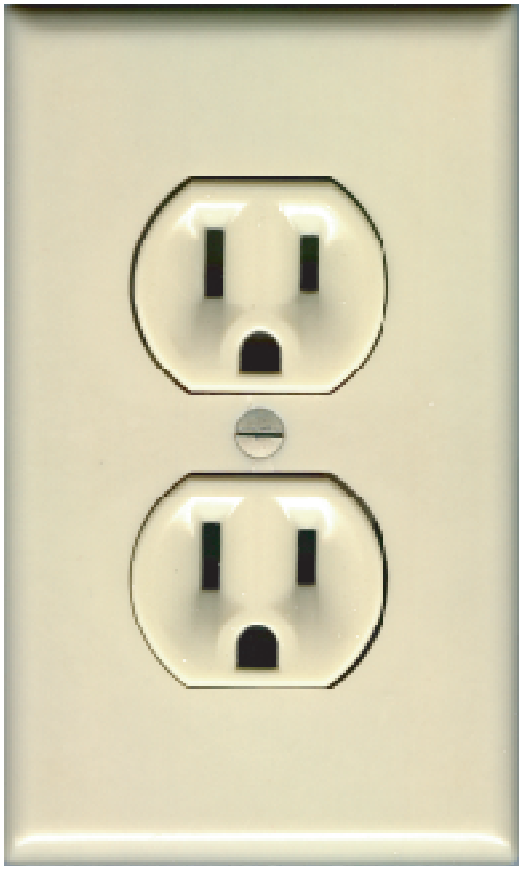
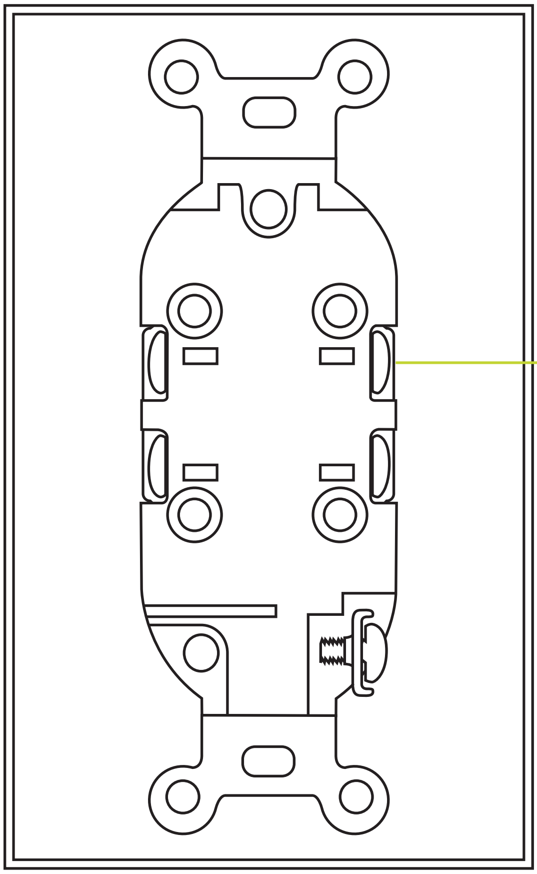


ON

KISSIMMEE UTILITY AUTHORITY

2003 ANNUAL REPORT



OUTLET

A point in a wiring system from which current can be taken to supply electrical devices.

ON

An instant, action, or occurrence when something begins or is done.

(left to right) Don Shearer, Chairman; Dr. George Gant, Mayor; Bill Hart, Assistant Secretary; Jim Welsh, President & General Manager; Nancy Gemskie, Vice Chairman; Grant Lacerte, Vice President & General Counsel; Domingo Toro, Secretary; Fred Cumbie, Director.

ON

On August 14, 2003, large portions of the Midwest and northeastern United States experienced an electrical blackout. The outage affected nearly 50 million people and 61,800 megawatts (MW) of electric load.

The blackout, which lasted two days in some areas, spotlighted the fact that what was once a luxury for some has become a necessity for all.

Society has come to depend on electricity as an essential resource for all aspects of modern life, including health, food and water, heating and cooling, computers, electronics, communication, and even entertainment.

Furthermore, customers have come to expect their electricity will almost always be available. At Kissimmee Utility Authority, we take that expectation seriously, and we work 24 hours a day, seven days a week to live up to it.

Even though Kissimmee is more than a thousand miles from the blackout area, its aftereffects were far reaching. The statement made by the blackout itself was so strong that we could not ignore it.

That's why we've chosen to dedicate this annual report to recognizing the ways electricity impacts our lives. We'd like to bring your attention to just a few of the many luxuries, conveniences and life-saving devices that exist because electricity powers them.

We're also going to enlighten you with our many accomplishments of the year – 2003 was a great year for KUA. Everything about us was ON – we were on target, on message and relied on. We worked hard, and it shows.

Our accomplishments were many – here's a small sample of what's on tap in this report.

- KUA planned for the worst, but hoped for the best with our annual mock disaster drill, where employees practiced how to handle emergency situations, including hurricanes, cyber terrorism, a hazardous chemical spill, power outages and more.

- KUA purchased terrorism insurance for the first time in our 102-year history.

- A cold snap last January caused us to set a new electrical usage peak.

- Our employees were top notch – from the several employees who received individual awards to the departments that received team awards to our line crews who brought home four trophies from the International Lineman's Rodeo – we couldn't be more proud!

- On the technology front, we launched a progressive new bi-monthly television series, "That's IT," in September. "That's IT" is an effort to help members of our community learn about computer hardware and software, technology news and consumer product information.

- KUA went above and beyond simply providing electric service to Osceola County in 2003. We also played a large role in making our community a better place to live, supporting more than 100 community projects. Our efforts did not go unnoticed, as we were honored with the 2003 Florida Community Service Award from the Florida Municipal Electric Association.

- Also last year, KUA partnered with several different organizations for exciting community projects, including jazzing up yards in our community and sending heartfelt greetings to American men and women serving overseas.

- This year KUA continued to focus on the education of children with our annual calendar art contest. By reaching children while they are still young, we are hoping to help them establish life-long habits that will benefit our community and our world for years to come.

- Don't let our accomplishments fool you. Our year was not all work and no play. KUA also took some time for fun this year, as evidenced by our participation in one of the largest human checkers games in the nation.

Read on, and enjoy!

Don Shearer
Chairman

James C. Welsh
President & General Manager

ON MESSAGE

always

A DAY WITHOUT ELECTRICITY

When the largest power outage in American history hit the northeastern United States, everything came to a standstill.

In cities where electricity normally flowed to traffic lights and enabled speedy commutes, major gridlock existed instead. In office buildings, an eerie silence replaced the normal buzzing of energy, and desks that were once filled with busy working bodies sat surprisingly empty. At home where children played video games and electrical kitchen appliances eased the stress of weary parents, the eternal question, “what’s for dinner,” was a bit more difficult to answer. When the power went out on August 14, everything seemed to stop; and all at once, the innumerous ways electricity affects our lives shone like a spotlight into the great, dark sky.

Despite the sudden interruption in normal daily activities, there was a certain calmness in the air. After the shock of the power outage subsided, many people got back to basics. Some read books by candlelight to their children; some went outside and barbequed with their neighbors; and some went stargazing with their binoculars. While it seemed most people made the best of the situation, everyone was relieved when the power was finally restored.

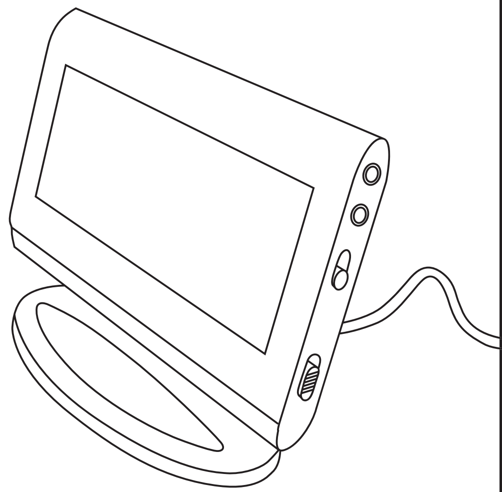
Although it was inconvenient, the power outage served as a poignant reminder of how we depend on electricity to get through the activities of our day, and it brought to light the countless ways we interact with electricity without even thinking about it – flip a switch on the wall, and a light comes on … turn a knob on the stove, and you’re ready to cook … turn the handle on the faucet, and the water gets hot … press a button on the remote control, and you get a picture on the TV.

Let us tell you a story about a place where the electricity is always on thanks to the efforts of your local utility, Kissimmee Utility Authority.

ON
PAGE 06

6:12 a.m.

ON THE RISE



As the sun begins to rise over beautiful, historical Osceola County, alarm clocks sound, and weary-eyed residents roll out of bed. After flipping on the light switch, throwing on a robe and stumbling to turn on the coffee pot, a familiar aroma brings sleepy eyes to life and gets shuffling feet tapping.

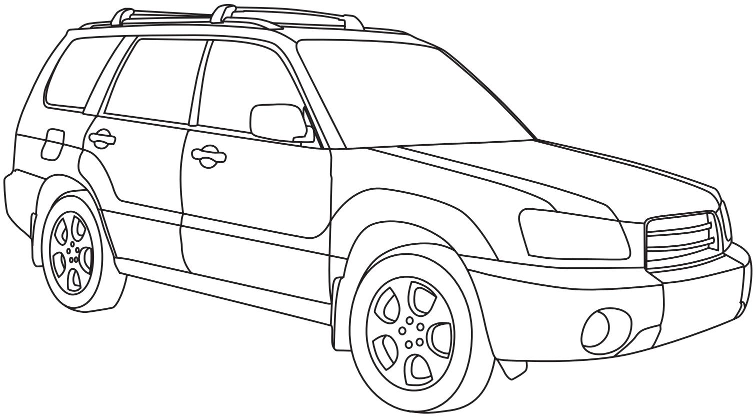
Electric service has been part of early mornings in Osceola County for more than 100 years, and KUA's commitment to reliability, integrity and excellence have made it so we rarely think about not having it.

Today, as Florida's sixth largest municipally-owned electric utility, KUA supplies service to more than 152,000 people via 61,000 commercial and residential accounts in an 85-square-mile service area in northern Osceola County.

Kissimmee is the fifth oldest municipal electric utility in the state ... following Starke (1890), Jacksonville (1895), Ocala (1897) and Williston (1900).

But don't let our age fool you. While we have deep historical roots in Osceola County, we aren't stuck in the past. In fact, we continue to be one of the most progressive utilities in the nation, keeping up with the technological advancements that make life more enjoyable and convenient.

8:49 a.m.



Pretty soon, those tapping feet dance their way to a steamy shower in preparation for the day, and before long, briefcases are picked up, lights are switched off and garage doors begin to rumble open. In no time, vehicles are quickly passing through SunPass tollbooths, Florida's prepaid toll program that utilizes the latest technology to save drivers time, money and the hassle of digging for change.

While everyone hurries to their destinations, KUA keeps a watchful eye out for those in need with the KUA McGruff Truck Program. The program, which is an innovative partnership between the National Crime Prevention Council and KUA, is designed to make neighborhoods safer for children.

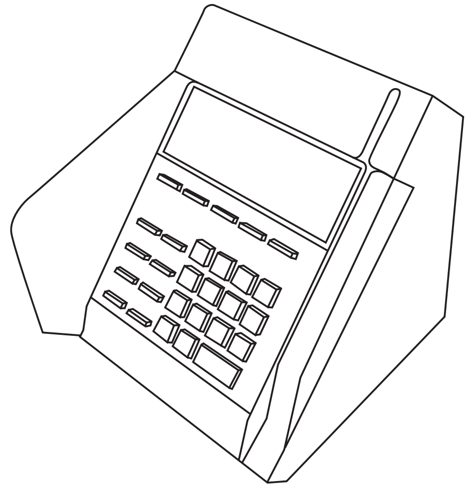
Through classroom instruction and free community workshops, children and adults are learning to wave both hands above their head if they need assistance from a KUA McGruff Truck. When a McGruff Truck is seen in the community, residents know the people in it can provide help.

Encompassing 100 utility vehicles, KUA's McGruff Truck program was the third in the state to be formed and has the strong support of the Kissimmee Police Department, the Osceola County Sheriff's Office and local government leaders, as well as the FBI and the U.S. Attorney's Office. KUA has assisted two people in this manner this year.

The McGruff Truck program is just one of the many ways KUA goes above and beyond our core business of providing electric service to the community.

10:23 a.m.

TURNED ON



As the morning commute begins to settle down, people are seen bustling through the streets of Kissimmee. At a local supermarket, shoppers stroll through the aisles while carefully selecting their groceries. As some shoppers pull selections from the frozen section, others stop to taste samples prepared in electric skillets. Once carts are full, patrons easily pay for their groceries with a quick swipe of a magnetic strip on a credit card machine, and their exit is made easy through the automatic doors.

Just as shoppers put thoughtful consideration into every purchase they make, so does KUA when it comes to selecting employees. This year we were challenged to make several good choices after the retirement of employees in three key positions.

General Counsel

We selected Arthur J. “Grant” Lacerte, Jr. to take over as Vice President and General Counsel, replacing the retiring Ed Brinson, who served as our counsel since 1985.

Lacerte brings more than 10 years of experience in public utility, regulatory and legislative practice to KUA. He previously served as Attorney Advisor for the Federal Energy Regulatory Commission in Washington, D.C., and he was heavily involved in New Mexico’s move into utility and telecommunication deregulation.

Prior to joining KUA, Lacerte served as Vice President and General Counsel of Certa Data Corporation in Winter Haven, Fla., and before that, he served as Commissioner on the New Mexico Gaming Control Board. He also spent two years as the Executive Director and Assistant General Counsel for the New Mexico Industrial Energy Consumers.

Lacerte possesses a bachelor’s degree in history from Columbia University in New York, N.Y., and a juris doctor degree from the Marshall-Wythe School of Law at the College of William and Mary in Williamsburg, Va.

Vice President of Human Resources

Wilbur D. Hill took over the reins as Vice President of Human Resources after the retirement of his predecessor, Neville Turner.

Hill came to KUA from the City of Clarksville, Tenn., where he served as Human Resources Director since 1996.

In joining KUA, he brings more than 23 years of experience in both human resources and organizational development from his positions in the United States Air Force, Northrop Grumman Corporation and municipal government.

He holds a master's degree in human resources management and development from Chapman University in Orange, Calif., and a bachelor's degree in biology from Mississippi Valley State University in Itta Bena, Miss. In addition, he is certified as a Human Resources Professional by the International Personnel Management Association.

As the utility's chief human resources officer, Hill is working to enhance all aspects of the HR operation, including recruitment, benefits administration, compensation, training and development, workplace safety, employee relations and labor relations.

Vice President of Customer Service and Marketing
KUA didn't have to look far to find a new Vice President of Customer Service and Marketing. After an extensive search, we tapped our own Michael E. Geraghty to replace the retiring Christine Beck.

Geraghty has managed KUA's customer financial services division since 1989. He received both a bachelor's and a master's degree in human resource management from Barry University in Miami, Fla. In addition, he recently obtained his doctorate degree in industrial organizational psychology from Capella University in Minneapolis, Minn.

