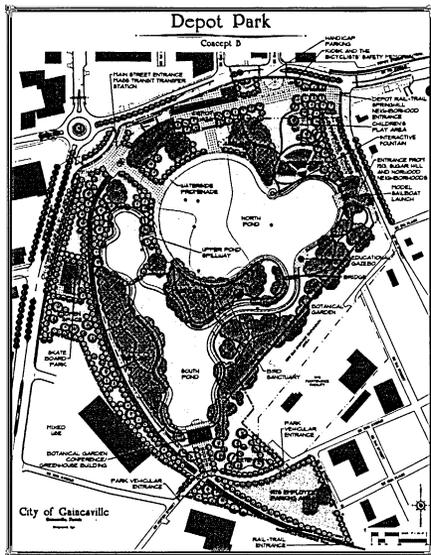
Our community outreach activities are, in a word, **AMBITIOUS.**

It's one way in which we connect personally with our customers to build the trust needed for long-term success. Working for the betterment of our community is great for business, but it also demonstrates a commitment to service beyond the bottom line.

Kids always inspire some of our best efforts. GRU has been Adopt-a-School partners with Williams Elementary School, a high-needs school in southeast Gainesville, for seven years and is an integral part of the Williams team. Our employees serve as tutors and mentors to students throughout the school year. For the past three years, we have sponsored the annual GRU Business Partners Golf

Tournament to benefit the school, raising more than \$12,000. We also have a Mini-Grants program to help classroom teachers in Alachua County public schools with small expenses for sorely needed materials or student activities.

Outside the classroom, we are helping kids avoid preventable injuries, the leading killer of children. We are one of several community organizations that helped create Safety City, a two-acre, child-sized "city" with scaled-down buildings and many opportunities to demonstrate safety awareness. Qualified instructors will be on hand to teach students how to dial 911, do the stop-drop-and-roll maneuver to douse burning clothing, cross a busy intersection safely and other safety techniques. We constructed our own power substation where kids can learn all about electric safety. ■



**SideBySide** continued from page 16 prompting the Florida Fish and Wildlife Conservation Commission to add Chapman's Pond to its published list of Great Florida Birding Trail sites.

Reclaimed water will play a role in the transformation of contaminated land in downtown Gainesville into a stormwater treatment park with bike trails, picnic areas, walking paths and other amenities. We are

Reclaimed water from our Main Street plant will help make east Gainesville's proposed Depot Park beautiful and water efficient.

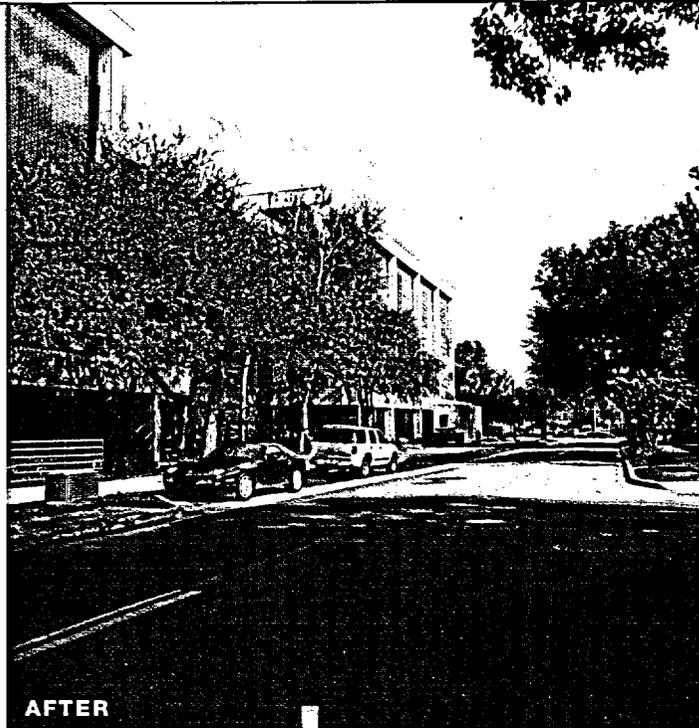
building a pipeline that would allow our Main Street wastewater plant to pump some of its treated effluent to the proposed Depot Avenue park for irrigation and to augment flow of the planned 11-acre pond during dry periods. We are working with Gainesville's Community Redevelopment Agency to clean up contamination caused by a long-closed manufactured gas plant. GRU environmental engineers are overseeing the contamination assessment. With special features such as interpretive exhibits and a renovated historical train depot, the proposed park will become a "Central Park" landmark of sorts and a centerpiece of neighborhood improvement efforts.

"Constructing these projects together reduces costs and facilitates the downtown revitalization initiative," said Interim System Planning Manager David Richardson.

## official energy sponsor of the Florida gators

As a community-owned utility, it is important to support activities that generate excitement and contribute to our customers' quality of life. Our partnership with the University of Florida Athletic Association does just that—with Gator gusto! As the official Energy Sponsor of the Florida Gators, we share our Gator sports connection with Alachua County middle and elementary school students and disadvantaged youth through our "Game Day with the Gators." Through the program last year, hundreds of local schoolchildren and their families had an opportunity to attend UF sports events in men's and women's basketball, baseball, softball, soccer, the Florida Relays, the Super 6 gymnastics meet, and to partake in fun GRU promotions with the crowds. ■





**IT'S HARD TO SEE OUR WORK IN THE DOWNTOWN, BUT IT'S THERE**

The downtown renaissance has another centerpiece—but you can't see it.

GRU has charged up redevelopment efforts by initiating one of the most aggressive powerline undergrounding programs in the state. Since 1985, we have converted the entire downtown district from overhead power lines to underground

cables, and are now converting surrounding neighborhoods. More than 660 of the 1,205 total circuit miles in our electric distribution system are now located underground. Cost-sharing alliances with government and private developers help pay for the infrastructure.

"More than half of our electric distribution lines are now underground, including all of downtown. I don't know of any other utility that can make that claim," said Reid

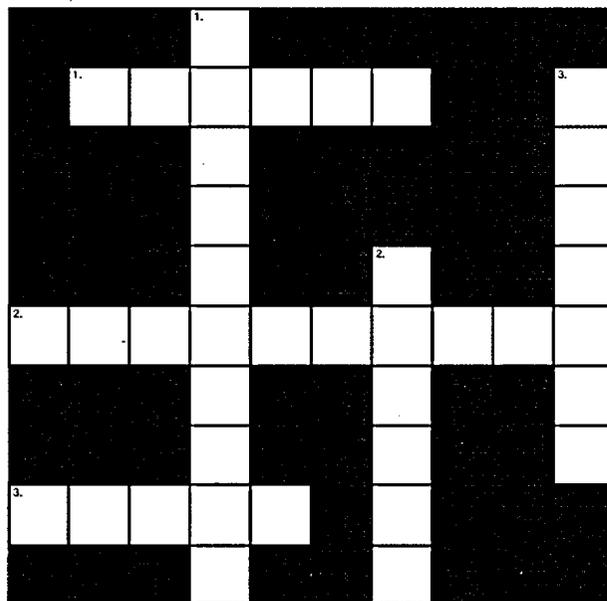
These "before and after" pictures show the dramatic change our electric facilities undergrounding program has brought to the appearance of downtown Gainesville. We have now undergrounded more than half of all electric facilities in our service territory.

**across**

- 1. Producing electricity from landfill gas is an example of green \_\_\_\_\_.
- 2. GRU's Gator Mascot.
- 3. GRU's Mini-\_\_\_\_\_ program donates funds to Alachua County schools.

**down**

- 1. This project gave GRU's Kelly Plant five times the energy with half the emissions.
- 2. \_\_\_\_\_ City teaches children how to be smart around electricity.
- 3. \_\_\_\_\_ Gas is just one of GRU's many services.



**ANSWERS: across** (1) energy; (2) Power Gator; (3) Grant  
**down** (1) repowering; (2) Safety; (3) Natural

Rivers, GRU's Manager of Energy Delivery Engineering. "Our undergrounding plan runs through 2035. We are locating more lines underground in other neighborhoods and all new developments and along major gateway roads. Underground lines cause fewer service interruptions because they are less susceptible to weather damage, but their primary advantage is aesthetics. We are trying to make GRU's presence as invisible as we can." ■

WE PROVIDE CUSTOMER CONVENIENCE  
THROUGH A WIDE ARRAY OF SERVICES

## Electric is only one of our many services

Let's play a quick game of word association: We say "utility" and you say... (Buzz! Time's up.)

If you answered "electricity," you probably are not alone. But GRU, as a multi-service utility, provides much more than competitively priced electricity. To provide superior value, we also offer water, wastewater, natural gas and telecommunications services. Our customers tell us they appreciate the convenience of



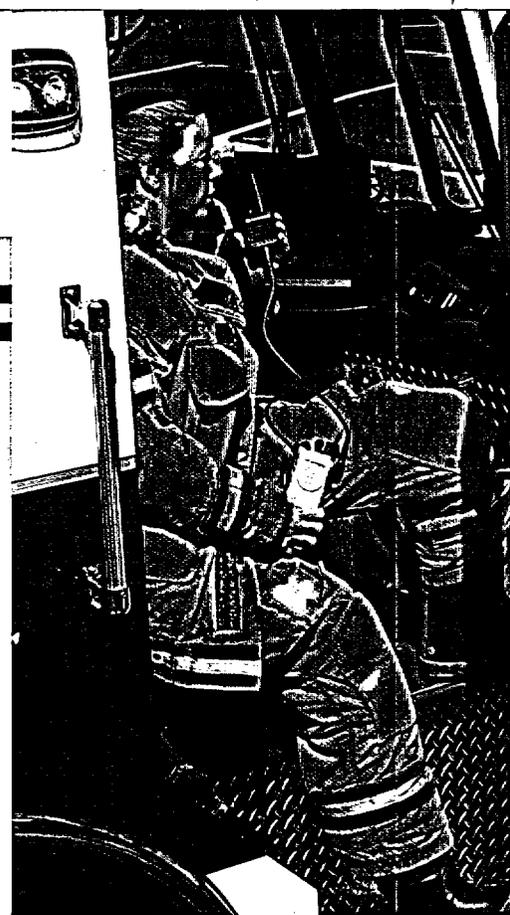
five utility services under one roof. They can address their needs for all these services with just one phone call or Web site visit, and pay for all of them on one bill.

While energy and water remain our traditional core utilities, the formation of our GRUCom telecommunications division in 1995 continued our evolution as a diversified, multi-service utility. The division's rapid growth in just seven years is helping us provide new services that increase

our value to our customers and community, while enhancing our business success. GRU.Net, our residential Internet access service, may be our best known telecom offering. In 2001-02, the number of GRU.Net subscribers increased by more than 16 percent—many of them tenants of student apartment complexes recently wired for our high-speed Ethernet services. GRU.Net has quickly become the area's largest local Internet Service Provider. But we provide a number of other affordable, high-quality telecommunications services for local businesses, government agencies, schools and emergency service groups.

To expand the area's communication services, we lease antenna space on our 11 communication towers and two water towers to several wireless telephone service providers. These same wireless providers use the GRUCom fiber-optic network to transport calls from these cellular sites to their telephone switches.

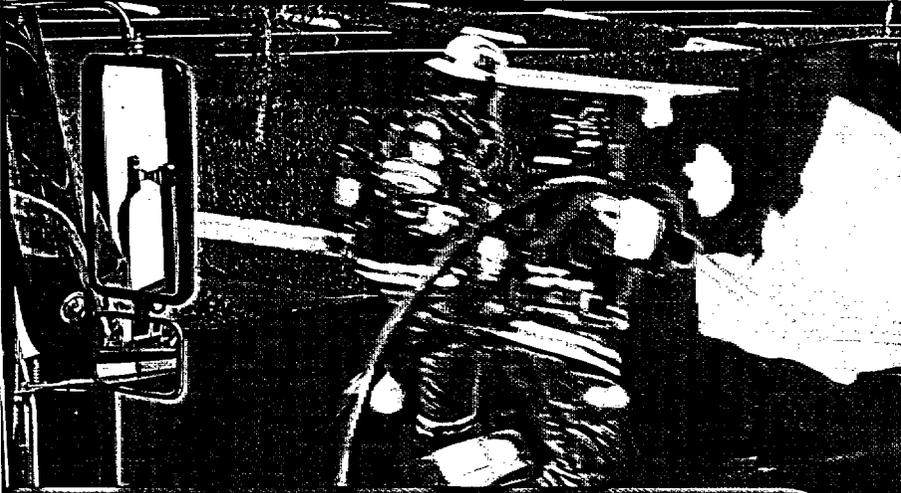
In 2002, we increased our fiber-optic Metropolitan Area Network (MAN) in Alachua County from 171 cable miles to 191. GRUCom uses



the network to provide high-speed transmission of voice, data and video signals for advanced applications such as digital libraries, telemedicine, virtual laboratories and teleconferencing. GRUCom is teaming with the Florida Department of Transportation (FDOT) to extend the fiber line another 4.5 miles along two state roads in Gainesville—13th Street and Southwest 34th Street. While sharing the project costs, we are able to install the fiber on FDOT-owned rights-of-ways, while the state agency can use our fiber line to control its traffic signals.

Our telecommunications technology is bolstering our longtime support of education. GRUCom provides local fiber transport for the University of Florida's backbone Internet connections and for high-speed (10 megabits per second) connections to outlying university buildings. We recently installed 100 megabit-speed digital circuits to provide faster Internet connections for

# more than energy...



## GRUCom radio service helps local law enforcement agencies improve communication

GRUCom serves public safety locally through our countywide trunked radio system. Our new, 800-megahertz system replaces several outdated radio systems, providing voice and mobile data communications to city, county and University of Florida law enforcement agencies, fire departments and other public service agencies.

Trunked radio systems reduce channel congestion and provide faster system access, better coverage and interoperability between agencies. The bottom line? Better communication among law enforcement agencies, especially during emergencies when seconds matter.

As part of the radio system, we activated our first three radio towers in 2001 in Gainesville and surrounding unincorporated neighborhoods, and added two more tower sites in 2002 to carry the radio signals to the rural northern and southern boundaries of Alachua County. ■

the Alachua County School Board, Santa Fe Community College in Gainesville and Central Florida Community College in Ocala. GRUCom also links all Alachua County public schools to our fiber-optic network, and in 2002 we upgraded our bandwidth to 10-megabit speed, giving students faster access to the school board's networks and the Internet.

While the telecommunications industry has been hit by worries of increased competition, expensive network build-outs and changing technologies, GRUCom's revenue has managed steady growth. Over the past five years, earnings have increased at a compound average annual rate of 38 percent, with

revenue last year approaching \$7 million.

"GRUCom will succeed while other telecommunications companies fail due to our focus on the Gainesville community. We haven't overextended ourselves on uncertain product demands like the dot-coms. We have expanded our services slowly, deliberately and in a financially sound manner. GRUCom operates very conservatively," said GRUCom Director Ed Hoffman. "The collapse of so many large companies only solidifies the need for a local provider of telecommunications services that is dedicated to providing the community with state-of-the-art services at a reasonable cost." ■

# WWW.GRU.COM

**NOW CUSTOMERS CAN  
CONDUCT THEIR BUSINESS  
ONLINE—EVEN AT MIDNIGHT  
IN THEIR PJs!**

Last year, we asked our customers how they would like to do their business on the Web. The result: our new and improved Web site that puts their GRU transactions at their finger tips, 24 hours a day.

Customers now can visit the site at [www.gru.com](http://www.gru.com) and find out everything they need to know about their account. They can check their electric, gas and water consumption history, request conservation surveys or emergency repairs, sign up for electronic bill payment and tap into an array of services and information about their utilities and GRU. The latest Web features also let customers start, stop and move utility services and make payments online.

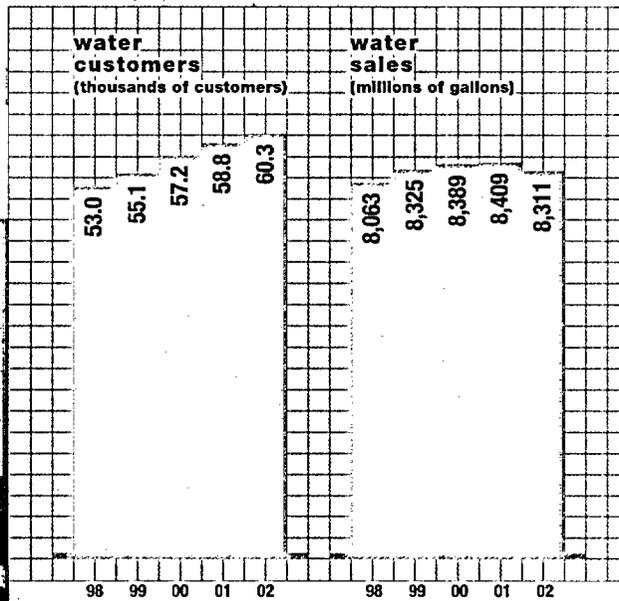
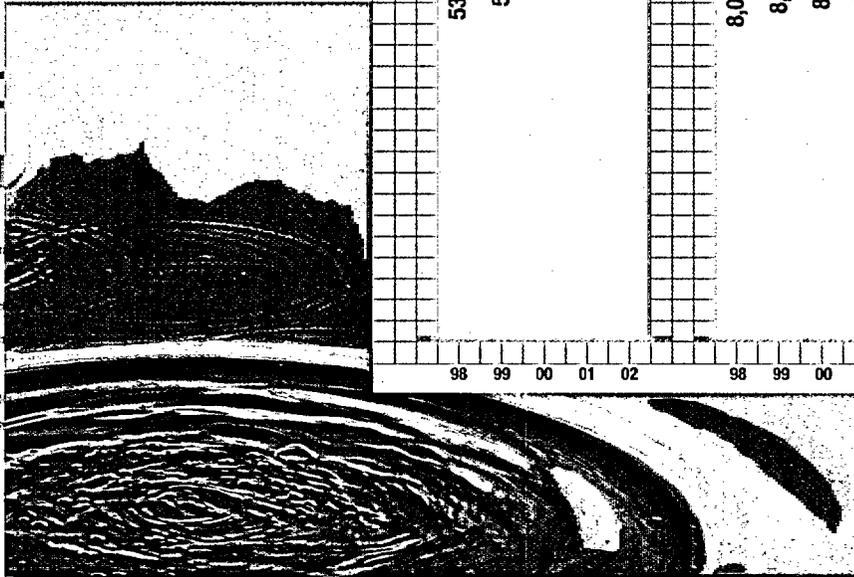
Businesses can logon and sign up to become GRU vendors, get information about our corporate recycling programs, check the status of bids they submitted or peruse the benefits of our Business Partner program.

"Many customers do business with us over the phone or by mail. Our new Web site takes convenience one step



further," said Kathy Viehe, GRU Director of Marketing and Communications. "It's a valuable tool for building customer loyalty and positioning the GRU brand as different and better, which is vital in today's competitive marketplace." ■

# WATER



“GRU has added four new water production wells to the Murphree wellfield since 2000. We now have 15 water wells in service that can supply up to 44 million gallons per day, and we will add two more wells by 2006 to meet increasing water demands.”

## Waste

### Wastewater Customers

|      |        |
|------|--------|
| 2002 | 53,427 |
| 2001 | 52,260 |
| 2000 | 50,901 |
| 1999 | 49,024 |
| 1998 | 47,329 |

### Wastewater Billings (Millions of Gallons)

|      |         |
|------|---------|
| 2002 | 5,306.4 |
| 2001 | 5,486.3 |
| 2000 | 5,196.4 |
| 1999 | 5,215.7 |
| 1998 | 4,964.8 |

“WE DELIVER more than two million gallons of reclaimed water a day to 400 residential customers

and several large commercial and recreational users, mainly for lawn and park irrigation, golf courses and scenic water gardens.”



# electric

"Thanks to ongoing financial controls, we were able to pass along electric rate savings to our residential and business customers. This marks the ninth consecutive year that our electric rates have remained the same or decreased."

Electric Total Customers  
(thousands of customers)

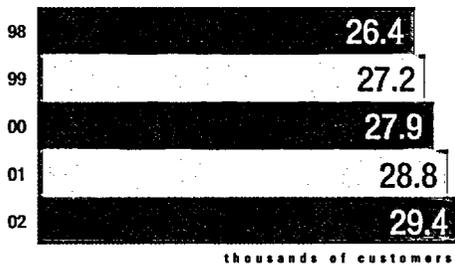
|    | Res    | Com&Ind | TOTAL  |
|----|--------|---------|--------|
| 02 | 73,522 | 8,754   | 82,276 |
| 01 | 71,975 | 8,574   | 80,549 |
| 00 | 69,837 | 8,313   | 78,150 |
| 99 | 68,130 | 8,048   | 76,178 |
| 98 | 66,317 | 7,852   | 74,169 |

**Electric Total Sales**  
(gigawatt hours)

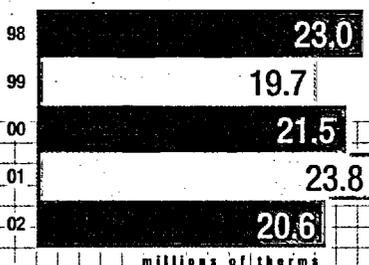
|    | Res   | Other   | InterChg | TOTAL   |
|----|-------|---------|----------|---------|
| 02 | 807.6 | 1,039.0 | 275.6    | 2,122.2 |
| 01 | 820.6 | 1,020.5 | 338.1    | 2,179.2 |
| 00 | 776.7 | 975.6   | 212.2    | 1,964.5 |
| 99 | 764.7 | 947.6   | 147.2    | 1,859.5 |
| 98 | 776.1 | 913.2   | 312.5    | 2,001.8 |

**NATURAL GAS**

NATURAL GAS (total customers)



NATURAL GAS (total sales)



## statistics 2001/2002

### Energy Supply

|                                    |                       |
|------------------------------------|-----------------------|
| Deerhaven Generating Station       |                       |
| Net Capability                     | 433 megawatts (MW)    |
| Kelly Generating Station           |                       |
| Net Capability                     | 177 MW                |
| Share Ownership of Crystal River 3 | Net Capability 11 MW  |
| Combined System                    | Net Capability 621 MW |

### Energy Delivery—Electric System

|                          |                     |
|--------------------------|---------------------|
| Service Area             | 128 sq. miles       |
| Transmission             | 240.4 circuit miles |
| Distribution             |                     |
| Overhead (48%)           | 606 circuit miles   |
| Underground (52%)        | 663 circuit miles   |
| Total                    | 1,269 circuit miles |
| Distribution Substations | 8 (138 KV/12KV)     |

### Energy Delivery—Natural Gas System

|                    |              |
|--------------------|--------------|
| Service Area       | 84 sq. miles |
| Distribution Mains | 601 miles    |
| Delivery Points    | 5            |

### Water System

|  |  |
|--|--|
| Walter E. Murphree Water Treatment Plant |  |
| Treatment Capacity                       | 44 million gallons/day (MGD), peak day |
| Storage Capacity                         | 20.3 million gallons (MG)              |
| Supply Wells                             | 15                                     |
| Water Service Area                       | 118 sq. miles                          |
| Distribution Mains                       | 984 miles                              |

### Wastewater System

|  |  |
|--|--|
| Kanapaha Water Reclamation Facility    |  |
| Treatment Capacity                     | .10 MGD, Avg. Annual Daily Flow (AADF) |
| Main Street Wastewater Treatment Plant |  |
| Treatment Capacity                     | 7.5 MGD, AADF                          |
| Combined Treatment Capacity            | 17.5 MGD, AADF                         |
| Collection Service Area                | 115 sq. miles                          |
| Gravity Mains                          | 546 miles                              |
| Force Mains                            | 125 miles                              |
| Lift Stations                          | 146                                    |

### Communications

|                            |                             |
|----------------------------|-----------------------------|
| Miles of Fiber Optic Cable | 191 miles                   |
| On-net Locations           | 210                         |
| Maximum Bandwidth          | OC-48 (2.5 gigabits/second) |

"Using natural gas lowers energy costs for property owners and their tenants, and lets us serve more customers in a concentrated space at less cost, improving the return on GRU's investment."

201

If two heads are better than one,  
then three, four, five, six  
or seven are even better

# team work

There is a lot of talk among our employees these days about . . . well, everything we do at GRU. And we are turning their opinions and recommendations into action.

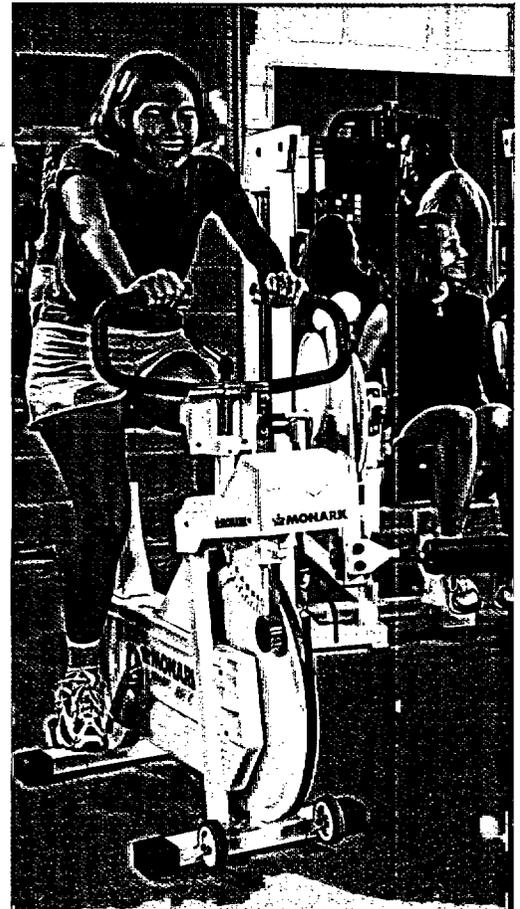
“At GRU, we encourage critical thinking and like to take advantage of the diverse perspectives and experiences of employees. Once we create consensus, though, we act together with the support of the organization and for the good of our customers,” said GRU General Manager Mike Kurtz. “It sounds cliched, but we are a team.”

In fact, we are many teams.

## Employee teams yield unique solutions

Small employee work teams are being used throughout the organization to improve the way we conduct our business. Each team has members and group leaders from a variety of job levels and departments.

