

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, 2005. 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, 2005 by \$136.4 million (net assets). Of this amount, \$62.0 million (unrestricted net assets) may be used to meet ongoing obligations to customers and creditors.
- The KUA's net assets increased by \$.5 million or .4 percent.
- The KUA's net utility plant increased by \$.3 million or .1 percent.
- During the year, the KUA's operating revenues increased to \$154.7 million or 16.5 percent while operating expenses increased to \$149.1 million or 19.5 percent.
- The KUA's total long-term debt outstanding decreased to approximately \$269.0 million. The decrease related to principal of approximately \$10 million becoming current during the current fiscal year offset by an increase in unamortized bond premiums of \$2.4 million related to the 2005 bond issue.
- Other Liabilities Payable from Restricted Assets increased by \$10.2 million or 37.1% primarily due to an increase in Rate Stabilization deferred credits of \$8.4 million or 168.0%.

Required Financial Statements

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 (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 following analysis focuses on the KUA's net assets (*Table 1*) and changes in net assets (*Table 2*) during the past two fiscal years.

Table 1 – Net Assets

	9/30/05	9/30/04	9/30/03
Capital assets	\$235,311,338	\$234,990,979	\$241,981,056
Current and other assets	244,260,675	229,422,907	226,379,843
Total assets	479,572,013	464,413,886	468,360,899
Long-term debt outstanding	268,970,633	277,404,875	277,534,528
Current and other liabilities	74,229,814	51,159,473	50,162,330
Total liabilities	343,200,447	328,564,348	327,696,858
Net Assets:			
Invested in capital assets, net of related debt	36,376,190	27,231,670	37,750,607
Restricted	37,991,769	37,391,317	32,680,826
Unrestricted	62,003,607	71,226,551	70,232,608
Total net assets	<u>\$136,371,566</u>	<u>\$135,849,538</u>	<u>\$140,664,041</u>

Analysis of 2005 Net Assets

Capital assets increased primarily as a result of construction in progress less the depreciation of utility plant. Current and other assets increased primarily due to an increase in Inventory of \$.3 million, Accounts Receivable of \$.4 million, Costs to be Recovered from Future Revenue of \$3.5 million, Deferred Cost of Power Adjustment (COPA) of \$6.9 million, and Cash and cash equivalents, investments and interest receivable of approximately \$3.2 million. Total liabilities increased by approximately \$14.6 million, largely due to increases in Accounts Payable of \$3.0 million, Rate Stabilization of \$8.4 million, Self-Insurance Fund of \$9.2 million, Unamortized Debt Costs of \$3.3 million and Long-Term Revenue Bonds Payable of \$23.2 million, offset by a decrease in Commercial Paper Notes of \$35.0 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 the decrease in long-term debt.

An additional portion of the KUA's net assets (\$38 million) represents resources that are subject to external restrictions (i.e. debt covenants) on how they may be used. The remaining balance of unrestricted net assets (\$62.0 million) may be used to meet the government's ongoing obligations to rate payers and creditors. This balance included approximately \$38 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.

Analysis of 2004 Net Assets

Capital assets decreased primarily as a result of the depreciation of utility plant. Current and other assets increased primarily due to an increase in Inventory of \$9.3 million and Accounts Receivable of \$3.4 million, offset by a decrease in Cash and cash equivalents, investments and interest receivable of approximately \$5.3 million, Costs to be Recovered from Future Revenue of \$1.5 million and the Deferred Cost of Power Adjustment (COPA) of \$3.1 million. Total liabilities increased by approximately \$.9 million, largely due to increases in Accounts Payable of \$2.9 million, Commercial Paper Notes of \$8.2 million and Current Revenue Bonds and Interest Payable of \$3.8 million, offset by a decrease in Long-term Revenue Bonds Payable of \$9.7 million and the Co-insurance Fund liability of \$5.9 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 decreased primarily as a result of depreciation of utility plant during the fiscal year.

An additional portion of the KUA's net assets (\$37 million) represents resources that are subject to external restrictions (i.e. debt covenants) on how they may be used. The remaining balance of unrestricted net assets (\$71 million) may be used to meet the government's ongoing obligations to rate payers and creditors. This balance included approximately \$45 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

	2005	2004	2003
Metered Sales	\$128,936,242	\$101,245,778	\$104,661,879
Other	34,116,153	31,530,540	27,673,410
Rate Stabilization Transfer	(8,400,000)	-	(5,000,000)
Total Operating Revenues	154,652,395	132,776,318	127,335,289
Generation & Purchased Power	103,431,499	83,141,953	79,995,658
Transmission & Distribution	7,213,523	6,943,469	5,887,135
Administrative & General	15,222,921	12,132,434	9,978,057
Intergovernmental Transfers	8,279,285	7,674,217	7,665,013
Depreciation & Amortization	14,904,456	14,801,151	13,432,408
Total Operating Expense	149,051,684	124,693,224	116,958,271
Operating Income	5,600,711	8,083,094	10,377,018
Non Operating Expenses	(7,366,334)	(14,725,958)	(11,721,234)
Capital Contributions	2,287,651	1,828,362	1,595,455
Change in Net Assets	522,028	(4,814,503)	251,239
Net Assets – Beginning of Year	135,849,538	140,664,041	140,412,802
Net Assets – End of Year	\$136,371,566	\$135,849,538	\$140,664,041

Analysis of 2005 Activity

Year-to-date MWh sales in FY 2005 were approximately 1,310,000 compared to FY 2004 sales of 1,226,000, or a 6.8% increase. Sales to metered customers increased from \$101.2 million to \$128.9 million or 27.3%. The increase in sales revenue resulted from an increase of KWh revenues of \$30.6 million or 34.0% and of ECCR revenues of \$.5 million or 216.6% offset by a decrease in COPA revenues of \$2.9 million or 23.6%. An increase in ARP credits of \$1.5 million or 5.5% contributed to an increase in total operating revenues of \$21.9 million or 16.5%.

During FY 2005, \$2,000,000 was budgeted to be transferred from the rate stabilization fund and recorded as other operating revenues. The Board of Directors approved keeping these funds in the rate stabilization fund to help stabilize rates in future years. During FY 2003, the KUA Board of Directors approved the issuance of revenue bonds and refunding of outstanding bonds. A Rate Stabilization fund was created which allows current income to be deferred to a future time in order to stabilize rates. \$5 million was transferred to this fund during FY 2003. An additional \$8.4 million was transferred to this fund during FY 2005, based on further direction from the Board of Directors. The effect of this action was to reduce FY 2005 operating revenues.

Total operating expenses were higher than the previous year, primarily due to higher fuel expense and by higher Administrative & General, and Intergovernmental Transfers. Total fuel costs were higher in FY 2005 and MWh sales were also higher, however, the change in the base rate has shifted additional fuel revenues into Metered Sales and reduced the Cost of Power Adjustment Revenues in FY 2005. FY 2005 costs per MWh sales of \$72.98 (COPA portion of \$20.65)/MWh compared to FY 2004 of \$61.27 (COPA portion of \$28.60)/MWh. Administrative and General expenses increased primarily due to higher insurance expense related to a FY 2005 build-up of the Self Insurance fund of \$3.4 million. Intergovernmental transfers were higher as a result of the increase in MWh sales.