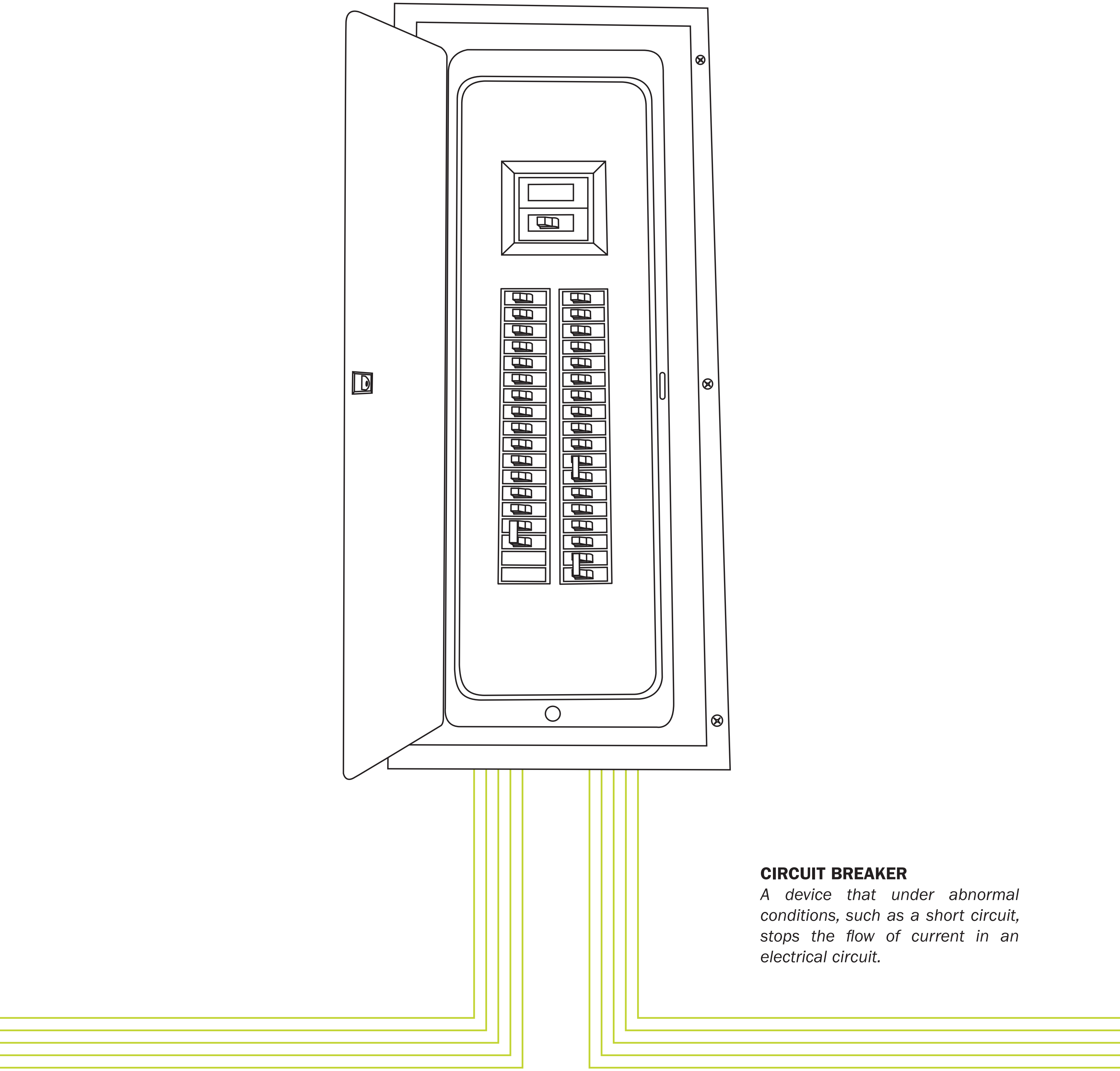
In his new position, Geraghty is managing all aspects of KUA's customer service operation, including utility billing, meter reading, call center, cash management, collections, facility maintenance, residential and commercial energy audits and power theft.

Cumbie Confirmed to KUA Board
We also replaced a position on our Board of Directors this year. The Kissimmee City Commission voted to confirm the appointment of Fred H. Cumbie, Jr., effective October 1, 2003. He replaced Larry W. Walter, whose term expired on September 30.

Cumbie is President of the law firm Overstreet Miles Ritch & Cumbie, P.A. He holds degrees from Florida State University College of Law and the University of South Florida. He is a 31-year resident of Osceola County and serves as the Past President of the Osceola County Council on Aging, Inc.

As a board member, Cumbie will assist in setting policy direction for the utility, approving annual budgets, setting rates, approving major purchases, and directing the utility's general manager.

At KUA, we know the value of having a skillful staff in place, and we've become experts at combining the expertise of our people with the advancements of technology to continually meet the challenges of providing electricity in an ever-changing world.

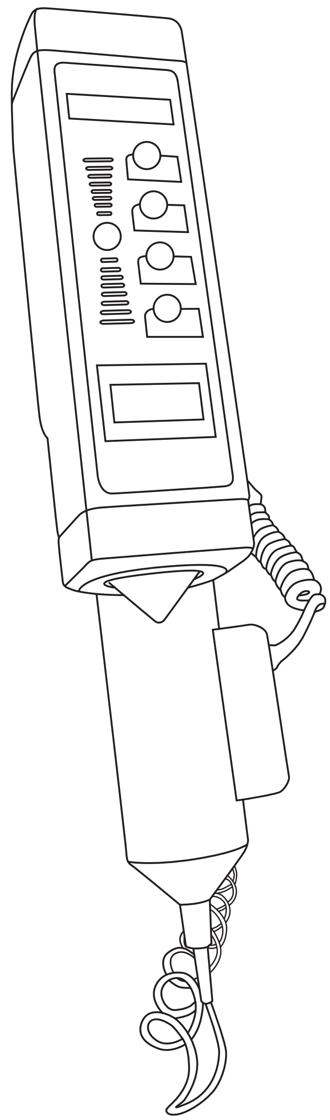


CIRCUIT BREAKER
A device that under abnormal conditions, such as a short circuit, stops the flow of current in an electrical circuit.

ON
PAGE 14

11:07 a.m.

DEPEND ON KUA



As our day continues and the late morning sun beats down on Kissimmee, the advancements of technology and medicine allow doctors to utilize a CAT scan machine to diagnose a patient. Meanwhile, those waiting in the lobby for their loved one are calmed by easy-listening music playing over the intercom.

The images taken by the CAT scan machine provide physicians with a comprehensive look at the health of their patients. Similarly, KUA regularly performs an analysis of its overall condition. The purpose is to ensure preparedness at all times … especially in the event of a disaster.

As part of our analysis, we test response and coordination ability by orchestrating an annual mock disaster drill. This year, the drill involved a wide range of activities, including simulation of a hurricane, cyber terrorism and a hazardous chemical spill. We also tested our ability to handle power line and substation failure, repair of utility vehicles in the field, power outages, production of sandbags at both power plants, and the testing of all emergency generators.

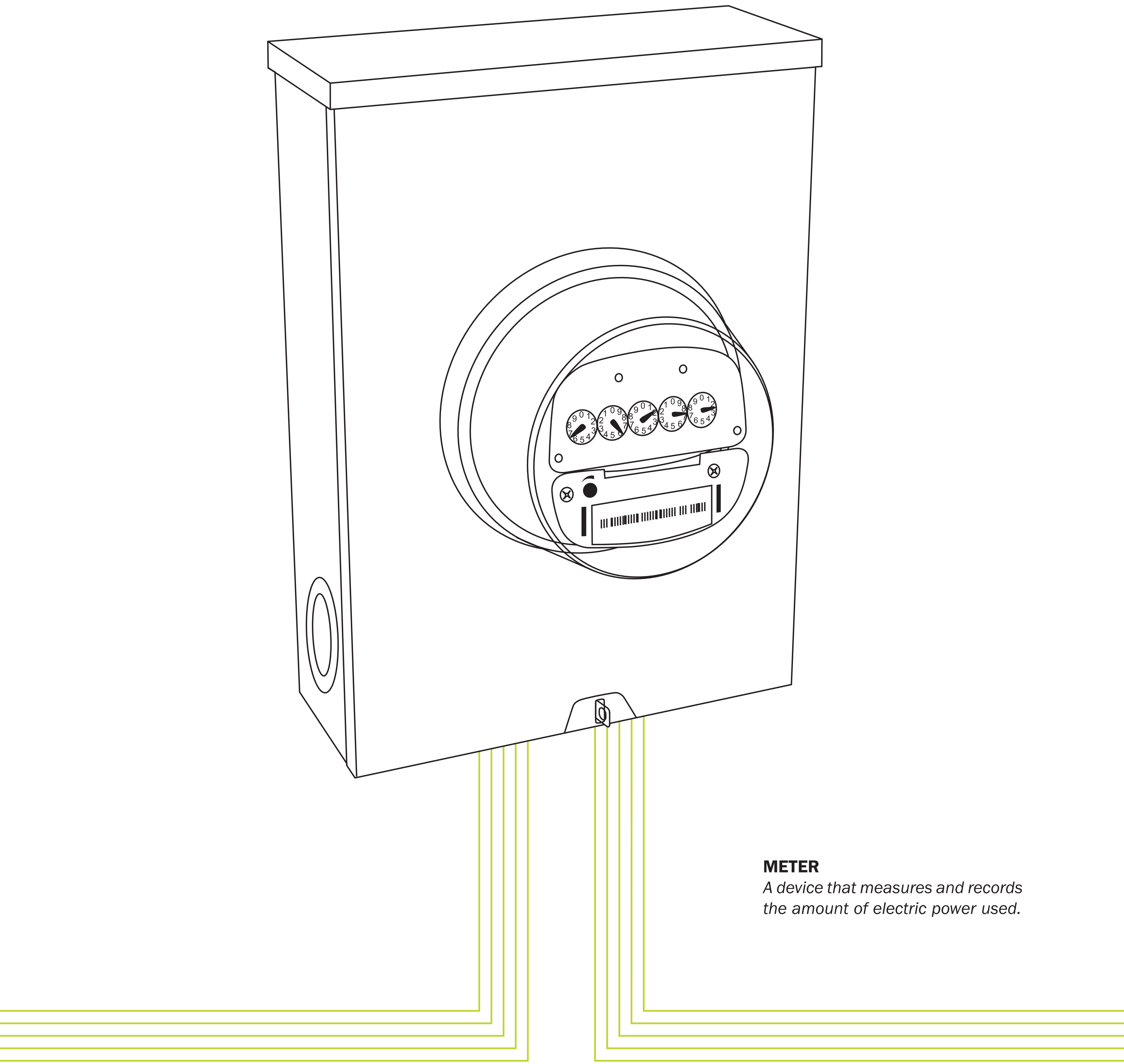
Throughout the drill, an evaluation team created dozens of unexpected scenarios to test the readiness and spontaneity of utility employees. We also tested emergency equipment, measured response time, and evaluated communication within the utility.

KUA's preparedness doesn't stop there. This year, in anticipation of an active storm season, KUA increased its inventory of materials, equipment and tools that might be needed to repair damage. In addition, we prepared reciprocal contingency plans to bring in workers from other utilities if necessary.

KUA has modified its disaster plans over the years to improve flexibility in responding to different types of situations and to provide more valuable information to customers. Our entire focus following a disaster is to minimize customer inconvenience and restore electricity as quickly as possible.

Preparedness, real events and our annual disaster drill enable us to identify strengths and weaknesses and put improvements in place on an on-going basis.

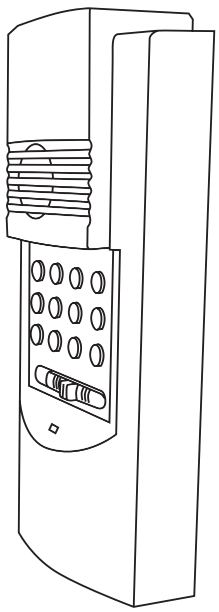
Hurricane Tracking Guide
Also this year, to help improve safety for everyone in the community, we published an 8-page comprehensive hurricane guide and distributed it to residents free of charge. The guide was packed with important information about hurricanes and floods, and it also included helpful phone numbers, a disaster supplies checklist and a hurricane-tracking chart.



METER
A device that measures and records the amount of electric power used.

ON
PAGE 18

ON ALERT



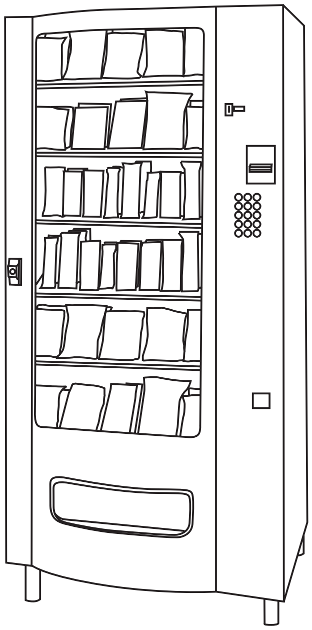
There's no threat of a hurricane this morning, but in one residential neighborhood, a family is gaining peace of mind as they test their security alarm system for functionality. This family wants to take no chances when it comes to their personal safety or the safety of their belongings. In the event of a potential threat, the alarm system will automatically send a signal alerting an agent to check on the situation.

That's the attitude KUA took this year when insurance carriers deemed our tourism-driven service area as a high-risk target for terrorist attacks. To reduce our vulnerability and protect our $360 million utility infrastructure, we purchased terrorism insurance that will address financial losses without putting a strain on the wallets of our customers.

KUA's ability to purchase the insurance was made possible by the Terrorism Risk Insurance Act of 2002, and is just one more item to add to the list of ways KUA continues to provide a reliable supply of electricity.

ON
PAGE 20

12:34 p.m.



By this time, the morning is over, and people are beginning to trickle out of the office for lunch. For many, a quick stop at the company vending machine might be all that is managed on this busy day. After selecting a snack, one employee gets right back to work, computing equations on an electric desk calculator and entering the resulting figures into the computer.

Those who enjoy the availability and convenience of vending machines for a quick snack can appreciate why KUA focuses such a great deal of energy on the reliability of our electric system.

Whether it's for everyday conveniences or major threats, KUA is committed to being there for customers 24 hours a day, seven days a week. That's why when a cold front began to approach the Kissimmee area this winter; KUA readied nearly 100 line and service personnel in advance of the expected freezing temperatures.

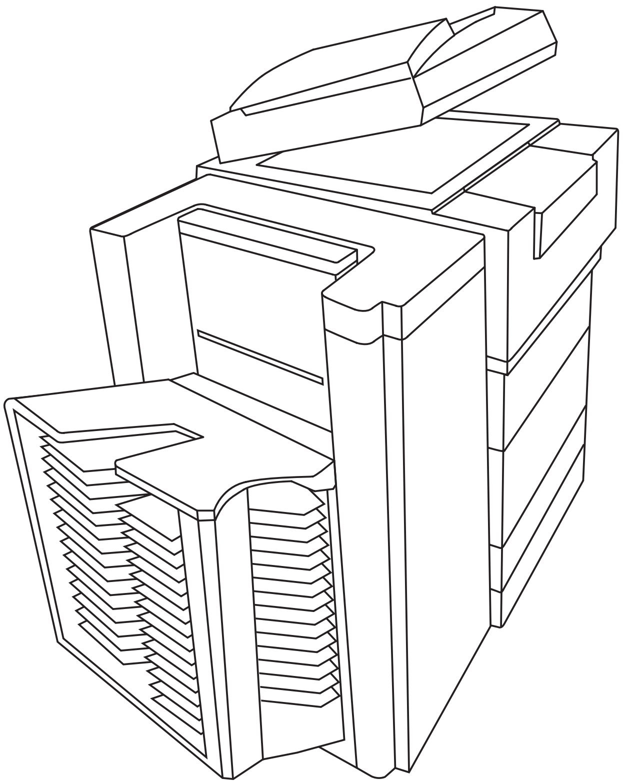
Once the front hit Kissimmee, record cold temperatures pushed usage of electricity to a new all-time record for KUA customers – more electricity was used that morning than at any other time in our 102-year history.

The new record of 286.1 megawatts (MW) was set on January 24, eclipsing the old mark of 279.0 MW set on July 17, 2002. The temperature at the time of the peak was 29 degrees.

Even with the increased demand, KUA's preparation ensured we had sufficient energy and capacity to continue providing safe and reliable electric service to our customers without any interruption … a goal we strive for even in the coldest of conditions.

1:54 p.m.

ON TOP



Things in Osceola County are really heating up now, as business people around the county are hard at work. Whether operating heavy machinery or making photocopies for a meeting, workers in Osceola County have one thing in common – they rely on electricity provided by KUA to get things done.

And when it comes to working, KUA is the place to be. For the sixth consecutive year KUA was named one of the region's top 100 places to work by the Orlando Sentinel. The award is given annually to companies that nurture employees and support the family.