One work team called the Review Crew, for instance, created a focus group composed of local developers, builders and engineers to help us streamline the processes they follow in securing GRU utility connections. The effort not only yielded more customer-friendly processes, but also improved our relationships with several major commercial customers. Another group called the Safe Team developed a plan to tighten security in our main Administration Building, which led to a security-conscious redesign of our lobby and customer service area.



"The improvements resulting from these employee work teams really influence how we do our work," said Sandy Barnard, GRU Organizational Development Manager. She cited the recent consolidation of utility line location

We also use a team approach to iron out some of our most critical business and employee relations issues. A group of GRU management and union representatives formed the Interest-Based Bargaining (IBB) Team in 1998 to encourage coopera-

emphasizing common interests rather than differences in negotiations. The process has enabled the city to implement contract changes that mutually benefit customers' and employees' needs.

The IBB team has spun off 16 "sub-teams" to address specific labor-management issues—such as pensions, paid time off and training—and report back to the main team with recommendations.

**"We have developed a number of programs and initiatives to help us improve the diversity of our workforce, increase outreach efforts in the community and work more with small and disadvantaged local businesses."**

crews and the cross-training of gas crews in electric line placement as two key work-team innovations. "The work teams are improving our efficiency and value to our customers."

tion and open communication in labor-management negotiations on important workforce issues. The team follows a problem-solving process called "mutual gains bargaining,"

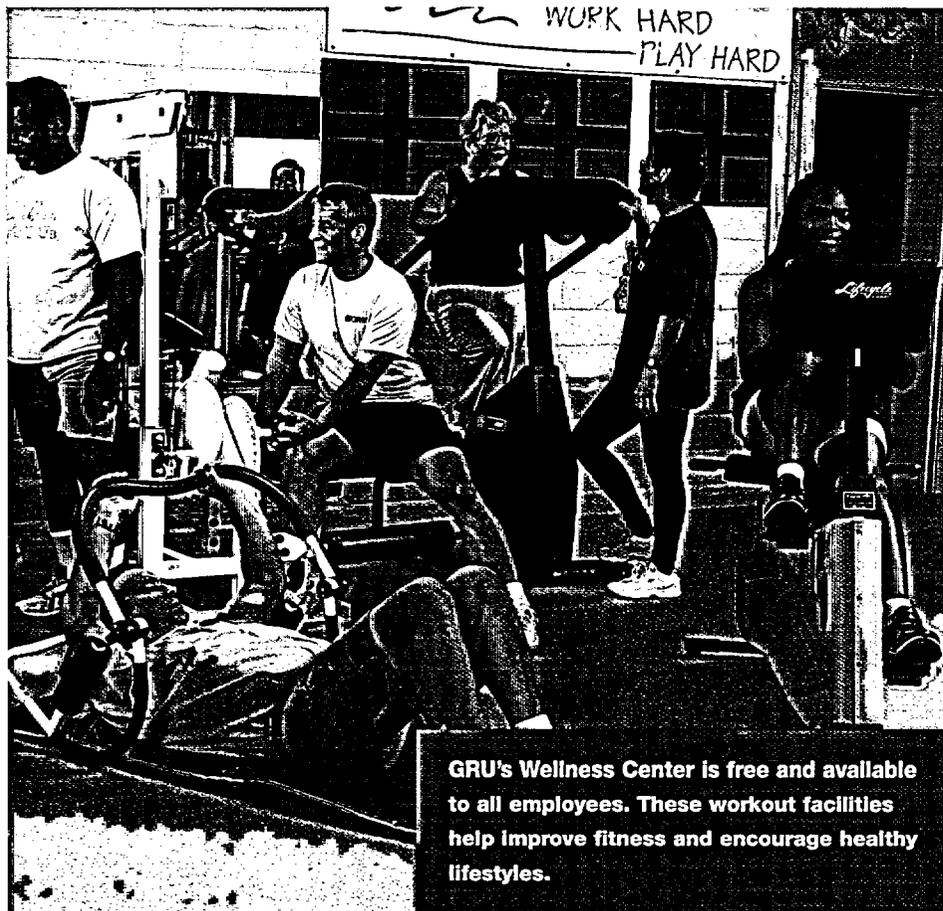
### **Diverse workplace offers many benefits**

Having a workforce that reflects the diverse nature of our community lets us respond effectively to the unique needs of all customers.

"Diversity is an issue of strategic importance as we move to a more competitive environment," Kurtz said. "We have developed a number of programs and initiatives to help us improve the diversity of our workforce, increase outreach efforts in the community and work more with small and disadvantaged local businesses."

We chartered a Diversity Team in 2001 to devise strategies for increasing our pool of applicants and to help us manage diversity successfully. The 12-member team, representing multiple GRU departments and job levels, has worked with consultants to conduct internal surveys and focus groups to generate a better understanding of what it's like for employees of varying backgrounds to work at GRU. Benchmark studies of diversity programs at other utilities were conducted and in early 2003 the team will recommend ways to build on the similarities and differences of our employees to create a competitive advantage for GRU.

"We have made a formal commitment to be a progressive, well-respected local employer, offering a workplace that encourages the best from each of us. We are a team and we will continue to expand and improve our diversity efforts," Kurtz said. ■

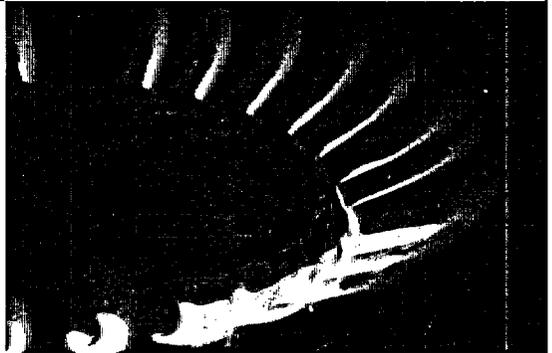




**GRU has  
the lowest  
gas rates  
in the state.**

**After all,  
who has  
money to  
burn?**

Natural Gas is the most cost-effective energy source for your home. You will save money when you cook, do your laundry, and heat your home and water. It's the number one cooking choice of professional chefs and Natural Gas can cost 50% less to cook with than electric. Natural Gas is abundant and the cleanest burning fossil fuel, making it an environmentally friendly choice. And right now, GRU's rates are the lowest in the state. Cost-effective, environmentally friendly, and the lowest rates in the state – GRU's Natural Gas is the natural way to go. Call 334-3400 ext. 1464 for availability in your area. The time is right for Natural Gas.



**GRU**<sup>SM</sup>  
More than Energy<sup>TM</sup>

**Gainesville Regional Utilities**

**financial  
statements**

**Years ended September 30, 2002 and 2001**

**With Report of Independent Certified Public Accountants**

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# Management's Discussion and Analysis

September 30, 2002 and 2001

## Management's Discussion and Analysis

The City of Gainesville, Florida owns and operates a combined utility system doing business as Gainesville Regional Utilities (GRU) which provides five separate utility functions. The utility functions consist of an electric generation, transmission and distribution system (Electric System), water production and distribution system (Water System), a wastewater collection and treatment system (Wastewater System), a natural gas distribution system (Gas System) and a telecommunication system (GRUCom). Each of these systems is accounted for internally as a separate enterprise fund but reported as a combined utility system for external financial reporting purposes.

We offer readers of GRU's financial statements this management discussion and analysis of GRU's financial statements for the fiscal year ended September 30, 2002. It should be read in conjunction with the financial statements that follow this section.

### Required Financial Statements

During the 2002 fiscal year, GRU adopted Government Accounting Standards Board (GASB) Statement No. 34 and related pronouncements. The implementation of these pronouncements had little effect on the financial statements except for the classification of net assets, modifications to certain note disclosures, and the inclusion of a Management's Discussion and Analysis (MD&A) section as required supplementary information.

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

**Statement of Revenues, Expenses and Changes in Net Assets.** All of the current year's revenues and expenses are accounted for in this statement. This statement measures the success of the combined utility system's operations over the past year.

**Statement of Cash Flows.** The primary purpose of this statement is to provide information about the combined utility system's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing and financing activities.

**Notes to Financial Statements.** The notes provide additional information that is essential to fully understanding the data provided in the financial statements. The notes to the financial statements can be found on pages 41-50 of this report.

### Financial Analysis of the Combined Utility System

The Utilities' System net assets increased from last year by \$8.7 million. The table below focuses on the net assets.

#### Combined Utility System Net Assets

(in thousands)

|  | 2002              | 2001              |
|--|-------------------|-------------------|
| Current and other assets                           | \$ 428,616        | \$ 434,249        |
| Capital assets, net                                | <u>656,058</u>    | <u>642,357</u>    |
| Total assets                                       | <u>1,084,674</u>  | <u>1,076,606</u>  |
| Long-term debt outstanding                         | 404,422           | 394,398           |
| Current and other liabilities                      | <u>267,938</u>    | <u>278,569</u>    |
| Total liabilities                                  | <u>672,360</u>    | <u>672,967</u>    |
| Net assets:  |                   |                   |
| Invested in capital assets,<br>net of related debt | 252,236           | 255,616           |
| Restricted   | 164,092           | 145,764           |
| Unrestricted                                       | <u>(4,014)</u>    | <u>2,259</u>      |
| Total net assets                                   | <u>\$ 412,314</u> | <u>\$ 403,639</u> |

# Management's Discussion and Analysis

September 30, 2002 and 2001

Changes in net assets can be further explained using the following condensed statement of revenues, expenses and changes in net assets.

## Combined Utility System Changes in Net Assets

|   | 2002             | 2001             |
|---|------------------|------------------|
| <i>(in thousands)</i>                     |                  |                  |
| Operating revenues                        | \$204,373        | \$218,786        |
| Interest income                           | 7,152            | 9,468            |
| Other income                              | —                | 8                |
| Total revenues                            | <u>211,525</u>   | <u>228,262</u>   |
| Operating expenses                        | 161,268          | 160,545          |
| Interest expense, net                     | 22,204           | 23,447           |
| Total expenses                            | <u>183,472</u>   | <u>183,992</u>   |
| Income before contributions and transfers | 28,053           | 44,270           |
| Capital contributions, net                | 6,317            | 8,624            |
| Operating transfer to City of Gainesville | (25,695)         | (24,356)         |
| Change in net assets                      | 8,675            | 28,538           |
| Net assets, beginning of year             | <u>403,639</u>   | <u>375,101</u>   |
| Net assets, end of year                   | <u>\$412,314</u> | <u>\$403,639</u> |

## Capital Asset and Debt Administration

**Capital Assets.** The Utility's investment in capital assets as of September 30, 2002, amounts to \$656.1 million (net of accumulated depreciation). This investment in capital assets includes land, generation, transmission and distribution systems, buildings and fixed equipment, and furniture, fixtures and equipment. The total increase in the investment in capital assets (net of accumulated depreciation) for the current fiscal year was 2.1%.

The following table summarizes the System's capital assets, net of accumulated depreciation and changes for the year ended September 30, 2002.

## Combined Utilities System Capital Assets (net of accumulated depreciation)

|   | 2002             | 2001             |
|---|------------------|------------------|
| <i>(in thousands)</i>                   |                  |                  |
| Generation                              | \$175,021        | \$128,947        |
| Transmission, distribution & collection | 326,095          | 293,597          |
| Treatment                               | 49,128           | 49,501           |
| General plant                           | 31,549           | 25,442           |
| Plant held for future use               | 6,054            | 6,054            |
| Plant unclassified                      | 6,154            | 62,143           |
| Construction work in progress           | <u>62,058</u>    | <u>76,672</u>    |
| Total net utility plant                 | <u>\$656,059</u> | <u>\$642,356</u> |

Major capital asset events during the current fiscal year included the following:

- The repowering of John R. Kelly Unit 8 to a combined-cycle unit. It began commercial operation in May 2002. Asset value for this addition was \$44.4 million.
- Electric substation improvements of \$3.8 million.
- Replacement of three coal pulverizers on Deerhaven Unit 2 at a cost of \$6.9 million.

The Utility's 2003 capital budget plans for investing approximately \$68 million in capital projects. These projects will be funded from a combination of cash reserves, operating revenue, and additional debt.

**Long-Term Debt.** At the end of the 2002 fiscal year, GRU had total long-term debt outstanding of \$445.9 million, comprised of revenue bonds and other long-term debt.

## Outstanding Debt at September 30

|                             | 2002             | 2001             |
|-----------------------------|------------------|------------------|
| <i>(in thousands)</i>       |                  |                  |
| Senior Lien revenue bonds   | \$293,750        | \$341,380        |
| Subordinated revenue bonds  | 77,300           | —                |
| Tax-exempt Commercial Paper | 56,262           | 78,440           |
| Taxable Commercial Paper    | <u>18,549</u>    | <u>17,093</u>    |
| Total                       | <u>\$445,861</u> | <u>\$436,913</u> |

On July 20, 2002, the City issued Subordinated Utilities System Revenue Bonds, Series 2002A and 2002B in the amounts of \$37,300,000 and \$40,000,000 respectively. The proceeds from the Series 2002A Bonds were used to refund a portion (\$36,645,000) of the 1992B Bonds. Of the 2002B Series Bonds, \$20 million was used to pay principal of Series C Tax-exempt Commercial Paper Notes and \$20 million was issued to fund the Costs of Acquisition and Construction of the utility system. The 2002A and 2002B Series Subordinated Bonds were issued as multi-modal variable interest-rate Bonds, initially issued as variable-rate auction notes. As such, interest rates are reset by an auction process each 35 days based on market rates. Payment of principal and interest of the 2002A and 2002B Series Subordinated Bonds when due are insured by a municipal bond insurance policy issued by Financial Security Assurance. While in the variable auction-rate mode, the Bonds may be redeemed at the option of the City in whole or in part on any interest payment date immediately following the end of an auction period without premium.

# Management's Discussion and Analysis

September 30, 2002 and 2001

The System maintains an AA rating from Standard & Poor's Corporation and an AA3 from Moody's Investors Service for its revenue bonds and an A-1+ and P-1 rating for its commercial paper. These ratings have not changed during the reporting period.

Additional information on long-term debt can be found in Note 4 on pages 45-47 of this report.

**Financial Highlights.** The most significant changes in GRU's financial condition are summarized below:

- Operating revenue decreased \$14.4 million, or approximately 6.6%, but was mostly offset by a corresponding decrease in operation and maintenance expense of \$12.9 million, or approximately 11.0%. The primary reason for the drop in both areas is due to a significant decrease in fuel costs. Additionally, milder weather reduced energy requirements in fiscal 2002.
- Administration and general expense increased \$5.2 million, or approximately 28.0%, due primarily to property insurance increases and routine increases in personal service and other costs.
- Depreciation and amortization expense increased \$8.3 million, or approximately 25.1%. This was due to a combination of reasons: the implementation of GASB 34 eliminated the recognition of contributed plant amortization as an offset to depreciation; the decision by GRU to directly expense cost of removal; and a significant increase in additions to plant assets, all contributed to the increase realized in depreciation and amortization expense.
- Net capital contributions from developers and connection fees decreased \$2.3 million, or approximately 26.8%. In October 2001, a surcharge on connection fees was implemented. In anticipation of this change, several builders pre-paid their fees prior to the surcharge implementation, thus inflating the figures for fiscal 2001 and adversely affecting the totals for fiscal 2002.
- Gross utility plant in service increased \$90.3 million, or approximately 10.7%, as shown on the balance sheet.
- Net utility plant increased \$13.7 million, or approximately 2.1%, as summarized under "Capital Assets," on page 44.
- Long-term debt increased \$8.9 million, or approximately 2.0%, because of debt issued for capital projects during the year net of principal payments, as reflected under "Long-Term Debt" on page 45.
- The number of customers for electric, water, wastewater and gas services increased 2.1%, 2.5%, 2.2% and 2.2%, respectively in fiscal 2002.

## Currently Known Facts or Conditions that May Have a Significant Effect on GRU's Financial Condition or Results of Operations

The primary factors affecting the utility industry include environmental regulations, restructuring of the wholesale and retail energy markets, and the formation of independent bulk power transmission systems.

Utilities, and particularly electric utilities, are subject to increasing federal, state and local statutory and regulatory requirements with respect to the siting and licensing of facilities, safety and security, air and water quality, land use and other environmental factors. The industry is subject to claims asserting health effects from electric and magnetic fields associated with power lines, home appliances and other sources.

The business, affairs and financial condition of GRU could be affected by the efforts now taking place on both the federal and state levels to restructure the electric utility industry. The goal of this restructuring effort is to change from a traditionally monopolistic industry to one in which there is open competition among electric suppliers on both the wholesale and retail levels.

Changes in federal law and regulations dealing with transmission access have already improved competition at the wholesale level, which wholesale competition is expected to increase retail competition. Past legislation seeks (or sought) to complete this restructuring by providing for competition at the retail level. No state legislation is pending or proposed at this time for retail competition in Florida. Any such restructuring of the Florida retail electric utility industry is expected to affect the System.

On June 1, 2002, and again on October 1, 2002, GRU decreased its retail electric rates by an average of 4.25% and 1.78%, respectively. Such decreases may affect the financial condition and results of operations.

## Requests for Information

This financial report is designed to provide a general overview of the Utility System's finances for all those with an interest in the System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City of Gainesville Regional Utilities, P.O. Box 147117, Station A-105, Gainesville, FL 32614-7117.

## Report of Independent Certified Public Accountants

The Honorable Mayor and  
Members of the City Commission  
City of Gainesville

We have audited the accompanying balance sheets of Gainesville Regional Utilities (a department of the City of Gainesville, Florida) 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 Gainesville Regional Utilities' 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.

As discussed in Note 1, the financial statements present only Gainesville Regional Utilities (the Combined Utility Fund of the City of Gainesville, Florida) and are not intended to present fairly the financial position of the City of Gainesville, Florida, and its changes in its financial position and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gainesville Regional Utilities, 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, Gainesville Regional Utilities 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 October 25, 2002 on our consideration of the Gainesville Regional Utilities' 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 audits.

Management's Discussion and Analysis, as listed in the table of contents, is 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Financial statements for the years ended September 30, 2000, 1999, and 1998, were audited by other auditors. The supplementary information included in the accompanying schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that pertaining to the years ended September 30, 2000, 1999, and 1998, on which we express no opinion, 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 taken as a whole.

*Ernst & Young LLP*

Ernst & Young LLP  
Orlando, Florida

October 25, 2002

# Balance Sheets

September 30, 2002 and 2001

|  | 2002                   | 2001                   |
|--|------------------------|------------------------|
| <b>Assets</b>  |                        |                        |
| <b>Current assets:</b>   |                        |                        |
| Cash and cash equivalents  | \$ 5,223,597           | \$ 13,098,294          |
| Investments  | 514,235                | 591,503                |
| Accounts receivable, net of allowance for uncollectible<br>accounts of \$805,126 in 2002 and \$817,271 in 2001 | 25,035,819             | 28,501,246             |
| Prepaid rent — lease/leaseback   | 10,686,909             | 10,686,909             |
| Fuels contracts  | 82,950                 | 4,036,700              |
| Deferred charges   | 3,514,523              | 2,302,573              |
| Inventories:   |                        |                        |
| Fuel   | 10,782,212             | 5,033,235              |
| Materials and supplies   | 7,474,597              | 5,683,156              |
| <b>Total current assets</b>  | <u>63,314,842</u>      | <u>69,933,616</u>      |
| <b>Restricted assets:</b>  |                        |                        |
| Utility deposits — cash and investments  | 3,728,281              | 3,834,840              |
| Debt service fund — cash and investments   | 59,897,416             | 60,300,303             |
| Rate stabilization fund — cash and investments   | 76,852,195             | 78,403,138             |
| Construction fund — cash and investments   | 8,803,549              | 15,588,915             |
| Utility plant improvement fund — cash and investments  | 28,634,776             | 11,414,948             |
| Investment in The Energy Authority   | 3,101,508              | 1,713,794              |
| Decommissioning reserve — cash and investments   | 4,634,322              | 3,919,974              |
| <b>Total restricted assets</b>   | <u>185,652,047</u>     | <u>175,175,912</u>     |
| Prepaid rent — lease/leaseback   | 162,084,786            | 172,771,695            |
| Other noncurrent assets  | 17,564,061             | 16,367,939             |
| <b>Capital assets:</b>   |                        |                        |
| Utility plant in service   | 936,948,021            | 846,624,546            |
| Plant unclassified   | 6,153,812              | 62,142,574             |
| Less: accumulated depreciation and amortization  | <u>355,155,899</u>     | <u>349,136,049</u>     |
|  | 587,945,934            | 559,631,071            |
| Plant held for future use  | 6,053,926              | 6,053,926              |
| Construction in progress   | <u>62,058,407</u>      | <u>76,671,811</u>      |
| <b>Net capital assets</b>  | <u>656,058,267</u>     | <u>642,356,808</u>     |
| <b>Total assets</b>  | <u>\$1,084,674,003</u> | <u>\$1,076,605,970</u> |

**Balance Sheets**  
September 30, 2002 and 2001

|  | 2002                   | 2001                   |
|--|------------------------|------------------------|
| <b>Liabilities and net assets</b>                            |                        |                        |
| Current liabilities:   |                        |                        |
| Fuel payable   | \$ 6,554,687           | \$ 5,177,520           |
| Accounts payable and accrued liabilities                     | 4,938,009              | 6,606,712              |
| Operating lease — lease/leaseback                            | 12,461,916             | 12,461,916             |
| Deferred credits   | 2,480,066              | 2,888,601              |
| Due to other funds   | 3,242,918              | 1,919,616              |
| Total current liabilities                                    | <u>29,677,596</u>      | <u>29,054,365</u>      |
| Payable from restricted assets:                              |                        |                        |
| Utility deposits   | 3,635,718              | 3,693,090              |
| Construction fund — accounts payable and accrued liabilities | 1,002,854              | 394,041                |
| Revenue bonds payable — principal                            | 11,520,000             | 10,985,000             |
| Accrued interest payable                                     | 8,118,211              | 9,735,802              |
| Total payable from restricted assets                         | <u>24,276,783</u>      | <u>24,807,933</u>      |
| Long-term debt:  |                        |                        |
| Utilities system revenue bonds                               | 282,230,000            | 330,395,000            |
| Subordinated utilities system revenue bonds                  | 77,300,000             | —                      |
| Commercial paper notes                                       | 74,811,000             | 95,533,000             |
| Less: unamortized loss on refinancing                        | 26,778,452             | 27,573,145             |
| Less: unamortized bond discount                              | 3,140,827              | 3,956,634              |
| Total long-term debt   | <u>404,421,721</u>     | <u>394,398,221</u>     |
| Operating lease — lease/leaseback                            | 188,991,041            | 201,452,957            |
| Other noncurrent liabilities                                 | 24,992,981             | 23,253,270             |
| Total liabilities  | <u>672,360,122</u>     | <u>672,966,746</u>     |
| Net assets:  |                        |                        |
| Invested in capital assets, net of related debt              | 252,236,347            | 255,616,297            |
| Restricted   | 164,091,715            | 145,764,064            |
| Unrestricted   | (4,014,181)            | 2,258,863              |
| Total net assets   | <u>412,313,881</u>     | <u>403,639,224</u>     |
| Total liabilities and net assets                             | <u>\$1,084,674,003</u> | <u>\$1,076,605,970</u> |

*See accompanying notes.*

# Statements of Revenues, Expenses and Changes in Net Assets

Years ended September 30, 2002 and 2001

|  | 2002                 | 2001                 |
|--|----------------------|----------------------|
| Operating revenue:                                       |                      |                      |
| Sales and service charges                                | \$198,930,821        | \$213,052,430        |
| Other operating revenue                                  | <u>5,441,628</u>     | <u>5,733,430</u>     |
| Total operating revenue                                  | <u>204,372,449</u>   | <u>218,785,860</u>   |
| Operating expenses:                                      |                      |                      |
| Operation and maintenance                                | 104,155,618          | 117,017,122          |
| Administrative and general                               | 23,798,182           | 18,559,361           |
| Depreciation and amortization                            | <u>33,313,926</u>    | <u>24,968,461</u>    |
| Total operating expenses                                 | <u>161,267,726</u>   | <u>160,544,944</u>   |
| Operating income   | 43,104,723           | 58,240,916           |
| Non-operating income (expense):                          |                      |                      |
| Interest income  | 7,152,355            | 9,467,613            |
| Interest expense, net of AFUDC                           | (22,204,413)         | (23,447,313)         |
| Gain (loss) on sale of investments                       | <u>(154)</u>         | <u>8,480</u>         |
| Total non-operating expense                              | <u>(15,052,212)</u>  | <u>(13,971,220)</u>  |
| Income before contributions and transfers                | <u>28,052,511</u>    | <u>44,269,696</u>    |
| Capital contributions:                                   |                      |                      |
| Contributions from developers                            | 7,351,642            | 9,455,351            |
| Reduction of plant costs recovered through contributions | <u>(1,034,708)</u>   | <u>(831,330)</u>     |
| Net capital contributions                                | 6,316,934            | 8,624,021            |
| Operating transfer to City of Gainesville General Fund   | <u>(25,694,788)</u>  | <u>(24,356,267)</u>  |
| Change in net assets                                     | 8,674,657            | 28,537,450           |
| Net assets — beginning of year                           | <u>403,639,224</u>   | <u>375,101,774</u>   |
| Net assets — end of year                                 | <u>\$412,313,881</u> | <u>\$403,639,224</u> |

*See accompanying notes.*

**Statement of Cash Flows**  
**Years ended September 30, 2002 and 2001**

|  | 2002                 | 2001                |
|--|----------------------|---------------------|
| <b>Cash flows from operating activities:</b>   |                      |                     |
| Cash received from customers   | \$202,196,051        | \$218,177,692       |
| Cash payments to suppliers for goods and services  | (91,046,800)         | (105,641,968)       |
| Cash payments to employees for services  | (36,930,494)         | (26,963,650)        |
| Cash payments for operating transactions with other funds  | (5,295,612)          | (4,065,367)         |
| Other operating receipts   | <u>3,667,425</u>     | <u>3,959,226</u>    |
| Net cash provided by operating activities  | 72,590,570           | 85,465,933          |
| <b>Cash flows from noncapital financing activities:</b>  |                      |                     |
| Transfers to other funds   | <u>(25,694,788)</u>  | <u>(24,356,267)</u> |
| Net cash used in noncapital financing activities   | (25,694,788)         | (24,356,267)        |
| <b>Cash flows from capital and related financing activities:</b>   |                      |                     |
| Principal repayments on long-term debt   | (70,352,000)         | (14,778,000)        |
| Interest paid on long-term debt  | (23,006,198)         | (23,362,846)        |
| Other receipts   | 178,634              | 76,576              |
| Acquisition and construction of fixed assets<br>(including allowance for funds used during construction) | (42,324,379)         | (56,492,215)        |
| Proceeds from new debt and commercial paper  | 79,300,000           | 25,012,000          |
| Cash received for connection charges   | <u>1,789,383</u>     | <u>3,920,786</u>    |
| Net cash used in capital and related financing activities  | (54,414,560)         | (65,623,699)        |
| <b>Cash flows from investing activities:</b>   |                      |                     |
| Interest received  | 8,816,629            | 7,332,843           |
| Purchase of investments  | (489,101,705)        | (513,042,624)       |
| Investment in The Energy Authority   | (1,131,925)          | (1,181,877)         |
| Distributions from The Energy Authority  | 663,041              | 868,930             |
| Proceeds from investment maturities  | <u>517,486,938</u>   | <u>514,492,242</u>  |
| Net cash provided by investing activities  | <u>36,732,978</u>    | <u>8,469,514</u>    |
| Net increase in cash and cash equivalents  | 29,214,200           | 3,955,481           |
| Cash and cash equivalents, beginning of year   | <u>8,303,337</u>     | <u>4,347,856</u>    |
| Cash and cash equivalents, end of year   | <u>\$ 37,517,537</u> | <u>\$ 8,303,337</u> |

*Continued on next page.*

## Statement of Cash Flows, continued

Years ended September 30, 2002 and 2001

|   | 2002                | 2001                |
|---|---------------------|---------------------|
| <b>Reconciliation of operating income to net cash provided by operating activities:</b> |                     |                     |
| Operating income  | \$43,104,723        | \$58,240,911        |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                     |                     |
| Depreciation and amortization   | 31,539,723          | 23,194,259          |
| Receivables   | 3,322,596           | 4,636,047           |
| Prepaid expenses  | 3,954,165           | (1,753,315)         |
| Inventories   | (7,540,413)         | (1,869,791)         |
| Deferred charges  | 6,378,090           | 11,617,559          |
| Accounts payable and accrued liabilities  | 317,277             | (7,324,586)         |
| Due to other funds  | 1,323,302           | (1,324,464)         |
| Utility deposits  | (57,372)            | (238,778)           |
| Other liabilities and deferred credits  | (9,751,521)         | 288,091             |
| Net cash provided by operating activities   | <u>\$72,590,570</u> | <u>\$85,465,933</u> |

### Noncash, investing, capital and financing activities:

Utility plant contributed by developers in aid of construction was \$5,562,000 and \$4,703,000 in 2002 and 2001, respectively.