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 2005, our “unrealized loss” (difference between carrying value versus current market value) was \$825,600 compared to a loss of \$802,300 for Fiscal Year 2004. Nonoperating revenues decreased primarily as a result of the change in the Costs to be Recovered from Future Revenue adjustment of \$5.0 million or 327.8%, see Footnote 1.

Analysis of 2004 Activity

Year-to-date MWh sales in FY 2004 were approximately 1,226,000 compared to FY 2003 sales of 1,213,000, or a 1.1% increase. Sales to metered customers decreased from \$104.7 million to \$101.2 million or 3.3%. The decrease in sales revenue resulted from a decrease in COPA revenues of \$4.1 million or 25.1% and of ECCR revenues of \$.5 million or 68%, offset by an increase of KWH revenues of \$1.4 million or 1.6%. An increase in ARP credits of \$3.7 or 15.6% contributed to an increase in total operating revenues of \$5.4 million or 4.3%.

During FY 2004, \$3,000,000 was budgeted to be transferred from the rate stabilization fund and recorded as other operating revenues. The Board of Directors approved keeping these funds in the rate stabilization fund to help stabilize rates in future years. The effect of this action was to reduce FY 2004 operating revenues. During FY 2003, the KUA Board of Directors approved the issuance of revenue bonds and refunding of outstanding bonds, a Rate Stabilization fund was created which allows current income to be deferred to a future time in order to stabilize rates. \$5 million was transferred to this fund during FY 2003.

Total operating expenses were higher than the previous year, primarily due to higher fuel expense and by higher Administrative & General, Intergovernmental Transfers, and Depreciation expense. Total fuel costs excluding all ARP credits were higher in FY 2004, \$ 61.27 (COPA portion of \$ 28.60)/ MWh compared to FY 2003 of \$ 60.53 (COPA portion of \$ 27.86)/ MWh. In addition, the amount of COPA undercollected as of September 30, 2004 as compared to September 30, 2003 is lower by \$3.1 million. Additional Depreciation expense resulted from the additions to utility plant which was predominantly the addition of Stanton A. Administrative and General expenses increased primarily due to market level adjustments. Intergovernmental transfers were higher as a result of the increase in MWh sales.

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 2004, our “unrealized loss” (difference between carrying value versus current market value) was \$802,300 compared to a loss of \$366,900 for Fiscal Year 2003. Nonoperating revenues decreased primarily as a result of the change in the Costs to be Recovered from Future Revenue adjustment of \$2.8 million or 224%.

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.

During Fiscal Year 2005, two rate changes were approved by the Board of Directors. Effective November 1, 2004, a portion of retained capacity credits (\$5.4 million) and the Cost of Power Adjustment (COPA) was moved into the electric base rate. This resulted in a base rate fuel increase of \$8.993 per MWh from \$32.672 to \$41.665, or 27.5%. Additionally, the customer charge was increased to collect monies previously recovered under the energy charge. Effective July 1, 2005, an additional amount of COPA was incorporated into the base rate resulting in an increase of \$10.665 per MWh from \$41.665 to \$52.33, or 25.6%. These changes had no effect on the customer bill (revenue neutral change). Also effective July 1, a 4.8% rate increase was implemented to replenish the self-insurance fund and build up the rate stabilization fund balance.

The KUA additionally maintains a computerized cost of service study which is updated annually 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.

Cash and Investments

During FY 1997, a Deregulation 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 \$8,059,095, \$11,789,385 and \$789,155 for Fiscal Years 2003, 2004, and 2005, respectively. The balance in this fund will vary over time, depending on fluctuations in expenses and/or revenues and other cash designation requirements.

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, 2005, 2004, and 2003:

Table 3 – Capital Assets, Net of Accumulated Depreciation

Utility Plant	9/30/05 Balance	9/30/04 Balance	9/30/03 Balance
Nuclear Production	\$ (289,411)	\$ 223,778	\$ 421,891
Steam Production	118,038,336	122,590,733	118,044,154
Other Production	14,391,422	16,885,965	19,298,795
Transmission Plant	43,467,818	42,742,208	44,062,467
Distribution Plant	40,024,523	39,329,895	37,540,693
General	6,161,575	6,545,600	6,664,138
Non-depreciable assets	13,517,075	6,672,800	15,948,918
Total	\$235,311,338	\$234,990,979	\$241,981,056

At the end of FY 2005, the KUA had \$398 million invested in a broad range of capital assets primarily power plants and electric transmission and distribution systems. This amount represents an increase of \$7.7 million, or 2% over last year. Those interested in more detailed information may refer to Footnote 5 in the Notes to the Financial Statements.

At the end of FY 2004, the KUA had \$390 million invested in a broad range of capital assets primarily power plants and electric transmission and distribution systems. This amount represents an increase of \$15.7 million, or 4% over last year.

Debt Management. At the end of the current fiscal year, the KUA had total debt outstanding of \$292,970,000. Of this amount, \$249.8 million is improvements and refunding revenue bonds and \$43.2 million is commercial paper.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenue Bonds	\$249,770,000	\$226,190,000	\$233,905,000
Commercial Paper	<u>43,200,000</u>	<u>78,200,000</u>	<u>70,000,000</u>
Total	<u>\$292,970,000</u>	<u>\$304,390,000</u>	<u>\$303,905,000</u>

The KUA's total debt decreased by \$11.4 million (3.7 percent) during the current fiscal year. The key factors in this decrease were the scheduled principal payments of \$9.7 million and the refunding of \$35 million of Commercial Paper Notes with the 2005 Revenue Bond Issue. See Footnotes 9 and 10 in the Notes to the Financial Statements for further detail. The KUA maintains an A and A2 underlying rating from Fitch and Moody's respectively for outstanding bond issues.

The KUA's total debt increased by \$.5 million (.2 percent) from 2003 to 2004. The key factors in this increase were the issuance of \$8.2 million of Commercial Paper for capital projects, offset by scheduled principal payments of \$7.7 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 approximately \$7,400,000);
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 \$31,449,000, \$32,864,000, and \$33,779,000 for Fiscal Years 2005, 2004, and 2003 respectively. The debt service requirements for Fiscal Years 2005, 2004, and 2003 were \$18,313,000, \$20,664,000, and \$19,037,000 respectively. Debt service coverage was 1.72x, 1.59x, and 1.77x for Fiscal Years 2005, 2004, and 2003, respectively.

Those interested in more detailed information may refer to Footnotes 9 and 10 in the Notes to the Financial Statements.

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 2006 is forecasted to be approximately 4.7% and 4.8% respectively. Change in Net Assets is projected to be approximately \$5,000 for FY 2006. There is no rate increase planned for the upcoming year.

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.