KUA was recognized for promoting a work-life balance among employees, offering a comprehensive benefits package and creating an overall family-friendly atmosphere. The judges also praised KUA for its unique programs for employee families, ongoing employee reward system, in-house communications and other innovative programs.

ON TOP

Community Service Award
While KUA focuses a great deal of effort on making the utility a great place to work, we also focus on making our community a better place to live.

This year our ongoing commitment to community service garnered us the 2003 Florida Community Service Award from the Florida Municipal Electric Association (FMEA). The award is the highest honor an electric utility can receive from the statewide association and was bestowed upon KUA for our achievement and sustained performance in working to enhance the quality of life in our community.

In the past year, KUA has supported more than 100 activities and projects in the community that have directly impacted nearly 250,000 individuals.

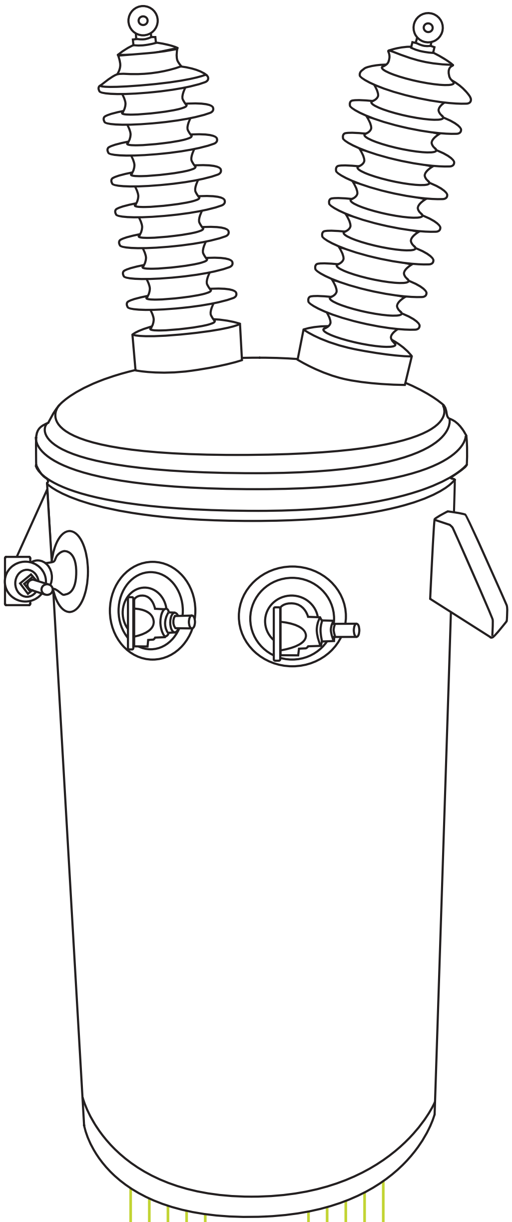
Crystal Awards
Not only does KUA win awards for doing things, but we also win awards for telling people about what we're doing. This year KUA was one of just six utilities in the U.S. – and the only utility in Florida – to be honored with a Crystal Award of Excellence in the international Communicator Awards. The award honored KUA's 2002 Osceola Hurricane Guide.

In addition, we won two Awards of Distinction – one for our Cane Island Power Park informational brochure and the other for our monthly employee newsletter, Power Line.

Finally, our Internet subsidiary, KUA.net, also received an Honorable Mention for our design of the Orlando Area Chapter of the Florida Public Relations Association's website.

GFOA Distinguished Budget Presentation Award
KUA's internal departments continue to excel at their respective aspects of running the business. In addition to the Corporate Communication division's awards, our Finance and Risk Management department won the Distinguished Budget Presentation Award from the Government Finance Officers Association of the United States and Canada (GFOA) for its 2003 budget. This marks the sixteenth consecutive year we have been honored with the award.

The GFOA is a nonprofit professional association serving approximately 14,000 government finance professionals, and the awards program is the only national awards program in governmental budgeting. The award reflects the commitment of KUA and its staff to meeting the highest principles of governmental budgeting

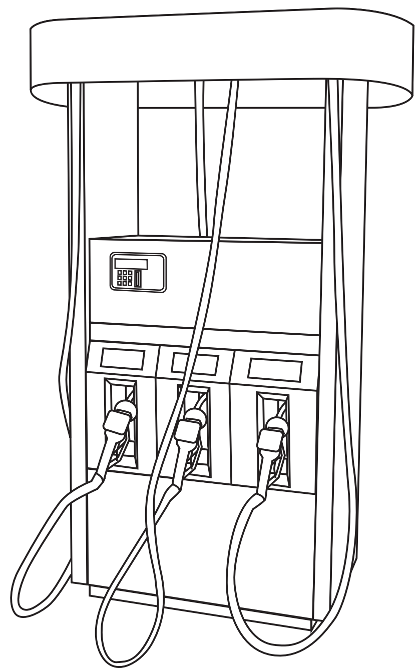


TRANSFORMER

A device used to increase or decrease electricity's voltage and current.

ON
PAGE 26

2:10 p.m.



Although this day is busy, the atmosphere is not all work and no play. In fact, on this particular day, local dignitaries are set to play one of the world's largest human checkers games. On their way to the game, many will stop at the service station to refuel their vehicles with gas. Luckily, the stop won't take long thanks to the new pay at the pump service.

The game, hosted by KUA and the Orlando Utilities Commission (OUC), uses a downtown Kissimmee street and features 24 local dignitaries who were selected as "checkers" – 12 from Kissimmee and 12 from our neighboring city of St. Cloud.

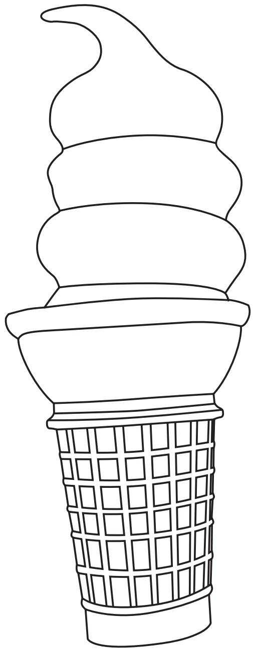
The tradition of human checkers began 76 years ago in Osceola County. On a Saturday afternoon in 1927, crowds began to gather around a checkerboard at Broadway and Darlington Avenue. Community pride was at stake, and Kissimmee and St. Cloud residents were there to rally support for their towns and to prove their checkerboard champs were up to the challenge.

The Kissimmee/Osceola County Chamber of Commerce revived the annual human checkers event in 2001 as part of an effort to revitalize the downtown business district.

Kissimmee Commissioner Scott Brooks called his moves from a KUA bucket truck, while St. Cloud Councilman Wade Davis positioned himself inside an OUC bucket truck. KUA President and General Manager Jim Welsh and KUA Board Chairman Larry Walter were both "checkers" representing Kissimmee. In the end, Kissimmee walked away with the championship trophy and bragging rights for the next year.

ON
PAGE 28

3:09 p.m.



ONE-ON-ONE

Adults aren't the only ones at play this afternoon. After coming home from school, some children play tag outside, some play video games in the arcade, some get ice cream from the local ice cream shop and others spend it drawing artwork for KUA's ninth annual calendar art contest.

The contest is part of KUA's ongoing effort to increase electrical safety awareness among children, because every year in the U.S., one person is electrocuted in the home every 25 hours, according to the Consumer Product Safety Commission. These types of accidents are the leading cause of death for children under five. Research shows many of these tragedies can be avoided by following safety tips in the home.

That's why KUA sponsors an annual calendar art contest. This year, KUA received 949 entries from 26 Osceola County schools. Local art and education professionals judged the artwork, and the twelve winning students had their artwork published in the 2003 Calendar of Electrical Safety, which was distributed free of charge.

Call Before You Dig
Also this year, KUA addressed safety issues for those who might come into contact with electricity outside by participating in Governor Jeb Bush's Dig Safely Week in April.

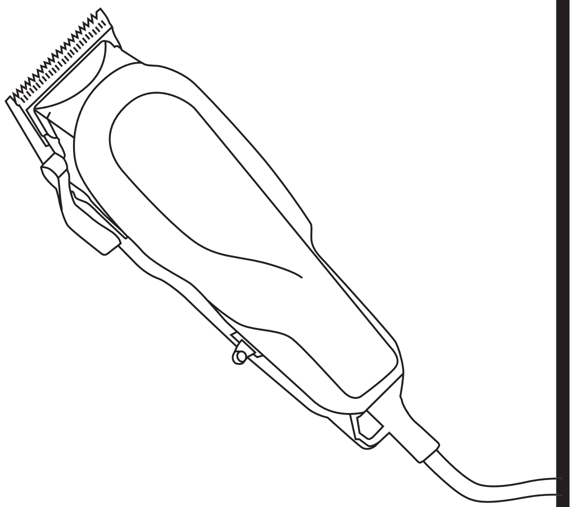
During Dig Safely Week, KUA urged contractors, builders and homeowners to "Call Sunshine" at 1-800-432-4770 to prevent coming in contact with electric, gas, water, sewer, fiber optic telephone and other utility lines beneath the ground.

The use of Call Sunshine is free and reduces the loss of utility service to the public and the loss of time and money to both contractors and utilities.

ON
PAGE 30

3:51 p.m.

TACK ONE ON



This afternoon is very special for one little boy, who is sitting on a barber stool awaiting his first hair cut at a real barbershop. As the barber uses electric clippers to cut the boy's hair, his mother stands closely by and watches him with pride, joy and admiration.

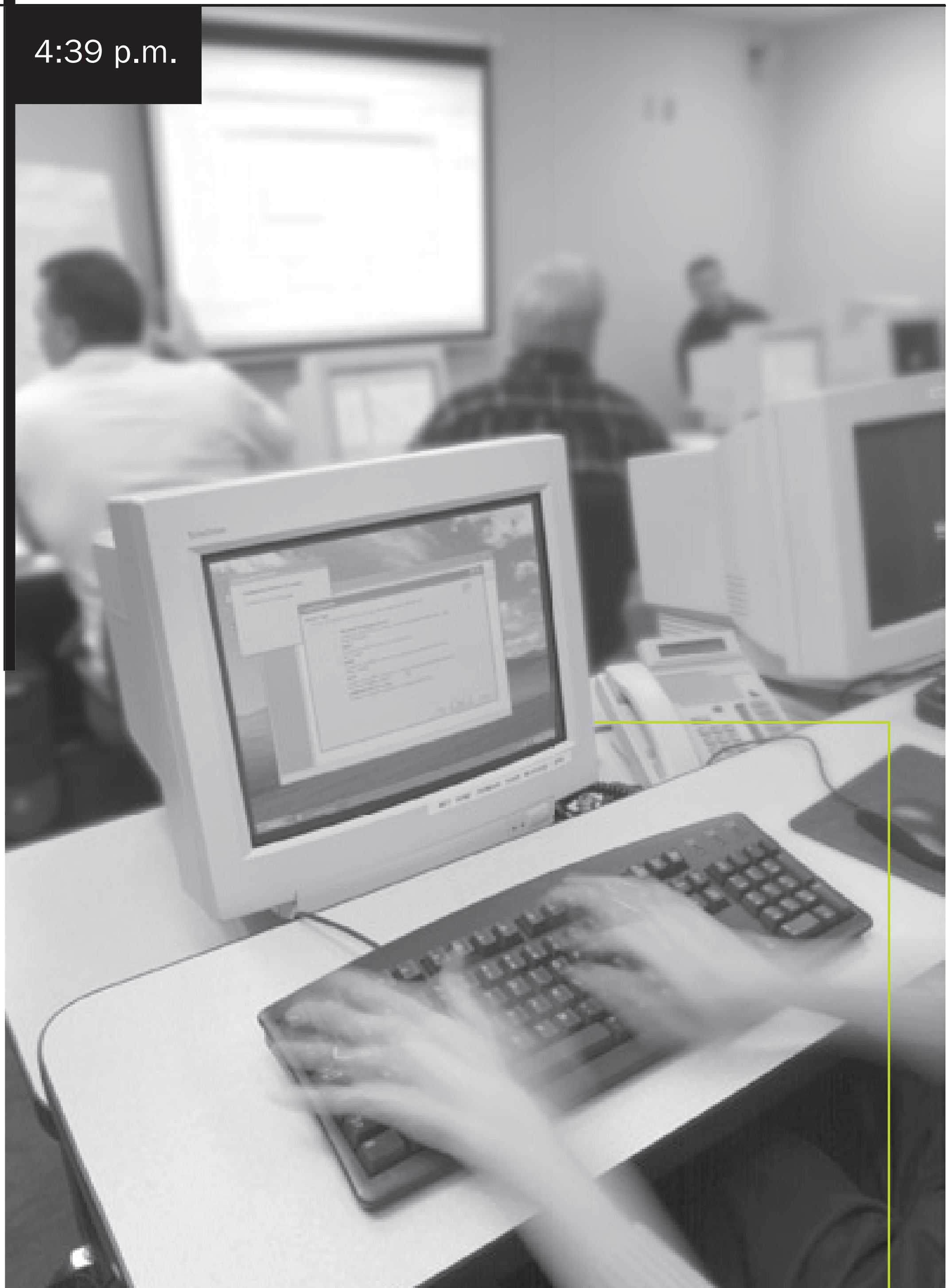
One of our own employees was admired this year when he was honored with Osceola County's Distinguished Leader Award for 2003.

Corporate Communications Manager Chris Gent received the award during graduation ceremonies for Leadership Osceola County. The Distinguished Leader Award is presented annually to an individual who best exemplifies the spirit, goals and achievements of the leadership program through significant civic and community accomplishments.

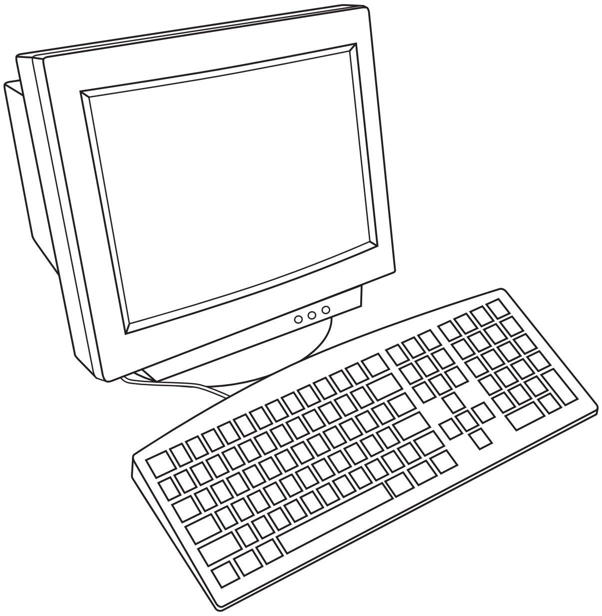
Gent will now represent Osceola County at the Community Leadership Association's 2004 conference in Tucson, Arizona. The CLA annual conference brings together leadership development professionals, graduates and other civic-minded individuals from across the United States and beyond to exchange innovative ideas, viewpoints and resources to help strengthen and transform communities.

Gent is a Florida native and holds his bachelor's degree from the University of Central Florida. He received the 2002 Community Service Award from the UCF Alumni Association and the Orlando Business Journal's 2001 "Up & Comers Award." In addition, Gent recently served as President of the Orlando Area Chapter of the Florida Public Relations Association and is currently a member of the NBA's All-Star Reading Team.

4:39 p.m.



ONLINE AND ON TV



Time is of the essence this afternoon as a mother uses her computer to search for a new recipe for a special family dinner; a teenager surfs the web to learn more about Benjamin Franklin for a school report; and a Solivita resident checks her email and downloads a picture of her newborn grandchild. All of these Internet connections are made with KUA.net, KUA's Internet Service Provider.

To help educate Kissimmee residents about the Internet and personal computing, KUA launched a new bi-monthly television series, "That's IT," in September.