*See accompanying notes.*

## 1. Summary of Significant Accounting Policies

### Organization

Gainesville Regional Utilities (GRU) is a combined municipal utility system operating electric, natural gas, water, wastewater, and telecommunications (GRUCom) utilities. GRU consists of the combined Utility Funds of the City of Gainesville, Florida (City). GRU is a unit of the City and, accordingly, the financial statements of GRU are included in the annual financial reports of the City.

### Basis of Accounting

The financial statements are presented on the accrual basis of accounting. Under this basis, revenues are recognized in the period earned and expenses are recognized in the period incurred. GRU applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, in accounting for and reporting its operations. In accordance with government accounting standards, GRU has elected not to apply FASB pronouncements issued after that date. In accordance with the Utilities System Revenue Bond Resolution (Bond Resolution), rates are designed to cover operating and maintenance expense, debt service and other revenue requirements, which exclude depreciation expense and other noncash expense items. This method of rate setting results in costs being included in the determination of rates in different periods than when these costs are recognized for financial statement purposes. The effect of these differences is recognized in the determination of net income in the period that they occur, in accordance with GRU's accounting policies. GRU has adopted the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and substantially all provisions of the National Association of Regulatory Utility Commissioners (NARUC). Rates are approved annually by the City Commission.

### Accounting Changes

During the 2002 fiscal year, GRU adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* (Statement 34); GASB Statement No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus* (Statement 37); and GASB Statement No. 38, *Certain Financial Statement Disclosures* (Statement 38). Statements 34, 37 and 38 established standards for external financial reporting and disclosure for all state and local government entities, which for GRU includes a balance sheet, a statement of revenues, expenses and changes in net assets and a statement of cash flows. The most significant change related to the implementation of Statement 34 for GRU is the requirement that net assets be classified into three components — invested in capital assets, net of related debt; restricted; and unrestricted, on a retroactive basis. Previously, GRU's net assets

were reported as fund equity, as either retained earnings or contributions in aid of construction. These classifications are defined as follows:

**Invested in capital assets, net of related debt.** This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those 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.** This component of net assets consists of net assets subject to external constraints on their use imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**Unrestricted net assets.** This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The adoption of Statements 34, 37, and 38 had no effect on the financial statements except for the classification of net assets, changes in financial statement presentation and modification of certain financial statement note disclosures.

### Use of Estimates

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

### Reclassifications

Certain amounts for the prior year have been reclassified to conform with current year presentation.

### Investments

GRU follows the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Statement No. 31 requires government entities to report investments at fair value in the balance sheet. All short-term commercial paper with maturities less than one year have been reported at cost which approximates fair value.

### Risk Management / Futures & Options Contracts

GRU conducts a risk management program with the intent of reducing the impact of fuel price spikes for its customers. The program utilizes futures and options contracts that are traded on the New York Mercantile Exchange (NYMEX) so that prices may

# Notes to Financial Statements

September 30, 2002 and 2001

be fixed for given volumes of gas that the utility intends to consume during a given production month. Through the use of an internal oversight group, consultation from reputable risk management sources, and close monitoring of the market on a daily basis, GRU makes every effort to take reasonable steps to stabilize fuel costs for customers when possible and lessen their risk in general.

As a result of risk management activity GRU had, on September 30, 2002 and 2001, deposits of \$1,600,000 and \$1,900,000, respectively, with brokers for margin accounts. GRU reported \$82,950 for options and approximately \$4,000,000 in futures contracts in the fuel contracts account at September 30, 2002 and 2001, respectively. At contract maturity date, gains or losses on hedging transactions are recognized into operation and maintenance expense. On September 30, 2002, \$104,500 was held in deferred gains, inclusive of options, from outstanding contracts. On September 30, 2001 there was \$1,500,000 in deferred losses from outstanding contracts.

## Inventories

Inventories are stated at cost using the weighted average unit cost method for materials, and the last-in, first-out (LIFO) method for fuel. Obsolete and unusable items are reduced to estimated salvage values. The cost of fuel used for electric generation is charged to expense as consumed.

## Capital Assets

Property and equipment are recorded at cost. Maintenance and repairs are charged to operating expense as incurred. The average cost of depreciable plant retired is eliminated from the plant accounts and charged to accumulated depreciation. Associated cost of removal is charged to depreciation expense.

Plant unclassified includes property and equipment of capital projects placed into service that have not been classified in the related asset category within utility plant in service.

## Depreciation and Nuclear Generating Plant Decommissioning

Depreciation of utility plant is computed using the straight-line method over estimated service lives ranging from 6 to 50 years. Depreciation was equivalent to 3.4% and 3.2% of average depreciable property for 2002 and 2001, respectively. Depreciation expense includes a provision for decommissioning costs related to the jointly-owned nuclear power plant (see Note 6).

## Amortization of Nuclear Fuel

The cost of nuclear fuel, including estimated disposal cost, is amortized to fuel expense based on the quantity of heat produced for the generation of electric energy in relation to the quantity of heat expected to be produced over the life of the nuclear fuel core. These costs are charged to customers through the fuel adjustment clause.

## Revenue Recognition

Revenue is recorded as earned. GRU accrues for services rendered but unbilled, which amounted to approximately \$9,200,000 and \$8,400,000 for 2002 and 2001, respectively. Fuel adjustment revenue is recognized based on the actual fuel costs. Amounts charged to customers for fuel are based on estimated costs, which are adjusted for any differences between the actual and estimated costs once actual fuel costs are known. If the amount recovered through rates exceeds actual fuel costs, GRU records deferred fuel as a liability. If the amount recovered through rates is less than the actual fuel costs, GRU records deferred fuel as an asset, for amounts to be collected through future rates. As of September 30, 2002 and 2001, deferred fuel charges were \$1,716,000 and \$(143,400), respectively. The fuel charges are reported as either part of current deferred charges or current deferred credits on the balance sheets.

## Transactions with the City of Gainesville

As an enterprise fund of the City of Gainesville, transactions occur between GRU and the City's governmental funds throughout the year in the ordinary course of operations. Below is a summary of significant transactions:

**Administrative Services.** GRU is billed monthly for various administrative and insurance services provided by the City's governmental functions.

**Nonmetered and Metered Service Charges.** GRU bills the City's governmental funds on a monthly basis for all non-metered, metered and other administrative services.

**Transfers to the General Fund.** GRU pays an annual transfer to the General Fund based on a City Commission approved formula. See Note 11 for details.

## Funds in Accordance with Bond Resolutions

Certain restricted funds of GRU are administered in accordance with bond resolutions. These funds are as follows:

- Debt Service Fund
- Subordinated Indebtedness Fund
- Rate Stabilization Fund
- Construction Fund
- Utility Plant Improvement Fund

The Debt Service Fund accounts for funds accumulated to provide payment of principal and interest on or redeem outstanding debt.

The Subordinated Indebtedness Fund, grouped in the Debt Service Fund for financial reporting purposes, accounts for funds accumulated to pay principal and interest on subordinated indebtedness.

The Rate Stabilization Fund accounts for funds accumulated to stabilize rates over future periods through the transfer of funds to and from operations as necessary and to provide operating reserves for the Utility.

The Construction Fund accounts for funds accumulated for the cost of acquisition and construction of the system.

The Utility Plant Improvement Fund accounts for funds used to pay for certain capital projects or debt service, the purchase or redemption of bonds, or otherwise provide for the repayment of bonds.

When both restricted and unrestricted resources are available for use, it is GRU's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **Operating, Non-Operating Revenues**

GRU has defined operating revenue as that revenue which is derived from customer sales or service while non-operating revenues include interest on investments and any gain from the sale of such investments.

#### **Allowance for Funds Used During Construction (AFUDC)**

An allowance for interest on borrowed funds used during construction of \$0 and \$882,000 in 2002 and 2001, respectively, is included in construction in progress and as a reduction of interest expense. These amounts are computed by applying the effective interest rate on the funds borrowed to finance the projects to the monthly balance of projects under construction. The effective interest rate was approximately 5.52%.

#### **Contributions in Aid of Construction**

During the year ended September 30, 2001, GRU implemented the applicable provisions of GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, which requires governments to recognize capital contributions as revenues instead of contributed capital. In previous periods, such capital contributions were recognized as additions to net assets (equity) for GRU's water and wastewater divisions. Contributions to the electric and gas divisions are also reported as capital contribution revenues; however, such amounts are also expensed in the same period consistent with the requirements of the FERC Uniform System of Accounts.

#### **Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, bank demand accounts, and overnight repurchase agreements.

#### **Unamortized Loss on Refinancing**

Losses resulting from the refinancing of bonds are deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

## **2. Rates and Regulation**

GRU's rates are established in accordance with the Utilities System Bond Resolution and the Utilities System Subordinated Bond Resolution as adopted and amended. Under these documents, rates are set to recover Operation and Maintenance Expenses, Debt Service, Utility Plant Improvement Fund contributions and costs for any other lawful purpose such as the General Fund Transfer.

Each year during the budgeting process, and at any other time necessary, the City Commission approves rate changes and other changes to GRU's charge rates.

GRU's cost of fuel for the electric and natural gas systems is passed directly through to its customers. Each month, GRU staff estimates the cost of fuel and consumption for both the electric and natural gas systems. These estimates are combined with a true-up for actual costs from previous months into a current-month electric fuel adjustment and natural gas purchased gas adjustment. Amounts overbilled or underbilled are passed along to customers and are either accrued or deferred at year-end.

The Florida Public Service Commission does not regulate rate levels in any of GRU's utilities. They do, however, have jurisdiction over rate structure for the electric system.

Currently, GRU prepares its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, and records various regulatory assets and liabilities. For a company to report under SFAS No. 71, the company's rates must be designed to recover its costs of providing services, and the company must be able to collect those rates from customers. If it were determined, whether due to competition or regulatory action, that these standards no longer applied, GRU could be required to write off its regulatory assets and liabilities. Management believes that GRU currently meets the criteria for continued application of SFAS No. 71, but will continue to evaluate significant changes in the regulatory and competitive environment to assess continuing applicability of the criteria.

# Notes to Financial Statements

September 30, 2002 and 2001

## 3. Capital Assets and Changes in Accumulated Depreciation

A summary of capital assets, changes in accumulated depreciation and related depreciation provisions expressed as a percentage of average depreciable plant follows:

|                                  | Treatment      | Generation      | Transmission,<br>Distribution<br>and Collection | General        | Unclassified  | Combined        |
|----------------------------------|----------------|-----------------|---|----------------|---------------|-----------------|
| <b>Capital assets,</b>           |                |                 |   |                |               |                 |
| October 1, 2001                  | \$ 81,371,071  | \$ 288,946,495  | \$ 422,147,317                                  | \$ 54,159,664  | \$ 62,142,573 | \$ 908,767,120  |
| Capital additions                | 2,245,159      | 56,623,471      | 45,514,094                                      | 11,029,223     | 58,004,920    | 173,416,867     |
| Sales, retirements               | (290,456)      | (12,558,273)    | (5,375,644)                                     | (6,864,099)    | (113,993,682) | (139,082,154)   |
| <b>Capital assets,</b>           |                |                 |   |                |               |                 |
| September 30, 2002               | \$ 83,325,774  | \$ 333,011,693  | \$ 462,285,767                                  | \$ 58,324,788  | \$ 6,153,811  | \$ 943,101,833  |
| <b>Accumulated depreciation,</b> |                |                 |   |                |               |                 |
| October 1, 2001                  | \$(31,870,077) | \$(160,001,587) | \$(128,547,379)                                 | \$(28,717,006) | n/a           | \$(349,136,049) |
| Depreciation expense             | (2,618,974)    | (10,501,563)    | (12,894,877)                                    | (4,918,757)    | n/a           | (30,934,171)    |
| Retirements                      | 290,456        | 12,513,508      | 5,251,265                                       | 6,859,092      | n/a           | 24,914,321      |
| <b>Accumulated depreciation,</b> |                |                 |   |                |               |                 |
| September 30, 2002               | \$(34,198,595) | \$(157,989,642) | \$(136,190,991)                                 | \$(26,776,671) | n/a           | \$(355,155,899) |
| <b>Average depreciation rate</b> | <b>3.146%</b>  | <b>3.349%</b>   | <b>2.873%</b>                                   | <b>8.746%</b>  | <b>n/a</b>    | <b>3.439%</b>   |

|                                  | Treatment      | Generation      | Transmission,<br>Distribution<br>and Collection | General        | Unclassified  | Combined        |
|----------------------------------|----------------|-----------------|---|----------------|---------------|-----------------|
| <b>Capital assets,</b>           |                |                 |   |                |               |                 |
| October 1, 2000                  | \$ 75,577,140  | \$ 288,770,851  | \$ 398,371,724                                  | \$ 48,723,114  | \$ 20,297,601 | \$ 831,740,430  |
| Capital additions                | 5,793,931      | 407,094         | 25,104,085                                      | 5,436,550      | 77,012,112    | 113,753,772     |
| Sales, retirements               | —              | (231,450)       | (1,328,492)                                     | —              | (35,167,140)  | (36,727,082)    |
| <b>Capital assets,</b>           |                |                 |   |                |               |                 |
| September 30, 2001               | \$ 81,371,071  | \$ 288,946,495  | \$ 422,147,317                                  | \$ 54,159,664  | \$ 62,142,573 | \$ 908,767,120  |
| <b>Accumulated depreciation,</b> |                |                 |   |                |               |                 |
| October 1, 2000                  | \$(29,767,127) | \$(151,884,238) | \$(118,492,726)                                 | \$(24,482,463) | n/a           | \$(324,626,554) |
| Depreciation expense             | (2,352,090)    | (8,366,037)     | (11,724,429)                                    | (4,161,770)    | n/a           | (26,604,326)    |
| Retirements/adjustments          | 249,140        | 248,688         | 1,669,776                                       | (72,773)       | n/a           | 2,094,831       |
| <b>Accumulated depreciation,</b> |                |                 |   |                |               |                 |
| September 30, 2001               | \$(31,870,077) | \$(160,001,587) | \$(128,547,379)                                 | \$(28,717,006) | n/a           | \$(349,136,049) |
| <b>Average depreciation rate</b> | <b>2.997%</b>  | <b>2.856%</b>   | <b>2.817%</b>                                   | <b>8.090%</b>  | <b>n/a</b>    | <b>3.179%</b>   |

# Notes to Financial Statements

September 30, 2002 and 2001

## 4. Long-Term Debt

Long-term debt outstanding at September 30, 2002 and 2001, consisted of the following:

|   | 2002                        | 2001                        |
|---|-----------------------------|-----------------------------|
| <b>Utilities System Revenue Bonds:</b>  |                             |                             |
| Series 1983 (1983 Bonds) — interest payable semi-annually to October 1, 2014 at a rate of 6.0%  | \$ 4,675,000                | \$ 4,675,000                |
| 1992 Series A (1992 A Bonds) — interest payable semi-annually to October 1, 2002 at various rates between 6.0% and 6.1%                                 | 1,555,000                   | 3,025,000                   |
| 1992 Series B (1992 B Bonds) — interest payable semi-annually to October 1, 2013 at various rates between 6.1% and 7.5%                                 | 24,960,000                  | 61,920,000                  |
| 1993 Series A (1993 A Bonds) — interest payable semi-annually to October 1, 2006 at various rates between 5.0% and 5.3%                                 | 17,795,000                  | 21,585,000                  |
| 1993 Series B (1993 B Bonds) — interest payable semi-annually to October 1, 2013 at various rates between 5.0% and 5.5%                                 | 110,280,000                 | 114,085,000                 |
| 1996 Utilities System Revenue Bonds — 1996 Series A (1996 Series A) — interest payable semi-annually to October 1, 2026 at rates between 4.2% and 5.75% | 134,485,000                 | 136,090,000                 |
| 2002 Utilities System Subordinated Utilities System Revenue Bonds — 2002A (2002 Series A) interest at variable rates                                    | 37,300,000                  | —                           |
| 2002 Utilities System Subordinated Utilities System Revenue Bonds — 2002B (2002 Series B) interest at variable rates                                    | 40,000,000                  | —                           |
| <b>Utilities System Commercial Paper Notes, Series C (C Notes):</b>   |                             |                             |
| Interest at variable market rates   | 56,262,000                  | 78,440,000                  |
| <b>Utilities System Taxable Commercial Paper Notes, Series D (D Notes):</b>   |                             |                             |
| Interest at variable market rates   | 18,549,000                  | 17,093,000                  |
|   | 445,861,000                 | 436,913,000                 |
| Less current portion of long-term debt  | (11,520,000)                | (10,985,000)                |
| Less unamortized loss on refinancing  | (26,778,452)                | (27,573,145)                |
| Less unamortized bond discount  | (3,140,827)                 | (3,956,634)                 |
| <b>Total long-term debt</b>   | <b><u>\$404,421,721</u></b> | <b><u>\$394,398,221</u></b> |

The 1983 Bonds mature on October 1, 2014. Those Bonds are subject to redemption at the option of the City as a whole at any time or in part on any interest payment date, at a redemption price of 100% plus accrued interest to the date of redemption.

The 1992 A Bonds mature October 1, 2001 and 2002.

The 1992 B Bonds mature at various dates from October 1, 2001 to October 1, 2017. Those Bonds maturing on or after October 1, 2003 to October 1, 2007, amounting to \$14.3 million are subject to redemption at the option of the City on and after October 1, 2002, as a whole at any time or in part on any interest payment date, at a redemption price of 102% in 2002, 101% in 2003 and 100% thereafter. The 1992 B Bonds maturing on October 1, 2017, amounting to \$22.3 million, are subject to redemption at the option of the City on and after October 1, 2002, as a whole at any time or in part on any interest payment date, at a redemption price of 100%.

The 1993 A and B Bonds mature at various dates through

October 1, 2013. Those Bonds maturing on or after October 1, 2004, amounting to \$113.9 million, are subject to redemption at the option of the City on and after October 1, 2003, as a whole at any time or in part on any interest payment date, at a redemption price of 102% in 2003, 101% in 2004 and 100% thereafter.

The 1996 A Bonds mature at various dates through October 1, 2026. Those Bonds maturing on or after October 1, 2010 are subject to redemption at the option of the City on or after October 1, 2006 as a whole or in part at any time at a redemption price of 102% in 2006, 101% in 2007, and 100% thereafter.

On July 20, 2002, the City issued Subordinated Utilities System Revenue Bonds, Series 2002A and 2002B in the amounts of \$37,300,000 and \$40,000,000 respectively. The proceeds from the Series 2002A Bonds were used to refund a portion (\$36,645,000) of the 1992B Bonds in order to reduce its total debt service payments over the next 16 years by \$4,851,869 and to obtain an economic gain of \$3,378,053.

# Notes to Financial Statements

September 30, 2002 and 2001

Of the 2002B Series Bonds, \$20 million was used to pay principal of Series C Tax-exempt Commercial Paper Notes and \$20 million was issued to fund the Costs of Acquisition and Construction of the utility system. The 2002A and 2002B Series Subordinated Bonds were issued as multi-modal variable interest-rate Bonds, initially issued as variable-rate auction notes. As such, interest rates are reset by an auction process each 35 days based on market rates. Payment of principal and interest of the 2002A and 2002B Series Subordinated Bonds when due are insured by a municipal bond insurance policy issued by the Financial Security Assurance Inc. While in the variable auction-rate mode, the Bonds may be redeemed at the option of the City in whole or in part on any interest payment date immediately following the end of an auction period without premium.

Utilities System Commercial Paper Notes, Series C Notes (tax-exempt) in a principal amount not to exceed \$85 million may be issued to refinance maturing Series C Notes or provide for other costs. Liquidity support for the Series C Notes is provided under a long-term credit agreement dated as of March 1, 2000 with Bayerische Landesbank Girozentrale. The obligation of the bank may be substituted by another bank which meets certain credit standards and which is approved by GRU and the Agent. Under the terms of the agreement, GRU may borrow up to \$85 million with same day availability ending on the termination date, as defined in the agreement. Series C Notes of \$2.7 million and \$4.6 million were redeemed during 2002 and 2001, respectively.

In June 2000, a Utilities System Commercial Paper Note Program, Series D (taxable) was established in a principal amount not to exceed \$25 million. Liquidity support for the

Series D Notes is provided under a long-term credit agreement dated June 1, 2000 with SunTrust Bank. The obligation of the bank may be substituted by another bank that meets certain credit standards and is approved by GRU. Under the terms of the agreement, GRU may borrow up to \$25 million with same day availability ending on the termination date, as defined in the agreement.

On July 3, 2002 the City of Gainesville d/b/a Gainesville Regional Utilities (GRU) started an interest rate swap with Merrill Lynch Capital Services (the Counterparty) in a notional amount of \$37.3 million which amortizes down over time. Under the terms of the swap agreement, GRU will pay the Counterparty a fixed annual interest rate of 4.10% payable on April 1 and October 1 of each year, beginning October 2, 2002 and will receive a variable rate payment each month beginning August 1, 2002. The variable-rate will be equal to the Bond Market Association (BMA) Municipal Swap Index. The Counterparty has the right, but not the obligation, to terminate the swap if the BMA Municipal Swap Index exceeds 7% for any immediate preceding rolling consecutive 180 calendar day period. As of September 30, 2002, the termination value of the swap, if exercised, would have resulted in a payment to the Counterparty of approximately \$3.7 million.

GRU is required to make monthly deposits into separate accounts for an amount equal to the required share of principal and interest becoming payable for the revenue bonds on the payment dates of April 1 and October 1.

The following table lists the Debt Service requirements (principal and interest) on long-term debt outstanding at September 30, 2002:

| Period ending October 1 | Principal            | Interest             | Total Debt Service Requirements <sup>(1)</sup> |
|-------------------------|----------------------|----------------------|--|
| 2002                    | \$ 11,520,000        | \$ 17,792,587        | \$ 29,312,587                                  |
| 2003                    | 15,377,440           | 17,597,928           | 32,975,368                                     |
| 2004                    | 15,357,440           | 17,055,130           | 32,412,570                                     |
| 2005                    | 14,907,440           | 16,457,709           | 31,365,149                                     |
| 2006                    | 15,487,440           | 15,884,532           | 31,371,972                                     |
| 2007                    | 20,287,440           | 15,280,940           | 35,568,380                                     |
| 2008-2012               | 130,647,200          | 59,224,913           | 189,872,113                                    |
| 2013-2017               | 98,597,200           | 28,193,188           | 126,790,388                                    |
| 2018-2022               | 54,777,200           | 14,420,918           | 69,198,118                                     |
| 2023-2027               | 34,902,200           | 5,322,613            | 40,224,813                                     |
| 2028-2032               | 34,000,000           | 1,518,875            | 35,518,875                                     |
| Total                   | <u>\$445,861,000</u> | <u>\$208,749,333</u> | <u>\$654,610,333</u>                           |

<sup>(1)</sup> Interest rates on variable-rate long-term debt were valued, in accordance with GASB Statement 38 to be equal to 1.4% for the 2002A and 2002B Series Subordinated Bonds, 1.35% for Series C Tax-exempt Commercial Paper and 1.93% for Series D Taxable Commercial Paper.