KISSIMMEE UTILITY AUTHORITY
BALANCE SHEETS
SEPTEMBER 30

ASSETS	2005	2004
CURRENT ASSETS		
Cash and cash equivalents	\$3,219,937	\$26,470,455
Investments	49,717,306	31,349,639
Interest receivable	222,375	113,531
Accounts receivable	12,597,171	12,161,289
Less: allowance for doubtful accounts	(496,017)	(538,711)
Unbilled revenue receivable	5,898,663	5,149,471
Inventory	17,958,544	17,627,187
Deferred cost of power adjustment	7,342,470	435,338
Energy conservation cost recovery	308,618	-
Other current assets	1,209,695	1,512,659
TOTAL CURRENT ASSETS	97,978,762	94,280,858
RESTRICTED ASSETS		
Cash and cash equivalents	37,635,623	31,941,902
Investments	57,274,954	55,085,841
Interest receivable	200,248	125,011
TOTAL RESTRICTED ASSETS	95,110,825	87,152,754
OTHER ASSETS		
Unamortized bond costs	2,627,234	2,874,440
Costs to be recovered from future revenue	47,935,890	44,466,126
Other	607,964	648,729
TOTAL OTHER ASSETS	51,171,088	47,989,295
UTILITY PLANT		
Property, plant and equipment	397,013,697	389,349,663
Less: accumulated depreciation	(176,356,700)	(162,168,750)
	220,656,997	227,180,913
Construction in progress	14,125,064	7,432,691
Inventory - nuclear fuel	529,277	377,375
TOTAL UTILITY PLANT	235,311,338	234,990,979
TOTAL ASSETS	\$479,572,013	\$464,413,886

The accompanying notes are an integral part of these financial statements

LIABILITIES AND NET ASSETS**2005****2004****LIABILITIES****CURRENT LIABILITIES**

Accounts payable	\$15,013,648	\$12,025,978
Due to other governments	2,012,373	1,745,920
Other accrued liabilities	1,278,679	1,143,513

TOTAL CURRENT LIABILITIES

	18,304,700	14,915,411
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LIABILITIES PAYABLE FROM RESTRICTED ASSETS

Current portion of revenue bonds	10,035,000	9,695,000
Accrued interest payable-revenue bonds	5,187,461	5,135,116
Advances for construction	2,402,796	1,669,251
Customer deposits	5,121,438	4,457,070
Rate stabilization deferred credits	13,400,000	5,000,000
Other	1,500,000	1,500,000

TOTAL LIABILITIES PAYABLE FROM RESTRICTED ASSETS

	37,646,695	27,456,437
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LONG-TERM DEBT

Revenue bonds payable	239,735,000	216,495,000
Commercial paper notes	43,200,000	78,200,000
Unamortized bond premium	8,508,255	6,074,080
Less: unamortized loss on reacquired debt	(22,472,622)	(23,219,894)
Less: unamortized bond discount	-	(144,311)

TOTAL LONG-TERM DEBT

	268,970,633	277,404,875
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OTHER LONG-TERM LIABILITIES

Self insurance fund	15,000,000	5,776,559
Accrued compensated absences	1,960,114	1,872,240
Maintenance reserve fund	419,758	1,111,570
CR3 special assessment	898,547	27,256

TOTAL OTHER LONG-TERM LIABILITIES

	18,278,419	8,787,625
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TOTAL LIABILITIES

	343,200,447	328,564,348
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NET ASSETS

Invested in capital assets, net of related debt	36,376,190	27,231,670
Restricted	37,991,769	37,391,317
Unrestricted	62,003,607	71,226,551

TOTAL NET ASSETS

	136,371,566	135,849,538
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COMMITMENTS AND CONTINGENT LIABILITIES (NOTES 10 & 11)**TOTAL LIABILITIES AND NET ASSETS**

	\$479,572,013	\$464,413,886
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The accompanying notes are an integral part of these financial statements

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

	2005	2004
OPERATING REVENUES		
Metered sales	\$128,936,242	\$101,245,778
Other	34,116,153	31,530,540
Rate stabilization transfer	(8,400,000)	-
TOTAL OPERATING REVENUES	154,652,395	132,776,318
OPERATING EXPENSES		
Generation and purchased power	103,431,499	83,141,953
Transmission and distribution	7,213,523	6,943,469
Administrative and general	15,222,921	12,132,434
Intergovernmental transfers	8,279,285	7,674,217
Depreciation and amortization	14,904,456	14,801,151
TOTAL OPERATING EXPENSES	149,051,684	124,693,224
OPERATING INCOME	5,600,711	8,083,094
NONOPERATING REVENUES (EXPENSES)		
Investment income	2,018,768	1,511,369
Interest expense	(8,406,513)	(11,012,890)
Other	(2,160,702)	(1,872,910)
Plant costs recovered through capital contributions	(2,287,651)	(1,828,362)
Costs to be recovered from future revenue	3,469,764	(1,523,166)
TOTAL NONOPERATING REVENUES (EXPENSES)	(7,366,334)	(14,725,959)
INCOME BEFORE CAPITAL CONTRIBUTIONS	(1,765,623)	(6,642,865)
Capital contributions	2,287,651	1,828,362
CHANGE IN NET ASSETS	522,028	(4,814,503)
NET ASSETS - BEGINNING OF YEAR	135,849,538	140,664,041
NET ASSETS - END OF YEAR	\$136,371,566	\$135,849,538

The accompanying notes are an integral part of these financial statements

**KISSIMMEE UTILITY AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30**

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and other sources	\$154,608,943	\$131,816,217
TOTAL CASH PROVIDED	154,608,943	131,816,217
Payments to suppliers for goods and services	(102,008,395)	(103,910,404)
Payments for employees for services	(14,865,246)	(13,475,584)
Payments for benefits on behalf of employees	(3,838,970)	(4,378,450)
TOTAL CASH USED	(120,712,611)	(121,764,438)
NET CASH PROVIDED BY OPERATING ACTIVITIES	33,896,332	10,051,779
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets and nuclear fuel	(17,329,782)	(9,805,474)
Advances for construction & advances from co-owners	4,540,386	1,904,421
Proceeds from debt issue	63,680,000	8,200,000
Payment to defease debt	(65,405,000)	-
Debt issuance costs	1,937,553	(95,275)
Principal paid on long-term debt	(9,695,000)	(7,715,000)
Interest paid on long-term debt	(11,257,922)	(9,106,459)
Other debt costs	(560,613)	(256,935)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(34,090,378)	(16,874,722)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(165,866,000)	(412,794,000)
Proceeds from maturities of investment securities	144,763,287	421,297,475
Interest on investments	3,739,962	2,486,544
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(17,362,751)	10,990,019
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,556,797)	4,167,076
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	58,412,357	54,245,281
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$40,855,560	\$58,412,357
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$5,600,711	\$8,083,094
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	15,145,669	15,068,633
Net amortization	(241,214)	(267,482)
(Increase)in accounts receivable, net	(1,227,768)	(3,833,826)
Decrease in other assets	1,275,252	(29,091)
(Increase) in inventory	(331,357)	(9,267,419)
(Increase) in deferred cost of power adjustment	(6,907,132)	3,088,391
(Increase) in energy conservation cost recovery	(308,618)	(214,666)
Increase in accounts payable	2,987,670	229,351
Increase in due to other governments	266,453	156,163
Increase in customer deposits	569,871	516,462
Increase in other current liabilities	8,400,000	-
Increase in other accrued liabilities	135,166	227,735
Increase in other designated liabilities	8,531,629	(3,705,566)
	\$33,896,332	\$10,051,779
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:		
Decrease in fair value of investments	\$825,639	\$802,265

The accompanying notes are an integral part of these financial statements

**KISSIMMEE UTILITY AUTHORITY
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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). 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 dial-up internet access, e-mail, personal web pages, 16-hour help desk, commercial co-location, web design, web hosting, and convenient billing options. During Fiscal Year 2004, KUA began agent sales of local and long distance telephone service and also began marketing and billing of residential and commercial security monitoring services. By offering a variety of 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 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.