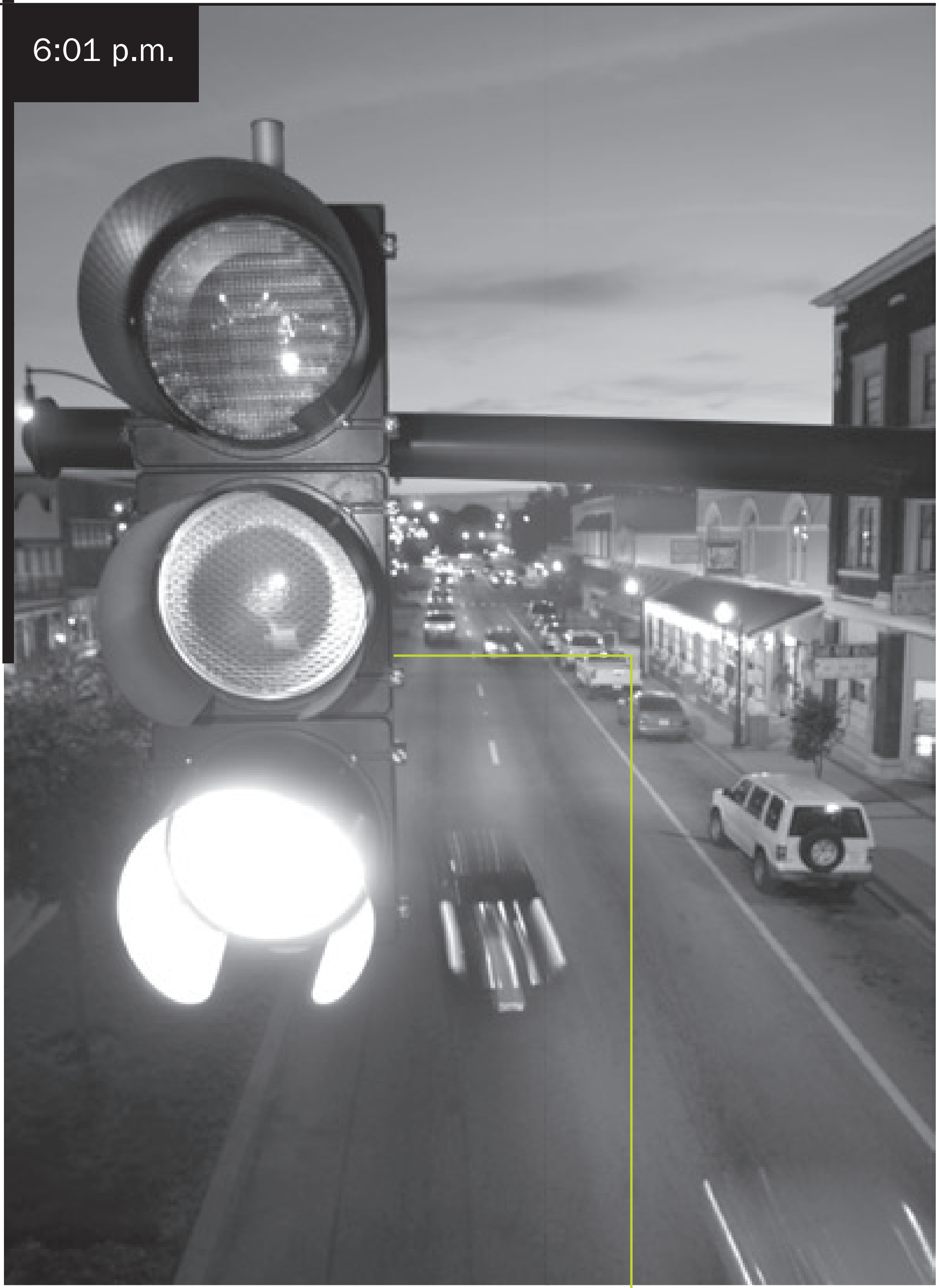
"That's IT" – short for "That's Information Technology," is a runaway hit among technology enthusiasts worldwide. In addition to its daily broadcast on Access Osceola, a local government access channel, more than 8,500 individuals from 300 cities in 50 countries, including Australia, Bangladesh, Belgium, Canada, Colombia, France, Russia, Romania, Singapore, the United Kingdom and the United States, viewed the show via streaming video on our website.

By combining KUA's in-depth knowledge of the technology industry with the reach of television and the Internet, the show uses humor to explore the latest innovations in computer hardware and software, technology news, consumer products and more.

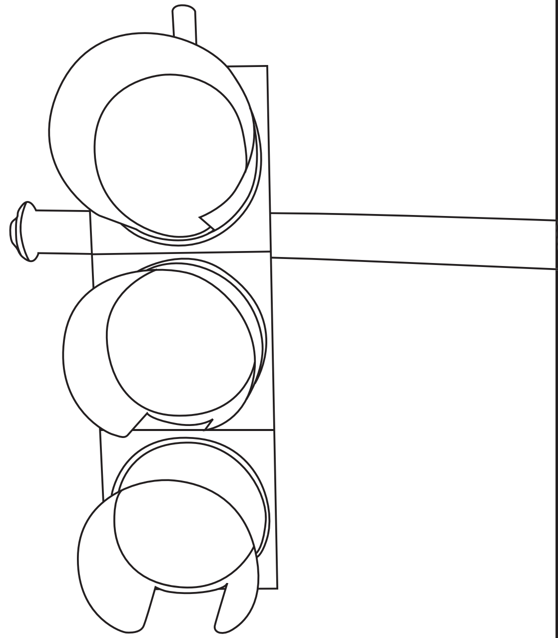
"That's IT" is without a doubt one of the most ambitious and exciting projects to be launched by KUA this year. The program broke new ground, exposed a broad range of viewers to technology and took customer service to a new level.

ON
PAGE 34

6:01 p.m.



ON A JOURNEY



As the sun begins to set on this day, electric signs line Osceola County roadways and clamor for drivers' attention, while traffic lights guide cars safely through busy intersections.

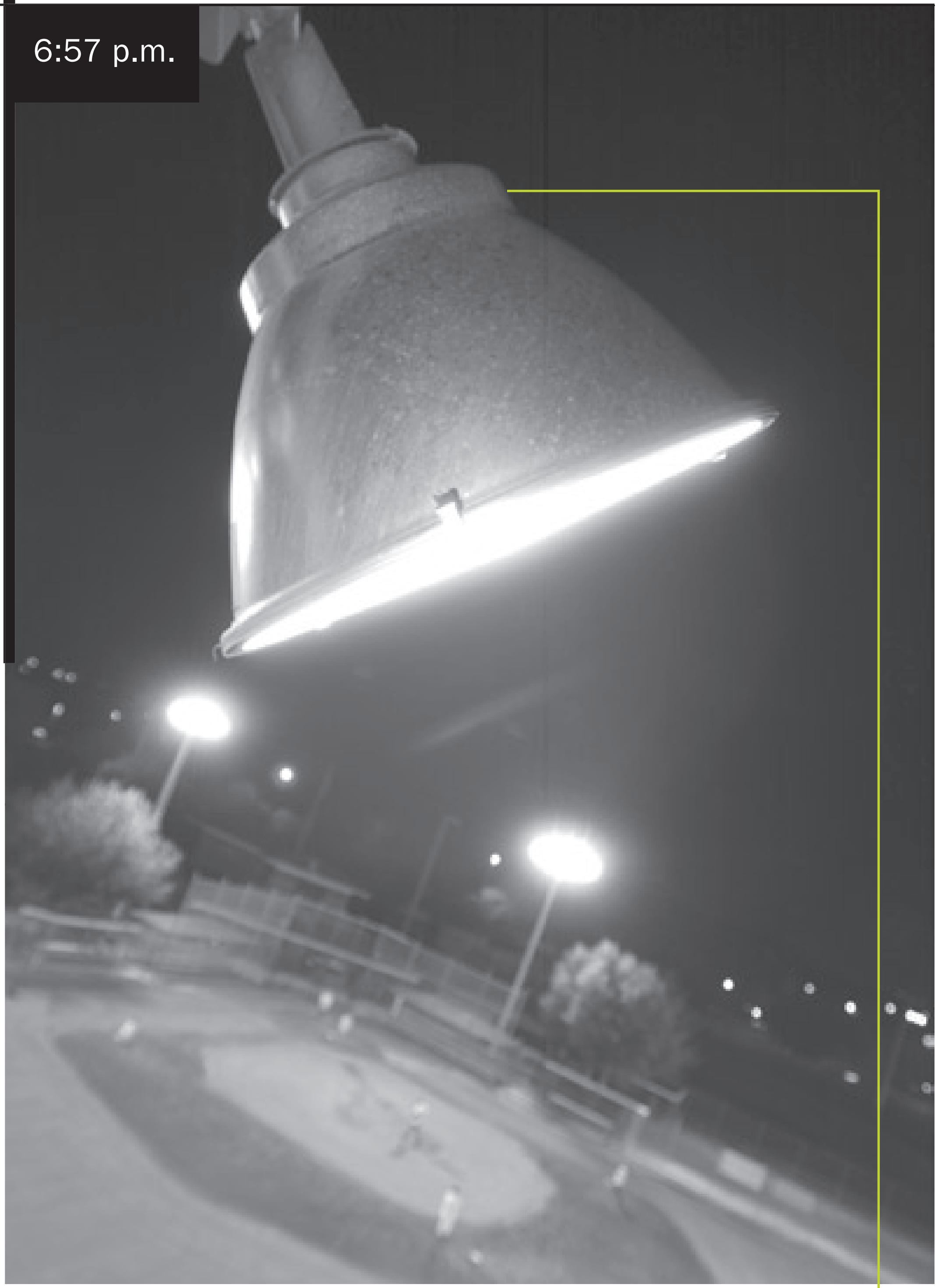
Safety was a key element when our linemen competed in the third annual Florida Lineman's Rodeo in Jacksonville this year. Our crews garnered four trophies and the second fastest competition time while competing against twenty-three teams from twelve other Florida electric utilities.

KUA's leading team earned a score of 498 out of 500 possible points and achieved an overall time of 38 minutes, 50 seconds, second only to a team from Jacksonville Electric Authority which finished 46 seconds sooner.

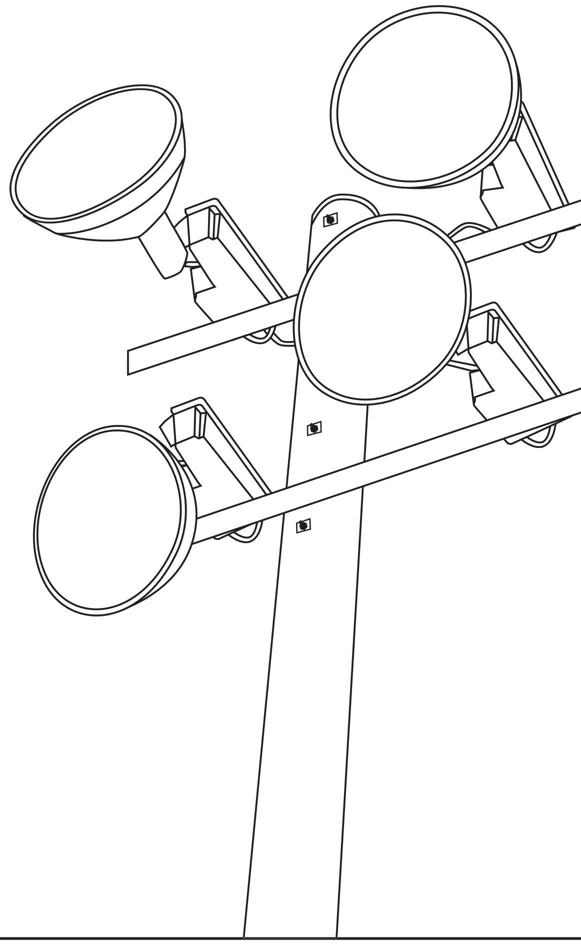
Overall, KUA's two teams placed 6th and 21st in the state and earned three event trophies, including first place for the pole top insulator change out.

While the thought of competition might sound like fun, the name 'rodeo' itself implies a competition based on skill, speed and safety – three concepts KUA linemen take very seriously, because in their profession, a mistake could mean disaster or death.

ON
PAGE 36



ON DECK



Now that the sun has set over Osceola County, cheers and clapping can be heard from Oak Street Park as Little League baseball players swing, pitch and catch under the lights. Since it's still a little warm this evening, many are thirsting for a cold beverage from the Little League concession stand.

KUA powers the lights that enable children to play sports after dark. But our partnership with children doesn't stop there. We also sponsor attendance at Kissimmee Parks and Recreation summer youth sports camps for children whose parents may not have the means to send them on their own.

Several other partnerships flourished this year as well.

Supporting our Troops
To support American service men and women overseas, KUA partnered with EchoArtz to enable Osceola County residents to send messages of encouragement and support.

ON DECK

KUA and EchoArtz produced a giant greeting card that stood eight feet high and twelve feet long. The cover featured the Statue of Liberty surrounded by the U.S. flag and read, “Osceola Supports the Troops,” and the inside of the card featured a patriotic quote from President Bush.

KUA hosted a greeting card signing at its customer service center where thousands of visitors wrote messages of encouragement to members of the military. The card was then delivered to a military base for shipment to troops serving in the Middle East.

Jazzing up the Community
Another substantial partnership this year was between KUA and the City of Kissimmee for the Jazz Up Your Yard tree planting education program. Together, we gave away 1,000 red maple trees at the Kissimmee JazzFest in April in honor of Earth Day. We were also sure to supply residents with a free videotape of helpful tree planting tips to ensure the health of the trees.

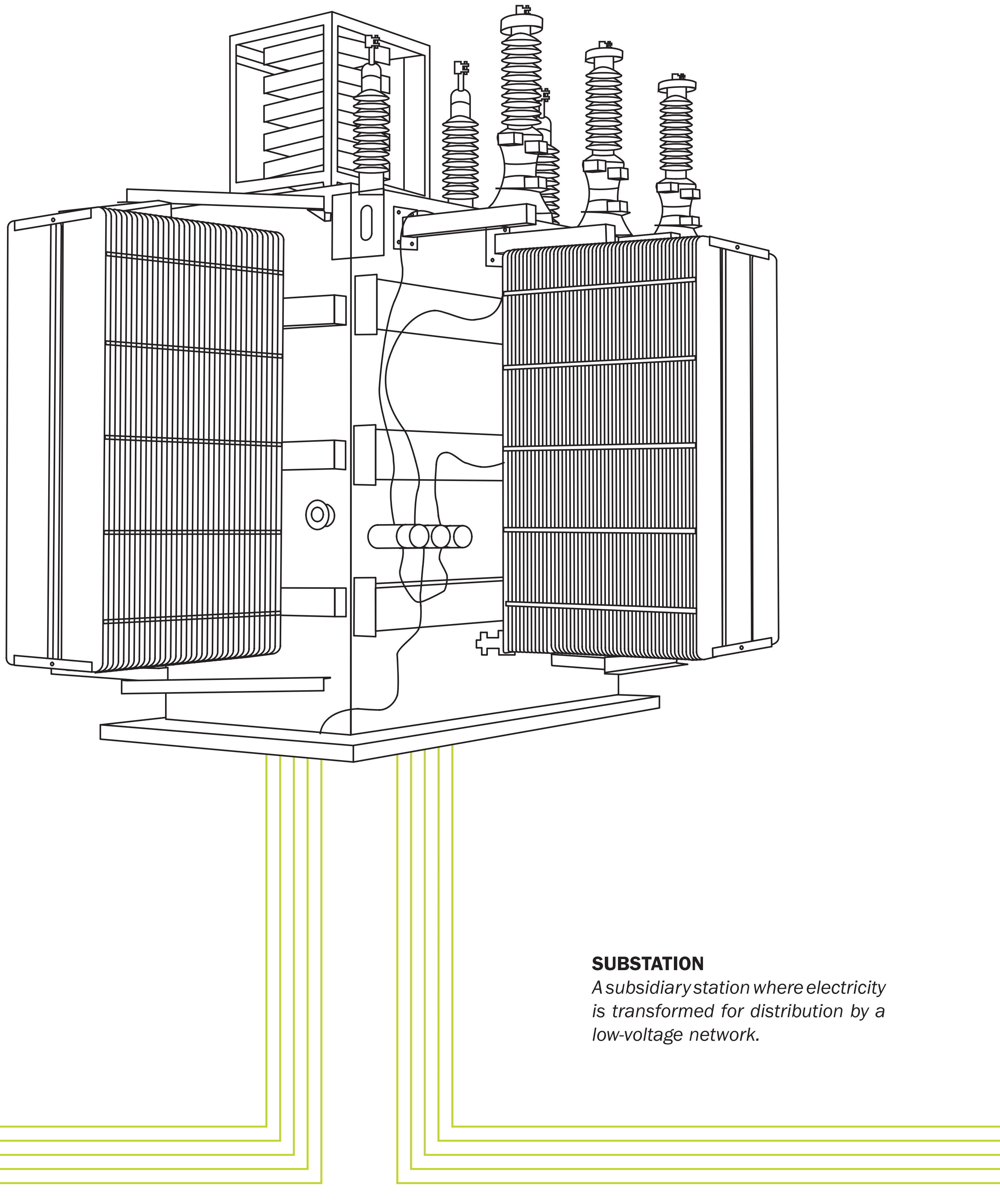
Somebody to Lean On
This year we also partnered with charity-minded shoppers to help reduce power bills for those in need by offering KUA gift cards.