# Notes to Financial Statements

September 30, 2002 and 2001

The table below shows the changes in net long-term debt balances that occurred during the years ended September 30, 2002 and 2001.

|  | 2002                 | 2001                 |
|--|----------------------|----------------------|
| Long-term debt outstanding at September 30     | \$394,398,221        | \$382,733,076        |
| Changes in long-term debt:                     |                      |                      |
| 2002A Series Subordinated                      |                      |                      |
| Bonds issued                                   | 37,300,000           | -                    |
| 2002B Series Subordinated                      |                      |                      |
| Bonds issued                                   | 40,000,000           | -                    |
| 1992B Series Bonds refunded                    | (36,645,000)         | -                    |
| Fixed rate debt redeemed                       | (11,520,000)         | (10,985,000)         |
| Tax-exempt Commercial Paper (TECP) issued      | -                    | 20,000,000           |
| TECP redeemed as part of Series 2002B issuance | (20,000,000)         | -                    |
| TECP redeemed during the year                  | (2,178,000)          | (4,588,000)          |
| Taxable CP issued                              | 2,000,000            | 5,012,000            |
| Taxable CP redeemed                            | (544,000)            | -                    |
| Change in unamortized loss/bond discount       | <u>1,610,500</u>     | <u>2,226,145</u>     |
| Long-term debt outstanding at September 30     | <u>\$404,421,721</u> | <u>\$394,398,221</u> |
| Current portion of long-term debt              | <u>\$ 11,520,000</u> | <u>\$ 10,985,000</u> |

Under the terms of the Bond Resolution relating to the sale of the Utilities System Revenue Bonds, payment of the principal and interest is secured by an irrevocable lien on GRU's net revenue (exclusive of any funds which may be established pursuant to the Bond Resolution for decommissioning and certain other specified purposes), including any investments and income thereof.

The Bond Resolution contains certain restrictions and commitments, including GRU's covenant to establish and maintain rates and other charges to produce revenue sufficient to pay operation and maintenance expenses, amounts required for deposit in the debt service fund, and amounts required for deposit into the utility plant improvement fund.

## 5. Deposits and Investments

Deposits are held in a qualified public depository institution insured by the Federal Depository Insurance Corporation and as required by the Bond Resolution in a bank, savings and loan association or trust company of the United States or a national banking association having capital stock, surplus and undivided earnings aggregating at least \$10 million.

In accordance with state laws and the Bond Resolution, GRU is authorized to invest in obligations which are unconditionally guaranteed by the United States of America or its agencies or instrumentalities, repurchase agreement obligations unconditionally guaranteed by the United States of America or its agencies, corporate indebtedness, direct and general obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (provided such obligations are rated by a nationally recognized bond rating agency in either of its two highest rating categories), public housing bonds, and certain certificates of deposit. Investments in corporate indebtedness must be rated in the highest rating category of a nationally recognized rating agency and in one of the two highest rating categories of at least one other nationally recognized rating agency.

Investments are categorized in the following table in accordance with GASB Statement No. 3. All of GRU's investments fall under category 1, which include investments that are insured or registered or held by the Utility or its agent in GRU's name.

|                            | Fair (Carrying Amount) Value |
|----------------------------|------------------------------|
| <b>September 30, 2002</b>  |                              |
| U.S. government securities | \$ 88,518,585                |
| U.S. government bonds      | 24,250,061                   |
| Corporate securities       | <u>31,674,331</u>            |
| Total                      | <u>\$144,442,977</u>         |
| <b>September 30, 2001</b>  |                              |
| U.S. government securities | \$ 72,940,400                |
| U.S. government bonds      | 22,820,261                   |
| Corporate securities       | <u>82,912,812</u>            |
| Total                      | <u>\$178,673,473</u>         |

# Notes to Financial Statements

September 30, 2002 and 2001

Cash and investments are contained in the following balance sheet accounts as of September 30:

|                                  | 2002                 | 2001                 |
|----------------------------------|----------------------|----------------------|
| Restricted assets                | \$185,652,047        | \$175,175,912        |
| Current assets:                  |                      |                      |
| Cash and cash equivalents        | 5,223,597            | 13,098,294           |
| Investments                      | <u>514,235</u>       | <u>591,503</u>       |
| Total cash and investments       | 191,389,879          | 188,865,709          |
| Less cash and cash equivalents   | (37,517,537)         | (8,303,337)          |
| Less accrued interest receivable | <u>(9,429,365)</u>   | <u>(1,888,899)</u>   |
| Total investments                | <u>\$144,442,977</u> | <u>\$178,673,473</u> |

## 6. Jointly-Owned Electric Plant

GRU-owned resources for supplying electric power and energy requirements include its 1.4079% undivided ownership interest in the Crystal River Unit 3 (CR3) nuclear power plant operated by Florida Power Corporation. GRU's net investment in CR3 at September 30, 2002 and 2001 is \$7,376,685 and \$7,809,772 respectively. CR3 operation and maintenance costs, which represent GRU's part of expenses attributable to operation of CR3, are recorded in accordance with the instructions as set forth in the FERC uniform system of accounts. Payments are made to Florida Power Corporation in accordance with the CR3 participation agreement.

GRU, as a part of this participation agreement, is responsible for its share of future decommissioning costs. Decommissioning costs are funded and expensed annually and are recovered through rates charged to customers. The most recent decommissioning cost estimates provided by Florida Power Corporation in March 2002, estimated GRU's share of total future decommissioning costs to be \$7,100,000. At September 30, 2002, GRU has funded \$4,634,000 of this cost.

## 7. Restricted Net Assets

Certain assets are restricted by bond resolution and other external requirements. Following is a summary of the computation of restricted net assets at September 30, 2002 and 2001, and the restricted purposes of the net asset balances:

|   | 2002                 | 2001                 |
|---|----------------------|----------------------|
| Restricted net assets:                            |                      |                      |
| Total restricted assets                           | \$185,652,047        | \$175,175,912        |
| Unspent debt proceeds                             | (8,803,549)          | (15,588,915)         |
| Payable from restricted assets                    | <u>(12,756,783)</u>  | <u>(13,822,933)</u>  |
| Restricted net assets                             | <u>\$164,091,715</u> | <u>\$145,764,064</u> |
| Net assets are restricted as follows:             |                      |                      |
|   | 2002                 | 2001                 |
| Debt covenants:                                   |                      |                      |
| Debt service                                      | \$ 50,868,914        | \$ 50,312,210        |
| Rate stabilization                                | 76,852,195           | 78,403,138           |
| Utility plant improvement                         | <u>28,634,776</u>    | <u>11,414,948</u>    |
| Total restricted pursuant to debt covenants       | <u>156,355,885</u>   | <u>140,130,296</u>   |
| Other restrictions:                               |                      |                      |
| Investment in The Energy Authority <sup>(1)</sup> | 3,101,508            | 1,713,794            |
| Nuclear decommissioning reserve                   | <u>4,634,322</u>     | <u>3,919,974</u>     |
| Total other restrictions                          | <u>7,735,830</u>     | <u>5,633,768</u>     |
| Restricted net assets                             | <u>\$164,091,715</u> | <u>\$145,764,064</u> |

<sup>(1)</sup> Includes trade guarantee deposits.

## 8. Retirement Plans

The City sponsors and administers one defined benefit pension plan and two defined contribution plans (collectively, the Plans) that include GRU and other City employees. The Plans do not make separate measurements of assets and pension benefit obligations for individual units of the City. Such information is presented in the City of Gainesville, Florida, September 30, 2002, Comprehensive Annual Financial Report.

The General Employees Pension Plan (Employees Plan), a contributory defined benefit pension plan, covers all employees of GRU, except certain limited personnel who elect to participate only in a defined contribution plan.

The City accounts for and funds the costs of the Employee Plan as they accrue. Such costs are based on contribution rates determined by the most recent actuarial valuation. The total contributions by GRU, including amortization of prior service costs, was \$1,800,000 for the years ended September 30, 2002 and 2001.

Certain limited employees are eligible to participate in defined contribution plans managed by outside fiscal agents for the City. Under the first plan, the City contributes a percentage of an employee's annual salary and employees contribute a specified percentage. All employees have the option to participate in

the second defined contribution plan. The total defined contribution cost for GRU for the years ended September 30, 2002 and 2001, was \$357,000 and \$352,000, respectively.

### 9. Postretirement Benefits

In addition to providing pension benefits, the City provides certain health care insurance benefits for retired employees of the City and GRU. The City also permits retirees to participate in the life insurance program. Most permanent full and part-time employees who are eligible for normal, early retirement, or disability are eligible for these benefits. Individual benefits are the same for all employees, but the cost to the City may vary. Contributions by the City to fund these benefits are neither mandated nor guaranteed. Funds are appropriated annually to fund the actuarially determined costs of the health insurance program and to cover the costs of other programs. The City recognizes the cost of these benefits on a monthly basis by contributing a percentage of active payroll costs. The cost of providing these benefits for the GRU retirees for the fiscal years ended September 30, 2002 and 2001 was \$1,167,000 and \$820,000, respectively.

### 10. Disaggregation of Receivables and Payables

#### Receivables

Net accounts receivable as of September 30, 2002 represent 83.4% from customers for billed and unbilled utility services, and 16.6% from other receivables. There are no receivables expected to take longer than one year to collect.

#### Payables

As of September 30, 2002, payable balances are 41.6% related to fuels payable, 7.8% to standard operating payables, 11.0% to accrued wages payable, 20.6% to intergovernmental payables and 19.0% to other payables.

### 11. Transfers to General Fund

GRU makes transfers to the City's general government based on a formula that ties the transfer directly to the financial performance of the system. The transfer to the general fund may be made only to the extent such moneys are not necessary to pay operating and maintenance expenses and to pay debt service on the outstanding bonds and subordinated debt or to make other necessary transfers under the Bond Resolution. The formula-based fund transfer to the general fund for the years ended September 30, 2002 and 2001 was \$25,694,788 and \$24,356,267, respectively.

### 12. Deferred Charges

Deferred charges are presented on the balance sheets under current assets and as other noncurrent assets.

The largest deferred charge is for estimated environmental costs of \$10,100,000 for both 2002 and 2001. See Note 13 for details on this item.

Also included in deferred charges is unamortized bond issuance costs of approximately \$3,310,000 and \$3,054,000, respectively, at September 30, 2002 and 2001. These costs are being amortized straight-line over the life of the bonds, which approximates the effective interest method.

Other significant deferred charges include acquisition costs of \$2,705,000 and \$3,104,000 and fuel adjustment true-up of \$1,716,000 and \$(143,400) in 2002 and 2001, respectively.

Remaining smaller items make up the balance of the deferred charges — \$3,242,000 and \$2,413,000, for 2002 and 2001, respectively.

### 13. Environmental Liabilities

GRU is subject to numerous federal, state and local environmental regulations. Under the Comprehensive Environmental Response Compensation and Liability Act, commonly known as "Superfund," GRU has been named as a potentially responsible party at two hazardous waste sites. In addition, in January 1990, GRU purchased the natural gas distribution assets of a company and pursuant to the related purchase agreement, assumed responsibility for the investigation and remediation of environmental impacts related to the operation of the former manufactured gas plant. Based upon GRU's analysis of the cost to clean up these sites and other identified environmental contingencies, GRU has accrued a liability of \$10,100,000 as of September 30, 2002 and 2001. Because GRU believes it is probable that it will recover the costs of environmental clean-up through future customer rates, a regulatory asset of equal amount has been reflected as a deferred charge in the accompanying balance sheet. Although uncertainties associated with environmental assessment and remediation activities remain, GRU believes that the current provision for such costs is adequate and additional costs, if any, will not have a material adverse effect on GRU's financial position, results of operations or liquidity.

### 14. Lease/Leaseback

On December 10, 1998, GRU entered into a lease/leaseback transaction for all of the Deerhaven Unit 1 and a substantial portion of the Deerhaven Unit 2 generating facilities. Under the terms of the transaction, GRU entered into a 38-year lease and simultaneously a 20-year leaseback. At the end of the leaseback period term, GRU has an option to buy out the remainder of the

# Notes to Financial Statements

September 30, 2002 and 2001

lease for a fixed purchase option amount.

Under the terms of the transaction, GRU continues to own, operate, maintain and staff the facilities.

The proceeds received by GRU from this transaction were approximately \$249 million. From these proceeds, GRU deposited \$142 million as a payment undertaking agreement and a second deposit of \$72 million in the form of a collateralized Guaranteed Investment Contract (GIC), both with an AAA rated insurance company. The deposit instruments will mature in amounts sufficient to meet the annual payment obligations under the leaseback including the end of term fixed purchase option if elected by GRU.

The net benefit of this transaction, after payment of transaction expenses, was approximately \$35 million and resulted in a deferred gain, which is being amortized as income on a straight-line basis over the leaseback period of 20 years.

Amortization of the net benefit was \$1,775,000 in both 2002 and 2001, and was reported as a component of other operating revenue.

## 15. Investment in the Energy Authority

In May 2000, GRU became an equity member of The Energy Authority (TEA), a power marketing joint venture. In May 2002, TEA began trading natural gas on behalf of GRU. As of September 30, 2002, this joint venture was comprised of six municipal utilities across the nation, all of which are participating in the electric marketing and five of which participate in the gas program. GRU's ownership interest was 7.1% in the electric venture and 7.7% in the gas venture, and it accounted for this investment using equity accounting. To become a member, GRU paid an initial capital contribution of \$1,000,000 and a membership fee of \$867,360. The membership fee was amortized over 24 months and, consequently, eliminated at September 30, 2002. GRU has reflected the capital contribution as an investment in TEA. The investment balance has been adjusted for GRU's subsequent share of TEA's net income or loss. In calculating GRU's share of net income or loss, profit on transactions between GRU and TEA have been eliminated. Such transactions primarily relate to purchases and sales of electricity between GRU and TEA. GRU had purchase transactions with TEA of \$10,788,725 and \$13,314,645 and sales transactions of \$3,016,744 and \$7,858,052 in fiscal years 2002 and 2001, respectively. TEA's profit on these transactions has been reflected as a reduction to GRU's reported revenue or expense. As of September 30, 2002, GRU's investment in TEA was \$1,773,936. Additionally, in accordance with the membership agreement between GRU and its joint venture members, GRU has provided TEA with guarantees of \$9,600,000 to secure power marketing transactions. Of this amount, \$8,600,000 is represented by a trade guarantee with the balance through a TEA letter-of-credit supported by a cash deposit of \$428,571. GRU has also provided guarantees of \$13,800,000

to secure natural gas purchases. Of this amount, \$11,000,000 is represented by a trade guarantee with the balance through a TEA letter-of-credit supported by a cash deposit of \$899,000.

The following is a summary of the unaudited financial information of TEA for the twelve month periods ended September 30, 2002 and 2001:

|                                    | 2002                 | 2001                 |
|------------------------------------|----------------------|----------------------|
| Condensed statement of operations: |                      |                      |
| Total revenue                      | \$419,159,000        | \$542,249,000        |
| Total cost of sales and expenses   | <u>(358,160,000)</u> | <u>(425,277,000)</u> |
| Operating income                   | <u>\$ 60,999,000</u> | <u>\$116,972,000</u> |
| <br>                               |                      |                      |
| Net revenue                        | <u>\$ 61,460,000</u> | <u>\$118,076,000</u> |
| Condensed balance sheet:           |                      |                      |
| Assets:                            |                      |                      |
| Current assets                     | \$ 98,918,000        | \$ 81,757,000        |
| Noncurrent assets                  | <u>12,343,000</u>    | <u>11,730,000</u>    |
| Total assets                       | <u>\$111,261,000</u> | <u>\$ 93,487,000</u> |
| <br>                               |                      |                      |
| Equity and liabilities:            |                      |                      |
| Current liabilities                | \$ 76,786,000        | \$ 57,874,000        |
| Noncurrent liabilities             | 10,704,000           | 10,000,000           |
| Members' capital                   | <u>23,771,000</u>    | <u>25,613,000</u>    |
| Total equity and liabilities       | <u>\$111,261,000</u> | <u>\$ 93,487,000</u> |

TEA issues separate audited financial statements on a calendar-year basis.

## 16. Risk Management

GRU is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters and insures against these losses. GRU purchases plant and machinery insurance from a commercial carrier. The City is self-insured for workers' compensation, auto, and general liability. Settlements have not exceeded insurance coverage for each of the last three years. These risks are accounted for under the City of Gainesville's General Insurance Fund. GRU reimburses the City for premiums and claims paid on its behalf, recording the appropriate expense. However, GRU does maintain its own insurance reserve, for the self-insured portion, in the amount of \$3,152,000, based on an actuarially computed liability. This reserve is recorded as a deferred credit, and has been fully amortized. Changes in the claims liability for the last two years are as follows:

| Fiscal Year | Beginning Balance | Claims    | Payments  | Ending Balance |
|-------------|-------------------|-----------|-----------|----------------|
| 2000-2001   | \$3,152,000       | \$542,000 | \$542,000 | \$3,152,000    |
| 2001-2002   | 3,152,000         | 970,000   | 970,000   | 3,152,000      |

Gainesville Regional Utilities

# supplemental schedules

## Schedules of Combined Net Revenues in Accordance with Bond Resolution

Years Ended September 30, 2002, 2001, 2000, 1999 and 1998

|  | 2002                 | 2001                 | 2000                 | 1999                 | 1998                 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Revenue</b>                         |                      |                      |                      |                      |                      |
| <b>Electric fund:</b>                  |                      |                      |                      |                      |                      |
| Sales of electricity                   | \$147,794,301        | \$159,398,907        | \$142,078,330        | \$135,625,527        | \$132,144,457        |
| Lease/leaseback revenue                | -                    | -                    | -                    | 249,220,553          | -                    |
| Other electric revenue                 | 2,313,536            | 2,731,147            | 2,433,111            | 2,419,798            | 2,715,250            |
| Transfers to rate stabilization        | (267,583)            | (6,311,744)          | (6,790,929)          | (12,199,403)         | (6,440,936)          |
| Interest income                        | <u>4,873,647</u>     | <u>5,712,572</u>     | <u>5,106,585</u>     | <u>6,405,429</u>     | <u>6,705,946</u>     |
| <b>Total electric fund revenue</b>     | <b>154,713,901</b>   | <b>161,530,882</b>   | <b>142,827,097</b>   | <b>381,471,904</b>   | <b>135,124,717</b>   |
| <b>Gas fund:</b>                       |                      |                      |                      |                      |                      |
| Gas sales                              | 15,913,737           | 21,638,160           | 15,275,788           | 12,309,930           | 14,421,979           |
| Other gas revenue (expenses)           | 29,208               | (11,333)             | (95,558)             | (5,839)              | 3,485                |
| Transfers (to) from rate stabilization | (683,493)            | (953,843)            | (180,744)            | 306,100              | (262,546)            |
| Interest income                        | <u>313,548</u>       | <u>462,527</u>       | <u>483,108</u>       | <u>456,378</u>       | <u>560,866</u>       |
| <b>Total gas fund revenue</b>          | <b>15,573,000</b>    | <b>21,135,511</b>    | <b>15,482,594</b>    | <b>13,066,569</b>    | <b>14,723,784</b>    |
| <b>Water fund:</b>                     |                      |                      |                      |                      |                      |
| Sales of water                         | 13,350,022           | 12,879,286           | 12,356,275           | 12,183,647           | 11,520,726           |
| Other water revenue                    | 785,894              | 1,763,409            | 2,084,675            | 1,775,024            | 1,539,268            |
| Transfers from (to) rate stabilization | 3,400,560            | 1,083,493            | 43,359               | (435,500)            | (301,322)            |
| Interest income                        | <u>696,999</u>       | <u>1,265,816</u>     | <u>1,280,250</u>     | <u>1,264,766</u>     | <u>1,169,324</u>     |
| <b>Total water fund revenue</b>        | <b>18,233,475</b>    | <b>16,992,004</b>    | <b>15,764,559</b>    | <b>14,787,937</b>    | <b>13,927,996</b>    |
| <b>Wastewater fund:</b>                |                      |                      |                      |                      |                      |
| Wastewater billing                     | 16,038,915           | 15,696,526           | 15,363,519           | 15,115,652           | 14,155,134           |
| Other wastewater revenue               | 1,218,747            | 2,413,499            | 1,967,796            | 2,370,807            | 1,924,334            |
| Transfers from rate stabilization      | 5,089,796            | 1,893,022            | 1,672,756            | 468,024              | 592,711              |
| Interest income                        | <u>1,019,672</u>     | <u>1,732,733</u>     | <u>1,915,226</u>     | <u>1,854,421</u>     | <u>1,892,685</u>     |
| <b>Total wastewater fund revenue</b>   | <b>23,367,130</b>    | <b>21,735,780</b>    | <b>20,919,297</b>    | <b>19,808,904</b>    | <b>18,564,864</b>    |
| <b>GRUCom fund:</b>                    |                      |                      |                      |                      |                      |
| Sales to customers                     | 5,833,892            | 4,167,542            | 2,001,610            | 1,226,409            | 556,127              |
| Other GRUCom revenue                   | 1,109,383            | 983,291              | 1,303,706            | 1,058,495            | 729,419              |
| Transfers (to) from rate stabilization | (435,905)            | (138,900)            | -                    | -                    | 62,000               |
| Interest income                        | <u>21,187</u>        | <u>183,160</u>       | <u>27,341</u>        | <u>8,410</u>         | <u>85,562</u>        |
| <b>Total GRUCom fund revenue</b>       | <b>6,528,557</b>     | <b>5,195,093</b>     | <b>3,332,657</b>     | <b>2,293,314</b>     | <b>1,433,108</b>     |
| <b>Total revenue</b>                   | <b>\$218,416,063</b> | <b>\$226,589,270</b> | <b>\$198,326,204</b> | <b>\$431,428,628</b> | <b>\$183,774,469</b> |

## Schedules of Combined Net Revenues in Accordance with Bond Resolution, continued

Years Ended September 30, 2002, 2001, 2000, 1999 and 1998

|  | 2002                 | 2001                 | 2000                 | 1999                  | 1998                 |
|--|----------------------|----------------------|----------------------|-----------------------|----------------------|
| <b>Operation, maintenance and administrative expense</b> |                      |                      |                      |                       |                      |
| Electric fund:   |                      |                      |                      |                       |                      |
| Fuel expense   | \$ 60,010,484        | \$ 67,450,729        | \$ 53,477,676        | \$ 44,564,775         | \$ 45,762,356        |
| Operation and maintenance                                | 23,739,551           | 23,256,589           | 22,541,187           | 19,121,149            | 19,426,427           |
| Administrative and general                               | <u>12,305,262</u>    | <u>10,480,361</u>    | <u>9,437,967</u>     | <u>11,476,499</u>     | <u>11,806,671</u>    |
| Total electric fund expense                              | 96,055,297           | 101,187,679          | 85,456,830           | 75,162,423            | 76,995,454           |
| Gas fund:  |                      |                      |                      |                       |                      |
| Fuel expense   | 7,926,883            | 13,658,209           | 7,723,731            | 5,800,620             | 7,502,765            |
| Operation and maintenance                                | 572,690              | 483,139              | 729,547              | 542,303               | 573,941              |
| Administrative and general                               | <u>2,871,282</u>     | <u>2,829,406</u>     | <u>3,176,704</u>     | <u>2,935,549</u>      | <u>2,942,988</u>     |
| Total gas fund expense                                   | 11,370,855           | 16,970,754           | 11,629,982           | 9,278,472             | 11,019,694           |
| Water fund:  |                      |                      |                      |                       |                      |
| Operation and maintenance                                | 4,361,166            | 4,693,510            | 4,142,401            | 3,630,657             | 3,605,347            |
| Administrative and general                               | <u>3,447,597</u>     | <u>2,407,524</u>     | <u>2,491,069</u>     | <u>2,733,859</u>      | <u>2,626,502</u>     |
| Total water fund expense                                 | 7,808,763            | 7,101,034            | 6,633,470            | 6,364,516             | 6,231,849            |
| Wastewater fund:   |                      |                      |                      |                       |                      |
| Operation and maintenance                                | 5,167,674            | 5,441,505            | 5,239,109            | 4,628,489             | 4,711,541            |
| Administrative and general                               | <u>3,933,172</u>     | <u>2,827,428</u>     | <u>3,028,587</u>     | <u>3,533,424</u>      | <u>3,384,955</u>     |
| Total wastewater fund expense                            | 9,100,846            | 8,268,933            | 8,267,696            | 8,161,913             | 8,096,496            |
| GRUCom fund:   |                      |                      |                      |                       |                      |
| Operation and maintenance                                | 2,377,170            | 2,033,441            | 1,419,468            | 655,707               | 542,847              |
| Administrative and general                               | <u>1,240,869</u>     | <u>742,638</u>       | <u>453,264</u>       | <u>650,379</u>        | <u>615,089</u>       |
| Total GRUCom fund expense                                | <u>3,618,039</u>     | <u>2,776,079</u>     | <u>1,872,732</u>     | <u>1,306,086</u>      | <u>1,157,936</u>     |
| Total operation, maintenance and administrative expense  | <u>127,953,800</u>   | <u>136,304,479</u>   | <u>113,860,710</u>   | <u>100,273,410</u>    | <u>103,501,429</u>   |
| <b>Net revenue in accordance with bond resolution</b>    |                      |                      |                      |                       |                      |
| Electric   | 58,658,604           | 60,343,203           | 57,370,267           | 306,309,481           | 58,129,263           |
| Gas  | 4,202,145            | 4,164,757            | 3,852,612            | 3,788,097             | 3,704,090            |
| Water  | 10,424,712           | 9,890,970            | 9,131,089            | 8,423,421             | 7,696,147            |
| Wastewater   | 14,266,284           | 13,466,847           | 12,651,601           | 11,646,991            | 10,468,368           |
| GRUCom   | <u>2,910,518</u>     | <u>2,419,014</u>     | <u>1,459,925</u>     | <u>987,228</u>        | <u>275,172</u>       |
| Total net revenue in accordance with bond resolution     | <u>\$ 90,462,263</u> | <u>\$ 90,284,791</u> | <u>\$ 84,465,494</u> | <u>\$ 331,155,218</u> | <u>\$ 80,273,040</u> |
| Aggregate bond debt service                              | <u>\$ 29,312,587</u> | <u>\$ 29,765,188</u> | <u>\$ 29,458,515</u> | <u>\$ 29,899,917</u>  | <u>\$ 30,782,845</u> |
| Aggregate debt service coverage ratio                    | 3.09                 | 3.03                 | 2.87                 | 11.08                 | 2.61                 |
| Total debt service                                       | <u>\$ 34,097,931</u> | <u>\$ 37,677,047</u> | <u>\$ 34,904,989</u> | <u>\$ 33,891,908</u>  | <u>\$ 39,470,246</u> |
| Total debt service coverage ratio                        | 2.65                 | 2.40                 | 2.42                 | 9.77                  | 2.03                 |