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.

KISSIMMEE UTILITY AUTHORITY
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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.

Rate Stabilization Fund: A Rate Stabilization fund was created by the KUA which allows current income to be deferred to a future time in order to stabilize rates. This gives the KUA Board of Directors the ability to defer revenues in years when excess revenues (over minimum bond requirements) exist to build up the Rate Stabilization Fund. The deferred revenues would be recognized in future years, if needed, to meet minimum bond coverage requirements or to meet higher bond coverage as directed by the Board of Directors.

All revenues transferred into or out of the Rate Stabilization Fund must be approved by formal action of the Board of Directors. This fund was created by a revenue bond resolution and as such is classified as restricted (See Note 4).

Other Operating Revenue: As of October 1, 2002, KUA became a member of the Florida Municipal Power Agency (FMPA) All-Requirements Project (ARP). As a result of its becoming a member of the ARP, KUA has (A) under a Capacity and Energy Sales Contract between KUA and FMPA, (1) assigned all of the output of its generation facilities, both wholly-owned and jointly-owned to FMPA, (2) assigned its rights under its long-term power and fuel entitlement contracts to FMPA, and (3) transferred responsibility for the scheduling of the output of its generation facilities to FMPA, and (B) under a Power Sales Contract, agreed to purchase all of its energy requirements from FMPA.

By joining the ARP, KUA has essentially agreed with the other ARP members to pool both generation and fuel supply and other resources and, thereby, to attempt to achieve economies of scale and efficiencies of operation that will result in lower costs for the ARP participants collectively than would have otherwise resulted in the aggregate individually. The primary impact of KUA's joining the ARP, therefore, is expected to be on its Operation and Maintenance Expenses. KUA continues to be responsible for setting its rates, fees and charges for retail sales and for servicing customers within its service area. As a result of joining the ARP, KUA receives capacity credits which attempt to represent the market value of its generation resources. These credits are recorded as Other Operating Revenues.

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

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

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

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

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The cost of maintenance and repairs, including renewal of minor items of property less than \$5,000, 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 Recaptured Debt: Unamortized gains or losses on refunded debt are amortized to income over the life of the new debt consistent with the methods used for setting rates. Unamortized gains and losses on bond refundings have been netted for financial statement purposes.

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

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

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

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

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 and Toho Water Authority: 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 \$8,206,900 and \$7,400,500 for the years ended September 30, 2005 and 2004, respectively. The amount owed to the City of Kissimmee was approximately \$1,490,600 and \$1,453,700 for the years ended September 30, 2005 and 2004, 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 UTILITY AUTHORITY
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Kissimmee was approximately \$746,600 and \$623,100 for the years ended September 30, 2005 and 2004, respectively. The amount owed to the City of Kissimmee was approximately \$88,300 and \$48,000 at September 30, 2005 and 2004, respectively.

The KUA collects revenues on behalf of the City of Kissimmee and Toho Water Authority utility services including water, sewer, solid waste and utility taxes. The amount paid to the City of Kissimmee and Toho Water Authority by the KUA for utility service revenues collected was approximately \$38,646,400 and \$32,151,900 for the years ended September 30, 2005 and 2004, respectively. The amount owed to the City of Kissimmee and Toho Water Authority was approximately \$131,500 and \$52,700 at September 30, 2005 and 2004, 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 \$48,300 and \$137,800 for the years ended September 30, 2005 and 2004, respectively.

The KUA performs certain customer related services for the City of Kissimmee and Toho Water Authority for which the City of Kissimmee and Toho Water Authority paid the KUA approximately \$1,554,500 and \$1,264,700 for the years ended September 30, 2005 and 2004, respectively. The amount owed by the City of Kissimmee and Toho Water Authority to the KUA was approximately \$143,900 and \$101,700 at September 30, 2005 and 2004, respectively. As of September 30, 2005 and 2004, the City of Kissimmee also owed the KUA \$0 and \$152,500, 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 were approximately \$152,500 and \$72,100 for the years ended September 30, 2005 and 2004, respectively.

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

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

Compensated Absences: 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 ARP Working Capital deposit, 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, 2005 and 2004 are as follows:

Current	Restricted	Total
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KISSIMMEE UTILITY AUTHORITY
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2005	Cash & Cash Equivalents	\$ 3,219,937	\$37,635,623	\$ 40,855,560
	Investments	49,717,306	57,274,954	106,992,260
	Interest Receivable	222,375	200,248	422,623
	TOTALS	\$53,159,618	\$95,110,825	\$148,270,443
2004	Cash & Cash Equivalents	\$26,470,455	\$31,941,902	\$ 58,412,357
	Investments	31,349,639	55,085,841	86,435,480
	Interest Receivable	113,531	125,011	238,542
	TOTALS	\$57,933,625	\$87,152,754	\$145,086,379

Investments are recorded at fair value. The effect of adjusting the investments to fair value at September 30, 2005 and 2004 was a decrease to the investments carrying value of approximately \$825,600 and \$802,300, respectively.

The balance in the SBA was approximately \$25,826,000 and \$53,412,000 at September 30, 2005 and 2004 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, 2005, the Local Government Surplus Funds Investment Pool Trust Fund (LGSF Pool) did not hold any investments which could be classified as "derivative" investments under GASB Technical Bulletin No. 2003-1. GASB Technical Bulletin No. 2003-1 is effective for periods ending after June 15, 2003 and supersedes Technical Bulletin No. 94-1. Per GASB Technical Bulletin No. 2003-1, a derivative instrument is a financial instrument or other contract with all three of the following characteristics:

- a) It has (1) one or more underlyings and (2) one or more notional amounts or payment provisions of both. Those terms determine the amount of the settlement or settlements, and, in some cases, whether or not a settlement is required.
- b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- c) Its terms require or permit net settlement, it can readily be settled net by a means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

Under GASB Technical Bulletin No. 94-1, derivatives were generally defined as a contract whose value was dependent on, or derived from, the value of an underlying asset, reference rate or index.

Floating and variable rate notes previously reported as derivatives under GASB Technical Bulletin No. 94-1 no longer fit the definition of a derivative under the recently issued GASB Technical Bulletin No. 2003-1. Although the floating and variable rate notes held by the LGSF Pool contain terms requiring their interest rates to change based on an underlying reference rate or interest rate index such as the London Interbank Offered Rate (LIBOR), none meet the second and third requirements in the GASB Technical Bulletin 2003-1 derivative definition. Their terms do not require or permit net settlement and their initial net investment is not smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors. Investments in floating and variable rate notes represented approximately 41% of the total LGSF Pool investments. Therefore, KUA's exposure to these floaters is approximately \$10,587,000 and \$31,500,000 for the years ended September 30, 2005 and 2004, 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 \$0 and \$46,000 at September 30, 2005 and 2004, respectively. Repurchase agreements are held in the name of the KUA's depository bank. The maximum repurchase agreement was \$5,026,500 and \$4,367,000 during 2005 and 2004, respectively.

At September 30, 2005 and 2004 the carrying amount of the KUA's deposits with financial institutions was \$0 for each year respectively, and the bank balance was approximately \$849,500 and \$285,000, respectively. All bank balances are fully insured in accordance with Florida Statute 280, which established the multiple financial institution collateral pool.