Many churches, service organizations and generous individuals took KUA up on the offer to buy practical gifts that directly benefited those less fortunate. The gift cards were a thoughtful, helpful boost for those on a tight budget.

Since the gift cards didn’t have the buyer’s name on them, some people played Santa Claus and anonymously helped family members, neighbors or friends.

Recipients could use the gift cards to pay all or part of their monthly KUA bill. Instead of working like a traditional gift card, which could be lost, stolen or thrown away, the credit from the KUA gift card was placed directly on the customer’s KUA account and then subtracted from his or her next KUA bill.

Taking On a Leadership Role
Also this year, we partnered with the business community through the leadership of KUA President and General Manager Jim Welsh who served as Chairman of the Board of the Kissimmee/Osceola County Chamber of Commerce. His leadership helped to guide the Chamber in expanding our local economic base, supporting quality education, promoting tourism and encouraging good government.



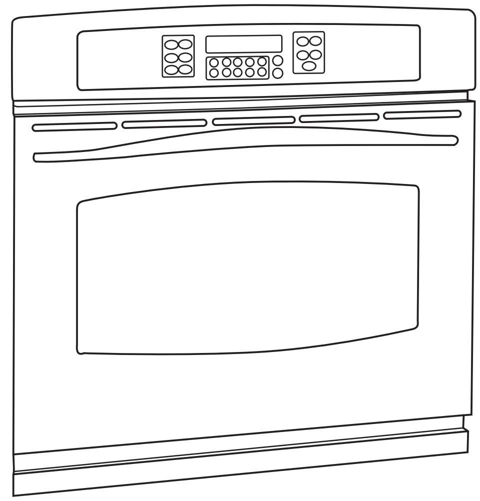
SUBSTATION

A subsidiary station where electricity is transformed for distribution by a low-voltage network.

ON
PAGE 40

8:38 p.m.

ON WITH THE SHOW



After the evening's baseball games are over, families head home, and mothers bake cookies in the oven to celebrate the victory. Before long, the aroma of fresh cookies emanates from the stove, and the family gathers to recount the highlights of the game.

KUA also takes time to celebrate its victories. But we don't stop for long, because we know our next challenge is right around the corner.

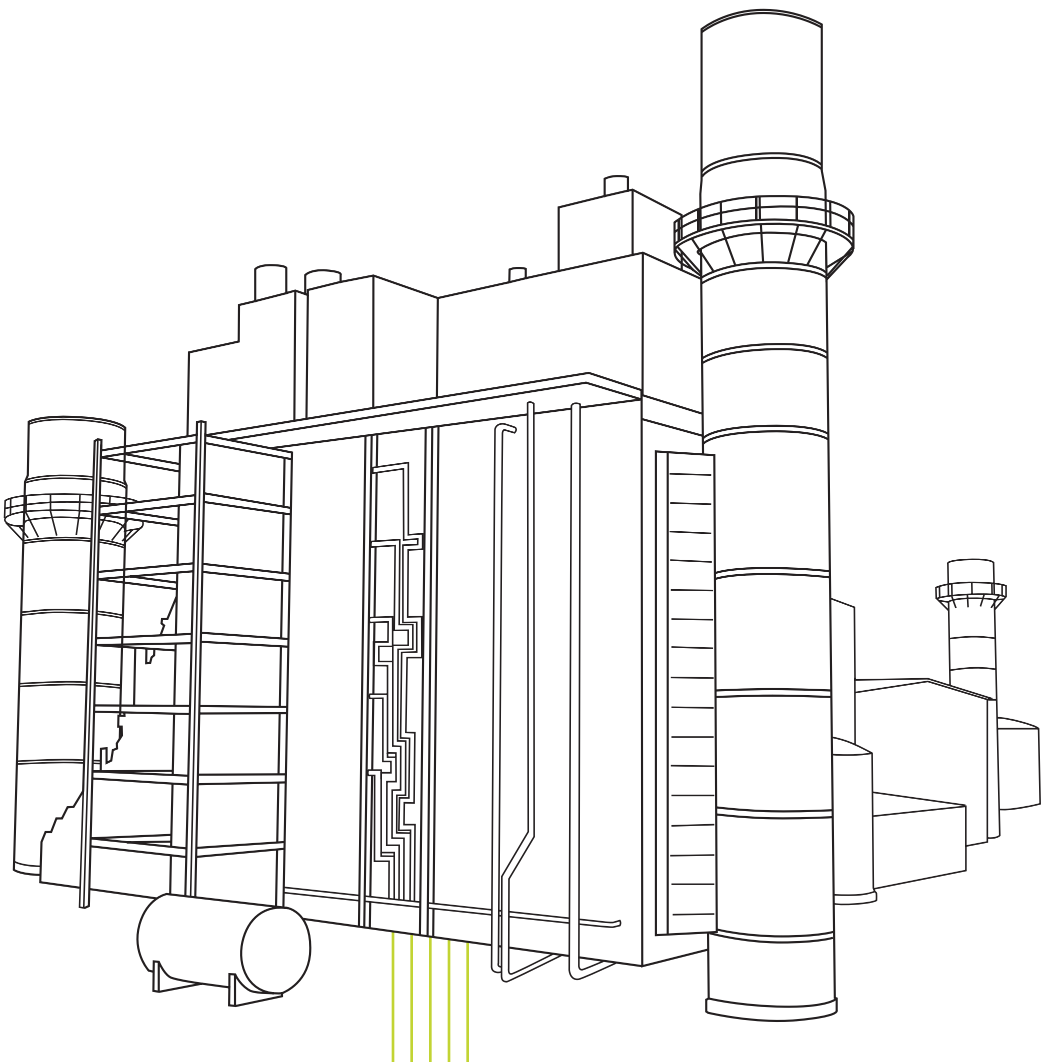
After a brief review of our accomplishments during 2003, we began to prepare for 2004 by adopting a $154.8 million budget.

The budget is an 11 percent increase over FY 2003, primarily attributable to capital expenditures of $24.4 million. These capital expenditures, which make up approximately 18 percent of the total budget, include reliability and preparedness enhancements to KUA's transmission and distribution system, equipment inspection costs for Cane Island Power Park Units 2 and 3, construction of a new electric substation to serve the Pleasant Hill Road area, and preliminary design and site work for a new substation to serve the planned Osceola County convention center.

The budget also includes preparedness measures for customer growth, which is expected to rise 3.3 percent, while energy sales are forecasted to increase by 5.3 percent. KUA is also anticipating a new integrated system peak of 298 megawatts (MW).

Next year's budget also includes an increase of five new positions, which will bring KUA's total employee base from 298 in FY 2003 to 302 in FY 2004, with an annual payroll of $17.7 million. The budget also reflects a market level adjustment of three percent for utility employees.

Now that the day has come to an end and many challenges have been encountered and overcome, weary eyes and shuffling feet make their way to the bedroom, the light switch is flipped off, and the alarm is set for the next day – another day with the benefit of electricity in Osceola County.



POWER PLANT

The complex, including machinery, associated equipment, and the structure housing it, that is used in the generation of electric power.

KISSIMMEE UTILITY AUTHORITY

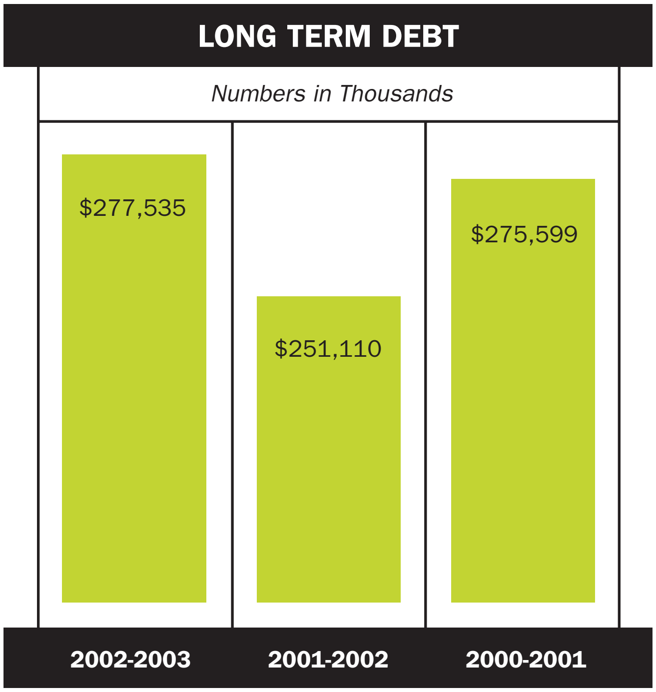
FINANCIAL OVERVIEW 2003

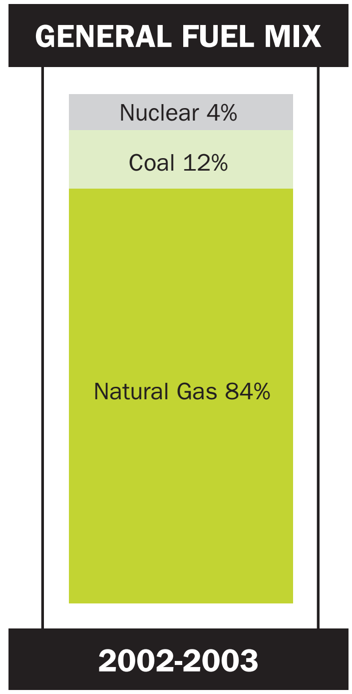
OPERATING HIGHLIGHTS

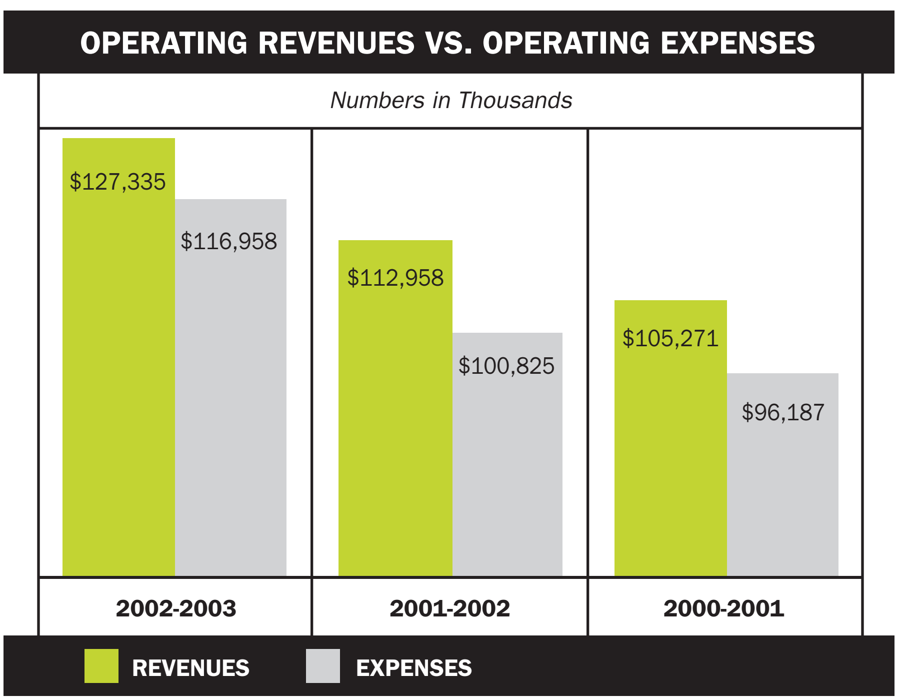
ELECTRIC AND ISP OPERATIONS	Sep-03	Sep-02	% Increase (Decrease)
OPERATING REVENUE	$127,335,289	$112,957,907	12.7%
SELECTED OPERATING EXPENSES			
Fuel and Purchased Power	$73,425,257	$58,464,287	25.6%
Departmental Operations	$22,796,253	$22,132,039	3.0%
INTEREST REVENUES	$1,937,402	$4,050,444	-52.2%
INTEREST EXPENSE	$11,372,111	$11,255,511	1.0%
DEBT SERVICE COVERAGE	1.76	1.99	-11.6%
EARNINGS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	($1,344,216)	$1,043,547	-228.8%
PAYMENTS TO OTHER GOVERNMENTS	$7,665,013	$6,990,571	9.6%
UTILITY PLANT (Net)	$241,981,056	$240,409,298	0.7%
NET ASSETS	$140,664,041	$140,412,802	0.2%
LONG-TERM DEBT	$277,534,528	$251,110,363	10.5%
TOTAL ASSETS	$468,360,899	$436,892,259	7.2%
TOTAL RETAIL SALES	$104,661,879	$88,914,602	17.7%
1. Residential	$58,285,025	$48,317,467	20.6%
Commercial/Industrial	$46,376,854	$40,597,135	14.2%
SYSTEM PEAK DEMAND (MW)	272	262	3.8%
TOTAL ENERGY SALES (MWH)	1,212,976	1,118,579	8.4%
2. Residential (MWH)	637,016	569,115	11.9%
Commercial/Industrial (MWH)	575,961	549,464	4.8%
AVERAGE MONTHLY CUSTOMERS	50,587	48,599	4.1%
3. Residential	42,964	40,889	5.1%
Commercial/Industrial	7,623	7,710	-1.1%
AVERAGE MONTHLY RESIDENTIAL USAGE (MWH)	1.236	1.160	6.5%
AVERAGE MONTHLY RESIDENTIAL BILL	$113	$98	14.8%
ANNUAL HEATING DEGREE DAYS	713	431	65.4%
ANNUAL COOLING DEGREE DAYS	3,306	3,422	-3.4%
GENERAL FUEL MIX (%):			
Natural Gas	84%	86%	-2.5%
Coal	12%	11%	14.1%
Nuclear	4%	3%	20.6%
NET ENERGY FOR LOAD (MWH)	1,269,758	1,219,234	4.1%
Net Generation (MWH)	0	1,351,648	-100%
Power Purchases (MWH)	1,278,993	389,030	228.8%
Sales for Resale (MWH)	0	(553,639)	-100%