**Schedules of Net Revenues in Accordance with Bond Resolution — Electric Utility Fund**  
**Years ended September 30, 2002 and 2001**

|  | 2002                 | 2001                 |
|--|----------------------|----------------------|
| <b>Revenue</b>   |                      |                      |
| <b>Sales of electricity:</b>                                   |                      |                      |
| Residential sales  | \$ 45,762,959        | \$ 45,603,957        |
| General service and large power                                | 38,066,683           | 38,592,002           |
| Fuel adjustment  | 38,816,221           | 45,036,029           |
| Street and traffic lighting                                    | 3,225,361            | 2,992,449            |
| Utility surcharge  | 3,298,492            | 3,329,588            |
| Sales for resale   | 6,488,731            | 6,398,410            |
| Interchange sales  | <u>12,135,854</u>    | <u>17,446,472</u>    |
| <b>Total sales of electricity</b>                              | <u>147,794,301</u>   | <u>159,398,907</u>   |
| <br>   |                      |                      |
| <b>Other electric revenue:</b>                                 |                      |                      |
| Lease/leaseback revenue  |                      |                      |
| Service charges  | 1,852,642            | 1,880,543            |
| Pole rentals   | 233,512              | 724,269              |
| Miscellaneous  | <u>227,382</u>       | <u>126,335</u>       |
| <b>Total other electric revenue</b>                            | <u>2,313,536</u>     | <u>2,731,147</u>     |
| <br>   |                      |                      |
| Transfers to rate stabilization                                | (267,583)            | (6,311,744)          |
| Interest income  | <u>4,873,647</u>     | <u>5,712,572</u>     |
| <b>Total revenue</b>   | <u>154,713,901</u>   | <u>161,530,882</u>   |
| <br>   |                      |                      |
| <b>Operation, maintenance and administrative expense</b>       |                      |                      |
| <b>Operation and maintenance:</b>                              |                      |                      |
| <b>Fuel expense:</b>   |                      |                      |
| Retail and purchased power                                     | 53,150,252           | 58,455,729           |
| Interchange  | <u>6,860,232</u>     | <u>8,995,000</u>     |
| <b>Total fuel expense</b>                                      | 60,010,484           | 67,450,729           |
| <br>   |                      |                      |
| Power production   | 16,255,106           | 16,728,037           |
| Transmission   | 679,283              | 483,463              |
| Distribution   | <u>6,805,162</u>     | <u>6,045,089</u>     |
| <b>Total operation and maintenance</b>                         | <u>83,750,035</u>    | <u>90,707,318</u>    |
| <br>   |                      |                      |
| <b>Administrative and general:</b>                             |                      |                      |
| Customer accounts  | 3,223,206            | 3,568,688            |
| Administrative and general                                     | <u>9,082,056</u>     | <u>6,911,673</u>     |
| <b>Total administrative and general</b>                        | <u>12,305,262</u>    | <u>10,480,361</u>    |
| <b>Total operation, maintenance and administrative expense</b> | <u>96,055,297</u>    | <u>101,187,679</u>   |
| <br>   |                      |                      |
| <b>Net revenue in accordance with bond resolution</b>          |                      |                      |
| Retail   | 53,382,982           | 51,891,731           |
| Interchange  | <u>5,275,622</u>     | <u>8,451,472</u>     |
| <b>Total net revenue in accordance with bond resolution</b>    | <u>\$ 58,658,604</u> | <u>\$ 60,343,203</u> |

# Schedules of Net Revenues in Accordance with Bond Resolution — Gas Utility Fund

Years ended September 30, 2002 and 2001

|  | 2002                    | 2001                    |
|--|-------------------------|-------------------------|
| <b>Revenue</b>   |                         |                         |
| Sales of gas:  |                         |                         |
| Residential  | \$ 8,429,717            | \$11,697,095            |
| Interruptible/commercial                                     | 6,818,280               | 9,300,554               |
| Other sales  | <u>665,740</u>          | <u>640,511</u>          |
| Total sales of gas   | 15,913,737              | 21,638,160              |
| Other gas revenue (expense)                                  | 29,208                  | (11,333)                |
| Transfers to rate stabilization                              | (683,493)               | (953,843)               |
| Interest income  | <u>313,548</u>          | <u>462,527</u>          |
| Total revenue  | <u>15,573,000</u>       | <u>21,135,511</u>       |
| <br><b>Operation, maintenance and administrative expense</b> |                         |                         |
| Operation and maintenance:                                   |                         |                         |
| Fuel expense   | 7,926,883               | 13,658,209              |
| Operation and maintenance                                    | <u>572,690</u>          | <u>483,139</u>          |
| Total operation and maintenance                              | <u>8,499,573</u>        | <u>14,141,348</u>       |
| Administrative and general:                                  |                         |                         |
| Customer accounts  | 1,695,536               | 1,791,699               |
| Administrative and general                                   | <u>1,175,746</u>        | <u>1,037,707</u>        |
| Total administrative and general                             | <u>2,871,282</u>        | <u>2,829,406</u>        |
| Total operation, maintenance and administrative expense      | <u>11,370,855</u>       | <u>16,970,754</u>       |
| <br>Total net revenue in accordance with bond resolution     | <br><u>\$ 4,202,145</u> | <br><u>\$ 4,164,757</u> |

**Schedules of Net Revenues in Accordance with Bond Resolution — Water Utility Fund**  
**Years ended September 30, 2002 and 2001**

|  | 2002                | 2001                |
|--|---------------------|---------------------|
| <b>Revenue</b>   |                     |                     |
| <b>Sales of water:</b>   |                     |                     |
| General customers  | \$10,408,448        | \$10,139,709        |
| University of Florida  | 616,061             | 617,090             |
| Fire protection  | 1,060,038           | 995,232             |
| Generating stations  | 34,669              | 27,560              |
| Utility surcharge  | <u>1,230,766</u>    | <u>1,099,695</u>    |
| <b>Total sales of water</b>                                    | <u>13,349,982</u>   | <u>12,879,286</u>   |
| <b>Other water revenue:</b>                                    |                     |                     |
| Connection charges   | 785,894             | 1,754,281           |
| Miscellaneous  | <u>40</u>           | <u>9,128</u>        |
| <b>Total other water revenue</b>                               | <u>785,934</u>      | <u>1,763,409</u>    |
| <b>Transfers from rate stabilization</b>                       | 3,400,560           | 1,083,493           |
| <b>Interest income</b>   | <u>696,999</u>      | <u>1,265,816</u>    |
| <b>Total revenue</b>   | <u>18,233,475</u>   | <u>16,992,004</u>   |
| <b>Operation, maintenance and administrative expense</b>       |                     |                     |
| <b>Operation and maintenance:</b>                              |                     |                     |
| Source of supply   | 9,745               | 9,927               |
| Pumping  | 951,658             | 1,273,748           |
| Water treatment  | 2,063,739           | 2,106,277           |
| Transmission and distribution                                  | <u>1,336,024</u>    | <u>1,303,558</u>    |
| <b>Total operation and maintenance</b>                         | <u>4,361,166</u>    | <u>4,693,510</u>    |
| <b>Administrative and general:</b>                             |                     |                     |
| Customer accounts  | 1,020,930           | 945,956             |
| Administrative and general                                     | <u>2,426,667</u>    | <u>1,461,568</u>    |
| <b>Total administrative and general</b>                        | <u>3,447,597</u>    | <u>2,407,524</u>    |
| <b>Total operation, maintenance and administrative expense</b> | <u>7,808,763</u>    | <u>7,101,034</u>    |
| <b>Total net revenue in accordance with bond resolution</b>    | <u>\$10,424,712</u> | <u>\$ 9,890,970</u> |

**Schedules of Net Revenues in Accordance with Bond Resolution — Wastewater Utility Fund**  
**Years ended September 30, 2002 and 2001**

|   | 2002                | 2001                |
|---|---------------------|---------------------|
| <b>Revenue</b>  |                     |                     |
| Wastewater billings:  |                     |                     |
| Billings  | \$14,576,585        | \$14,362,202        |
| Utility surcharge   | <u>1,462,330</u>    | <u>1,334,324</u>    |
| Total wastewater billings                                   | <u>16,038,915</u>   | <u>15,696,526</u>   |
| Other wastewater revenue:                                   |                     |                     |
| Connection charges  | 1,003,489           | 2,166,506           |
| Miscellaneous   | <u>215,258</u>      | <u>246,993</u>      |
| Total other wastewater revenue                              | <u>1,218,747</u>    | <u>2,413,499</u>    |
| Transfers from rate stabilization                           | 5,089,796           | 1,893,022           |
| Interest income   | <u>1,019,672</u>    | <u>1,732,733</u>    |
| Total revenue   | <u>23,367,130</u>   | <u>21,735,780</u>   |
| <b>Operation, maintenance and administrative expense</b>    |                     |                     |
| Operation and maintenance:                                  |                     |                     |
| Collection  | 1,357,624           | 1,213,281           |
| Treatment and pumping                                       | <u>3,810,050</u>    | <u>4,228,224</u>    |
| Total operation and maintenance                             | <u>5,167,674</u>    | <u>5,441,505</u>    |
| Administrative and general:                                 |                     |                     |
| Customer accounts   | 823,015             | 845,644             |
| Administrative and general                                  | <u>3,110,157</u>    | <u>1,981,784</u>    |
| Total administrative and general                            | <u>3,933,172</u>    | <u>2,827,428</u>    |
| Total operation, maintenance and administrative expense     | <u>9,100,846</u>    | <u>8,268,933</u>    |
| <b>Total net revenue in accordance with bond resolution</b> | <u>\$14,266,284</u> | <u>\$13,466,847</u> |

**Schedules of Net Revenues in Accordance with Bond Resolution — GRUCom Utility Fund**  
**Years ended September 30, 2002 and 2001**

|  | 2002               | 2001               |
|--|--------------------|--------------------|
| <b>Revenue</b>   |                    |                    |
| Sales to customers   | \$5,833,892        | \$4,167,542        |
| Other GRUCom revenue   | 1,109,383          | 983,291            |
| Transfers to Rate Stabilization                                | (435,905)          | (138,900)          |
| Interest income  | <u>21,187</u>      | <u>183,160</u>     |
| <b>Total revenue</b>   | <u>6,528,557</u>   | <u>5,195,093</u>   |
| <br>   |                    |                    |
| <b>Operation, maintenance and administrative expense</b>       |                    |                    |
| Operation and maintenance                                      | <u>2,377,170</u>   | <u>2,033,441</u>   |
| <b>Total operation and maintenance</b>                         | <u>2,377,170</u>   | <u>2,033,441</u>   |
| <br>   |                    |                    |
| <b>Administrative and general:</b>                             |                    |                    |
| Customer accounts  | 131,124            | 224,232            |
| Administrative and general                                     | <u>1,109,745</u>   | <u>518,406</u>     |
| <b>Total administrative and general</b>                        | <u>1,240,869</u>   | <u>742,638</u>     |
| <b>Total operation, maintenance and administrative expense</b> | <u>3,618,039</u>   | <u>2,776,079</u>   |
| <br>   |                    |                    |
| <b>Total net revenue in accordance with bond resolution</b>    | <u>\$2,910,518</u> | <u>\$2,419,014</u> |

## Notes to Schedules of Net Revenues in Accordance with Bond Resolution

September 30, 2002

"Net revenue in accordance with bond resolution" differs from "Net income," which is determined in accordance with generally accepted accounting principles. Following are the more significant differences:

- Interest income does not include interest earned on construction funds.
- Operation and maintenance expense do not include depreciation, amortization or interest expense.
- Other water and wastewater revenue include fees for connection, installation, and backflow prevention.
- Transfers to the general fund are excluded.
- Other revenue includes transfers (to) from the rate stabilization fund.
- Revenue from lease/leaseback transaction is excluded (see Note 14).

# Combining Balance Sheet

September 30, 2002

|  | Electric             | Gas                 | Water                | Wastewater           | GRUCom              | Combined               |
|--|----------------------|---------------------|----------------------|----------------------|---------------------|------------------------|
| <b>Assets</b>  |                      |                     |                      |                      |                     |                        |
| <b>Current assets:</b>                                 |                      |                     |                      |                      |                     |                        |
| Cash and cash equivalents                              | \$ 6,676,491         | \$ 873,340          | \$ (2,847,014)       | \$ 861,696           | \$ (340,916)        | \$ 5,223,597           |
| Investments  | 514,235              | —                   | —                    | —                    | —                   | 514,235                |
| Accounts receivable, net                               | 19,864,872           | 1,207,188           | 1,360,602            | 1,789,641            | 813,516             | 25,035,819             |
| Prepaid rent — LILO                                    | 10,686,909           | —                   | —                    | —                    | —                   | 10,686,909             |
| Fuels contracts  | 82,950               | —                   | —                    | —                    | —                   | 82,950                 |
| Deferred charges                                       | 2,844,041            | 284,526             | 80,539               | 155,754              | 149,663             | 3,514,523              |
| <b>Inventories:</b>                                    |                      |                     |                      |                      |                     |                        |
| Fuel   | 10,782,212           | —                   | —                    | —                    | —                   | 10,782,212             |
| Materials and inventories                              | 5,430,446            | 395,933             | 668,622              | —                    | 979,596             | 7,474,597              |
| <b>Total current assets</b>                            | <b>56,882,156</b>    | <b>2,760,987</b>    | <b>(737,251)</b>     | <b>2,807,091</b>     | <b>1,601,859</b>    | <b>63,314,842</b>      |
| <b>Restricted assets:</b>                              |                      |                     |                      |                      |                     |                        |
| <b>Utility deposits —</b>                              |                      |                     |                      |                      |                     |                        |
| cash and investments                                   | 3,728,281            | —                   | —                    | —                    | —                   | 3,728,281              |
| <b>Debt service fund —</b>                             |                      |                     |                      |                      |                     |                        |
| cash and investments                                   | 42,430,173           | 2,733,555           | 6,161,315            | 7,627,944            | 944,429             | 59,897,416             |
| <b>Rate stabilization fund —</b>                       |                      |                     |                      |                      |                     |                        |
| cash and investments                                   | 53,459,299           | 3,975,536           | 8,435,830            | 10,839,982           | 141,548             | 76,852,195             |
| <b>Construction fund —</b>                             |                      |                     |                      |                      |                     |                        |
| cash and investments                                   | 763,664              | 4,752,398           | 582,483              | 2,802,195            | (97,191)            | 8,803,549              |
| <b>Utility plant improvement fund —</b>                |                      |                     |                      |                      |                     |                        |
| cash and investments                                   | 13,979,741           | 2,703,620           | 1,929,366            | 9,672,034            | 350,015             | 28,634,776             |
| <b>Investment in The Energy Authority</b>              |                      |                     |                      |                      |                     |                        |
|  | 2,187,681            | 913,827             | —                    | —                    | —                   | 3,101,508              |
| <b>Decommission reserve —</b>                          |                      |                     |                      |                      |                     |                        |
| cash and investments                                   | 4,634,322            | —                   | —                    | —                    | —                   | 4,634,322              |
| <b>Total restricted assets</b>                         | <b>121,183,161</b>   | <b>15,078,936</b>   | <b>17,108,994</b>    | <b>30,942,155</b>    | <b>1,338,801</b>    | <b>185,652,047</b>     |
| Prepaid rent — LILO                                    | 162,084,786          | —                   | —                    | —                    | —                   | 162,084,786            |
| Other noncurrent assets                                | 6,925,688            | 9,703,753           | 321,382              | 487,777              | 125,461             | 17,564,061             |
| <b>Capital assets:</b>                                 |                      |                     |                      |                      |                     |                        |
| Utility plant in service                               | 592,827,659          | 38,332,550          | 123,303,302          | 160,656,985          | 21,827,525          | 936,948,021            |
| Plant unclassified                                     | 3,717,527            | 596,744             | 1,248,121            | 577,301              | 14,119              | 6,153,812              |
| <b>Less: accumulated depreciation and amortization</b> |                      |                     |                      |                      |                     |                        |
|  | 228,671,453          | 18,225,256          | 43,363,769           | 58,432,036           | 6,463,385           | 355,155,899            |
|  | 367,873,733          | 20,704,038          | 81,187,654           | 102,802,250          | 15,378,259          | 587,945,934            |
| Plant held for future use                              | 6,053,926            | —                   | —                    | —                    | —                   | 6,053,926              |
| Construction in progress                               | 27,151,955           | 789,560             | 10,982,611           | 16,934,647           | 6,199,634           | 62,058,407             |
| <b>Net capital assets</b>                              | <b>401,079,614</b>   | <b>21,493,598</b>   | <b>92,170,265</b>    | <b>119,736,897</b>   | <b>21,577,893</b>   | <b>656,058,267</b>     |
| <b>Total assets</b>                                    | <b>\$748,155,405</b> | <b>\$49,037,274</b> | <b>\$108,863,390</b> | <b>\$153,973,920</b> | <b>\$24,644,014</b> | <b>\$1,084,674,003</b> |

**Combining Balance Sheet**  
September 30, 2002

|  | Electric             | Gas                 | Water                | Wastewater           | GRUCom              | Combined               |
|--|----------------------|---------------------|----------------------|----------------------|---------------------|------------------------|
| <b>Liabilities and net assets</b>                            |                      |                     |                      |                      |                     |                        |
| <b>Current liabilities:</b>                                  |                      |                     |                      |                      |                     |                        |
| Fuels payable  | \$ 6,187,829         | \$ 366,858          | \$ -                 | \$ -                 | \$ -                | \$ 6,554,687           |
| Accounts payable and accrued liabilities                     | 3,389,629            | 284,685             | 537,916              | 631,127              | 94,652              | 4,938,009              |
| Operating lease — LILO                                       | 12,461,916           | -                   | -                    | -                    | -                   | 12,461,916             |
| Deferred charges   | 675,047              | 1,774,870           | 14,685               | 15,464               | -                   | 2,480,066              |
| Due (from) to other funds                                    | (1,049,208)          | 976,884             | 803,840              | 2,266,791            | 244,611             | 3,242,918              |
| <b>Total current liabilities</b>                             | <b>21,665,213</b>    | <b>3,403,297</b>    | <b>1,356,441</b>     | <b>2,913,382</b>     | <b>339,263</b>      | <b>29,677,596</b>      |
| <b>Payable from restricted assets:</b>                       |                      |                     |                      |                      |                     |                        |
| Utility deposits   | 3,635,718            | -                   | -                    | -                    | -                   | 3,635,718              |
| Construction fund — accounts payable and accrued liabilities | 370,902              | 62,090              | 267,270              | 138,759              | 163,833             | 1,002,854              |
| Revenue bonds payable — principal                            | 8,089,278            | 338,882             | 1,287,115            | 1,804,725            | -                   | 11,520,000             |
| Accrued interest payable                                     | 4,985,187            | 521,008             | 1,147,733            | 1,464,283            | -                   | 8,118,211              |
| <b>Total payable from restricted assets</b>                  | <b>17,081,085</b>    | <b>921,980</b>      | <b>2,702,118</b>     | <b>3,407,767</b>     | <b>163,833</b>      | <b>24,276,783</b>      |
| <b>Long-term debt:</b>                                       |                      |                     |                      |                      |                     |                        |
| Utilities system revenue bonds                               | 176,976,794          | 16,271,744          | 41,178,061           | 47,803,401           | -                   | 282,230,000            |
| Subordinated utilities system revenue bonds                  | 37,022,510           | 14,384,680          | 7,650,950            | 18,241,860           | -                   | 77,300,000             |
| Commercial paper notes                                       | 27,305,705           | 3,040,401           | 7,338,230            | 12,569,864           | 24,556,800          | 74,811,000             |
| Less: Unamortized loss on refunding                          | 19,074,994           | 1,187,915           | 3,209,665            | 3,305,878            | -                   | 26,778,452             |
| Less: Unamortized bond discount                              | 2,103,706            | 161,824             | 379,581              | 495,716              | -                   | 3,140,827              |
| <b>Total long-term debt</b>                                  | <b>220,126,309</b>   | <b>32,347,086</b>   | <b>52,577,995</b>    | <b>74,813,531</b>    | <b>24,556,800</b>   | <b>404,421,721</b>     |
| Operating lease — LILO                                       | 188,991,041          | -                   | -                    | -                    | -                   | 188,991,041            |
| Other noncurrent liabilities                                 | 14,968,907           | 8,065,072           | 802,392              | 1,146,118            | 10,492              | 24,992,981             |
| <b>Total liabilities</b>                                     | <b>462,832,555</b>   | <b>44,737,435</b>   | <b>57,438,946</b>    | <b>82,280,798</b>    | <b>25,070,388</b>   | <b>672,360,122</b>     |
| <b>Net assets:</b>   |                      |                     |                      |                      |                     |                        |
| Invested in capital assets, net of related debt              | 175,722,944          | (6,133,891)         | 39,239,976           | 46,458,881           | (3,051,563)         | 252,236,347            |
| Restricted   | 111,427,690          | 9,743,440           | 15,111,508           | 26,536,918           | 1,272,159           | 164,091,715            |
| Unrestricted   | (1,827,784)          | 690,290             | (2,927,040)          | (1,302,677)          | 1,353,030           | (4,014,181)            |
| <b>Total net assets</b>                                      | <b>285,322,850</b>   | <b>4,299,839</b>    | <b>51,424,444</b>    | <b>71,693,122</b>    | <b>(426,374)</b>    | <b>412,313,881</b>     |
| <b>Total liabilities and net assets</b>                      | <b>\$748,155,405</b> | <b>\$49,037,274</b> | <b>\$108,863,390</b> | <b>\$153,973,920</b> | <b>\$24,644,014</b> | <b>\$1,084,674,003</b> |

# Combining Statement of Revenue and Expenses and Changes in Net Assets

Year ended September 30, 2002

|   | Electric             | Gas                 | Water               | Wastewater          | GRUCom              | Combined             |
|---|----------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| <b>Operating revenue:</b>                                     |                      |                     |                     |                     |                     |                      |
| Sales and service charges                                     | \$147,794,295        | \$15,913,737        | \$13,349,982        | \$16,038,915        | \$5,833,892         | \$198,930,821        |
| Other operating revenue                                       | 4,087,739            | 29,207              | 40                  | 215,258             | 1,109,384           | 5,441,628            |
| <b>Total operating revenue</b>                                | <b>151,882,034</b>   | <b>15,942,944</b>   | <b>13,350,022</b>   | <b>16,254,173</b>   | <b>6,943,276</b>    | <b>204,372,449</b>   |
| <b>Operating expenses:</b>                                    |                      |                     |                     |                     |                     |                      |
| Operation and maintenance                                     | 83,750,035           | 8,499,574           | 4,361,166           | 5,167,673           | 2,377,170           | 104,155,618          |
| Administrative and general                                    | 12,305,262           | 2,871,282           | 3,447,597           | 3,933,172           | 1,240,869           | 23,798,182           |
| Depreciation and amortization                                 | 22,244,738           | 1,362,188           | 3,205,188           | 4,107,399           | 2,394,413           | 33,313,926           |
| <b>Total operating expenses</b>                               | <b>118,300,035</b>   | <b>12,733,044</b>   | <b>11,013,951</b>   | <b>13,208,244</b>   | <b>6,012,452</b>    | <b>161,267,726</b>   |
| <b>Operating income</b>                                       | <b>33,581,999</b>    | <b>3,209,900</b>    | <b>2,336,071</b>    | <b>3,045,929</b>    | <b>930,824</b>      | <b>43,104,723</b>    |
| <b>Non-operating income (expense):</b>                        |                      |                     |                     |                     |                     |                      |
| Interest income   | 5,087,083            | 313,548             | 696,999             | 1,019,672           | 35,053              | 7,152,355            |
| Interest expense  | (13,056,528)         | (1,629,093)         | (2,913,910)         | (4,043,013)         | (561,869)           | (22,204,413)         |
| Loss on sale of investments                                   | (154)                | -                   | -                   | -                   | -                   | (154)                |
| <b>Total non-operating income (expense)</b>                   | <b>(7,969,599)</b>   | <b>(1,315,545)</b>  | <b>(2,216,911)</b>  | <b>(3,023,341)</b>  | <b>(526,816)</b>    | <b>(15,052,212)</b>  |
| <b>Income before contributions and transfers</b>              | <b>25,612,400</b>    | <b>1,894,355</b>    | <b>119,160</b>      | <b>22,588</b>       | <b>404,008</b>      | <b>28,052,511</b>    |
| <b>Capital contributions:</b>                                 |                      |                     |                     |                     |                     |                      |
| Contributions from developers                                 | 1,034,708            | -                   | 2,616,484           | 3,700,450           | -                   | 7,351,642            |
| Reduction of plant cost recovered from contributions          | (1,034,708)          | -                   | -                   | -                   | -                   | (1,034,708)          |
| <b>Net capital contributions</b>                              | <b>-</b>             | <b>-</b>            | <b>2,616,484</b>    | <b>3,700,450</b>    | <b>-</b>            | <b>6,316,934</b>     |
| <b>Operating transfer to City of Gainesville general fund</b> | <b>(16,650,970)</b>  | <b>(1,136,670)</b>  | <b>(3,299,133)</b>  | <b>(4,327,854)</b>  | <b>(280,161)</b>    | <b>(25,694,788)</b>  |
| <b>Change in net assets</b>                                   | <b>8,961,430</b>     | <b>757,685</b>      | <b>(563,489)</b>    | <b>(604,816)</b>    | <b>123,847</b>      | <b>8,674,657</b>     |
| <b>Net assets — beginning of year</b>                         | <b>276,361,420</b>   | <b>3,542,154</b>    | <b>51,987,933</b>   | <b>72,297,938</b>   | <b>(550,221)</b>    | <b>403,639,224</b>   |
| <b>Net assets — end of year</b>                               | <b>\$285,322,850</b> | <b>\$ 4,299,839</b> | <b>\$51,424,444</b> | <b>\$71,693,122</b> | <b>\$ (426,374)</b> | <b>\$412,313,881</b> |