Deposit and Investment Risk Disclosures: When practical, the KUA will attempt to match its investments with anticipated cash flow requirements. Maturity lengths may be adjusted based on the opportunities presented by the then current yield curve. Investment in securities in which the maturity dates result in a duration that exceeds the maximum duration allowed for the security class is not permitted. KUA's investment policy limits duration and percent of portfolio limitations (based on par values) by investment class as

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follows:

<u>Investment Class</u>	<u>Duration</u>	<u>Portfolio %</u>
Florida Local Government Surplus Trust Fund (SBA)	Daily liquidity	60%
U.S. Government Securities	8.25 years	100%
U.S. Federal Agencies	8.25 years	25%
U.S. Federal Instrumentalities	4.75 years 50%	
Corporate Bonds	4.75 years	15%
Commercial Paper	270 days	15%
Bankers' Acceptance	180 days	15%
Certificate of Deposit	365 days	15%
Mortgage-Backed Securities (MBS)	2.5 years	15%
Fixed Income Mutual Funds	Daily liquidity	10%
Repurchase Agreements	60 day maturity	20%
Reverse Repurchase Agreements	60 day maturity	10%

Interest Rate Risk KUA's investment policy restricts investments by duration in an effort to limit its exposure to market value losses arising from rising interest rates. These investment restrictions have been detailed. As of September 30, 2005, the portfolio had a duration of .74 and a weighted average life of .79.

Duration is a measure of a fixed income's cash flows using present values, weighted for cash flows as a percentage of the investments full price. Analytical software commonly includes duration functions. Macaulay duration (named after its developer) is the basic calculation developed for a portfolio of bonds assembled to fund a fixed liability. Modified duration, based on Macaulay duration, estimates the sensitivity of a bond's price to interest rate changes. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investment as callable bonds, prepayments, and variable-rate debt. Since KUA assumes that no callable bonds will be called due to the rising interest rate environment, Modified Duration will be used.

As of September 30, 2005, KUA had the following investments in its portfolio.

<u>Investment</u>	<u>Market Value</u>	<u>Modified Duration</u>
Fixed Income Mutual Funds	\$ 566,965	0.000
Corporate Bonds	\$ 8,875,710	0.977
Commercial Paper	\$ 4,158,338	0.050
Federal Instrumentalities Coupon	\$56,835,894	0.823
Federal Instrumentalities Discounts	\$ 4,217,674	0.263
Treasury Coupons	\$20,292,020	2.082
Treasury Discounts	\$ 9,331,018	0.273
Treasury SLGS	\$ 136,800	1.328
Mortgage-Backed Securities	\$ 149,470	1.431
Florida Local Government Trust Fund (SBA)	\$25,825,881	0.000
Bank Deposits Invested	\$ 8,459,733	0.000

Credit Risk KUA's policy is to limit its investments in commercial paper and corporate bonds by rating to mitigate this risk. At purchase, commercial paper must have a minimum rating of A1 by Standard & Poor's, F1 by Fitch and P1 by Moody's. As a practical matter, KUA only invests in commercial paper rated as A1+/P1. Corporate bonds are limited at purchase to ratings of AA by Standard & Poor's, AA by Fitch and Aa by Moody's. Additionally, the investment policy limits Fixed Income Mutual Funds ratings as AAA by Standard & Poor's, AAA by Fitch and Aaa by Moody's. Two of the three rating agencies must rate any bonds or commercial paper purchased by KUA.

As of September 30, 2005, fixed income mutual funds held by KUA were rated AAA and all commercial paper held were rated A1+/P1. KUA held \$3.95 million in corporate bonds rated AAA/Aaa, \$2.02 million rated AA/Aa2 and \$2.91 million rated AA-/Aa3.

Bank Deposits Invested represents funds held at our depository bank (SunTrust Banks, Inc.) and invested by them in a pool. SunTrust's long-term ratings are as follows:

Moody's Aa3

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Standard & Poor's A+
 Fitch A+

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, KUA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2005, KUA did not have any material investments held by our counterparty which were in a name other than KUA.

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 specific purposes in a future period. Current cash and cash equivalents, investments and interest receivable at September 30, 2005 and 2004 included the following:

Current Assets	2005	2004
Undesignated	\$15,137,400	\$13,102,615
Designated for:		
Capital Improvements	13,820,325	13,786,943
Self-Insurance	15,000,000	5,776,559
Decommissioning	557,345	545,312
Combined Cycle Maintenance	7,853,637	12,819,869
Excess Liability	0	101,049
Good Neighbor Funds	1,755	11,893
Deregulation	789,155	11,789,385
Total	\$53,159,618	\$57,933,625

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, 2005 and 2004, included the following:

Restricted Assets	2005	2004
Debt Service Reserve	\$19,606,083	\$19,606,083
Sinking Fund	15,222,460	14,830,116
Construction Fund	29,507,361	32,000,000
Renewal, Replacement & Improvement	1,500,000	1,500,000
Advances for Construction	2,402,796	1,669,251
Customer Deposits	5,121,438	4,457,071
Crystal River Unit #3 Decommissioning	3,006,484	2,746,031
ARP Working Capital	5,344,202	5,344,202
Rate Stabilization	13,400,000	5,000,000
Total	\$95,110,825	\$87,152,754

Note 5 – Capital Assets

Utility plant activity for the years ended September 30, 2005 and 2004 was as follows:

Utility Plant	10/01/04 Balance	Additions	Deletions & Reclassifications	9/30/05 Balance
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Nuclear Production	\$ 6,526,586	\$ 136,465	\$ 0	\$ 6,663,051
Steam Production	154,841,603	385,620	(19,100)	155,208,123
Other Production	68,760,164	29,825	(12,870)	68,777,119
Transmission Plant	62,384,728	2,922,028	0	65,306,756
Distribution Plant	73,173,418	5,606,123	(1,947,516)	76,832,025
General	24,800,430	1,073,207	(509,748)	25,363,889
Subtotal	390,486,929	10,153,268	(2,489,234)	398,150,963
Less Accumulated Depreciation:				
Nuclear Production	(6,302,808)	(649,655)	0	(6,952,463)
Steam Production	(32,250,870)	(4,938,017)	19,100	(37,169,787)
Other Production	(51,874,199)	(2,524,367)	12,870	(54,385,696)
Transmission Plant	(19,642,520)	(2,196,418)	0	(21,838,938)
Distribution Plant	(33,843,523)	(3,221,871)	257,892	(36,807,502)
General	(18,254,830)	(1,457,232)	509,748	(19,202,314)
Subtotal	(162,168,750)	(14,987,560)	799,610	(176,356,700)
Non-Depreciable Assets	6,672,800	16,504,231	(9,659,956)	13,517,075
Net Plant	\$234,990,979	\$11,669,939	\$(11,349,580)	\$235,311,338

Utility Plant	10/01/03 Balance	Additions	Deletions & Reclassifications	9/30/04 Balance
Nuclear Production	\$ 6,352,292	\$ 174,294	\$ -	\$ 6,526,586
Steam Production	145,487,768	9,471,807	(117,972)	154,841,603
Other Production	68,662,874	128,427	(31,137)	68,760,164
Transmission Plant	61,609,290	775,438	-	62,384,728
Distribution Plant	68,904,893	10,152,618	(5,884,093)	73,173,418
General	23,772,433	1,525,469	(497,472)	24,800,430
Subtotal	374,789,550	22,228,053	(6,530,674)	390,486,929
Less Accumulated Depreciation:				
Nuclear Production	(5,930,401)	(372,407)	-	(6,302,808)
Steam Production	(27,443,614)	(4,924,549)	117,293	(32,250,870)
Other Production	(49,364,078)	(2,523,496)	13,375	(51,874,199)
Transmission Plant	(17,546,823)	(2,095,697)	-	(19,642,520)
Distribution Plant	(31,364,200)	(3,157,488)	678,165	(33,843,523)
General	(17,108,295)	(1,621,661)	475,126	(18,254,830)
Subtotal	(148,757,411)	(14,695,298)	1,283,959	(162,168,750)
Non-Depreciable assets	15,948,917	10,243,960	(19,520,077)	6,672,800
Total Plant	\$241,981,056	\$17,776,715	\$(24,766,792)	\$234,990,979

Depreciation expense for Utility Plant totaled approximately \$15,146,000 and \$15,069,000 for years ended September 30, 2005 and 2004, respectively.