FINANCIAL HIGHLIGHTS

(In Thousands of Dollars)	**2002-03**	**2001-02**	**2000-01**	**1999-00**	**1998-99**
OPERATING REVENUES:					
Residential	$58,285	$48,318	$51,488	$43,248	$39,353
General Services	$15,033	13,597	14,961	12,834	11,597
General Services - Demand	$16,279	13,924	15,671	12,899	12,776
General Services - Large Demand	$13,416	11,608	11,812	9,928	7,889
Surcharge	$143	116	0	2,144	1,959
Outdoor Lighting	$1,506	1,352	1,366	1,179	1,045
TOTAL METERED SALES	$104,662	88,915	95,298	82,232	74,619
OTHER REVENUES	$22,673	24,043	9,973	7,991	5,109
TOTAL OPERATING REVENUES	$127,335	112,958	105,271	90,223	79,728
OPERATING EXPENSES:					
Fuel and Purchased Power	73,425	58,464	54,708	51,162	33,794
Operating and Maintenance	22,436	22,201	23,063	14,408	20,519
Depreciation and Amortization	13,432	13,170	11,612	10,961	10,644
Intergovernmental Transfers	7,665	6,991	6,804	6,540	7,815
TOTAL OPERATING EXPENSES	116,958	100,825	96,187	83,071	67,763
OPERATING INCOME	10,377	12,133	9,084	7,152	11,965
LESS NON-OPERATING EXPENSE					
Investment Income	1,937	4,050	8,783	6,591	3,497
Interest on Debt	-11,372	11,256	13,895	13,103	11,912
Other Interest	-1,919	1,899	2,056	1,592	1,593
Allowance for Borrowed					
Funds Used During Construction	0	0	(2,459)	(1,340)	0
Costs to be Recovered					
From Future Revenues	1,228	316	1,299	-2145	-5010
TOTAL	-10,126	-9,420	-6,008	-4,619	-4,998
CAPITAL CONTRIBUTIONS	1,595	1,670	935	0	0
CHANGE IN NET ASSETS	251	2,713	3,076	2,533	1,958


LONG TERM DEBT
Numbers in Thousands
$277,535
$251,110
$275,599
2002-2003
2001-2002
2000-2001


GENERAL FUEL MIX
Nuclear 4%
Coal 12%
Natural Gas 84%
2002-2003


OPERATING REVENUES VS. OPERATING EXPENSES
Numbers in Thousands
$127,335
$116,958
$112,958
$100,825
$105,271
$96,187
2002-2003
2001-2002
2000-2001
REVENUES
EXPENSES

ERNST & YOUNG
Quality In Everything We Do

Report of Independent Certified Public Accountants

Board of Directors
Kissimmee Utility Authority

We have audited the accompanying balance sheets of Kissimmee Utility Authority (the Authority) as of September 30, 2003 and 2002 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kissimmee Utility Authority, as of September 30, 2003 and 2002 and its changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

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

Ernst + Young LLP

December 1, 2003

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, 2003. 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, 2003 by $140.7 million (net assets). Of this amount, $116.2 million (unrestricted net assets) may be used to meet ongoing obligations to customers and creditors.
- The KUA's net assets increased by $.3 million or .2 percent.
- The KUA's net utility plant increased by $1.6 million or 1 percent.
- During the year, the KUA's operating revenues increased to $127.3 million or 13 percent while operating expenses increased to $117.0 million or 16 percent.
- The KUA's total debt outstanding increased by $24.7 million during the current fiscal year. This resulted from the refunding of Series 1993 offset by a decrease due to principal paid in the amount of $7.2 million on all outstanding bond issues.
- Other Liabilities Payable from Restricted Assets increased by $3.8 million or 20% due to a $5 million transfer to the Rate Stabilization Fund which was established in a new bond resolution; offset by a decrease in Accrued Interest Payable of $2 million or 38% resulting from the refunding of Series 1993.

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 KUA's total net assets increased from last year by $251,239. The following analysis focuses on the KUA's net assets (Table 1) and changes in net assets (Table 2) during the year.

Table 1 – Net Assets

	9/30/03	9/30/02	Increase (Decrease) $	%
Capital assets	$241,981,056	$240,409,298	$1,571,758	1
Current and other assets	226,379,843	196,482,961	29,896,882	15
Total assets	468,360,899	436,892,259	31,468,640	7
Long-term debt outstanding	277,534,528	251,110,363	26,424,165	11
Current and other liabilities	50,162,330	45,369,094	4,793,236	11
Total liabilities	327,696,858	296,479,457	31,217,401	11
Net Assets:				
Invested in capital assets, net of related debt	(8,238,685)	(15,383,459)	7,144,774	46
Restricted	32,680,826	33,237,508	(556,682)	(2)
Unrestricted	116,221,900	122,558,753	(6,336,853)	(5)
Total net assets	$140,664,041	$140,412,802	$251,239	0

Capital assets increased primarily as a result of the capitalization of utility plant. Current and other assets increased primarily due to the increase in Cash and cash equivalents, investments and interest receivable of approximately $22.6 million. Total liabilities increased by approximately $31.2 million, largely due to the issue of 2003 bond principal and the refunding of the 1993 bond issue, resulting in a net increase of approximately $24 million, and an increase in Other Liabilities Payable from Restricted Assets resulting from a transfer of $5 million to the Rate Stabilization Fund.

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

An additional portion of the KUA's net assets ($32.7 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 ($116.2 million) may be used to meet the government's ongoing obligations to rate payers and creditors. This balance included approximately $57 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

			Increase (Decrease)	
	2003	**2002**	**$**	**%**
Metered Sales	$104,661,879	$88,914,602	15,747,277	18
Other	27,673,410	24,043,305	3,630,105	15
Rate Stabilization Transfer	(5,000,000)	-	(5,000,000)	100
Total Operating Revenues	127,335,289	112,957,907	14,377,382	13
Generation & Purchased Power	79,995,658	65,301,761	14,693,897	23
Transmission & Distribution	5,887,135	5,871,529	15,606	0
Administrative & General	9,978,057	9,491,342	486,715	5
Intergovernmental Transfers	7,665,013	6,990,571	674,442	10
Depreciation & Amortization	13,432,408	13,169,601	262,807	2
Total Operating Expense	116,958,271	100,824,804	16,133,467	16
Operating Income	10,377,018	12,133,103	(1,756,085)	(14)
Non Operating Expenses	(11,721,234)	(11,089,556)	(631,678)	6
Capital Contributions	1,595,455	1,670,082	(74,627)	(4)
Change in Net Assets	251,239	2,713,629	(2,462,390)	(91)
Net Assets – Beginning of Year	140,412,802	137,699,173	2,713,629	2
Net Assets – End of Year	$140,664,041	$140,412,802	$251,239	0

Year-to-date MWh sales in FY 2003 were approximately 1,213,000 compared to FY 2002 sales of 1,119,000, or an 8.4% increase. Sales to metered customers (excluding cost of power adjustment revenues) increased from $81.6 million to $88.5 million or 8.5%. The increase in sales resulted from an increase in the number of customers of 5% from 49,350 to 51,645 and by demand and customer charges that do not vary directly with MWh sales. Additionally, an increase in the power cost adjustment revenues by $8.4 million to $16.2 million contributed to the higher total metered sales revenue of 18%. Other revenues increased by $3.6 million or 15%. This was primarily related to an increase of ARP capacity credits of $23.8 million offset by a decrease of Sales to Other Utilities of $20.7 million. Sales to Other Utilities during FY 2002 resulted from KUA's participation in the Florida Municipal Power Pool and from direct sales to Aquila Energy. These sales were possible due to additional capacity from Cane Island Unit 3 generation. Upon joining the FMPA All Requirement's Project (ARP) on October 1, 2002, Sales to Other Utilities were forfeited to all ARP members. Capacity credits received from the ARP were classified as Other Revenues.

Total operating expenses were lower than the previous year, primarily due to lower fuel expense offset by higher Administrative & General, Intergovernmental Transfers, and Depreciation expense. Fuel costs including ARP credits were lower in total, however, total fuel costs excluding all ARP credits were higher in FY 2003, $58.75 (COPA portion of $26.07)/ MWh compared to FY 2002 of $52.24 (COPA portion of $19.56)/ MWh. In addition, the amount of COPA undercollected as of September 30, 2003 as compared to September 30, 2002 is $3.3 million greater. Additional Depreciation expense resulted from the additions to utility plant which was predominantly the addition of the Employee Substation. 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 2003, our "paper loss" was $366,900 compared to a loss of $432,533 for Fiscal Year 2002. Nonoperating revenues decreased primarily as a result of a decrease in interest income from lower cash balances to invest at lower market interest rates.

Rates

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

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

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

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

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

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

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 $21,494,007 and $8,059,095 for Fiscal Years 2002 and 2003, respectively. The decrease of $13,434,912 resulted from an increase in other designated funds (see Footnote 3 and 4 in the Notes to the Financial Statements). The balance in this fund will vary over time, depending on fluctuations in expenses and/or revenues and other cash designation requirements. The Combined Cycle Maintenance Fund increased from $4,814,991 to $15,498,046 due to running hours on the Cane Island Combined Cycle Unit #3. As KUA owned and operated units are run, funds are accumulated for estimated future maintenance expenses and capital expenditures. These funds will be used as future maintenance is incurred.

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. This gives the KUA Board of Directors the ability to defer revenues in years when excess revenues (over bond covenant 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. Five ($5) million was transferred to this fund during FY 2003.

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, 2003 and September 30, 2002:

Table 3 –Capital Assets, Net of Accumulated Depreciation

Utility Plant	9/30/03 Balance	09/30/02 Balance	Increase (Decrease)
Nuclear Production	$ 421,891	$ 715,386	$ (293,495)
Steam Production	118,044,154	121,405,498	(3,361,344)
Other Production	19,298,795	21,405,277	(2,106,482)
Transmission Plant	44,062,467	26,930,079	17,132,388
Distribution Plant	37,540,693	37,048,647	492,046
General	6,664,138	6,057,534	606,604
Non-depreciable assets	15,948,918	26,846,878	(10,897,960)
Total	$241,981,056	$240,409,298	$ 1,571,758

Expansion of the transmission system (net of accumulated depreciation) during FY 2003 included completion of the Employee Substation located on Boggy Creek Road for approximately $16 million.

At the end of FY 2003, the KUA had $374 million invested in a broad range of capital assets primarily power plants and electric transmission and distribution systems. This amount represents an increase of over $24 million, or 7% over last year. Those interested in more detailed information may refer to Footnote 5 in the Notes to the Financial Statements.

Long-Term Debt. At the end of the current fiscal year, the KUA had total debt outstanding of $303,905,000. Of this amount, $233.9 million is improvements and refunding revenue bonds and $70 million is commercial paper.

	2003	2002
Revenue Bonds	$233,905,000	$210,120,000
Commercial Paper	70,000,000	70,000,000
Total	$303,905,000	$280,120,000

The KUA's total debt increased by $ 23.8 million (8.5 percent) during the current fiscal year. The key factor in this increase was due to the issuance of 2003 Series bonds, offset by refunding of Series 1993 and all other bond issue principal payments of $7.2 million. During the current fiscal year, the KUA refinanced some of its existing debt to take advantage of favorable interest rates. The KUA issued Electric System Refunding and Improvement Revenue Bonds Series 2003 to refinance previously outstanding bonds and pay for additions, extensions and improvements to the electric system. The result was a net present value savings of $7.8 million. The KUA maintains an A and A2 underlying rating from Fitch and Moody's respectively for outstanding bond issues.

The KUA attempts to minimize external financing needs through internal generation of capital funds. The purpose of this financial policy is to establish and maintain a debt-to-equity ratio and a coverage ratio that would minimize the impact of future debt issues for generation and transmission plants. The current fiscal policy includes the following guidelines:

1. Bond proceeds should fund all generation (capacity) and transmission projects;
2. Current earnings (cash provided from operations) should be adequate to fund operating and maintenance expenses, debt service related costs (excluding capitalized interest) and year to year capital needs generally less than $100,000;
3. The Reserve for Future Capital Outlay funds should be used for all other purposes as approved by the Board of Directors;
4. Maintain a minimum level of $5,000,000 in Reserve for Future Capital Outlay, indexed each year by the increase in KWh sales beginning in FY 1997 (current minimum level is $6,800,000);
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 $33,778,740 and $36,774,959 for Fiscal Years 2003 and 2002 respectively. The debt service requirements for Fiscal Years 2003 and 2002 were $19,037,136 and $18,381,441, respectively. Debt service coverage was 1.77x and 2.0x for Fiscal Years 2003 and 2002, respectively.

Those interested in more detailed information may refer to Footnote 9 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 2004 is forecasted to be approximately 3.3% and 5.3% respectively. Change in Net Assets is projected to be approximately $499,600 for FY 2004. There is no rate increase planned for the upcoming year.

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

Contacting the KUA's Financial Management

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

KISSIMMEE UTILITY AUTHORITY
BALANCE SHEETS AS OF SEPTEMBER 30

ASSETS	**2003**	**2002**
CURRENT ASSETS		
Cash and cash equivalents	$20,580,055	$46,688,136
Investments	49,442,390	35,265,337
Interest receivable	238,518	419,354
Accounts receivable	13,401,973	12,927,210
Less: allowance for doubtful accounts	(463,750)	(320,001)
Inventory	8,359,768	7,108,993
Deferred cost of power adjustment	3,523,729	256,401
Other current assets	1,483,914	743,167
TOTAL CURRENT ASSETS	96,566,597	103,088,597
RESTRICTED ASSETS		
Cash and cash equivalents	33,665,226	34,579,200
Investments	46,284,687	10,648,259
Interest receivable	187,076	200,409
TOTAL RESTRICTED ASSETS	80,136,989	45,427,868
OTHER ASSETS		
Unamortized bond costs	3,029,787	2,507,606
Costs to be recovered from future revenue	45,989,292	44,761,344
Other	657,178	697,546
TOTAL OTHER ASSETS	49,676,257	47,966,496
UTILITY PLANT		
Property, plant and equipment	373,655,457	349,402,585
Less: accumulated depreciation	(148,757,411)	(136,974,258)
	224,898,046	212,428,327
Construction in progress	16,551,471	27,700,524
Inventory - nuclear fuel	531,539	280,447
TOTAL UTILITY PLANT	241,981,056	240,409,298
TOTAL ASSETS	$468,360,899	$436,892,259

The accompanying notes are an integral part of these financial statements

LIABILITIES AND NET ASSETS	2003	2002
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$9,128,718	$8,761,504
Due to other governments	1,589,757	1,309,027
Energy conservation cost recovery	214,666	282,930
Other accrued liabilities	1,231,387	991,859
TOTAL CURRENT LIABILITIES	12,164,528	11,345,320
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Current portion of revenue bonds	7,715,000	7,190,000
Accrued interest payable-revenue bonds	3,273,013	5,260,942
Advances for construction	1,786,871	1,881,259
Customer deposits	3,896,279	3,548,159
Rate stabilization deferred credits	5,000,000	-
Other	1,500,000	1,500,000
TOTAL LIABILITIES PAYABLE FROM RESTRICTED ASSETS	23,171,163	19,380,360
LONG-TERM DEBT		
Revenue bonds payable	226,190,000	202,930,000
Commercial paper notes	70,000,000	70,000,000
Unamortized bond premium	6,553,712	2,810,121
Less: unamortized loss on reacquired debt	(25,046,834)	(22,542,330)
Less: unamortized bond discount	(162,350)	(2,087,428)
TOTAL LONG-TERM DEBT	277,534,528	251,110,363
OTHER LONG-TERM LIABILITIES		
Co-insurance fund	11,717,109	11,819,612
Accrued compensated absences	1,622,087	1,589,051
Maintenance reserve fund	1,479,036	1,213,343
CR3 special assessment	8,407	21,408
TOTAL OTHER LONG-TERM LIABILITIES	14,826,639	14,643,414
TOTAL LIABILITIES	327,696,858	296,479,457
NET ASSETS		
Invested in capital assets, net of related debt	(8,238,685)	(15,383,459)
Restricted	32,680,826	33,237,508
Unrestricted	116,221,900	122,558,753
TOTAL NET ASSETS	140,664,041	140,412,802
COMMITMENTS AND CONTINGENT LIABILITiES (NOTES 10 & 11)		
TOTAL LIABILITIES AND NET ASSETS	$468,360,899	$436,892,259