# Schedule of Utility Plant Properties — Combined Utility Fund

September 30, 2002

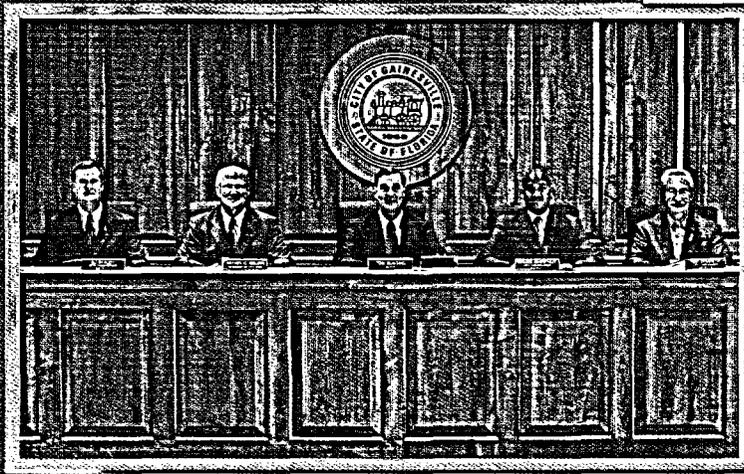
## Utility Plant Properties

|                                       | Balance<br>September 30, 2001 | Additions            | Sales, Retirements<br>and Transfers | Balance<br>September 30, 2002 |
|---------------------------------------|-------------------------------|----------------------|-------------------------------------|-------------------------------|
| <b>Plant in service</b>               |                               |                      |                                     |                               |
| <b>Electric utility fund:</b>         |                               |                      |                                     |                               |
| Production plant                      | \$282,277,980                 | \$ 55,967,176        | \$ (12,558,273)                     | \$325,686,883                 |
| Nuclear fuel                          | 6,668,515                     | 656,294              | —                                   | 7,324,809                     |
| Transmission and distribution plant   | 190,702,020                   | 27,692,406           | (4,432,060)                         | 213,962,366                   |
| General and common plant              | 41,815,890                    | 8,694,629            | (4,656,918)                         | 45,853,601                    |
| Plant unclassified                    | <u>57,178,103</u>             | <u>38,299,397</u>    | <u>(91,759,973)</u>                 | <u>3,717,527</u>              |
| <b>Total electric utility fund</b>    | <u>578,642,508</u>            | <u>131,309,902</u>   | <u>(113,407,224)</u>                | <u>596,545,186</u>            |
| <b>Gas utility fund:</b>              |                               |                      |                                     |                               |
| Distribution plant                    | 29,310,589                    | 2,822,108            | (105,718)                           | 32,026,979                    |
| General plant                         | 1,736,519                     | 303,720              | (385,303)                           | 1,654,936                     |
| Plant acquisition adjustment          | 4,650,635                     | —                    | —                                   | 4,650,635                     |
| Plant unclassified                    | <u>728,735</u>                | <u>2,906,788</u>     | <u>(3,038,779)</u>                  | <u>596,744</u>                |
| <b>Total gas utility fund</b>         | <u>36,426,478</u>             | <u>6,032,616</u>     | <u>(3,529,800)</u>                  | <u>38,929,294</u>             |
| <b>Water utility fund:</b>            |                               |                      |                                     |                               |
| Supply, pumping and treatment plant   | 20,559,720                    | 779,169              | (205,095)                           | 21,133,794                    |
| Transmission and distribution plant   | 92,881,390                    | 5,147,423            | (202,015)                           | 97,826,798                    |
| General plant                         | 4,192,605                     | 1,034,111            | (884,005)                           | 4,342,711                     |
| Plant unclassified                    | <u>1,932,938</u>              | <u>6,219,157</u>     | <u>(6,903,974)</u>                  | <u>1,248,121</u>              |
| <b>Total water utility fund</b>       | <u>119,566,653</u>            | <u>13,179,860</u>    | <u>(8,195,089)</u>                  | <u>124,551,424</u>            |
| <b>Wastewater utility fund:</b>       |                               |                      |                                     |                               |
| Pumping and treatment plant           | 60,811,351                    | 1,465,538            | (85,360)                            | 62,191,529                    |
| Collection plant                      | 84,986,230                    | 5,269,102            | (46,667)                            | 90,208,665                    |
| Reclaimed water plant                 | 2,119,509                     | 300,452              | —                                   | 2,419,961                     |
| General plant                         | 5,930,480                     | 842,379              | (936,030)                           | 5,836,829                     |
| Plant unclassified                    | <u>1,932,542</u>              | <u>6,513,543</u>     | <u>(7,868,784)</u>                  | <u>577,301</u>                |
| <b>Total wastewater utility fund</b>  | <u>155,780,112</u>            | <u>14,391,014</u>    | <u>(8,936,841)</u>                  | <u>161,234,285</u>            |
| <b>GRUCom utility fund:</b>           |                               |                      |                                     |                               |
| Distribution plant                    | 17,493,093                    | 4,286,906            | (589,186)                           | 21,190,813                    |
| General plant                         | 484,170                       | 154,384              | (1,842)                             | 636,712                       |
| Plant unclassified                    | <u>370,255</u>                | <u>4,066,036</u>     | <u>(4,422,172)</u>                  | <u>14,119</u>                 |
| <b>Total GRUCom utility fund</b>      | <u>18,347,518</u>             | <u>8,507,326</u>     | <u>(5,013,200)</u>                  | <u>21,841,644</u>             |
| <b>Total plant in service</b>         | <u>\$908,763,269</u>          | <u>\$173,420,718</u> | <u>\$(139,082,154)</u>              | <u>\$943,101,833</u>          |
| Plant held for future use — electric  | <u>\$ 6,053,926</u>           | <u>\$ —</u>          | <u>\$ —</u>                         | <u>\$ 6,053,926</u>           |
| <b>Construction in progress</b>       |                               |                      |                                     |                               |
| Electric utility fund                 | \$ 47,332,662                 | \$ 20,230,330        | \$ (40,411,037)                     | \$ 27,151,955                 |
| Gas utility fund                      | 2,085,404                     | 1,613,019            | (2,908,864)                         | 789,559                       |
| Water utility fund                    | 9,749,422                     | 7,541,381            | (6,308,193)                         | 10,982,610                    |
| Wastewater utility fund               | 11,756,609                    | 11,691,581           | (6,513,543)                         | 16,934,647                    |
| GRUCom utility fund                   | <u>5,747,714</u>              | <u>4,517,958</u>     | <u>(4,066,036)</u>                  | <u>6,199,636</u>              |
| <b>Total construction in progress</b> | <u>\$ 76,671,811</u>          | <u>\$ 45,594,269</u> | <u>\$ (60,207,673)</u>              | <u>\$ 62,058,407</u>          |

# Schedule of Accumulated Depreciation and Amortization — Combined Utility Fund

September 30, 2002

|  | Balance<br>September 30, 2001 | Additions           | Sales, Retirements<br>and Transfers | Balance<br>September 30, 2002 |
|--|-------------------------------|---------------------|-------------------------------------|-------------------------------|
| <b>Electric utility fund:</b>          |                               |                     |                                     |                               |
| Production plant                       | \$153,832,262                 | \$10,181,305        | \$(12,513,509)                      | \$151,500,058                 |
| Nuclear fuel                           | 6,169,325                     | 320,255             | -                                   | 6,489,580                     |
| Transmission and<br>distribution plant | 51,318,244                    | 5,458,641           | (4,371,554)                         | 52,405,331                    |
| General and common plant               | 19,338,491                    | 3,594,911           | (4,656,918)                         | 18,276,484                    |
| <b>Total electric utility fund</b>     | <u>230,658,322</u>            | <u>19,555,112</u>   | <u>(21,541,981)</u>                 | <u>228,671,453</u>            |
| <b>Gas utility fund:</b>               |                               |                     |                                     |                               |
| Distribution plant                     | 12,693,024                    | 915,695             | (105,718)                           | 13,503,001                    |
| General plant                          | 1,072,525                     | 187,055             | (380,296)                           | 879,284                       |
| Plant acquisition adjustment           | 3,496,831                     | 346,140             | -                                   | 3,842,971                     |
| <b>Total gas utility fund</b>          | <u>17,262,380</u>             | <u>1,448,890</u>    | <u>(486,014)</u>                    | <u>18,225,256</u>             |
| <b>Water utility fund:</b>             |                               |                     |                                     |                               |
| Supply, pumping and<br>treatment plant | 8,419,313                     | 733,127             | (205,095)                           | 8,947,345                     |
| Transmission and<br>distribution plant | 29,565,973                    | 2,104,811           | (151,476)                           | 31,519,308                    |
| General plant                          | 3,359,365                     | 421,756             | (884,005)                           | 2,897,116                     |
| <b>Total water utility fund</b>        | <u>41,344,651</u>             | <u>3,259,694</u>    | <u>(1,240,576)</u>                  | <u>43,363,769</u>             |
| <b>Wastewater utility fund:</b>        |                               |                     |                                     |                               |
| Pumping and treatment plant            | 23,450,764                    | 1,885,848           | (85,361)                            | 25,251,251                    |
| Collection plant                       | 26,667,130                    | 1,727,474           | (33,330)                            | 28,361,274                    |
| Reclaimed water plant                  | 260,814                       | 42,979              | -                                   | 303,793                       |
| General plant                          | 4,811,737                     | 640,011             | (936,030)                           | 4,515,718                     |
| <b>Total wastewater utility fund</b>   | <u>55,190,445</u>             | <u>4,296,312</u>    | <u>(1,054,721)</u>                  | <u>58,432,036</u>             |
| <b>GRUCom utility fund:</b>            |                               |                     |                                     |                               |
| Distribution plant                     | 4,545,362                     | 2,299,139           | (589,186)                           | 6,255,315                     |
| General plant                          | 134,888                       | 75,024              | (1,842)                             | 208,070                       |
| <b>Total GRUCom utility fund</b>       | <u>4,680,250</u>              | <u>2,374,163</u>    | <u>(591,028)</u>                    | <u>6,463,385</u>              |
| <b>Total</b>                           | <u>\$349,136,048</u>          | <u>\$30,934,171</u> | <u>\$(24,914,320)</u>               | <u>\$355,155,899</u>          |



**GAINESVILLE  
CITY COMMISSION**

(L > R)

**Ed Braddy**

Commissioner

**Warren C. Nielsen**

Mayor-Commissioner Pro Tem

**Tom Bussing**

Mayor

**Chuck Chestnut**

Commissioner

**Tony Domenech**

Commissioner

**GRU EXECUTIVE  
STAFF**

**Michael L. Kurtz**

General Manager  
(352) 334-3400 ext. 1007

**David E. Beaulieu**

Assistant General Manager  
Energy Delivery  
(352) 334-3400 ext. 1513

**Randy Casserleigh**

Interim Assistant  
General Manager  
Energy Supply  
(352) 334-3400 ext. 1789

**Karen S. Johnson**

Assistant General Manager  
Customer and  
Administrative Services  
(352) 334-3400 ext. 1031

**Raymond O. Manasco, Jr.**

Utilities Attorney  
(352) 334-3400 ext. 1016

**Robert D. McVay**

Assistant General Manager  
Water and  
Wastewater Systems  
(352) 334-3400 ext. 1612

**Edward J. Regan, Jr.**

Director  
Strategic Utility Planning  
(352) 334-3400 ext. 1272

**David Richardson**

Interim  
System Planning Manager  
(352) 334-3400 ext. 1291

**Kim C. Simpson**

Director  
Utility Finance  
(352) 334-3400 ext. 1312

**Kathy E. Viehe**

Director  
Marketing and Communications  
(352) 334-3400 ext. 1035

**INVESTOR  
INFORMATION**

**Certified Public Accountants**

Ernst & Young LLP

**Revenue Bonds**

Trustee/Registrar/Paying Agent  
U.S. Bank Trust National Association  
New York, NY

**Tax Exempt & Taxable**

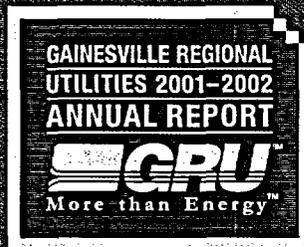
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Goldman, Sachs and Company  
New York, NY

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# Kissimmee Utility Authority

## Comprehensive Annual Financial Report

Fiscal Year Ended  
September 30, 2002

Kissimmee, Florida

# Comprehensive Annual Financial Report

Kissimmee Utility Authority  
Kissimmee, Florida

Fiscal Year Ended  
September 30, 2002

Prepared by:

Joseph Hostetler, Vice President  
Finance & Risk Management

Susan Raines, Manager of Accounting

# Introductory Section

- Listing of Principal Officials
- Table of Contents
- Letter of Transmittal
- Certificate of Achievement
- Organizational Chart

# Principal Officials

## Board of Directors

Larry W. Walter, *Chairman*  
Don Shearer, *Vice-Chairman*  
Domingo Toro, *Secretary*  
Nancy Gemske, *Assistant Secretary*  
William Hart, *Director*  
George Gant, *Mayor/Ex-Officio*

## Management Team

James C. Welsh, *President & General Manager*  
Abani K. Sharma, *Power Supply*  
Jef Gray, *Information Technology*  
Kenneth L. Davis, *Engineering & Operations*  
Christine A. Beck, *Customer Service & Marketing*  
Joseph Hostetler, *Finance & Risk Management*  
Neville C. Turner, *Human Resources*

## Counsel

Edward Brinson  
*Brinson, Smith & Smith, P.A.*

## Independent Certified Public Accountants

Ernst & Young LLP

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**BOARD OF DIRECTORS**

Larry W. Walter, *Chairman*  
Don Shearer, *Vice Chairman*  
Domingo Toro, *Secretary*  
Nancy Gemske, *Assistant Secretary*  
Bill Hart, *Director*  
George A. Gant, *Mayor/Ex-Officio Director*

---

James C. Welsh, *President & General Manager CEO*

1701 W. Carroll Street  
Kissimmee, Florida 34742-3219  
407-933-7777  
FAX 407-933-2655

December 18, 2002

Board of Directors  
Kissimmee Utility Authority

The Comprehensive Annual Financial Report of the Kissimmee Utility Authority (KUA), for the fiscal year ended September 30, 2002, is submitted herewith pursuant to Section 10 of the KUA Charter, Florida Statutes Chapter 166.241(1) and Chapter 10.550 of the Rules of the Auditor General of the State of Florida.

Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the KUA. This Comprehensive Annual Financial Report was prepared by the staff of the KUA's Department of Finance. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position, changes in financial position, and cash flows of the KUA; and that all disclosures necessary to enable the readers to gain the maximum understanding of the KUA's financial activity have been included.

The KUA's financial statements have been audited by Ernst & Young LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the KUA for the fiscal year ended September 30, 2002, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Authority's financial statements for the fiscal year ended September 30, 2002, are fairly presented in conformity with accounting principles generally accepted in the United States (GAAP). The independent certified public accountant's report is presented in the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately preceding the report of the independent certified public accountants.

The Comprehensive Annual Financial Report is presented in four sections: Introductory, Financial, Other Supplemental Data, and Statistical Sections. The Introductory Section includes the letter of transmittal and other such material as may be useful in understanding the reporting entity. The Financial Section includes Management's Discussion and Analysis, the Independent Certified Public Accountant's Report, Financial Statements with accompanying notes, and supplementary information. The Other Supplemental Data Section contains combining financial statements for KUA's two segments. The Statistical Section includes selected financial, operational, and demographic information, generally presented on a multi-year basis.

### **THE REPORTING UNIT**

In 1983, the City Commission of the City of Kissimmee established a Utility Study Committee. The report of this committee recommended establishing a separate authority. In February 1985, the City Commission adopted Ordinance #1285 establishing the KUA, subject to approval by a majority of qualified voters. In March 1985, the voters of Kissimmee did approve establishing the KUA effective October 1, 1985. The KUA Charter (Ordinance #1285) states

that the KUA shall be responsible for the development, production, purchase and distribution of all electricity and such other utility services as may be designated by resolution of the City Commission. The KUA currently provides electric services in an 85 square mile service territory in the Kissimmee area. All of the service territory is within Osceola County. This report includes all funds of the KUA. This report does not include the financial activities of the City of Kissimmee. Reference should be made to their report published separately.

Management of the KUA is responsible for establishing and maintaining a system of internal controls designed to ensure that the assets of the KUA are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States. The KUA's accounting controls are designed to provide reasonable, but not absolute, assurance regarding:

1. The safeguarding of assets against loss from unauthorized use or disposition; and
2. The reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that:

1. The costs of a control should not exceed the benefits likely to be derived; and
2. The evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the KUA's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

### **ECONOMIC CONDITION AND OUTLOOK**

The KUA service territory is located approximately 18 miles south of Orlando and 7 miles east of Walt Disney World. This area is one of the fastest growing areas in the State of Florida. The area's rapid population growth has continued this past year, but at a somewhat lower level than in recent years. This trend is expected to continue. Customer growth is expected to increase from approximately 51,600 in 2002 to approximately 65,400 by the year 2012. Sales are expected to increase from approximately 1,117,000 MWh in 2002 to approximately 1,720,000 MWh by the year 2012.

As we look to the future, it seems possible that some form of increased competition may become a reality in spite of the problems experienced in other markets. We believe that competition will first occur in the states with the highest utility rates. Since Florida has low to moderate utility rates, we believe KUA is insulated from the effects of competition, at least in the near future.

Effective October 1, 1998, KUA began providing dial-up and commercial internet services (KUA.net). Services include personal and business connections including e-mail and web hosting. On August 13, 2002 KUA.net inked a deal with American Cablevision Services, Inc. to provide high-speed internet services to Solivita, one of Florida's fastest-growing retirement communities. KUA.net will use a wireless and cable-based infrastructure to bring high-speed connectivity to the 3,300-acre development located in northeast Polk County. Solivita is owned by Avatar Holdings, Inc. and is part of the overall Poinciana community that is comprised of some 47,000 acres that straddle the Osceola-Polk county line.

The KUA.net member base at September 30, 2002 was 3,124 customers. We believe this service to our utility customers and customers outside our service territory will enhance our ability to compete in a deregulated market place. Our efforts to brand KUA as the energy service provider of choice will continue as we explore other business opportunities.

### **MAJOR INITIATIVES**

#### **All-Requirements Project**

As a result of the KUA Board's unanimous vote on April 10, 2002, KUA will participate in the Florida Municipal Power Agency's (FMPA) All-Requirements Project (ARP) effective October 1, 2002. This means that KUA has agreed to purchase its total bulk power requirements, in excess of certain excluded resources, from the ARP. Also, KUA makes its

generating or purchased capacity resources available to the ARP and receives capacity credits from the ARP. The principal benefits of ARP include:

- Lower operating costs through utilization of the most efficient generation available
- Future generation will be planned for the collective systems, as needed, by FMPA
- Economies of scale in operating, planning and financing
- Lower risk with more units and more cities working together
- Decreased financial risk resulting from certainty of capacity credits as opposed to the uncertainty of the wholesale market for KUA's short term excess capacity.

Joining FMPA's ARP will be operationally transparent to KUA and its customers. It will not change the local operation of KUA, except there will be more communication and coordination between KUA and FMPA. KUA will still make all the decisions about the operation of its power plants, including personnel, rates and operations. Each system in the ARP has the final say when it comes to running a unit, repairing a unit and/or retiring it.

The other 14 cities in the ARP are: Bushnell, Clewiston, Fort Meade, Fort Pierce, Green Cove Springs, Havana, Jacksonville Beach, Key West, Lake Worth, Leesburg, Newberry, Ocala, Starke, and Vero Beach.

As a member of the ARP, KUA will also benefit from a reliability agreement reached between the ARP and several other Florida municipalities. This agreement allows ARP members access to power from other municipals' units at cost if ARP generating units experience unscheduled outages.

### Telecommunications

To ensure that our utility can continue to compete in an ever changing industry, we continue to look at new areas to develop, such as telecommunications. The KUA continues to expand its internal fiber-optic cable system to accommodate the growing needs of KUA customers. The KUA has installed 1,795.5 fiber circuit miles (65.4 miles) of fiber-optic cable on its electric transmission system and is working to install more circuits throughout the service area.

## LONG TERM CAPITAL PLANNING

Over the next ten years, the KUA has identified major projects that will help meet the needs of projected customer and energy sales growth. The key project during the ten-year planning period is the development of the Stanton Energy Center A. On August 21, 2000, the KUA Board of Directors approved an agreement under which KUA, FMPA and Orlando Utilities Commission (OUC) would build a 620 MW combined cycle unit to be constructed by Southern Company Services, Inc., at OUC's Stanton Energy Center Site. KUA's share of this unit will be 3.5% (approximately 22 MW) at an estimated cost of \$10 million. The unit is currently scheduled for commercial operation in October of 2003.

## ANNUAL BUDGET

The KUA is required by Charter to adopt an annual budget. The KUA follows these procedures in establishing the annual budget:

1. The President & General Manager submits to the Board of Directors a proposed operating and capital budget for the ensuing fiscal year. The operating budget includes proposed sources and the uses 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.

Budgetary control is provided by monthly revenue, expense and financial analysis reports. These interim reports are provided to the Board of Directors for review before a formal verbal presentation of financial activity at each monthly Board meeting.

## **CASH MANAGEMENT**

The KUA has a banking service agreement with a local depository bank that provides that all funds will earn interest through overnight repurchase agreements. The KUA also participates in the State of Florida State Board of Administration's program for pooled investment of local government surplus funds. During FY 2002, the KUA maintained investments for certain restricted and designated funds in accordance with established policies and procedures. The cash management program involves a theory of keeping principal and earnings free from unreasonable risk, maintaining reasonable liquidity to meet maturing obligations and maximizing returns through the use of competitive rate comparisons from various investment sources.

## **RISK MANAGEMENT**

During the current fiscal year the KUA has continued to accumulate resources in the Co-Insurance Fund. The amount transferred into this fund was approximately \$300,000 and \$3,500,000 in fiscal years 2002 and 2001, respectively. The accumulated fund was approximately \$11,800,000 and \$11,600,000 at September 30, 2002 and 2001, respectively.

Management is continuing to review the Insurance Program to determine the appropriate amount of risk in terms of higher deductibles that can be assumed by the KUA. In addition, various risk control techniques including employee accident prevention training have been continued during the year to minimize accident related losses.

## **DEBT MANAGEMENT**

At September 30, 2002, the KUA had outstanding revenue bonds in the amount of \$202,930,000 and commercial paper notes of \$70,000,000. Interest rates range from 3.5% to 5.5% on the bonds. Commercial paper variable rates averaged 1.76%. The KUA maintains an A and A2 underlying rating from Fitch and Moody's respectively for outstanding bond issues. Debt service schedules extend to 2018, with principal payments due October 1 of each year. The principal for the bonds due October 1, 2002, was \$7,190,000.

## **PENSION BENEFITS**

The KUA sponsors a single-employer defined benefit pension plan for its employees. Each year, an independent actuary engaged by the pension plan board of directors calculates the amount of the annual contribution that the KUA must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the KUA fully funds each year's annual required contribution to the pension plan as determined by the actuary. As a result of the KUA's conservative funding policy, the KUA has succeeded as of September 30, 2002 in funding 97 percent of the present value of the projected benefits earned by employees. The remaining unfunded amount is being systematically funded over 27 years as part of the annual required contribution calculated by the actuary.

## **FUTURE PROSPECTS**

Demand for electric power from the system has steadily increased in recent years and is projected to continue to increase as the Kissimmee area grows. In response to this growth, the KUA will continue its fiscal policy and complete the generation and transmission improvements needed throughout the system. The KUA is carefully watching the growth of the surrounding community and is methodically building its system resources to a level adequate to serve the area for many years to come. The KUA also is carefully watching the developments of increased competition currently being discussed in the electric utility industry to take advantage of opportunities that might develop in the future.

KUA is involved in numerous community-based enrichment programs, and the spirit of volunteerism is strongly felt by our employees. As the electric utility industry becomes more competitive, we realize that continued success depends on delivering service that exceeds customer expectations at competitive prices. At the same time, it means that we must continue our active involvement in the community. We are proud of Kissimmee's growth and vitality, and will use our energy to help keep our community and utility strong in the years ahead.

## AWARDS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the KUA for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2001. 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 this 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 comprehensive annual financial 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. The KUA has received a Certificate of Achievement for the last fifteen consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

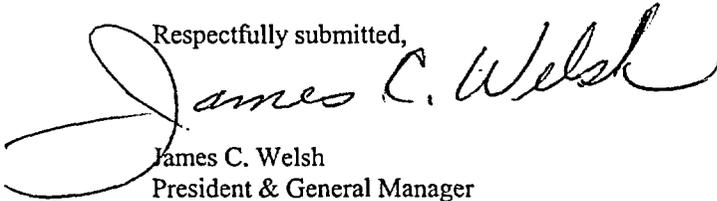
In addition, the KUA also received the GFOA's Award for Distinguished Budget Presentation for its annual budget for the fiscal year beginning October 1, 2001. To qualify for the Distinguished Budget Presentation Award, the KUA's budget document was judged to be proficient in several categories including policy documentation, financial planning and organization.

## ACKNOWLEDGMENTS

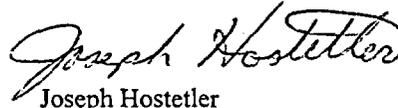
The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the Department has our sincere appreciation for the contributions made in the preparation of this report.

In closing, without the leadership and support of the Board of Directors of the KUA, preparation of this report would not have been possible.

Respectfully submitted,



James C. Welsh  
President & General Manager



Joseph Hostetler  
Vice President  
Finance & Risk Management

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# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Kissimmee Utility Authority,  
Florida

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2001

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.