Note 6 – Construction Project Interest Cost

KUA capitalizes interest on construction projects financed with the revenue bonds in accordance with SFAS No. 71 (See Note 1). The amount capitalized is the interest cost of the debt less any interest earned on investment of debt proceeds until the assets are placed in service. Total interest incurred was approximately \$8,278,000 and \$10,969,000 for fiscal years 2005 and 2004. In accordance with

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SFAS No. 71, the KUA capitalized interest expense of approximately \$3,033,000 for the year ended September 30, 2005. The KUA did not capitalize interest expense for the year ended September 30, 2004.

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 assigned 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 assumed all payment obligations and other responsibilities and is 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):** 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 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 which began commercial operation in July 2001.

C. **Stanton Energy Center (SEC):** The KUA entered into a Participation Agreement with Orlando Utilities Commission (OUC) to acquire a 4.8193% (21 MW) undivided ownership interest in SEC 1 and to participate in the use of related common and external facilities. The KUA acquired its share of the SEC common facilities, related to its ownership of SEC 1. The capacity and energy of the KUA's ownership interest in SEC 1 is transmitted through OUC's transmission facilities to the KUA's transmission facilities. SEC 1 is part of the Stanton Energy Center, which involved the development of an approximately 3,200 acre plant site located approximately 20 miles northeast of the City of Kissimmee.

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.

The KUA entered into a Transfer Agreement with the City of Lake Worth for the transfer of the City of Lake Worth's entire 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.

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.

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.

The KUA entered into a participation agreement with Southern Company, Orlando Utilities Commission (OUC), and Florida Municipal Power Agency (FMPA) to acquire a 3.5% (23 MW) undivided ownership interest in SEC A and to participate in the use of related common and external facilities. The capacity is transmitted through OUC's transmission facilities to KUA's transmission facilities. The unit began commercial operation in October 2003.

SEC consists of two 435 MW coal fired units (I & II) and one 657 MW combined cycle unit (A). The SEC is capable of accommodating one more unit 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 or Southern Company.

D. **Crystal River Unit No. 3 (CR3):** The KUA entered into a Participation Agreement with Florida Power Corporation (FPC), now Progress Energy, to purchase a .6754% undivided interest in their 843 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

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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 Progress Energy.

E. **Indian River Combustion Turbine:** The KUA entered into a Participation Agreement with OUC to acquire a 12.2% (11.2 MW) undivided ownership interest in the Indian River Combustion Turbine and participate in the use of related common and external facilities. Each participant in the project financed their share of the cost independently and no liability exists for the debt service required by the other participants. The KUA does not exercise significant influence or control over the operating or financial policies of OUC.

F. **St. Lucie Nuclear Power Plant:** 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 Statement of Revenues, Expenses and Changes in Net Assets statement. The amounts of utility plant in service for CR3 and Indian River do not include the cost of common and external facilities for which participants pay user charges to the operating entity. Accumulated depreciation on utility plant in service is determined by each participant based on their depreciation methods and rates relating to their share of each plant.

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

		SEC 1	SEC A	CR3	Indian River
2005	Utility Plant	\$21,186,947	\$ 8,244,093	\$ 6,663,192	\$ 2,975,579
	Less: Accumulated Depreciation	(9,546,749)	(478,392)	(6,952,463)	(1,827,938)
	Net Utility Plant	\$11,640,198	\$ 7,765,701	\$ (289,271)	\$ 1,147,641
2004	Utility Plant	\$20,994,385	\$ 8,239,440	\$ 6,526,586	\$ 2,963,496
	Less: Accumulated Depreciation	(6,037,000)	(235,412)	(6,302,808)	(1,662,729)
	Net Utility Plant	\$14,957,385	\$ 8,004,028	\$ 223,778	\$ 1,300,766

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, 2005 was 10.6% percent of earnings. The Plan has been a non-contributory Plan since 1986 and was changed to a tiered plan in April 2004. Employees now have the option of contributing to the plan. The employee contribution rate for the year ended September 30, 2004 was 2.8% of total annual payroll.

Annual Pension Cost - For the years ended September 30, 2005, 2004, and 2003, respectively, the annual pension costs of \$1,583,221, \$1,980,616, and \$1,601,520, were equal to the KUA's required and actual contributions and employee contributions. The annual required contribution was determined as part of the October 1, 2004 actuarial valuation using the Entry Age Normal Actuarial Cost 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 5%. 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

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amortization period at October 1, 2004 was 25 years.

Note 9 – Long-Term Liabilities

The Revenue Bond resolutions provide for both Senior and Subordinate rate covenants. These covenants are established to ensure, among other things, that rates, fees and charges will be sufficient to provide revenues in each fiscal year for the funding of operations and maintenance expenses, debt service, new funds established by resolution and all other charges or liens whatsoever payable of revenues during the year.

Listed below are the pertinent elements of the resolutions. These elements relate to both the senior and the subordinate resolutions except as noted in Section 3 below. All amounts required, relating to subordinate debt, shall be subordinate to amounts required for senior debt.

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 in reserve 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;
- Construction Fund records the cost of major additions to the System financed by revenue bonds; and
- Rate Stabilization fund records funds to be used to the extent provided in the current Annual Budget or to be transferred, as appropriate, to any other fund or account under the resolutions.

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 to equal 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 to equal one-twelfth (1/12) of the amortization installment coming due on the next annual payment date;
- Deposits to the Reserve Fund are to be made when required to maintain the Fund at the Reserve Requirement (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 110% of the bond service requirement in the Bond Year which ends one day after such fiscal year. In regards to Subordinate debt, the above-mentioned annual net revenues in each fiscal year are required to be at least equal to 100% of the bond service requirement.

4. Early redemption:

- The bond resolution provides for early redemption of certain of the outstanding bonds at a call rate of 100% to 101% of the bond's 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,

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Replacement & Improvement Fund may be invested as described above as well as in the following: obligations rating an "A" or better from Moody's Investors Service, Inc., bank time deposits represented by certificates of deposit and bankers acceptances, repurchase agreements, commercial paper which has the highest investment grade rating and shares of investment companies which invest principally in United States government securities.