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

	2003	2002
OPERATING REVENUES		
Metered sales	$104,661,879	$88,914,602
Other	27,673,410	24,043,305
Rate stabilization transfer	(5,000,000)	-
TOTAL OPERATING REVENUES	127,335,289	112,957,907
OPERATING EXPENSES		
Generation and purchased power	79,995,658	65,301,761
Transmission and distribution	5,887,135	5,871,529
Administrative and general	9,978,057	9,491,342
Intergovernmental transfers	7,665,013	6,990,571
Depreciation and amortization	13,432,408	13,169,601
TOTAL OPERATING EXPENSES	116,958,271	100,824,804
OPERATING INCOME	10,377,018	12,133,103
NONOPERATING REVENUES (EXPENSES)		
Investment income	1,937,402	4,050,444
Interest expense	(11,372,111)	(11,255,511)
Other	(1,919,018)	(1,898,864)
Plant costs recovered through capital contributions	(1,595,455)	(1,670,082)
Costs to be recovered from future revenue	1,227,948	(315,543)
TOTAL NONOPERATING REVENUES (EXPENSES)	(11,721,234)	(11,089,556)
INCOME BEFORE CAPITAL CONTRIBUTIONS	(1,344,216)	1,043,547
Capital contributions	1,595,455	1,670,082
CHANGE IN NET ASSETS	251,239	2,713,629
NET ASSETS - BEGINNING OF YEAR	140,412,802	137,699,173
NET ASSETS - END OF YEAR	$140,664,041	$140,412,802

The accompanying notes are an integral part of these financial statements

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

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and other sources	$104,860,992	$113,082,199
TOTAL CASH PROVIDED	104,860,992	113,082,199
Payments to suppliers for goods and services	(63,096,348)	(71,406,707)
Payments for employees for services	(12,923,647)	(12,595,900)
Payments for benefits on behalf of employees	(3,314,846)	(3,028,276)
TOTAL CASH USED	(79,334,841)	(87,030,883)
NET CASH PROVIDED BY OPERATING ACTIVITIES	25,526,151	26,051,316
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets and nuclear fuel	(16,261,955)	(24,840,394)
Advances for construction & advances from co-owners	197,759	8,342,067
Proceeds from debt issue	116,535,000	75,520,000
Payment to defease debt	(85,560,000)	(74,405,000)
Debt issuance costs	2,409,545	(1,537,448)
Principal paid on long-term debt	(7,190,000)	(6,595,000)
Interest paid on long-term debt	(13,310,065)	(11,866,227)
Other debt costs	(1,686,580)	(222,469)
NET CASH (USED IN) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,866,296)	(35,604,471)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(262,837,000)	(52,100,000)
Proceeds from maturities of investment securities	212,578,300	54,480,921
Interest on investments	2,576,790	3,894,585
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(47,681,910)	6,275,506
NET DECREASE IN CASH AND CASH EQUIVALENTS	(27,022,055)	(3,277,649)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	81,267,336	84,544,985
CASH AND CASH EQUIVALENTS AT END OF YEAR	$54,245,281	$81,267,336
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$10,377,018	$12,133,103
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	13,740,933	13,420,366
Net amortization	(308,525)	(250,765)
(Increase) decrease in accounts receivable, net	(331,015)	1,305,148
(Increase) decrease in other assets	(741,022)	346,969
(Increase) decrease in inventory	(1,250,775)	(2,101,463)
(Increase) decrease in deferred cost of power adjustment	(3,267,328)	(1,264,224)
(Increase) decrease in energy conservation cost recovery	(68,264)	83,368
Increase (decrease) in accounts payable	1,411,352	1,107,412
Increase (decrease) in due to other governments	280,730	390,612
Increase (decrease) in customer deposits	298,144	194,047
Increase (decrease) in other current liabilities	5,000,000	0
Increase (decrease) in other accrued liabilities	221,713	477,309
Increase (decrease) in other designated liabilities	163,190	209,434
	$25,526,151	$26,051,316
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:		
Decrease in fair value of investments	($366,900)	($432,533)

The accompanying notes are an integral part of these financial statements

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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 high-speed internet access, e-mail, personal web pages, 16-hour help desk, free internet classes, and convenient billing options. By offering internet services, KUA continues to expand its involvement in the community.

Regulation: According to existing laws of the State of Florida, the five voting members of the KUA act as the regulatory authority for the establishment of electric rates. The Florida Public Service Commission (FPSC) has authority to regulate the electric "rate structures" of municipal utilities in Florida. It is believed that "rate structures" are clearly distinguishable from the total amount of revenues which a particular utility may receive from rates, and that distinction has thus far been carefully made by the FPSC.

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

Operations of the KUA are subject to environmental regulations by federal, state and local authorities and to zoning regulations by local authorities. Federal and state standards and procedures that govern control of the environment can change. These changes can arise from continuing legislative, regulatory and judicial action respecting the standards and procedures. Therefore, there is no assurance that the units in operation, under construction, or contemplated will always remain subject to the regulations currently in effect or will always be in compliance with future regulations.

An inability to comply with environmental standards or deadlines could result in reduced operating levels or complete shutdown of individual electric generating units not in compliance. Furthermore, compliance with environmental standards or deadlines may substantially increase capital and operating costs.

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

The accounting and reporting policies of the KUA conform with the accounting rules prescribed by the GASB. The KUA has elected to apply all applicable GASB pronouncements, as well as all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

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

The adoption of Statement 34 had little effect on the basic financial statements except for the classification of net assets, presentation of the Statement of Cash Flows using the direct method, and the inclusion of a Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and changes in position. Statement 34 also requires that sales revenues be reported net of any bad debt expense. The adoption of Statement 38 had no effect on the basic financial statements. The additional debt service disclosure requirements have been integrated as required.

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

The KUA follows these procedures in establishing the budget:

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

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

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: During Fiscal Year 2002, KUA sold surplus power from its excess capacity and energy at the Cane Island Power Park and the Hansel Plant to the Florida Municipal Power Pool and to the Aquilla Energy Company. These sales were recorded as other operating revenues. 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 have been recorded as Other Operating Revenues during Fiscal Year 2003.

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

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

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

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

The cost of maintenance and repairs, including renewal of minor items of property less than $1,000, 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 Reacquired Debt: Unamortized gains or losses on refunded debt are amortized to income over the life of the new debt consistent with the methods used for setting rates. Unamortized gains and losses on bond refundings have been netted for financial statement purposes.

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

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

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

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: 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 $7,561,800 and $6,969,600 for the years ended September 30, 2003 and 2002, respectively. The amount owed to the City of Kissimmee was approximately $1,217,480 and $1,154,400 for the years ended September 30, 2003 and 2002, respectively.

The KUA collects Osceola County Public Service tax revenues on behalf of Osceola County from customers who live outside the City of Kissimmee. In accordance with an Interlocal Agreement between Osceola County and the KUA, twenty-five percent of these revenues collected are transferred to the City of Kissimmee for Parks and Recreation use. The total amount transferred to the City of Kissimmee was approximately $642,100 and $590,700 for the years ended September 30, 2003 and 2002, respectively. The amount owed to the City of Kissimmee was approximately $62,900 and $57,900 at September 30, 2003 and 2002, respectively.

The KUA collects revenues on behalf of the City of Kissimmee for City of Kissimmee utility services including water, sewer, solid waste and utility taxes. The amount paid to the City of Kissimmee by the KUA for utility service revenues collected was approximately $31,100,400 and $29,500,000 for the years ended September 30, 2003 and 2002, respectively. The amount owed to the City of Kissimmee was approximately $91,600 and $131,000 at September 30, 2003 and 2002, 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 $270,000 and $297,900 for the years ended September 30, 2003 and 2002, respectively.

The KUA performs certain customer related services for the City of Kissimmee for which the City of Kissimmee paid the KUA approximately $1,014,200 and $841,000 for the years ended September 30, 2003 and 2002, respectively. The amount owed by the City of Kissimmee to the KUA was approximately $83,300 and $73,000 at September 30, 2003 and 2002, respectively. As of September 30, 2003 and 2002, the City of Kissimmee also owed the KUA $224,600 and $511,100, respectively, which represents the remaining balance of funds KUA loaned to the City at 0% interest rate related to a customer overbilling and overpayment in prior years. The amounts paid by the City of Kissimmee to the KUA was approximately $286,500 and $286,500 for the years ended September 30, 2003 and 2002, 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 Florida Gas Utility (FGU) Collateral Funds, which are held in trust, and are not in the name of KUA.

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

The components of the KUA's total cash, cash equivalents, investments and interest receivable at their respective carrying amounts at September 30, 2003 and 2002 are as follows:

	Current	Restricted	Total
2003			
Cash & Cash Equivalents	$20,580,055	$33,665,226	$54,245,281
Investments	49,442,390	46,284,687	95,727,077
Interest Receivable	238,518	187,076	425,594
TOTALS	$70,260,963	$80,136,989	$150,397,952
2002			
Cash & Cash Equivalents	$46,688,136	$34,579,200	$81,267,336
Investments	35,265,337	10,648,259	45,913,596
Interest Receivable	419,354	200,409	619,763
TOTALS	$82,372,827	$45,427,868	$127,800,695

The level of credit risk assigned to investments are defined and summarized as follows:
Category 1 - Insured or registered, with securities held by the KUA or its agent in the KUA's name.
Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the KUA's name.
Category 3 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the KUA's name.

	Category of Risk (000's)			Total Fair
	1	2	3	Value
2003				
U.S. Government Securities	$ -	$ 194	$ -	$ 194
U.S. Instrumental Securities	93,040	-	2,493	95,533
Total Investments	$93,040	$194	$2,493	$95,727
2002				
U.S. Government Securities	$ -	$ 221	$ -	$ 221
U.S. Instrumental Securities	39,928	3,500	2,265	45,693
Total Investments	$39,928	$3,721	$2,265	$45,914

Investments are recorded at fair value. The effect of adjusting the investments to fair value at September 30, 2003 and 2002 was a decrease to the investments carrying value of approximately $366,900 and $432,500, respectively.

The balance in the SBA was approximately $50,138,947 and $54,121,000 at September 30, 2003 and 2002 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, 2003, 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 appear to 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 appear to 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 14% and 1% of the total LGSF Pool investments. Therefore, KUA's exposure to these floaters is approximately $7,019,000 and $390,000 for the years ended September 30, 2003 and 2002, 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 $181,000 and $241,000 at September 30, 2003 and 2002, respectively. Repurchase agreements are held in the name of the KUA's depository bank. The maximum repurchase agreement was $3,777,000 and $4,833,000 during 2003 and 2002, respectively.

At September 30, 2003 and 2002 the carrying amount of the KUA's deposits with financial institutions was $690,000 and $550,000 for each year respectively, and the bank balance was approximately $509,000 and $331,000, respectively. All bank balances are fully insured in accordance with Florida Statute 280, which established the multiple financial institution collateral pool.

NOTE 3 – CURRENT CASH AND INVESTMENTS

Certain designations of current cash, investments, and interest receivable are made in the financial records during the fiscal year to identify a portion of cash, cash equivalents, investments and interest receivable intended to be used for specific purposes in a future period. Current cash and cash equivalents, investments and interest receivable at September 30, 2003 and 2002 included the following:

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Current Assets	2003	2002
Undesignated	$13,607,164	$14,227,185
Designated for:		
Capital Improvements	20,506,075	29,405,093
Co-Insurance	11,944,588	11,819,612
Decommissioning	536,858	519,488
Combined Cycle Maintenance	15,498,046	4,814,991
EPPIC Excess Liability	99,181	82,604
Good Neighbor Funds	9,956	9,847
Deregulation	8,059,095	21,494,007
TOTAL	$70,260,963	$82,372,827

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, 2003 and 2002 included the following:

Restricted Assets	2003	2002
Debt Service Reserve	$19,796,784	$20,271,150
Sinking Fund	10,988,013	12,450,942
Construction Fund	32,000,000	-
Renewal, Replacement & Improvement	1,500,000	1,500,000
Advances for Construction	1,786,871	1,881,259
Customer Deposits	3,896,279	3,548,159
Crystal River Unit #3 Decommissioning	2,496,941	2,276,358
FGU Collateral Funds	-	3,500,000
ARP Working Capital	2,672,101	-
Rate Stabilization	5,000,000	-
TOTAL	$80,136,989	$45,427,868

NOTE 5 –CAPITAL ASSETS

Utility plant activity for the years ended September 30, 2003 and 2002 was as follows:

Utility Plant	10/01/02 Balance	Additions	Deletions & Reclassifications	9/30/03 Balance
Nuclear Production	$ 6,213,851	$ 138,441	$ -	$ 6,352,292
Steam Production	144,598,203	2,842,873	(1,953,309)	145,487,768
Other Production	68,263,522	402,364	(3,013)	68,662,873
Transmission Plant	42,920,108	18,689,182	-	61,609,290
Distribution Plant	66,337,831	4,989,540	(2,422,478)	68,904,893
General	22,203,163	2,018,111	(448,841)	23,772,433
Subtotal	350,536,678	29,080,512	(4,827,641)	374,789,550
Less Accumulated Depreciation:				
Nuclear Production	(5,498,465)	(431,936)	-	(5,930,401)
Steam Production	(23,192,705)	(4,611,425)	360,517	(27,443,614)
Other Production	(46,858,245)	(2,508,846)	3,013	(49,364,078)
Transmission Plant	(15,990,030)	(1,556,794)	-	(17,546,823)
Distribution Plant	(29,289,184)	(2,892,910)	817,894	(31,364,200)
General	(16,145,629)	(1,411,507)	448,841	(17,108,295)
Subtotal	(136,974,258)	(13,413,419)	1,630,265	(148,757,411)
Non-Depreciable Assets	26,846,878	13,970,189	(24,868,149)	15,948,918
Net Plant	$240,409,298	$29,637,282	$(28,065,525)	$241,981,056

Utility Plant	10/01/01 Balance	Additions	Deletions & Reclassifications	9/30/02 Balance
Nuclear Production	$ 6,057,872	$ 155,979	$ -	$ 6,213,851
Steam Production	81,525,977	63,535,907	(463,680)	144,598,204
Other Production	103,942,976	231,029	(35,910,482)	68,263,522
Transmission Plant	40,322,485	2,597,623	-	42,920,108
Distribution Plant	62,230,994	9,385,597	(5,278,760)	66,337,831
General	21,302,789	1,114,805	(214,432)	22,203,162
Subtotal	315,383,092	77,020,940	(41,867,354)	350,536,677
Less Accumulated Depreciation:				
Nuclear Production	(4,998,034)	(375,280)	(125,151)	(5,498,465)
Steam Production	(19,267,816)	(3,924,889)	-	(23,192,705)
Other Production	(43,913,779)	(2,944,467)	-	(46,858,245)
Transmission Plant	(14,621,684)	(1,368,345)	-	(15,990,030)
Distribution Plant	(26,853,414)	(2,993,749)	630,353	(29,216,810)
General	(14,884,065)	(1,535,229)	201,291	(16,218,003)
Subtotal	(124,538,792)	(13,201,943)	766,477	(136,974,258)
Non-Depreciable assets	45,495,407	24,102,584	(42,751,113)	26,846,878
Net Plant	$236,339,707	$87,981,565	$(83,911,974)	$240,409,298

Depreciation expense for Utility Plant totaled approximately $13,741,000 and $13,420,000 for years ended September 30, 2003 and 2002, 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 $11,322,000 and $11,191,000 for fiscal years 2003 and 2002. No interest was capitalized for fiscal years 2003 and 2002 as all assets financed with revenue bonds were placed in service prior to September 30, 2001.

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):** During 1992, the KUA entered into a Participation Agreement with the FMPA for the joint construction, ownership and operation of the KUA's Cane Island Project. The Project is located at Cane Island, 14 miles west of the KUA's existing service territory on 990 acres of land. The Project is owned and operated by the KUA. The agreement resulted in a 50 percent ownership in generating facilities constructed on this site beginning with the first unit, a 40 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):** In 1984, 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.

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

In 1995, the KUA entered into a Transfer Agreement with the City of Lake Worth for the transfer of all of the City of Lake Worth's share of the FMPA SEC 2 Project. The KUA acquired the City of Lake Worth's 1.9157% power entitlement share in SEC 2, approximately 8.3 MW.

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

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

In 2001, the KUA entered into a construction and participation agreement with Southern Company, Orlando Utilities Commission (OUC), and Florida Municipal Power Agency (FMPA) to acquire a 3.5% (23.7 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 during October 2003.

In summary, SEC consists of two 435 MW coal fired units (I & II) and one 633 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.