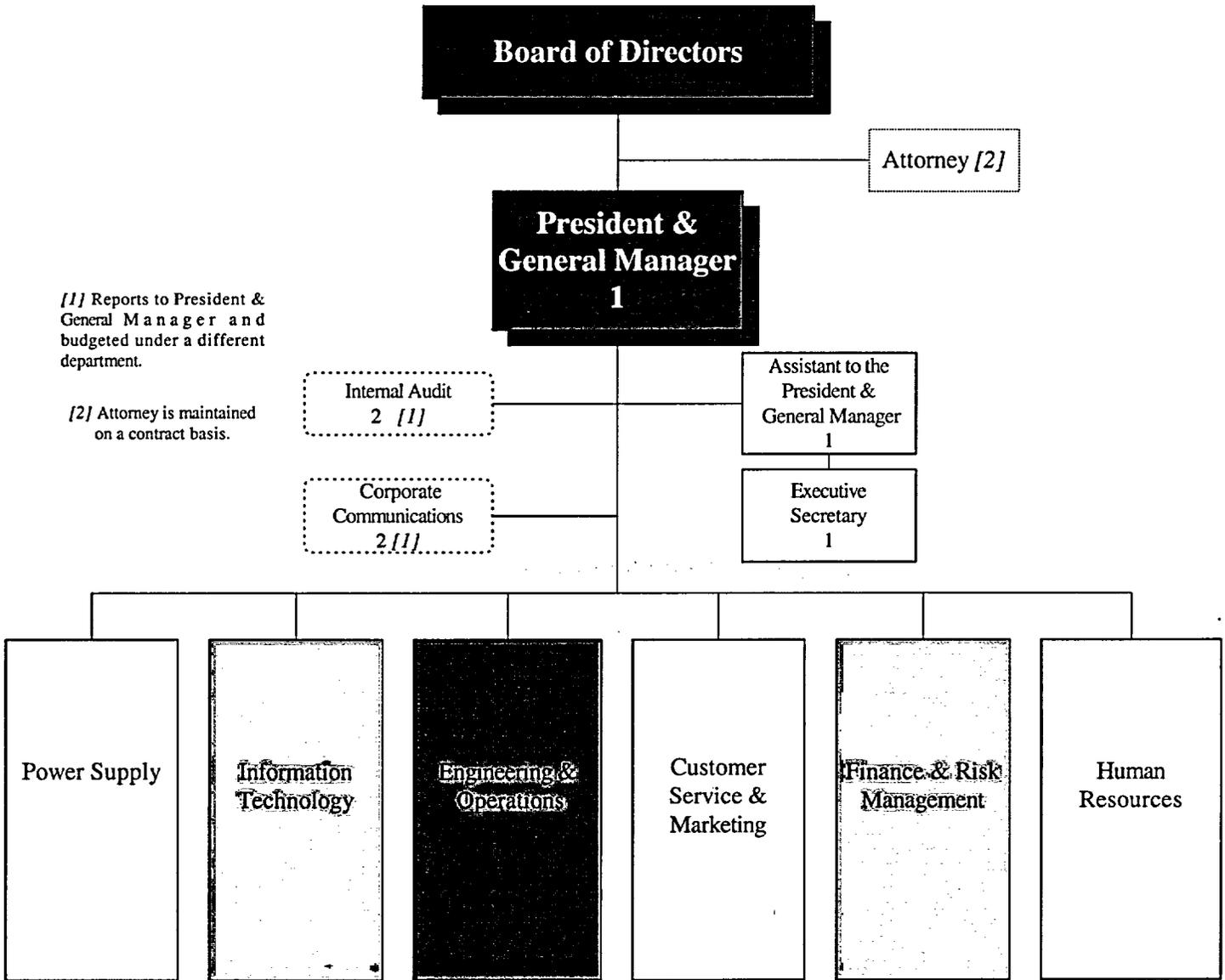


*William Robert Pate*  
President

*Jeffrey L. Essler*  
Executive Director

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**Kissimmee Utility Authority  
Organizational Chart  
FY 2002**



[1] Reports to President & General Manager and budgeted under a different department.

[2] Attorney is maintained on a contract basis.

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# Financial Section

- Management's Discussion & Analysis
- Report of Independent Certified Public Accountants
- Financial Statements
- Notes to Financial Statements
- Required Supplementary Information

## 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)        |
| <b>Total assets</b>                             | <b>436,892,259</b> | <b>438,086,858</b> | <b>(1,194,599)</b>  | <b>(1)</b> |
| 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          |
| <b>Total liabilities</b>                        | <b>296,479,457</b> | <b>300,387,685</b> | <b>(3,908,228)</b>  | <b>(1)</b> |
| 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)        |
| <b>Total net assets</b>                         | <b>140,412,802</b> | <b>137,699,173</b> | <b>2,713,629</b>    | <b>2</b>   |

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)         |
| <b>Total Operating Revenues</b>       | <b>112,957,907</b> | <b>104,732,453</b> | <b>8,225,454</b>    | <b>8</b>    |
| 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          |
| <b>Total Operating Expense</b>        | <b>100,824,804</b> | <b>95,648,503</b>  | <b>5,176,301</b>    | <b>5</b>    |
| <b>Operating Income</b>               | <b>12,133,103</b>  | <b>9,083,950</b>   | <b>3,049,153</b>    | <b>34</b>   |
| Non Operating Revenue (Expenses)      | (11,089,556)       | (6,942,648)        | (4,146,908)         | (60)        |
| Capital Contributions                 | 1,670,082          | 935,128            | 734,954             | 79          |
| <b>Change in Net Assets</b>           | <b>2,713,629</b>   | <b>3,076,430</b>   | <b>(362,801)</b>    | <b>(12)</b> |
| <b>Net Assets – Beginning of Year</b> | <b>137,699,173</b> | <b>134,622,743</b> | <b>3,076,430</b>    | <b>2</b>    |
| <b>Net Assets – End of Year</b>       | <b>140,412,802</b> | <b>137,699,173</b> | <b>2,713,629</b>    | <b>2</b>    |

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 offset by 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 semiannually 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<br>Balance   | 09/30/01<br>Balance  | Increase<br>(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)              |
| <b>Total</b>             | <b>\$240,409,298</b> | <b>\$236,339,707</b> | <b>\$4,069,591</b>     |

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 | <u>70,000,000</u>           | <u>70,000,000</u>           |
| <b>Total</b>     | <b><u>\$280,120,000</u></b> | <b><u>\$285,600,000</u></b> |

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.

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## 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying other supplemental data listed in the table of contents is presented for purposes of additional analysis 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 taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Ernst & Young LLP*

November 22, 2002

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**KISSIMMEE UTILITY AUTHORITY  
BALANCE SHEETS  
SEPTEMBER 30,**

| <b>ASSETS</b>                             | <b>2002</b>          | <b>2001</b>          |
|---|----------------------|----------------------|
| <b>CURRENT ASSETS</b>                     |                      |                      |
| 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            |
| <b>TOTAL CURRENT ASSETS</b>               | <b>103,088,597</b>   | <b>107,059,293</b>   |
| <b>RESTRICTED ASSETS</b>                  |                      |                      |
| Cash and cash equivalents                 | 34,579,200           | 35,201,688           |
| Investments                               | 10,648,259           | 10,951,428           |
| Interest receivable                       | 200,409              | 101,575              |
| <b>TOTAL RESTRICTED ASSETS</b>            | <b>45,427,868</b>    | <b>46,254,691</b>    |
| <b>OTHER ASSETS</b>                       |                      |                      |
| 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              |
| <b>TOTAL OTHER ASSETS</b>                 | <b>47,966,496</b>    | <b>48,433,167</b>    |
| <b>UTILITY PLANT</b>                      |                      |                      |
| 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              |
| <b>TOTAL UTILITY PLANT</b>                | <b>240,409,298</b>   | <b>236,339,707</b>   |
| <b>TOTAL ASSETS</b>                       | <b>\$436,892,259</b> | <b>\$438,086,858</b> |

The accompanying notes are an integral part of these financial statements

| <b>LIABILITIES AND NET ASSETS</b>                                 | <b>2002</b>          | <b>2001</b>          |
|---|----------------------|----------------------|
| <b>LIABILITIES</b>  |                      |                      |
| <b>CURRENT LIABILITIES</b>  |                      |                      |
| 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              |
| <b>TOTAL CURRENT LIABILITIES</b>                                  | <b>11,345,320</b>    | <b>9,338,321</b>     |
| <b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>                 |                      |                      |
| 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            |
| <b>TOTAL LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>           | <b>19,380,360</b>    | <b>19,657,798</b>    |
| <b>LONG-TERM DEBT</b>   |                      |                      |
| 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)          |
| <b>TOTAL LONG-TERM DEBT</b>                                       | <b>251,110,363</b>   | <b>257,157,334</b>   |
| <b>OTHER LONG-TERM LIABILITIES</b>                                |                      |                      |
| 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               |
| <b>TOTAL OTHER LONG-TERM LIABILITIES</b>                          | <b>14,643,414</b>    | <b>14,234,232</b>    |
| <b>TOTAL LIABILITIES</b>  | <b>296,479,457</b>   | <b>300,387,685</b>   |
| <b>NET ASSETS</b>   |                      |                      |
| 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          |
| <b>TOTAL NET ASSETS</b>   | <b>140,412,802</b>   | <b>137,699,173</b>   |
| <b>COMMITMENTS AND CONTINGENT LIABILITIES (NOTES 10 &amp; 11)</b> |                      |                      |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                           | <b>\$436,892,259</b> | <b>\$438,086,858</b> |

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                 |
|---|----------------------|----------------------|
| <b>OPERATING REVENUES</b>                           |                      |                      |
| 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            |
| <b>TOTAL OPERATING REVENUES</b>                     | <b>112,957,907</b>   | <b>104,732,453</b>   |
| <b>OPERATING EXPENSES</b>                           |                      |                      |
| 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           |
| <b>TOTAL OPERATING EXPENSES</b>                     | <b>100,824,804</b>   | <b>95,648,503</b>    |
| <b>OPERATING INCOME</b>                             | <b>12,133,103</b>    | <b>9,083,950</b>     |
| <b>NONOPERATING REVENUES (EXPENSES)</b>             |                      |                      |
| 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)          |
| <b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>       | <b>(11,089,556)</b>  | <b>(6,942,648)</b>   |
| <b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>          | <b>1,043,547</b>     | <b>2,141,302</b>     |
| Capital contributions                               | 1,670,082            | 935,128              |
| <b>CHANGE IN NET ASSETS</b>                         | <b>2,713,629</b>     | <b>3,076,430</b>     |
| <b>NET ASSETS - BEGINNING OF YEAR</b>               | <b>137,699,173</b>   | <b>134,622,743</b>   |
| <b>NET ASSETS - END OF YEAR</b>                     | <b>\$140,412,802</b> | <b>\$137,699,173</b> |

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                |
|---|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                     |                     |
| 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           |
| <b>TOTAL CASH PROVIDED</b>  | <b>113,082,199</b>  | <b>104,271,604</b>  |
| Payments to suppliers for goods and services  | (71,406,707)        | (77,089,777)        |
| Payments for employees for services   | (12,595,900)        | (10,988,840)        |
| Payments for benefits on behalf of employees  | (3,028,276)         | (2,896,377)         |
| <b>TOTAL CASH USED</b>  | <b>(87,030,883)</b> | <b>(90,974,993)</b> |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>  | <b>26,051,316</b>   | <b>13,296,611</b>   |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                        |                     |                     |
| 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)           |
| <b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>                        | <b>(35,604,471)</b> | <b>(24,939,787)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                     |                     |
| 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           |
| <b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>  | <b>6,275,506</b>    | <b>75,177,400</b>   |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>                             | <b>(3,277,649)</b>  | <b>63,534,224</b>   |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                                   | <b>84,544,985</b>   | <b>21,010,761</b>   |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>   | <b>\$81,267,336</b> | <b>\$84,544,985</b> |
| <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>  |                     |                     |
| 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              |
| 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           |
|   | <b>\$26,051,316</b> | <b>\$13,296,611</b> |
| <b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>                            |                     |                     |
| (Decrease) increase in fair value of investments  | (\$432,533)         | \$2,995,642         |

The accompanying notes are an integral part of these financial statements

***KISSIMMEE UTILITY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2002 AND 2001***

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***Note 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

**KISSIMMEE UTILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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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.

**KISSIMMEE UTILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED SEPTEMBER 30, 2002 AND 2001**

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**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 Recquired 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 in 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

**KISSIMMEE UTILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED SEPTEMBER 30, 2002 AND 2001**

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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

**KISSIMMEE UTILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED SEPTEMBER 30, 2002 AND 2001**

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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.

**Note 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:

|      |                         | Current             | Restricted          | Total                |
|------|-------------------------|---------------------|---------------------|----------------------|
| 2002 | 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              |
|      | <b>TOTALS</b>           | <b>\$82,372,827</b> | <b>\$45,427,868</b> | <b>\$127,800,695</b> |
| 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              |
|      | <b>TOTALS</b>           | <b>\$87,048,715</b> | <b>\$46,254,691</b> | <b>\$133,303,406</b> |

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.

**KISSIMMEE UTILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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|      |                              | Category of Risk (000's) |         |         | Total Fair Value |
|------|------------------------------|--------------------------|---------|---------|------------------|
|      |                              | 1                        | 2       | 3       |                  |
| 2002 | 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 be 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.

**Note 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

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specific purposes in a future period. Current cash and cash equivalents, investments and interest receivable at September 30, 2002 and 2001 included the following:

| <b>Current Assets</b>           | <b>2002</b>         | <b>2001</b>         |
|---------------------------------|---------------------|---------------------|
| 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          |
| <b>Total</b>                    | <b>\$82,372,827</b> | <b>\$87,048,715</b> |

**Note 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:

| <b>Restricted Assets</b>              | <b>2002</b>         | <b>2001</b>         |
|---------------------------------------|---------------------|---------------------|
| 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           | -                   |
| <b>Total</b>                          | <b>\$45,427,868</b> | <b>\$46,254,691</b> |

**Note 5 – Utility Plant**

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

| <b>Utility Plant</b>              | <b>10/01/01<br/>Balance</b> | <b>Additions</b>    | <b>Deletions &amp;<br/>Reclassifications</b> | <b>9/30/02<br/>Balance</b> |
|-----------------------------------|-----------------------------|---------------------|--|----------------------------|
| 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<br>Depreciation | (124,538,792)               | (13,201,943)        | 766,477                                      | (136,974,258)              |
| <b>Total</b>                      | <b>\$189,710,207</b>        | <b>\$63,818,997</b> | <b>\$(41,100,877)</b>                        | <b>\$212,428,327</b>       |

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| Utility Plant                     | 10/01/00<br>Balance | Additions    | Deletions &<br>Reclassifications | 9/30/01<br>Balance |
|-----------------------------------|---------------------|--------------|----------------------------------|--------------------|
| 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<br>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.

**Note 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.

**Note 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.
- B. **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

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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.

- C. **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.
- D. **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.
- E. **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.

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

|      |                                | SEC 1        | CR3         | Indian River |
|------|--------------------------------|--------------|-------------|--------------|
| 2002 | 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  |

**Note 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.

**Note 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

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- 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.

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

| Description  | 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<br>Interest at various market rates       |                | 35,000,000      | 35,000,000    | 35,000,000    |
| Commercial Paper Program, Series B<br>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 Recquired 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 |

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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 moneys 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<br>Payable | Commercial<br>Paper | Deferred<br>Amounts | Long-Term<br>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             |

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|                     | Revenue Bonds<br>Payable | Commercial<br>Paper | Pooled<br>Loan<br>Program | Deferred<br>Amounts | Long-Term<br>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           |
| <b>Electric Revenue Bonds</b>  |                      |
| 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                          | <u>\$324,340,000</u> |

\*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.

**Note 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:

**KISSIMMEE UTILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED SEPTEMBER 30, 2002 AND 2001**

|                                    | 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           |
| <b>Total</b>                       |        | <b>\$25,389,352</b> |

*\* 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.

**KISSIMMEE UTILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED SEPTEMBER 30, 2002 AND 2001**

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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.

**Note 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.

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

***KISSIMMEE UTILITY AUTHORITY***  
***NOTES TO THE FINANCIAL STATEMENTS***  
***YEARS ENDED SEPTEMBER 30, 2002 AND 2001***

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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.

***Note 12 – Restricted Net Assets***

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

|                                       | <u>2002</u>                 | <u>2001</u>                 |
|---------------------------------------|-----------------------------|-----------------------------|
| 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                   | -                           |
| <b>Total restricted net assets</b>    | <b><u>\$ 33,237,508</u></b> | <b><u>\$ 28,653,852</u></b> |

## **Required Supplementary Information**

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## Kissimmee Utility Authority Employees' Retirement Plan

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

| <u>Actuarial<br/>Valuation<br/>Date</u> | <u>Actuarial<br/>Value of<br/>Assets</u> | <u>Actuarial<br/>Accrued<br/>Liability</u> | <u>Unfunded<br/>Actuarial<br/>Liability (UAL)</u> | <u>Funded<br/>Ratio</u> | <u>Annual<br/>Covered<br/>Payroll</u> | <u>UAL Ratio to<br/>Covered<br/>Payroll</u> |
|---|--|--|---|-------------------------|---------------------------------------|---|
| 10/01/01                                | \$28,565,661                             | \$29,407,089                               | \$841,428   | 97.14%                  | \$10,349,488                          | 8.13%                                       |
| 10/01/00                                | 27,476,780                               | 28,292,829                                 | 816,049   | 97.12%                  | 9,622,892                             | 8.48%                                       |
| 10/01/99                                | 24,543,409                               | 24,543,409                                 | -   | 100.0%                  | 9,338,568                             | -   |
| 10/01/98                                | 21,310,000                               | 21,310,000                                 | -   | 100.0%                  | 9,077,176                             | -   |
| 10/01/97                                | 37,242,142                               | 37,242,142                                 | -   | 100.0%                  | 19,037,030                            | -   |
| 10/01/96                                | 30,720,860                               | 30,720,860                                 | -   | 100.0%                  | 18,082,940                            | -   |
| 10/01/95                                | 26,061,527                               | 26,061,527                                 | -   | 100.0%                  | 17,301,380                            | -   |

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# Other Supplemental Data

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**KISSIMMEE UTILITY AUTHORITY**  
**COMBINING BALANCE SHEETS**  
**SEPTEMBER 30, 2002**

| ASSETS                                    | Electric<br>System   | ISP              | Eliminations | Total<br>Enterprise Funds |
|---|----------------------|------------------|--------------|---------------------------|
| <b>CURRENT ASSETS</b>                     |                      |                  |              |                           |
| Cash and cash equivalents                 | \$46,481,672         | \$206,464        | \$ -         | \$46,688,136              |
| Investments                               | 35,265,337           | -                | -            | 35,265,337                |
| Interest receivable                       | 419,354              | -                | -            | 419,354                   |
| Accounts receivable                       | 12,819,573           | 107,637          | -            | 12,927,210                |
| Less: allowance for doubtful accounts     | (315,111)            | (4,890)          | -            | (320,001)                 |
| Inventory                                 | 7,108,993            | -                | -            | 7,108,993                 |
| Deferred Cost of Power Adjustment         | 256,401              | -                | -            | 256,401                   |
| Other Current Assets                      | 736,054              | 7,113            | -            | 743,167                   |
| <b>TOTAL CURRENT ASSETS</b>               | <b>102,772,273</b>   | <b>316,324</b>   | <b>-</b>     | <b>103,088,597</b>        |
| <b>RESTRICTED ASSETS</b>                  |                      |                  |              |                           |
| Cash and cash equivalents                 | 34,579,200           | -                | -            | 34,579,200                |
| Investments                               | 10,648,259           | -                | -            | 10,648,259                |
| Interest receivable                       | 200,409              | -                | -            | 200,409                   |
| <b>TOTAL RESTRICTED ASSETS</b>            | <b>45,427,868</b>    | <b>-</b>         | <b>-</b>     | <b>45,427,868</b>         |
| <b>OTHER ASSETS</b>                       |                      |                  |              |                           |
| Unamortized Bond Costs                    | 2,507,606            | -                | -            | 2,507,606                 |
| Costs to be Recovered from Future Revenue | 44,761,344           | -                | -            | 44,761,344                |
| Other                                     | 697,546              | -                | -            | 697,546                   |
| <b>TOTAL OTHER ASSETS</b>                 | <b>47,966,496</b>    | <b>-</b>         | <b>-</b>     | <b>47,966,496</b>         |
| <b>UTILITY PLANT</b>                      |                      |                  |              |                           |
| Property, plant and equipment             | 349,052,884          | 349,701          | -            | 349,402,585               |
| Less: Accumulated depreciation            | (136,742,956)        | (231,302)        | -            | (136,974,258)             |
|   | 212,309,928          | 118,399          | -            | 212,428,327               |
| Construction in progress                  | 27,687,069           | 13,455           | -            | 27,700,524                |
| Inventory - nuclear fuel                  | 280,447              | -                | -            | 280,447                   |
| <b>TOTAL UTILITY PLANT</b>                | <b>240,277,444</b>   | <b>131,854</b>   | <b>-</b>     | <b>240,409,298</b>        |
| <b>TOTAL ASSETS</b>                       | <b>\$436,444,081</b> | <b>\$448,178</b> | <b>\$ -</b>  | <b>\$436,892,259</b>      |

| LIABILITIES AND NET ASSETS  | Electric<br>System   | ISP              | Eliminations | Total<br>Enterprise Funds |
|---|----------------------|------------------|--------------|---------------------------|
| <b>LIABILITIES</b>  |                      |                  |              |                           |
| <b>CURRENT LIABILITIES</b>  |                      |                  |              |                           |
| Accounts payable  | \$8,699,427          | \$62,077         | \$ -         | \$8,761,504               |
| Due to other governments  | 1,305,878            | 3,149            | -            | 1,309,027                 |
| Deferred cost of power adjustment                                 | -                    | -                | -            | -                         |
| Energy conservation cost recovery                                 | 282,930              | -                | -            | 282,930                   |
| Other accrued liabilities   | 979,335              | 12,524           | -            | 991,859                   |
| <b>TOTAL CURRENT LIABILITIES</b>                                  | <b>11,267,570</b>    | <b>77,750</b>    | <b>-</b>     | <b>11,345,320</b>         |
| <b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>                 |                      |                  |              |                           |
| Current portion of revenue bonds                                  | 7,190,000            | -                | -            | 7,190,000                 |
| Accrued interest payable-revenue bonds                            | 5,260,942            | -                | -            | 5,260,942                 |
| Advances for construction   | 1,881,259            | -                | -            | 1,881,259                 |
| Customer deposits   | 3,548,159            | -                | -            | 3,548,159                 |
| Accounts payable from construction funds                          | -                    | -                | -            | -                         |
| Other   | 1,500,000            | -                | -            | 1,500,000                 |
| <b>TOTAL LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>           | <b>19,380,360</b>    | <b>-</b>         | <b>-</b>     | <b>19,380,360</b>         |
| <b>LONG-TERM DEBT</b>   |                      |                  |              |                           |
| Revenue bonds payable   | 202,930,000          | -                | -            | 202,930,000               |
| Commercial paper notes  | 70,000,000           | -                | -            | 70,000,000                |
| Unamortized bond premium  | 2,810,121            | -                | -            | 2,810,121                 |
| Less: unamortized loss on reacquired debt                         | (22,542,330)         | -                | -            | (22,542,330)              |
| Less: unamortized bond discount                                   | (2,087,428)          | -                | -            | (2,087,428)               |
| <b>TOTAL LONG-TERM DEBT</b>                                       | <b>251,110,363</b>   | <b>-</b>         | <b>-</b>     | <b>251,110,363</b>        |
| <b>OTHER LONG-TERM LIABILITIES</b>                                |                      |                  |              |                           |
| Co-insurance fund   | 11,819,612           | -                | -            | 11,819,612                |
| Accrued compensated absences                                      | 1,579,736            | 9,315            | -            | 1,589,051                 |
| Maintenance reserve fund  | 1,213,343            | -                | -            | 1,213,343                 |
| CR3 special assessment  | 21,408               | -                | -            | 21,408                    |
| <b>TOTAL OTHER LONG-TERM LIABILITIES</b>                          | <b>14,634,099</b>    | <b>9,315</b>     | <b>-</b>     | <b>14,643,414</b>         |
| <b>TOTAL LIABILITIES</b>  | <b>296,392,392</b>   | <b>87,065</b>    | <b>-</b>     | <b>296,479,457</b>        |
| <b>NET ASSETS</b>   |                      |                  |              |                           |
| Invested in capital assets, net of related debt                   | (15,383,459)         | -                | -            | (15,383,459)              |
| Restricted  | 33,237,508           | -                | -            | 33,237,508                |
| Unrestricted  | 122,197,640          | 361,113          | -            | 122,558,753               |
| <b>TOTAL NET ASSETS</b>   | <b>140,051,689</b>   | <b>361,113</b>   | <b>-</b>     | <b>140,412,802</b>        |
| <b>COMMITMENTS AND CONTINGENT LIABILITIES (NOTES 10 &amp; 11)</b> |                      |                  |              |                           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                           | <b>\$436,444,081</b> | <b>\$448,178</b> | <b>\$ -</b>  | <b>\$436,892,259</b>      |