Long-term debt outstanding at September 30, 2005 and 2004 consisted of the following serial and term bonds, and outstanding commercial paper notes:

Description	Final Maturity	Original Amount	2005	2004
Refunding Revenue Bonds, Series 1997 3.85%-5% - 4/2; 10/2	10/01/12	\$56,180,000	\$ 3,635,000	\$37,525,000
Refunding Revenue Bonds, Series 2001A 3.50%-4.70% - 4/2; 10/2	10/01/17	31,020,000	25,900,000	27,715,000
Refunding Revenue Bonds, Series 2001B 4%-5% - 4/2; 10/2	10/01/15	44,500,000	42,880,000	44,415,000
Refunding & Improvement Bonds, Series 2003	10/01/18	55,835,000	52,975,000	55,835,000
Refunding Revenue Bonds, Subordinate Series 2003	10/01/18	60,700,000	60,700,000	60,700,000
Refunding Revenue Bonds, Subordinate Series 2005	10/01/18	63,680,000	63,680,000	0
Commercial Paper Program, Series A Interest at various market rates		35,000,000	0	35,000,000
Commercial Paper Program, Series B Interest at various market rates		35,000,000	35,000,000	35,000,000
Commercial Paper Program, Series B, Second Installment Interest at various market rates		8,200,000	8,200,000	8,200,000
Total Amount Outstanding			292,970,000	304,390,000
Less: Current Portion			(10,035,000)	(9,695,000)
Unamortized Bond Discount			0	(144,311)
Unamortized Loss on Reacquired Debt			(22,472,622)	(23,219,894)
Unamortized Bond Premium			8,508,255	6,074,080
Long Term Debt			\$268,970,633	\$277,404,875

The annual long-term debt service requirements at September 30, 2005 are as follows (excludes Series A and B Commercial Paper):

	Interest	Principal	Total
2005	9,587,424	10,035,000	19,622,424
2006	10,504,154	13,995,000	24,499,154
2007	9,924,122	14,450,000	24,374,122
2008-2012	39,023,684	83,075,000	122,098,684
2013-2017	17,890,660	104,605,000	122,495,660
2018	889,083	23,610,000	24,499,083
Total	\$87,819,126	\$249,770,000	\$337,589,127

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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 three series, 2000A, 2000B, and 2000B second installment for \$35,000,000, \$35,000,000 and \$8,200,000, respectively 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 \$78,200,000). During the year ended September 30, 2005, interest rates on the Commercial Paper ranged from 1.55% to 3.00% and averaged 2.03%.

The Commercial Paper Notes are secured by the Commercial Paper Purchase Agreement between KUA and JP Morgan Chase Bank. 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 \$78.2 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, 2005, \$35,000,000, the Series A was escrowed to be refunded. On October 13, 2005, \$32,000,000 was refunded and the remaining \$3,000,000 was refunded on November 16, 2005. The Series B in the amount of \$43,200,000 are outstanding and are reflected as Long-Term Liabilities on the Balance Sheet.

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 (1) 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 (2) 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.

On August 28, 2003, the KUA simultaneously issued variable rate and fixed rate bonds together with an interest rate swap via \$55,835,000 in Refunding and Improvement Revenue Bonds Series 2003 and \$60,700,000 in Refunding Revenue Bonds, Subordinate Series 2003. The bonds were issued to (1) refund the remainder of Improvement and Refunding Revenue Bonds Series 1993 in the amount of \$88,115,000 and (2) pay certain expenses related to the issuance and sale of the Series 2003 Bonds and (3) fund the acquisition and construction of additions, extensions, and improvements to the electric system estimated at a cost of \$32,000,000. The result of the refunding was a net present value savings of \$7,806,770 or 9.1% of the refunded bonds.

On September 29, 2005, the KUA issued \$63,680,000 in Kissimmee Utility Authority Electric System Refunding Revenue Bonds, Subordinate Series 2005. The bonds were issued to (1) refund all of the KUA's outstanding Electric System Refunding Revenue Bonds, Series 1997, maturing on and after October 1, 2006, of which \$30,405,000 aggregate principal amount is currently outstanding, (2) KUA's Commercial Paper, Series 2000A in the amount of \$35,000,000, and (3) pay certain expenses related to the issuance and sale of the Series 2005 Bonds. The result of the refunding was a net present value savings of \$1,196,528 or approximately 3.94% of the refunded bonds.

Long-term debt activity for the years ended September 30, 2005 and 2004 was as follows:

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	Revenue Bonds Payable	Commercial Paper	Deferred Amounts	Long-Term Debt
10/01/04 Balance	\$ 216,495,000	\$78,200,000	\$(17,290,125)	\$277,404,875
Additions	63,680,000		1,821,493	65,501,493
Reductions	(40,440,000)	(35,000,000)	1,504,266	(73,935,734)
9/30/05 Balance	\$ 239,735,000	\$43,200,000	\$(13,964,366)	\$268,970,634
Due within one year	\$ 10,035,000	\$ -	\$ 2,038,978	\$ 12,073,978
	Revenue Bonds Payable	Commercial Paper	Deferred Amounts	Long-Term Debt
10/01/03 Balance	\$ 226,190,000	\$70,000,000	\$(18,655,472)	\$277,534,528
Additions	-	8,200,000	-	8,200,000
Reductions	(9,695,000)	-	1,365,347	(8,329,653)
9/30/04 Balance	\$ 216,495,000	\$78,200,000	\$(17,290,125)	\$277,404,875
Due within one year	\$ 9,695,000	\$ -	\$ 1,377,993	\$ 11,072,993

Deferred amounts consist of unamortized balances of long term debt premiums, discounts and losses on refunding.

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, October 25, 2001, August 18, 2003, and September 29, 2005 are as follows at September 30, 2005:

Electric Revenue Bonds	2005
1977 Series A	\$ 6,950,000
1979	1,080,000
1982	28,935,000
1982-A	39,145,000
1984	21,545,000
1985	25,750,000
1987	33,955,000
1991	63,960,000
1993	127,095,000
1993A	20,525,000
1997	30,405,000
Total	<u>\$399,345,000</u>

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

KUA is a party to an interest rate swap agreement which is not recorded in the financial statements. Following is a disclosure of key aspects of the agreement.

Objective of the Interest Rate Swap: On August 5, 2003 KUA entered into an interest rate swap with JPMorgan Chase Bank (Counterparty) in connection with its variable rate 2003 Subordinated Bonds. The objective was to lower borrowing costs by synthetically fixing an interest rate.

Term: The swap, with a notional amount of \$60.7 million, became effective on August 28, 2003. The swap amount decreases over time, matching the amount of the variable rate debt. The first notional decrease for both is October 1, 2014, with the final maturity of October 1, 2018. Under the terms of the swap agreement, KUA will pay the Counterparty a fixed annual interest rate of 3.519%. KUA will receive from the Counterparty a variable payment based on 70.00% of the one month of USD-LIBOR (BBA). KUA will also pay the interest rate resulting from the 35-day remarketing of the 2003 Subordinate Bonds.

Fair Value: As of September 30, 2005 and 2004, the fair value of the swap was \$(2.7) million and \$(3.6) million respectively, based on quoted market prices. This negative fair value is a result of changes in interest rates and reflects the fact that at September 30, KUA would have to pay this amount to terminate the swap agreement.