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

E. **Indian River Combustion Turbine:** In 1988, the KUA entered into a Participation Agreement with OUC to acquire a 12.2% (11.2 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:** In 1981, the KUA entered into a Power Supply Acquisition Agreement with the FMPA in which the KUA receives approximately 7 MW of power from the St. Lucie nuclear power plant. According to the participation agreements, each participant must provide its own financing and each participant's share of expenses for operations of the plants are included in the corresponding operating expenses of its own 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	CR3	Indian River
2003			
Utility Plant	$20,786,443	$6,352,432	$2,963,496
Less: Accumulated Depreciation	(8,500,548)	(5,930,401)	(1,497,563)
Net Utility Plant	$12,285,895	$422,031	$1,465,933
2002			
Utility Plant	$21,641,200	$6,213,991	$2,588,005
Less: Accumulated Depreciation	(8,315,321)	(5,498,465)	(1,304,286)
Net Utility Plant	$13,325,879	$715,526	$1,283,719

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, 2003 was 12.6 percent of earnings. The Plan has been a non-contributory Plan since 1986.

Annual Pension Cost – For the years ended September 30, 2003, 2002, and 2001, respectively, the annual pension costs of $1,356,596, $1,100,225, and $910,656 were equal to the KUA's required and actual contributions. The annual required contribution was determined as part of the October 1, 2002 actuarial valuation using the Frozen Entry Age Method. The actuarial assumptions included (a) life expectancy was calculated using the 1983 Group Annuity Mortality Table; (b) 8% investment rate of return (net of administrative expenses); and (c) projected salary increases of 6% per year, including an inflation component of 3%. The assumptions included post retirement benefits increases of 0%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at October 1, 2002 was 28 years.

NOTE 9 – LONG-TERM LIABILITIES

The Revenue Bond resolutions provide for:

1. **Establishment and maintenance of various funds:**
   - Revenue Fund records all operating revenues and expenses of the system;
   - Sinking Fund records principal and interest requirements;
   - Bond Amortization Fund records funds held for the retirement of term bonds;
   - Reserve Fund records funds held 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; and
   - Construction Fund records the cost of major additions to the System financed by revenue bonds.

2. **Restrictions on the use of cash from operations in order of priority:**
   - Deposits are made to the Revenue Fund to meet current operations according to the Budget;
   - Deposits to the Sinking Fund Account are required 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 theReserve 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.

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, 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, 2003 and 2002 consisted of the following serial and term bonds, and outstanding commercial paper notes:

Description	Final Maturity	Original Amount	2003	2002
Improvements & Refunding Revenue Bonds, Series 1993: 3.90%-5.50% - 4/2; 10/2	10/01/18	$ 145,800,000	$ 2,555,000	$ 90,550,000
Refunding Revenue Bonds, Series 1997 3.85%-5% - 4/2; 10/2	10/01/12	56,180,000	40,855,000	44,050,000
Refunding Revenue Bonds, Series 2001A 3.50%-4.70% - 4/2; 10/2	10/01/17	31,020,000	29,480,000	31,020,000
Refunding Revenue Bonds, Series 2001B 4%-5% - 4/2; 10/2	10/01/15	44,500,000	44,480,000	44,500,000
Refunding & Improvement Bonds, Series 2003	10/01/18	55,835,000	55,835,000	-
Refunding Revenue Bonds, Subordinate Series 2003	10/01/18	60,700,000	60,700,000	-
Commercial Paper Program, Series A Interest at various market rates		35,000,000	35,000,000	35,000,000
Commercial Paper Program, Series B Interest at various market rates		35,000,000	35,000,000	35,000,000
Total Amount Outstanding			303,905,000	280,120,000
Less: Current Portion			(7,715,000)	(7,190,000)
Unamortized Bond Discount			(162,350)	(2,087,428)
Unamortized Loss on Reacquired Debt			(25,046,834)	(22,542,330)
Unamortized Bond Premium			6,553,712	2,810,121
Long Term Debt			$277,534,528	$251,110,363

The annual long-term debt service requirements at September 30, 2003 are as follows (excludes Series A and B Commercial Paper):

	Interest	Principal	Total
2003	$10,446,640	$7,715,000	$18,161,640
2004	9,924,632	9,695,000	19,619,632
2005	9,587,424	10,035,000	19,622,424
2006	9,161,274	10,460,000	19,621,274
2007	8,717,274	10,910,000	19,627,274
2008-2012	34,809,138	70,375,000	105,184,138
2013-2017	15,891,635	93,210,000	109,101,635
2018	804,883	21,505,000	22,309,883
Total	$99,342,900	$233,905,000	$333,247,900

KUA authorized the issuance of the Commercial Paper Notes pursuant to Resolution No. 00-04, adopted by the Board on October 25, 2000. The Notes were issued in two series, 2000A and 2000B, each for $35,000,000 to (i) finance the cost of the Cane Island Project (including repayment of amounts previously borrowed to provide financing therefore) and (ii) pay the costs of issuance of the Commercial Paper Notes. The aggregate principal amount of all Commercial Paper Notes outstanding at any one time shall not exceed the lesser of $100,000,000 or the amount of the Available Commitment under the Purchase Agreement (the current Available Commitment is $80,000,000). During the year ended September 30, 2003, interest rates on the Commercial Paper ranged from .70% to 1.85% and averaged 1.17%.

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

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

The duration of the Bank's obligation under the Commercial Paper Purchase Agreement is for 364 days, beginning on the date of issuance of the Commercial Paper Notes and terminating on the day prior to the first anniversary of the date of issuance subject to extension upon the request of KUA and consent of the Bank, for an additional period of 364 days or such other period agreeable to the Bank. KUA must request such an extension at least 60 days prior to the expiration of the Purchase Agreement (unless the Bank consents to a later request), and the Bank must notify the Issuing and Paying Agent within 30 days of receipt of the request whether the Bank consents to such extension and must deliver a written acknowledgement of the extension within 15 days of its consent to the Issuing and Paying Agent. As of September 30, 2003, all $70,000,000 of the Series A and B were outstanding.

On October 25, 2001, the KUA issued $31,020,000 in Kissimmee Utility Authority Electric System Refunding Revenue Bonds, Series 2001A and $44,500,000 in Kissimmee Utility Authority Electric System Refunding Revenue Bonds, Series 2001 B. The bonds were issued to (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 (ii) pay certain expenses related to the issuance and sale of the Series 2001 Bonds. The result of the refunding was a net present value savings of $3,099,342 or approximately 4.17% of the refunded bonds.

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.

Long-term debt activity for the years ended September 30, 2003 and 2002 was as follows:

	Revenue Bonds Payable	Commercial Paper	Deferred Amounts	Long-Term Debt
10/01/02 Balance	$202,930,000	$70,000,000	$(21,819,637)	$251,110,363
Additions	116,535,000	-	(124,559)	116,410,441
Reductions	(93,275,000)	-	3,288,724	(89,986,276)
9/30/03 Balance	$226,190,000	$70,000,000	$(18,655,472)	$277,534,528
Due within one year	$ 7,715,000	$ -	$ 1,365,347	$ 9,080,347

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

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 and August 18, 2003 are as follows at September 30, 2003:

Electric & Water Bond Issues *	**2003**
1975	$ 300,000
Electric Revenue Bonds	
1977 Series A	8,785,000
1979	1,345,000
1982	34,450,000
1982-A	45,340,000
1984	23,015,000
1985	27,940,000
1987	40,070,000
1991	66,890,000
1993	129,775,000
1993A	20,675,000
Total	$379,325,000

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

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

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, 2003, the fair value of the swap was $(2.1) million, 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.

Swap payments and associated debt. Assuming interest rates remain the same as September 30, 2003, annual debt service requirements on the 2003 Subordinate Bonds notes and the interest rate swap would be as follows:

VARIABLE RATE BONDS

FY Ended September 30	Principal	Interest	Interest Rate Swaps, Net	Total
2004	-	$ 2,136,033	* $ 1,660,145	$ 3,796,178
2005	-	2,136,033	1,660,145	3,796,178
2006	-	2,136,033	1,660,145	3,796,178
2007	-	2,136,033	1,660,145	3,796,178
2008	-	2,136,033	1,660,145	3,796,178
2009	-	2,136,033	1,660,145	3,796,178
2010	-	2,136,033	1,660,145	3,796,178
2011	-	2,136,033	1,660,145	3,796,178
2012	-	2,136,033	1,660,145	3,796,178
2013	-	2,136,033	1,660,145	3,796,178
2014	$ 6,025,000	2,136,033	1,660,145	9,821,178
2015	6,275,000	1,924,013	1,495,361	9,694,374
2016	14,575,000	1,703,196	1,323,740	17,601,936
2017	15,100,000	1,190,302	925,114	17,215,416
2018	18,725,000	658,932	512,129	19,896,062
Total	$60,700,000	$28,972,807	$22,517,939	$112,190,746

* Computed (3.519% - .784%) X $60,700,000

Credit Risk. As of September 30, 2003, 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 becomes 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 AA- by Moody's and S&P respectively as of September 30, 2003.

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, 2003 LIBOR was 1.12% for the month of September 2003, while the last 35-day reset was .80%.

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 an "additional termination event". That is if:

> (i) JPMorgan's senior, unsecured, unenhanced debt rating is withdrawn, suspended, or reduced below "BBB+" in the case of S&P or "Baa1" in the case of Moody's 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;

(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 "BBB-" in the case of S&P and "Baa3" in the case of Moody's.

Other Long-Term Liabilities for the years ended September 30, 2003 and 2002 were as follows:

	Co-Insurance Fund	Accrued Compensated Absences	Maintenance Reserve Fund	CR3 Special Assessment
10/01/02 Balance	$11,819,612	$1,589,051	$1,213,343	$21,408
Additions	-	33,036	1,496,972	-
Reductions	(102,503)	-	(1,231,279)	(13,001)
9/30/03 Balance	$11,717,109	$1,622,087	$1,479,036	$8,407

	Co-Insurance Fund	Accrued Compensated Absences	Maintenance Reserve Fund	CR3 Special Assessment
10/01/01 Balance	$11,628,836	$1,376,247	$1,194,685	$34,464
Additions	311,997	212,804	822,058	-
Reductions	(121,221)	-	(803,400)	(13,056)
9/30/02 Balance	$11,819,612	$1,589,051	$1,213,343	$21,408

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 2004 will be approximately $24,383,000 and $71,846,000 for years 2005 through 2008.

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

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

	Date	Commitment
Orlando Utilities Commission (OUC)		
Schedule D	2003	$186,094
SEC 1	NONE	197,805
Indian River	NONE	113,032
Florida Power Corp.	NONE	76,145
FMPA (St. Lucie, SEC2)	NONE	10,435,407
Florida Gas Transmission (FGT)	2005*	8,352,659
Florida Gas Utility (FGU)	2008	3,685,174
Stanton A		
PPA	NONE	3,667,983
Ownership	NONE	201,875
Gas	NONE	1,581,775
Total		$28,497,949

* Extension Rights – Rights of First Refusal

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

The KUA owns a portion of Florida Power Corporation's nuclear power plant at Crystal River, Florida. This plant is scheduled to be decommissioned beginning in the year 2015 and ending 2022. The KUA will be liable for approximately $3,813,000 in decommissioning costs in 2002 dollars. In June 1988, the Nuclear Regulatory Commission (NRC) required utilities to provide financial assurance that decommissioning funds would be sufficient and available when needed for NRC required decommissioning activities. On July 12, 1990 the KUA and the FMPA entered into an agreement whereby the FMPA would act as agent for the KUA and certain other CR3 participants to coordinate the administration of a trust fund. Contributions to this trust fund are not available to the KUA for any other purpose except the decommissioning of CR3. The KUA's carrying balance in this Trust at September 30, 2003 and 2002 including interest earnings was approximately $2,497,000 and $2,276,000, respectively. Future contributions will be made to this trust account as needed based on updated cost estimates and trust fund earnings.

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

The KUA has recorded a liability at September 30, 2003 and 2002 of approximately $21,000 and $34,000, respectively, of which approximately $8,000 and $21,000, respectively, is long-term and a related deferred charge for its estimated portion of the costs for the decommissioning and decontamination of the United States Department of Energy nuclear fuel enrichment facilities as provided for by the National Energy Policy Act of 1992 (Energy Act) for its .6754% share of Crystal River Unit No.3. The Energy Act states, among other things, that utilities with nuclear reactors will contribute an aggregate total of $150 million annually, based upon an assessment, for a period of fifteen years, up to a total of $2.25 billion (in 1992 dollars), for such decommissioning and decontamination costs. The Energy Act also provides that these costs are a "necessary and reasonable current cost of fuel and shall be fully recoverable in rates in all jurisdictions in the same manner as other fuel costs." The KUA intends to recover these deferred costs through the Cost of Power Adjustment clause.

On November 30, 1993, a gas turbine was in the process of being delivered to the KUA's Cane Island site when it was struck by an Amtrak Train. At the time of the accident, delivery had not been made to the KUA nor had the unit been accepted by the KUA; title to the gas turbine had passed to the KUA, however General Electric retained the risk of loss until the turbine was accepted by the KUA. The National Transportation Safety Board determined that the probable cause of the accident was the failure of the transport company to notify the railroad (CSX) in advance of its intent to cross the railroad track and to ensure through CSX that it was safe to do so. A jury in U.S. Federal Court found that KUA was not responsible for the accident. That same jury found the following entities responsible for causing the accident and assigned the following percentages of fault: Roundtree Transport & Rigging, Inc. – 59%; CSX Transportation, Inc. – 33%; Amtrak – 8%. A U.S. District Judge has ruled that an indemnification provision contained in a Private Road Grade Crossing Agreement between KUA and CSX is enforceable against KUA, with respect to this accident, and consequently KUA could be held responsible for both CSX and Amtrak's losses. KUA settled with substantially all remaining personal injury Plaintiffs for approximately $422,000. On December 1, 1999, KUA entered into an agreement with Amtrak and CSX to extinguish all claims of those entities accrued to date, with the exception of any liability they might have for claims of damage to the turbine, brought by American Home Assurance Company (American Home, the insurer of the turbine). That settlement was for $540,000 and also extinguished any liability KUA might have had for the claims of Roundtree. On December 3, 1999, the U.S. District Judge ruled that the damages of American Home were $4,546,640. 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 is currently on appeal and is pending before the Florida Supreme Court. If the Court rules in favor of KUA with respect to sovereign immunity, KUA would have no liability for either damages of American Home or responsibility to indemnify CSX and Amtrak for their attorneys' fees and costs. In management's best estimate of this matter, it will not exceed the amount set aside in the co-insurance reserve fund.

On November 17, 2000 equipment needed for the construction of Cane Island Unit 3 was being delivered to the Cane Island site when it was struck by an Amtrak train. It is management's opinion that KUA has no direct responsibility related to this accident. In management's best estimate of this matter, it will not exceed the amount set aside in the co-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 Co-Insurance reserve to account for and finance its uninsured risks of loss for the transmission and distribution system as well as other uninsured losses. The reserve balance is approximately $11,945,000 and $11,820,000 for the years ended September 30, 2003 and 2002, respectively. The Co-Insurance reserve is the KUA's best estimate based upon available information and is increased by interest earnings on the reserve balance less claims paid each year. This reserve is reflected as a liability under Other Long-term Liabilities on the Balance Sheet.

Years Ended September 30	Beginning Balance	Claims/ Payments	Increase In Reserve	Ending Balance
2003	$11,819,612	($102,504)	$ 227,480	$11,944,588
2002	11,628,836	(121,221)	311,997	11,819,612
2001	8,231,416	(102,132)	3,499,552	11,628,836

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

NOTE 12 – RESTRICTED NET ASSETS

Restricted net assets are comprised of the following at September 30, 2003 and 2002:

	2003	2002
Debt Service:		
Debt service and sinking funds	$27,511,784	$27,461,150
Other:		
Crystal River Unit #3 Decommissioning	2,496,941	2,276,358
FGU Collateral Requirements	-	3,500,000
ARP Working Funds	2,672,101	-
Total restricted net assets	$32,680,826	$33,237,508

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
10/01/02	$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	-

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