**KISSIMMEE UTILITY AUTHORITY**  
**COMBINING STATEMENTS OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2002**

|  | Electric<br>System   | ISP                | Eliminations | Total<br>Enterprise Funds |
|--|----------------------|--------------------|--------------|---------------------------|
| <b>OPERATING REVENUES</b>  |                      |                    |              |                           |
| Metered sales  | \$88,914,602         | \$ -               | \$ -         | \$88,914,602              |
| Sales to other utilities   | 20,719,571           | -                  | -            | 20,719,571                |
| Other operating revenues   | 2,402,537            | 921,197            | -            | 3,323,734                 |
| <b>TOTAL OPERATING REVENUES</b>  | <b>112,036,710</b>   | <b>921,197</b>     | <b>-</b>     | <b>112,957,907</b>        |
| <b>OPERATING EXPENSES</b>  |                      |                    |              |                           |
| Power Generation   | 46,323,881           | -                  | -            | 46,323,881                |
| Purchased Power  | 18,977,880           | -                  | -            | 18,977,880                |
| Transmission/Distribution  | 5,871,529            | -                  | -            | 5,871,529                 |
| Administrative and general   | 8,843,825            | 647,517            | -            | 9,491,342                 |
| Intergovernmental transfers  | 6,946,253            | 44,318             | -            | 6,990,571                 |
| Depreciation and amortization  | 13,115,965           | 53,636             | -            | 13,169,601                |
| <b>TOTAL OPERATING EXPENSES</b>  | <b>100,079,333</b>   | <b>745,471</b>     | <b>-</b>     | <b>100,824,804</b>        |
| <b>OPERATING INCOME</b>  | <b>11,957,377</b>    | <b>175,726</b>     | <b>-</b>     | <b>12,133,103</b>         |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                                    |                      |                    |              |                           |
| Investment income  | 4,050,444            | -                  | -            | 4,050,444                 |
| Interest expense   | (11,255,511)         | -                  | -            | (11,255,511)              |
| Other  | (1,898,864)          | -                  | -            | (1,898,864)               |
| Plant costs recovered through capital contributions                        | (1,670,082)          | -                  | -            | (1,670,082)               |
| Costs to be recovered from future revenue                                  | (315,543)            | -                  | -            | (315,543)                 |
| <b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>                              | <b>(11,089,556)</b>  | <b>-</b>           | <b>-</b>     | <b>(11,089,556)</b>       |
| <b>INCOME BEFORE CAPITAL CONTRIBUTIONS<br/>AND NON-OPERATING TRANSFERS</b> | <b>867,821</b>       | <b>175,726</b>     | <b>-</b>     | <b>1,043,547</b>          |
| Capital contributions  | 1,670,082            | -                  | -            | 1,670,082                 |
| <b>INCOME BEFORE NON-OPERATING TRANSFERS</b>                               | <b>2,537,903</b>     | <b>175,726</b>     | <b>-</b>     | <b>2,713,629</b>          |
| Non-operating transfers  | (1,262,905)          | 1,262,905          | -            | -                         |
| <b>CHANGE IN NET ASSETS</b>  | <b>1,274,998</b>     | <b>1,438,631</b>   | <b>-</b>     | <b>2,713,629</b>          |
| <b>NET ASSETS - BEGINNING OF YEAR</b>                                      | <b>138,776,691</b>   | <b>(1,077,518)</b> | <b>-</b>     | <b>137,699,173</b>        |
| <b>NET ASSETS - END OF YEAR</b>  | <b>\$140,051,689</b> | <b>\$361,113</b>   | <b>\$ -</b>  | <b>\$140,412,802</b>      |

**KISSIMMEE UTILITY AUTHORITY**  
**COMBINING STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2002**

|  | Electric<br>System  | ISP              | Eliminations | Total<br>Enterprise Funds |
|--|---------------------|------------------|--------------|---------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                     |                  |              |                           |
| Receipts from Customers  | \$89,038,894        | \$ -             | \$ -         | \$89,038,894              |
| Receipts from Sales to Other Utilities   | 20,719,571          | -                | -            | 20,719,571                |
| Receipts from Other Sources  | 2,363,587           | 960,147          | -            | 3,323,734                 |
| <b>TOTAL CASH PROVIDED</b>   | <b>112,122,052</b>  | <b>960,147</b>   | <b>-</b>     | <b>113,082,199</b>        |
| Payments to suppliers for goods and services   | (71,051,019)        | (355,688)        | -            | (71,406,707)              |
| Payments for employees for services  | (12,314,840)        | (281,060)        | -            | (12,595,900)              |
| Payments for benefits on behalf of employees   | (2,970,562)         | (57,714)         | -            | (3,028,276)               |
| <b>TOTAL CASH USED</b>   | <b>(86,336,421)</b> | <b>(694,462)</b> | <b>-</b>     | <b>(87,030,883)</b>       |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>   | <b>25,785,631</b>   | <b>265,685</b>   | <b>-</b>     | <b>26,051,316</b>         |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                           |                     |                  |              |                           |
| Acquisition of capital assets and nuclear fuel   | (24,781,173)        | (59,221)         | -            | (24,840,394)              |
| Advances for construction & advances from co-owners  | 8,342,067           | -                | -            | 8,342,067                 |
| Proceeds from debt issue   | 75,520,000          | -                | -            | 75,520,000                |
| Payment to defease debt  | (74,405,000)        | -                | -            | (74,405,000)              |
| Debt Issuance Costs  | (1,537,448)         | -                | -            | (1,537,448)               |
| Principal paid on long-term debt   | (6,595,000)         | -                | -            | (6,595,000)               |
| Interest paid on long-term debt  | (11,866,227)        | -                | -            | (11,866,227)              |
| Other debt costs   | (222,469)           | -                | -            | (222,469)                 |
| <b>NET CASH USED BY CAPITAL AND RELATED<br/>FINANCING ACTIVITIES</b>                       | <b>(35,545,250)</b> | <b>(59,221)</b>  | <b>-</b>     | <b>(35,604,471)</b>       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                     |                  |              |                           |
| Purchase of investment securities  | (52,100,000)        | -                | -            | (52,100,000)              |
| Proceeds from maturities of investment securities  | 54,480,921          | -                | -            | 54,480,921                |
| Interest on investments  | 3,894,585           | -                | -            | 3,894,585                 |
| <b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>   | <b>6,275,506</b>    | <b>-</b>         | <b>-</b>     | <b>6,275,506</b>          |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>                                | <b>(3,484,113)</b>  | <b>206,464</b>   | <b>-</b>     | <b>(3,277,649)</b>        |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                                      | <b>84,544,985</b>   | <b>-</b>         | <b>-</b>     | <b>84,544,985</b>         |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>  | <b>\$81,060,872</b> | <b>\$206,464</b> | <b>\$ -</b>  | <b>\$81,267,336</b>       |
| <b>RECONCILIATION OF OPERATING INCOME TO NET<br/>CASH PROVIDED BY OPERATING ACTIVITIES</b> |                     |                  |              |                           |
| Operating Income   | \$11,957,377        | \$175,726        | \$ -         | \$12,133,103              |
| Adjustments to reconcile operating income to net cash provided by operating activities:    |                     |                  |              |                           |
| Depreciation   | 13,366,730          | 53,636           | -            | 13,420,366                |
| Net amortization   | (250,765)           | -                | -            | (250,765)                 |
| (Increase) decrease in accounts receivable, net  | 1,266,198           | 38,950           | -            | 1,305,148                 |
| (Increase) decrease in other assets  | 347,786             | (817)            | -            | 346,969                   |
| (Increase) decrease in inventory   | (2,101,463)         | -                | -            | (2,101,463)               |
| (Increase) decrease in deferred cost of power adjustment                                   | (1,264,224)         | -                | -            | (1,264,224)               |
| (Increase) decrease in energy conservation cost recovery                                   | 83,368              | -                | -            | 83,368                    |
| Increase (decrease) in accounts payable  | 1,091,393           | 16,019           | -            | 1,107,412                 |
| Increase (decrease) in due to other governments  | 408,441             | (17,829)         | -            | 390,612                   |
| Increase (decrease) in customer deposits   | 194,047             | -                | -            | 194,047                   |
| Increase (decrease) in other accrued liabilities   | 477,309             | -                | -            | 477,309                   |
| Increase (decrease) in other designated liabilities  | 209,434             | -                | -            | 209,434                   |
|  | <b>\$25,785,631</b> | <b>\$265,685</b> | <b>\$ -</b>  | <b>\$26,051,316</b>       |
| <b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>                               |                     |                  |              |                           |
| (Decrease) increase in fair value of investments   | (\$432,533)         | \$ -             | \$ -         | (\$432,533)               |

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# Statistical Section

Statistical tables differ from financial statements because they usually cover more than one fiscal year and may present non-accounting data. These tables reflect social and economical trends of the Kissimmee Utility Authority and its service territory.

KISS  
TABLE 1  
Operating Revenues By Source/Operating Expenses By Department  
Last Ten Fiscal Years

|   | 2002                 | 2001                 | 2000                | 1999                | 1998                | 1997                | 1996                | 1995                | 1994                | 1993                |
|---|----------------------|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Operating Revenues:</b>                |                      |                      |                     |                     |                     |                     |                     |                     |                     |                     |
| <b>Sources</b>                            |                      |                      |                     |                     |                     |                     |                     |                     |                     |                     |
| Metered Sales to Customers                | \$87,553,520         | \$93,394,256         | \$81,025,493        | \$73,573,885        | \$71,383,622        | \$70,685,120        | \$68,555,036        | \$63,373,453        | \$63,589,597        | \$59,444,764        |
| Public Street & Highway Lighting          | 1,361,082            | 1,365,862            | 1,206,148           | 1,045,437           | 978,668             | 944,425             | 871,184             | 800,373             | 742,127             | 669,534             |
| <b>Total Metered Sales</b>                | <b>88,914,602</b>    | <b>94,760,118</b>    | <b>82,231,641</b>   | <b>74,619,322</b>   | <b>72,362,290</b>   | <b>71,629,545</b>   | <b>69,426,220</b>   | <b>64,173,826</b>   | <b>64,331,724</b>   | <b>60,114,298</b>   |
| Sales to Other Utilities                  | 20,719,571           | 6,482,289            | 4,984,050           | 2,601,298           | 2,854,796           | 781,822             | 287,145             | 199,849             | -                   | 5,370               |
| Internet Service Provider                 | 934,141              | 975,637              | 890,268             | 497,159             | -                   | -                   | -                   | -                   | -                   | -                   |
| Other Operating Revenues                  | 2,389,593            | 2,514,409            | 2,117,276           | 2,010,169           | 2,115,368           | 2,113,939           | 2,479,929           | 2,474,172           | 1,366,280           | 1,143,854           |
| <b>Total Other Operating Revenues</b>     | <b>3,323,734</b>     | <b>3,490,046</b>     | <b>3,007,544</b>    | <b>2,507,328</b>    | <b>2,115,368</b>    | <b>2,113,939</b>    | <b>2,479,929</b>    | <b>2,474,172</b>    | <b>1,366,280</b>    | <b>1,143,854</b>    |
| <b>Total Operating Revenues</b>           | <b>\$112,957,907</b> | <b>\$104,732,453</b> | <b>\$90,223,235</b> | <b>\$79,727,948</b> | <b>\$77,332,454</b> | <b>\$74,525,306</b> | <b>\$72,193,295</b> | <b>\$66,847,847</b> | <b>\$65,698,004</b> | <b>\$61,263,522</b> |
| <b>Operating Expenses:</b>                |                      |                      |                     |                     |                     |                     |                     |                     |                     |                     |
| <b>Departments</b>                        |                      |                      |                     |                     |                     |                     |                     |                     |                     |                     |
| Nuclear Power Generation                  | \$1,195,887          | \$933,779            | \$1,215,403         | \$1,629,866         | \$1,457,032         | \$1,274,496         | \$1,184,984         | \$1,087,206         | \$1,248,097         | \$1,165,620         |
| Other Power Generation                    | 45,127,994           | 28,067,831           | 26,766,485          | 20,644,592          | 18,972,293          | 17,303,698          | 16,578,259          | 15,006,756          | 13,807,614          | 13,521,919          |
| <b>Total Power Generation</b>             | <b>46,323,881</b>    | <b>29,001,610</b>    | <b>27,981,888</b>   | <b>22,274,458</b>   | <b>20,429,325</b>   | <b>18,578,194</b>   | <b>17,763,243</b>   | <b>16,093,962</b>   | <b>15,055,711</b>   | <b>14,687,539</b>   |
| Purchased Power                           | 18,977,880           | 32,261,266           | 23,180,433          | 19,662,702          | 20,826,416          | 21,903,786          | 20,407,210          | 18,775,611          | 22,287,889          | 20,533,442          |
| Transmission & Distribution (1)           | -                    | -                    | -                   | -                   | 1,682,555           | 2,431,095           | 2,216,992           | 1,768,767           | 2,026,431           | 1,946,742           |
| Engineering & Operations (1)              | 5,871,529            | 4,688,754            | 4,028,666           | 3,484,439           | 1,420,138           | 1,213,868           | 1,145,117           | 1,136,601           | 1,035,283           | 959,076             |
| <b>Administrative &amp; General:</b>      |                      |                      |                     |                     |                     |                     |                     |                     |                     |                     |
| Information Technology                    | 1,096,126            | 948,423              | 842,028             | 783,263             | 768,195             | 686,521             | 538,877             | 474,641             | 414,361             | 468,993             |
| Customer Service & Marketing              | 3,786,274            | 3,599,326            | 3,741,754           | 3,367,234           | 3,119,753           | 3,065,487           | 2,779,255           | 2,649,730           | 2,484,171           | 2,354,275           |
| Finance & Risk Management                 | 1,131,696            | 1,103,615            | 1,134,602           | 718,193             | 1,017,668           | 975,918             | 825,019             | 790,765             | 616,889             | 736,461             |
| Central Services (2)                      | -                    | -                    | -                   | -                   | 291,004             | (126,426)           | 315,982             | 321,556             | 313,509             | 303,701             |
| Human Resources                           | 1,163,453            | 974,753              | 807,562             | 712,998             | 671,502             | 628,451             | 702,577             | 565,334             | 383,054             | 370,892             |
| Executive                                 | 443,661              | 291,485              | 316,712             | 355,318             | 345,955             | 179,180             | (51,323)            | 453,059             | 416,611             | 379,125             |
| Internet Service Provider (3)             | 647,517              | 833,942              | 1,125,409           | 903,837             | 48,304              | -                   | -                   | -                   | -                   | -                   |
| Other Administrative & General            | 1,317,377            | 4,055,291            | 2,851,759           | 2,614,641           | 3,408,060           | 885,928             | 770,399             | 888,963             | 612,773             | 764,560             |
| Work Order Credits (5)                    | (94,762)             | (526,126)            | (440,592)           | (563,713)           | (478,992)           | -                   | -                   | -                   | -                   | -                   |
| <b>Total Administrative &amp; General</b> | <b>9,491,342</b>     | <b>11,280,709</b>    | <b>10,379,234</b>   | <b>8,891,771</b>    | <b>9,191,449</b>    | <b>6,295,059</b>    | <b>5,880,786</b>    | <b>6,144,048</b>    | <b>5,241,368</b>    | <b>5,378,007</b>    |
| Intergovernmental Transfers (4)           | 6,990,571            | 6,804,053            | 6,539,647           | 7,815,172           | 7,072,186           | 6,570,502           | 6,497,637           | 6,094,693           | 5,787,944           | 5,796,928           |
| Depreciation                              | 13,169,601           | 11,612,111           | 10,961,345          | 10,644,457          | 10,380,077          | 9,894,090           | 10,702,958          | 8,682,955           | 7,508,905           | 6,875,183           |
| <b>Total Operating Expenses</b>           | <b>\$100,824,804</b> | <b>\$95,648,503</b>  | <b>\$83,071,213</b> | <b>\$72,772,999</b> | <b>\$71,002,146</b> | <b>\$66,886,594</b> | <b>\$64,613,943</b> | <b>\$58,696,637</b> | <b>\$58,943,531</b> | <b>\$56,176,917</b> |

(1) These two departments were combined in FY 98.

(2) This department was combined with other departments in FY 98.

(3) This function began operations in late FY 98.

(4) Established by KUA at 6.24 mills per kWh of retail sales and 25% of surcharge revenues. In FY 2000 the decrease reflects KUA dropping the Surcharge (and associated transfer to COK) and implementing the Osceola County Tax.

(5) This department is new in FY 98.

**KISSIMMEE UTILITY AUTHORITY**  
**TABLE 2**  
**TEN HIGHEST METER LOCATIONS**

|                                      | Annual<br>Consumption<br>(MWH) | Percent of<br>Total<br>System |
|--------------------------------------|--------------------------------|-------------------------------|
| 1. City of Kissimmee                 | 46,360                         | 4.14%                         |
| 2. Osceola County Schools            | 30,385                         | 2.72%                         |
| 3. Board of County Commission        | 20,998                         | 1.88%                         |
| 4. Wal-Mart Super Store              | 15,865                         | 1.42%                         |
| 5. Publix Super Markets - Store 0351 | 15,056                         | 1.35%                         |
| 6. Adventist Health Systems          | 11,868                         | 1.06%                         |
| 7. Osceola Regional Medical Center   | 10,799                         | 0.97%                         |
| 8. First Continental Corporation     | 10,009                         | 0.89%                         |
| 9. Sprint                            | 7,639                          | 0.68%                         |
| 10. Winn-Dixie Stores                | 7,627                          | 0.68%                         |
|                                      | 176,606                        | 15.79%                        |

**SOURCE:** *Kissimmee Utility Authority*

# KISSIMMEE UTILITY AUTHORITY

## TABLE 3 INSURANCE

| COMPANY                        | TYPE OF COVERAGE                     | DED./AGG. MAXIMUM   |
|--------------------------------|--------------------------------------|---------------------|
| National Union of Pittsburg    | General Liability                    | \$25,000/2 Million  |
| Aegis Insurance Service, Inc.  | Excess Liability                     | \$500,000           |
| Perferred Government Insurance | Workers Compensation                 | \$10,000            |
| Hartford Steam Boiler          | Primary Property                     | \$100,000/Scheduled |
| Hartford Steam Boiler          | Boiler & Maintenance                 | Scheduled/Scheduled |
| Hartford Steam Boiler          | Data Processing                      | Scheduled           |
| Florida Leaque of Cities       | Auto                                 | \$25,000            |
| Coregis Insurance Company      | Errors & Omissions                   | \$25,000/10 Million |
| Travelers Insurance            | Fiduciary Liability                  | 1 Million Maximum   |
| The Hartford                   | Public Official Fidelity Bond        | \$250,000 Maximum   |
| The Hartford                   | Crime                                | \$250,000 Maximum   |
| Aegis Insurance Service, Inc.  | Internet E&O Liability               | 1 Million           |
| Aegis Insurance Service, Inc.  | Public Official & Employee Practices | 9 Million           |
| United Healthcare Choice       | HMO                                  | \$10 Co-Pay         |
| United Healthcare Choice Plus  | PPO                                  | \$15 Co-Pay         |
| Delta Dental                   | PPO                                  | \$50 - 80/20        |
| DeltaCare                      | HMO                                  | Various Co-Pays     |
| Phoenix Life                   | Life & AD&D                          | Scheduled by Salary |

*SOURCE: Kissimmee Utility Authority*

# KISSIMMEE UTILITY AUTHORITY

## TABLE 4

### Revenue Bond Coverage Last Ten Fiscal Years

| <u>Fiscal<br/>Year</u> | <u>Income<br/>Available for<br/>Debt Service</u> | <u>Debt Service<br/>Requirement</u> | <u>Debt Service<br/>Coverage</u> |
|------------------------|--|-------------------------------------|----------------------------------|
| 2002                   | \$36,502,572                                     | \$18,381,441                        | 1.99                             |
| 2001                   | \$33,148,216                                     | \$17,863,738                        | 1.86                             |
| 2000                   | \$31,289,533                                     | \$17,668,916                        | 1.77                             |
| 1999                   | \$31,996,166                                     | \$17,669,225                        | 1.81                             |
| 1998                   | \$28,358,123                                     | \$17,941,064                        | 1.58                             |
| 1997                   | \$29,682,100                                     | \$10,484,964                        | 2.83                             |
| 1996                   | \$29,859,866                                     | \$10,435,708                        | 2.86                             |
| 1995                   | \$28,350,807                                     | \$8,812,408                         | 3.22                             |
| 1994                   | \$24,218,492                                     | \$9,186,280                         | 2.64                             |
| 1993                   | \$20,823,098                                     | \$10,482,367                        | 1.99                             |

# KISSIMMEE UTILITY AUTHORITY

**TABLE 5**  
**POPULATION**

|        | <u>Lake</u> | <u>Orange</u> | <u>Osceola</u> |
|--------|-------------|---------------|----------------|
| 1970   | 69,305      | 344,311       | 25,267         |
| 1975   | 89,500      | 421,800       | 37,100         |
| 1980   | 104,870     | 471,016       | 49,287         |
| 1985   | 126,491     | 556,445       | 77,412         |
| 1990   | 152,104     | 677,491       | 107,728        |
| 1995   | 176,931     | 758,962       | 136,627        |
| 1998   | 196,073     | 824,095       | 148,712        |
| 1999   | 203,863     | 846,328       | 157,376        |
| 2000   | 210,528     | 896,344       | 172,493        |
| 2005 * | 237,400     | 966,000       | 189,300        |
| 2010 * | 273,278     | 1,134,963     | 232,817        |

*Source: Economic Development Commission of Mid-Florida*  
*2001 Florida Population Projections, 2000 Census*

*\* Projections*

# KISSIMMEE UTILITY AUTHORITY

## TABLE 6 CLIMATE

### Average Monthly Rainfall & Temperature Kissimmee, Florida

|                        | Rain<br>(Inches) | Temperature<br>(Degree F) |
|------------------------|------------------|---------------------------|
| October                | 1.20             | 72.3                      |
| November               | 0.90             | 64.1                      |
| December               | 0.90             | 59.6                      |
| January                | 0.40             | 53.3                      |
| February               | 0.10             | 67                        |
| March                  | 3.80             | 65.2                      |
| April                  | 1.50             | 69.9                      |
| May                    | 3.00             | 75                        |
| June                   | 4.10             | 79.7                      |
| July                   | 5.30             | 81.1                      |
| August                 | 9.10             | 80.9                      |
| September              | 13.40            | 78.2                      |
| <i>MONTHLY AVERAGE</i> | 3.64             | 70.5                      |

*SOURCE: National Weather Service*

# KISSIMMEE UTILITY AUTHORITY

## TABLE 7

### PUBLIC SCHOOL ENROLLMENT

|                                    | <u>Lake<br/>County</u> | <u>Orange<br/>County</u> | <u>Osceola<br/>County</u> |
|------------------------------------|------------------------|--------------------------|---------------------------|
| Total Number of Schools (K-12)     | 37                     | 147                      | 39                        |
| Elementary Schools *               | 21                     | 102                      | 21                        |
| Elementary School Students         | 14,171                 | 73,909                   | 17,826                    |
| Middle/Junior High Schools *       | 9                      | 26                       | 10                        |
| Middle/Junior High School Students | 6,992                  | 34,878                   | 9,001                     |
| High Schools                       | 7                      | 19                       | 7                         |
| High School Students               | 8,097                  | 42,195                   | 10,139                    |
| Tech Schools                       | 1                      | 4                        | 1                         |
| Tech School Students               | 3,856                  | 48,200                   | 2,237                     |

\* Includes special education, technical schools, detention centers, homebound.

SOURCE: Economic Development Commission of Mid-Florida  
County School Boards 2001 School Year Statistics

# KISSIMMEE UTILITY AUTHORITY

## TABLE 8

### Median Household Effective Buying Income

|                | Median<br>Household EBI | \$20,000 -<br>34,999 | \$35,000 -<br>49,999 | \$50,000 -<br>And Over |
|----------------|-------------------------|----------------------|----------------------|------------------------|
| Orlando        | \$33,720                | 26.3                 | 18.7                 | 29.3                   |
| Orange County  | 39,142                  | 23.2                 | 18.9                 | 36.8                   |
| Lake County    | 28,040                  | 29.6                 | 17.3                 | 20.5                   |
| Osceola County | 33,490                  | 27.8                 | 20.3                 | 27.1                   |
| Florida        | 34,937                  | 23.6                 | 17.3                 | 32.6                   |
| United States  | 39,129                  | 20.7                 | 16.8                 | 38.2                   |

*SOURCE: Sales & Marketing Management, 2001 Survey of Buying Power*

# KISSIMMEE UTILITY AUTHORITY

## TABLE 9

### Metro Orlando Education Profile

| Education Level              | Orange<br>County | Lake<br>County | Osceola<br>County |
|------------------------------|------------------|----------------|-------------------|
| Postgraduate                 | 71,100           | 10,400         | 6,500             |
| College Graduate             | 80,900           | 13,600         | 9,500             |
| Some College                 | 255,900          | 54,700         | 47,900            |
| High School Graduate         | 182,700          | 67,800         | 44,100            |
| Did Not Graduate High School | 62,700           | 22,900         | 12,400            |
| Total Number of Adults       | 653,300          | 169,400        | 120,400           |

*SOURCE: Economic Development Commission of Mid-Florida  
The Scarborough Report - 2001*

# KISSIMMEE UTILITY AUTHORITY

## TABLE 10

### Property Tax Table

|                       | <u>Millage Rate</u> |
|-----------------------|---------------------|
| <b>Orange County</b>  |                     |
| Orlando               | 21.1878             |
| <b>Lake County</b>    |                     |
| Leesburg              | 20.3099             |
| <b>Osceola County</b> |                     |
| Kissimmee             | 20.3578             |
| St. Cloud             | 20.2415             |

*SOURCE: Economic Development Commission of Mid-Florida  
Individual County Tax Collectors - 2001*

# KISSIMMEE UTILITY AUTHORITY

## TABLE 11

### Employment Growth & Unemployment Rates

| County                    | <u>1996</u> | <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002 *</u> |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|
| <b>Orange County</b>      |             |             |             |             |             |             |               |
| Employment (in thousands) | 515.4       | 539.6       | 568.4       | 593.8       | 593.8       | 608.7       | 654.6         |
| Growth (in thousands)     | 25.7        | 24.2        | 28.9        | 25.4        | 15.0        | 21.3        | 24.5          |
| Unemployment Rate (%)     | 3.9         | 3.4         | 3.1         | 3.0         | 3.7         | 4.5         | 4.0           |
| <b>Lake County</b>        |             |             |             |             |             |             |               |
| Employment (in thousands) | 55.3        | 58.1        | 60.6        | 63.3        | 64.9        | 67.4        | 69.5          |
| Growth (in thousands)     | 3.3         | 2.7         | 2.5         | 2.7         | 1.7         | 2.5         | 2.1           |
| Unemployment Rate (%)     | 4.8         | 4.1         | 3.4         | 2.6         | 3.9         | 5.9         | 4.8           |
| <b>Osceola County</b>     |             |             |             |             |             |             |               |
| Employment (in thousands) | 45.3        | 46.4        | 47.5        | 49.6        | 53.5        | 55.3        | 57.1          |
| Growth (in thousands)     | 1.7         | 1.1         | 1.1         | 2.1         | 3.9         | 1.8         | 1.8           |
| Unemployment Rate (%)     | 4.1         | 3.8         | 3.3         | 2.9         | 3.9         | 4.5         | 3.9           |

**SOURCE:** *Economic Development Commission of Mid-Florida  
Fishkind & Associates, Inc. - 2001 & 2002 Forecast*

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