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Swap Payments and Associated Debt: Assuming interest rates remain the same as September 30, 2005, annual debt service requirements on the 2003 Subordinate Bonds notes and the interest rate swap would be as follows:

FY Ended Sept. 30	Variable Rate Bonds			Interest Rate Swaps, Net	Total
	Principal	Interest			
2005	-	\$ 2,136,033		\$ 459,919	\$ 2,595,952
2006	-	2,136,033		459,919	2,595,952
2007	-	2,136,033		459,919	2,595,952
2008	-	2,136,033		459,919	2,595,952
2009	-	2,136,033		459,919	2,595,952
2010	-	2,136,033		459,919	2,595,952
2011	-	2,136,033		459,919	2,595,952
2012	-	2,136,033		459,919	2,595,952
2013	-	2,136,033		459,919	2,595,952
2014	\$ 6,025,000	2,136,033		459,919	8,620,952
2015	6,275,000	1,924,013		446,695	8,645,708
2016	14,575,000	1,703,196		395,428	16,673,624
2017	15,100,000	1,190,302		276,350	16,566,652
2018	18,725,000	658,932		152,983	19,536,915
Total	\$60,700,000	\$28,972,807		\$5,870,646	\$94,407,419

* Computed (3.519% - 2.702%) X \$60,700,000

Credit Risk: As of September 30, 2005, the fair value of the swap was negative; therefore the KUA is not subject to credit risk. However, should interest rates change and the fair value of the interest rate swap become positive, the KUA would be exposed to counterparty credit risk in the amount of the interest rate swap's fair value. The swap counterparty was rated Aa3 and A+ by Moody's and S&P respectively as of September 30, 2005.

Basis Risk: The swap exposes KUA to the difference between 70% of the one month USD-LIBOR (BBA) index and a 35-day rollover based on current market conditions. As of September 30, 2005 LIBOR was 3.86% for the month of September 2005, while the last 35-day rollover index was 2.5%.

Termination Risk: The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events. The Schedule to the Master Agreement includes "additional termination events". That is if:

(i) JPMorgan's senior, unsecured, unenhanced debt rating is withdrawn, suspended, or falls below "Baa1" or in the case of Moody's reduced below "BBB+" in the case of S&P and where JPMorgan has not, within 30 days after the relevant rating being reduced below such rating level, transferred its rights and delegated its obligations under all outstanding transactions to another entity or entities subject to KUA's consent (which shall not be unreasonably withheld) and such other entity or entities have assumed such rights and obligations; or

(ii) with respect to KUA, if KUA's long-term senior unenhanced debt rating of its Bonds is withdrawn, suspended or reduced below "Baa1" in the case of Moody's or "BBB+" in the case of S&P, if S&P provides such a rating at the request of KUA;

provided, however, that upon the parties agreement to mutually acceptable credit support or funding of a reserve account, the ratings set forth in (i) and (ii) above shall be reduced to "Baa3" in the case of Moody's and "BBB-" in the case of S&P.

Other Long-Term Liabilities for the years ended September 30, 2005 and 2004 were as follows:

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	Self-Insurance Fund	Accrued Compensated Absences	Maintenance Reserve Fund	Other
10/01/04 Balance	\$ 5,776,559	\$1,872,240	\$ 1,111,570	\$ 27,256
Additions	10,928,401	87,874	2,260,282	871,291
Reductions	(1,704,960)	-	(2,952,094)	-
9/30/05 Balance	\$15,000,000	\$1,960,114	\$ 419,758	\$898,547

	Self-Insurance Fund	Accrued Compensated Absences	Maintenance Reserve Fund	Other
10/01/03 Balance	\$11,717,109	\$1,622,087	\$1,479,036	\$ 8,407
Additions	177,462	250,153	965,528	18,849
Reductions	(6,118,012)	-	(1,332,994)	-
9/30/04 Balance	\$ 5,776,559	\$1,872,240	\$1,111,570	\$27,256

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 2006 will be approximately \$15,906,000 and \$55,601,000 for years 2007 through 2010.

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 in Fiscal Year 2006 of the purchase agreements are as follows:

	Date	Commitment
Orlando Utilities Commission (OUC)		
SEC 1	NONE	\$ 197,805
Indian River	NONE	113,032
FMPA (St. Lucie, SEC2)	NONE	10,597,737
Progress Energy	NONE	76,145
Florida Gas Transmission (FGT)	2005 *	6,266,444
Florida Gas Utility (FGU)	2008	8,536,764
Stanton A		
PPA	NONE	3,580,106
Ownership	NONE	213,959
Gas	NONE	1,924,992
Total		\$31,506,984

* *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. These charges are recorded as purchased power.

The KUA owns a portion of Progress Energy'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 \$4,115,000 in decommissioning costs in 2004 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 Crystal River 3. The KUA's carrying balance in this Trust at September 30, 2005 and 2004 including interest earnings was approximately \$3,006,000 and \$2,746,000, respectively. Future contributions will be made to this trust account as needed based on updated cost estimates and trust fund earnings.

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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, 2005 and 2004 of approximately \$27,500 and \$40,600, respectively, of which approximately \$13,600 and \$27,000, 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.

Contractual agreements to obtain parts and services for generation units have been entered into. Under the service agreements, KUA has committed to pay \$7.75 million over approximately 7 years with \$1.1 million expected to be paid in Fiscal Year 2006.

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 \$4,546,640. 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 was appealed and the State Supreme Court sent this matter back to the 11th Circuit Court of Appeals (federal) for final disposition and the court ordered KUA/FMPA to pay the railroad and Amtrak approximately \$851,000 plus interest, attorney's fees and costs. KUA believes that our final share will be \$565,250.

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. This matter has been settled and KUA's total liability did not exceed its \$25,000 deductible under the General Liability policy. It is management's opinion that KUA has no direct responsibility related to this accident. In management's best estimate of this matter, it will not exceed the amount set aside in the self-insurance reserve fund.

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 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 Self-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 \$15,000,000 and \$ 5,777,000 for the years ended September 30, 2005 and 2004, respectively. The Self-Insurance reserve is the

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KUA's best estimate based upon available information and is increased by interest earnings on the reserve balance less claims paid each year. During Fiscal Year 2005, approximately \$3.4 million was transferred to the reserve at Board direction to replenish it for un-reimbursed hurricane losses. This reserve is reflected as a liability under Other Long-term Liabilities on the Balance Sheet.

Years Ended September 30	Beginning Balance	Claims/ Payments	Increase in Reserve			Ending Balance
			Hurricane Reimbursements	Interest Earnings	Increase	
2005	\$ 5,776,559	(\$1,704,961)	\$7,268,455	\$211,748	\$3,448,199	\$15,000,000
2004	11,717,109	(6,118,012)	-	177,462	-	5,776,559

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, 2005 and 2004:

	2005	2004
Debt Service:		
Debt service and sinking funds	\$29,641,083	\$29,301,083
Other:		
Crystal River Unit #3 Decommissioning	3,006,484	2,746,031
ARP Working Funds	5,344,202	5,344,202
Total restricted net assets	\$37,991,769	\$37,391,317

Kissimmee Utility Authority Employees' Retirement Plan

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAL)	Funded Ratio	Annual Covered Payroll	UAL Ratio to Covered Payroll
10/01/04	\$32,403,029	\$37,840,876	\$5,437,847	85.63%	\$11,872,260	45.80%
10/01/03	30,566,700	31,427,331	860,631	97.26%	11,503,917	7.48%
10/01/02	29,233,758	30,085,244	851,486	97.17%	10,726,420	7.94%
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	-